

IMPERIAL TOBACCO GROUP PLC

PRELIMINARY RESULTS FOR THE TWELVE MONTHS ENDED 30 SEPTEMBER 2008

HIGHLIGHTS

▪ Cigarette volumes	292bn	up	46%	(2007: 200bn)
▪ Tobacco net revenue	£5,238m	up	60%	(2007: £3,280m)
▪ Logistics distribution fees	£607m	-	-	-
▪ Adjusted(1) profit from operations	£2,230m	up	51%	(2007: £1,475m)
▪ Adjusted(1) attributable earnings	£1,159m	up	26%	(2007: £921m)
▪ Distribution to shareholders	£588m	up	26%	(2007: £467m)
▪ Full year dividend per share(2)	63.1p	up	4%	(2007: 60.4p)
▪ Adjusted(1) earnings per share(3)	136.9p	up	15%	(2007: 118.8p)
▪ Profit from operations	£1,157m	down	18%	(2007: £1,418m)
▪ Basic earnings per share	50.6p	down	57%	(2007: 116.7p)

Results include the contribution from Altadis since completion of the acquisition on 25 January 2008 and 2007 per share figures have been restated to reflect the bonus element of the related rights issue.

(1) Adjusted measures exclude where applicable amortisation of acquired intangibles (£309m), restructuring costs (£463m), fair value losses on derivatives in respect of commercially effective net investment hedges (£314m), an exceptional gain on brand divestments (£174m), charges for one-off acquisition accounting adjustments (£161m), fair value gains on derivatives in respect of commercially effective interest rate hedges (£42m), retirement benefit net financing income (£45m) and related taxation effects.

(2) Following the rights issue there are currently 1,011.3m shares eligible for the final dividend (2008 interim dividend: 672.8m)

(3) Earnings per share is calculated using the weighted average shares in issue of 846.5m (2007: 775.5m)

Summarising today's announcement, Gareth Davis, Chief Executive, said:

"In a year of significant achievement we have completed the acquisition of Altadis and grown our cigarette volumes and shares in mature and emerging markets. Our performance has enabled us to increase our dividend distribution by 26 per cent to £588 million, building on our long track record of creating sustainable value for our shareholders.

“Excellent results in Eastern Europe, Africa and the Middle East were complemented by further share gains in the European Union and rapid expansion in the USA.

“Our international premium cigarette brands Davidoff and Gauloises Blondes are driving growth in emerging markets, while our strength in value brands and products has enabled us to capitalise on downtrading in mature markets, a trend which is likely to continue in the current environment.

“We have made further very good progress with the integration of Imperial Tobacco and Altadis, particularly in France where we recently completed the consultation process and where we expect to begin implementing our projects in early 2009.

“We are comfortable with our current financing position and our business is highly cash generative. We are resilient in times of economic downturn and remain focused on efficiently integrating the two businesses, whilst maximising the enhanced growth opportunities presented by our versatile portfolio and extended geographic reach.”

NOTES TO EDITORS

Imperial Tobacco Group PLC is a multi-national tobacco company, with international strength in cigarette and world leadership in fine cut tobacco, cigars, rolling papers and tubes. Following the acquisition of Altadis in January 2008 the enlarged Group has 58 manufacturing sites and employs around 40,000.

ENQUIRIES

Alex Parsons, Head of Corporate Communications +44 (0)7967 467 241

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Interviews with Gareth Davis, Chief Executive, and Bob Dyrbus, Finance Director, are available in video, audio and text formats at: www.imperial-tobacco.com and www.cantos.com

High-resolution photographs are available to the media free of charge at:
www.newscast.co.uk +44 (0)20 7608 1000

Imperial Tobacco's 2008 Preliminary Results are available at: www.imperial-tobacco.com

Gareth Davis will host the following conference calls, at which there will be the opportunity for questions.

News wires at 7:15am (GMT):

Dial in number: +44 (0)20 7806 1967 (UK)
Dial in number: +34 91 788 9937 (Spain)
Dial in number: +33 (0)1 7099 4295 (France)
Dial in number: +49 (0)69 5007 1317 (Germany)
Confirmation Code: 4993451

A replay of this call will be available for one week. To listen, please dial:

+44 (0)20 7806 1970
Code: 4993451#

Media at 11:00am (GMT):

Dial in number: +44 (0)20 7806 1968 (UK)
Dial in number: +34 91 788 9936 (Spain)
Dial in number: +33 (0)1 7099 4303 (France)
Dial in number: +49 (0)69 5007 1316 (Germany)
Confirmation Code: 6077143

A replay of this call will be available for one week. To listen, please dial:

+44 (0)20 7806 1970
Code: 6077143#

FINANCIAL HIGHLIGHTS

Volumes	2008	% change	2007
Cigarettes (billion)	291.8	+46%	200.3
Cigars (million)	2,452	>100%	316
Fine cut tobacco (tonnes)	25,150	+3%	24,450

	2008	% change	2007
Revenue	£20,528m (\$36,548m)	+66%	£12,344m
Profit from operations	£1,157m (\$2,060m)	-18%	£1,418m
Adjusted profit from operations	£2,230m (\$3,970m)	+51%	£1,475m
Profit before tax	£621m (\$1,106m)	-50%	£1,237m
Adjusted profit before tax	£1,607m (\$2,861m)	+30%	£1,238m
Attributable earnings	£428m (\$762m)	-53%	£905m
Adjusted attributable earnings	£1,159m (\$2,063m)	+26%	£921m
Distribution to shareholders	£588m (\$1,047m)	+26%	£467m

	2008	% change	2007
Basic earnings per share	50.6p (90.1c)	-57%	116.7p
Adjusted earnings per share	136.9p (243.7c)	+15%	118.8p
Diluted earnings per share	50.4p (89.7c)	-57%	116.2p
Dividend per share proposed*	63.1p (112.3c)	+4%	60.4p

* If approved by shareholders the dividend will be paid on 20 February 2009 to those shareholders on the register at the close of business on 23 January 2009.

Results include the contribution from Altadis since completion of the acquisition on 25 January 2008 and the 2007 per share figures have been restated to reflect the bonus element of the related rights issue.

The exchange rate of US\$ 1.7804 to the £1, the pound sterling noon buying rate on 30 September 2008 has been used to translate this statement prepared under IFRS.

Profit from operations, profit before tax, attributable earnings, basic and diluted earnings per share are impacted, where applicable, by amortisation of acquired intangibles, restructuring costs, certain fair value gains and losses on derivative financial instruments, an exceptional gain on brand divestments, charges for one-off acquisition accounting adjustments, retirement benefit net financing income and related taxation effects. Further detail of these items is included in the Financial Review.

Earnings per share amounts are calculated using the weighted average shares in issue of 846.5 million (2007: 775.5 million). Dividend per share has been determined using the current shares eligible for the final dividend of 1,011.3 million (2007: 672.8 million), applying our policy of distributing around 50 per cent of adjusted attributable earnings.

Management believes that reporting adjusted measures provides a useful comparison of business performance and reflects the way in which the business is controlled.

Accordingly, as outlined in our accounting policy note, adjusted measures of profit from operations, net finance costs, profit before tax, taxation, attributable earnings and earnings per share exclude, where applicable, amortisation of acquired intangibles, restructuring costs, retirement benefits net financing income, fair value gains and losses on derivative financial instruments in respect of commercially effective hedges, one-off acquisition accounting adjustments, brand divestment gains and related taxation effects. Reconciliations between adjusted and reported profit from operations are included within note 1, adjusted and reported 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 International Financial Reporting Standards and may not be comparable with similarly titled measures reported by other companies.

CHAIRMAN'S STATEMENT

The past year has again demonstrated the success of our strategy with positive progress across the enlarged Group.

In what was a year of significant achievement for Imperial Tobacco we delivered another good operational and financial performance.

EARNINGS AND DIVIDENDS

Our adjusted earnings per share have risen by 15 per cent to 136.9 pence. Basic earnings per share were 50.6 pence (2007: 116.7 pence, adjusted for the bonus

element of the rights issue in June 2008), primarily impacted by restructuring costs, fair value movements on derivatives, amortisation of acquired intangibles and one-off acquisition accounting adjustments, partially offset by brand divestment gains.

Adjusted attributable earnings grew by 26 per cent to a little under £1.2 billion. In line with our policy, the Board is proposing to payout half of this as ordinary dividends. The Board recommends a final dividend of 42.2 pence per share, bringing the total for the year to 63.1 pence (2007: 60.4 pence, adjusted for the bonus element of the rights issue in June 2008).

ALTADIS

On 25 January 2008 we completed the acquisition of Altadis, significantly enhancing our business profile. We have a strong track record in acquisitions and a reputation for integrating new businesses efficiently.

The enlarged Group has around 40,000 employees, 58 manufacturing sites, an extended geographic reach and a more versatile brand and product portfolio, including international strength in cigarette and world leadership in fine cut tobacco, cigars and rolling papers. We now also have a leading logistics platform in Europe.

As part of the integration process we announced a number of European restructuring projects in June which will enable us to strengthen our competitive position and deliver the previously announced annual operating efficiencies of approximately €300 million by the end of the financial year ending 30 September 2010, rising to approximately €400 million by the end of the financial year ending 30 September 2012.

The estimated one-off cash cost of achieving these efficiencies is approximately €600 million.

Regrettably, these projects are impacting our workforce and we are committed to providing a comprehensive range of support measures to assist affected employees.

DRIVING OPERATIONAL PERFORMANCE

Altadis and integration have clearly been key priorities during the year but we have also remained focused on driving the operational performance of the enlarged business, which included an eight month contribution from Altadis and first full year contribution from Commonwealth Brands.

Whilst building on our strong profit base in mature markets we pursue growth in emerging markets, and this year we made excellent progress in Eastern Europe, Africa and the Middle East.

The USA is another important growth market and one where our cigarette and fine cut tobacco shares further increased in the year.

These positive operational developments are underpinned by our ongoing focus on reducing costs and effectively managing our cash.

THE RIGHTS ISSUE

From the outset, we said that the acquisition of Altadis would be part funded by a rights issue.

At our half-yearly results in May we announced a 1 for 2 rights issue at a share price of 1475 pence per share to raise £4.9 billion. The rights issue was sized at the minimum level required to maintain our investment grade credit rating, to which we remain committed.

Given the uncertainties affecting the capital markets this year, it was gratifying to see that the take-up rate was 97.2 per cent and the remainder of the shares were successfully sold in the market.

Following the success of the rights issue and two bond issues in September, we are comfortable with our current financing position.

CORPORATE GOVERNANCE

As a major international company we seek to act in a fair and responsible manner towards all stakeholders.

It is the Board's duty to review and approve our company's policies in this regard. We have in place processes which enable us to meet the high standards of conduct expected of our company.

In September, we delisted from the New York Stock Exchange as part of our ongoing programme of business simplification. This will not compromise the integrity of our Corporate Governance and internal control procedures and we will continue to communicate regularly with our investors based in the USA.

BOARD CHANGES

David Cresswell, Manufacturing Director and Anthony Alexander, Vice Chairman, retired during the year and I would like to express my sincere thanks to them for their contribution to the company.

There have been several new additions to the Imperial Tobacco Board during the year.

We were delighted to welcome Jean-Dominique Comolli, former Chairman of Altadis, to the role of Non-Executive Deputy Chairman. We also welcomed Bruno Bich and Berge Setrakian, both former board members of Altadis, to our Board as Non-Executive Directors.

All have a tremendous wealth of international business experience and their knowledge of the tobacco industry will be invaluable in ensuring that we maximise the significant opportunities the enlarged Group offers.

In conclusion, I would like to thank our employees for their contribution to another successful year. Imperial Tobacco and Altadis employees have developed strong working relationships and their combined skills and expertise will enable us to create further sustainable value for our shareholders.

The turbulent economic conditions are unlikely to change in the short term but we are resilient and highly cash generative. With our enhanced geographic and brand profile, and strong business fundamentals, we can look to the future with confidence.

Iain Napier
Chairman

CHIEF EXECUTIVE'S REVIEW

We have improved our position in mature and emerging markets and, in Altadis, completed an acquisition that has substantially strengthened our business.

PERFORMANCE OVERVIEW

The acquisition of Altadis has been the highlight of an eventful year for Imperial Tobacco. Our overall cigarette volumes were up 46 per cent to 292 billion cigarettes, including contributions from Altadis and Commonwealth Brands.

Our cigarette portfolio is complemented by our world leadership in fine cut tobacco and cigars. Overall, fine cut tobacco volumes were up to 25,150 tonnes, while cigar volumes were 2.5 billion.

The enlarged Group has an enhanced geographic profile and multi-product portfolio and during the year we increased our cigarette and fine cut tobacco shares and volumes across many territories.

Our international cigarette brands, Davidoff and Gauloises Blondes, performed very well, complemented by further growth from a number of regional brands including Gitanes and JPS.

Our strategy is to drive sales growth by developing our brands and products through investment and innovation, supported by excellent trade marketing skills and strong sales forces.

Our versatile portfolio is characterised by great brands and products across all price segments, which provides considerable growth opportunities given the large and diverse number of markets in which we operate.

Whilst we have an excellent portfolio of premium brands, we also have particular strength in the value segment enabling us to capitalise on consumer downtrading in mature markets, a trend that is likely to continue in the current economic climate.

Our continued success in the contrasting markets of the USA, Eastern Europe, Africa and the Middle East was particularly pleasing and demonstrates our ability to successfully develop our business in both mature and emerging markets.

INTEGRATION

The integration of Imperial Tobacco and Altadis has been a key focus during the year.

Whilst pursuing the growth opportunities presented by our combined portfolio and enhanced geographic footprint, we have been managing the consultation process related to our European integration projects.

These projects affect sales and marketing, manufacturing and central support functions in a number of markets and will improve our competitiveness by reducing over-capacity and improving efficiencies.

We concluded the European consultation process in September and have made very good progress on the national consultations and implementation of our projects in many markets.

We have completed the mergers of the Imperial Tobacco and Altadis sales teams in Russia, Ukraine, Poland, Austria, Belgium and Italy, and closed our cigar and fine cut tobacco factory in Slovakia.

The consultation process in France and the UK has been completed, enabling us to begin implementing our projects in these markets in early 2009, while in Spain and Germany consultations are ongoing. We continue to offer comprehensive support to all employees affected by our integration projects.

REGULATION

We continue to effectively manage the increasing levels of regulation affecting our industry. We support sound and proportionate regulation that respects adult freedom of choice and recognises that tobacco products are enjoyed by millions of people worldwide. We have a long history of co-operation with authorities in the markets in which we operate and remain committed to continuing to work constructively with individual governments and other regulatory bodies.

CORPORATE RESPONSIBILITY

Our ongoing commitment to manage our business responsibly is fundamental to our long-term success. As a global tobacco company we recognise the importance of manufacturing, marketing and selling our products responsibly.

Over the years we have taken an increasingly strategic approach to promoting responsible behaviour through defined governance structures, group principles and policies.

We have also established robust risk management procedures, progressed our non-financial performance reporting processes and further developed our Five-for-Five corporate responsibility initiative which was launched last year.

OUR PEOPLE

The development of our employees is critical if we are to continue delivering sustainable shareholder value and I am proud of the success of the leadership programmes we have in place. We seek to support and develop people in all functions and at all levels, from senior managers to employees who are at an early stage of their career.

Our programmes are run on an international basis and participants are often tasked with managing business projects on behalf of the Chief Executive's Committee. I have been extremely impressed with the results, which have highlighted the significant and growing talent pool we have within the business.

OUTLOOK

The integration of Altadis will remain a priority going forward. We have an excellent track record of integrating new businesses into the Group and remain on course to successfully deliver our targeted cost savings.

Leveraging our enhanced operating platform and stronger, more diversified brand and product portfolio will be key to driving future growth and I am confident that we will realise the potential of the many opportunities that lie ahead.

Combined with our ongoing focus on cost and effectively managing our cash, we remain well placed to continue to create sustainable value for our shareholders.

Gareth Davis
Chief Executive

FINANCIAL REVIEW

Our good financial performance and working capital improvements enabled us to generate free cash flow of £1 billion.

SEGMENTAL REPORTING

Prior to the acquisition of Altadis on 25 January 2008, the Group undertook a single principal activity, which was the manufacturing, marketing and sale of tobacco and tobacco-related products. Following the acquisition of Altadis, the enlarged Group has two main business activities, Tobacco and Logistics, which have been used as the basis of the segmental reporting in this report.

The Tobacco segment comprises the manufacturing, marketing and sale of tobacco and tobacco-related products including sales to, but not by, the Logistics segment. The Logistics segment comprises the distribution of tobacco products for major tobacco manufacturers, including Imperial Tobacco, as well as a wide range of other products and services.

ENLARGED GROUP PERFORMANCE

	Revenue 2008 £m	Revenue 2007 £m	Profit from operat- ions 2008 £m	Profit from operat- ions 2007 £m	Adjusted profit from opera- tions 2008 £m	Adjusted profit from opera- tions 2007 £m
Tobacco	15,650	12,344	1,531	1,418	2,107	1,475
Logistics	5,561	-	23	-	121	-
Eliminations	(683)	-	(83)	-	2	-
Fair value movements on derivatives	-	-	(314)	-	-	-
Group Total	20,528	12,344	1,157	1,418	2,230	1,475

Results have benefited from a full year's contribution from Commonwealth Brands in the USA and the consolidation of Altadis from 25 January 2008. These financial results also reflect good performances in a number of regions across the enlarged Imperial Tobacco Group and foreign exchange gains which were partially offset by the impact of specific events in Europe and Asia.

TOBACCO

	2008 £m	2007 £m
Revenue	15,650	12,344
Net revenue	5,238	3,280
Profit from operations	1,531	1,418
Adjusted profit from operations	2,107	1,475
Adjusted operating margin %	40.2%	45.0%

LOGISTICS

	2008 £m	2007 £m
Revenue	5,561	-
Distribution fees	607	-
Profit from operations	23	-
Adjusted profit from operations	121	-
Adjusted distribution margin %	19.9%	-

PROFIT FROM OPERATIONS

	2008 £m	2007 £m
Adjusted profit from operations	2,230	1,475
Acquisition accounting adjustments	(161)	-
Amortisation of acquired intangibles	(309)	(23)
Brand divestment gain	174	-
Fair value movements on derivatives	(314)	(34)
Restructuring costs	(463)	-
Profit from operations	1,157	1,418

ACQUISITION ACCOUNTING ADJUSTMENTS

There are a number of acquisition accounting adjustments required under IFRS which have affected reported profit from operations. The most significant of these are one-off adjustments related to the fair value of stocks held by Altadis at the date of the acquisition, which reduced our reported profit from operations for the year by £118 million.

Prior to the acquisition of Altadis, Imperial Tobacco sold products to Altadis, principally to the logistics business for distribution in France, Spain, Italy and Portugal, and recognised profit at the time of sale to Altadis.

Following the acquisition, we now recognise these profits when the products are sold out of the enlarged Group. There are similar, although smaller, effects where Imperial Tobacco distributed goods on behalf of Altadis prior to acquisition. Together they have affected reported profit from operations recognised in the year to 30 September 2008 by a further £43 million.

ACQUIRED INTANGIBLES AMORTISATION

Reported profit from operations for the year included acquired intangible amortisation costs of £309 million related mainly to the Altadis and Commonwealth Brands acquisitions.

BRAND DIVESTMENT GAINS

Reported profit from operations includes a profit of £174 million on the sale of a number of fine cut and pipe tobacco brands to Philip Morris International. The divestments will result in a full year reduction of around £20 million in our profit from operations.

DERIVATIVE FINANCIAL INSTRUMENTS

Fair value losses of £314 million on derivative financial instruments used to hedge our net investment in overseas operations are included in profit from operations. These losses are offset by gains on the underlying foreign currency assets which have been recognised in the exchange translation reserve.

RESTRUCTURING AND SYNERGIES

In June we announced a number of restructuring projects in Europe as part of the integration of Imperial Tobacco and Altadis.

The total restructuring charge in the year was £463 million with £442 million relating to these integration projects. The expected cash element of these restructuring costs is £412 million and mainly relates to redundancies and social plan costs.

There was also £30 million in respect of asset write downs. These figures reflect where we were in the consultation process at the end of September 2008, and we still expect the total cash costs in respect of the European restructuring projects to be in the region of €600 million.

In addition, we have announced some smaller restructuring projects, including the integration of Lignum 2, our recent USA acquisition, the closure of our cigar factory in

Selma, Alabama, USA, and the streamlining of our Logistics operations in France. These projects have resulted in additional restructuring charges of £21 million.

Included within profit from operations is €43 million of synergies generated from the Altadis acquisition. These were primarily reflected in the Altadis results. Production and purchasing accounted for around 40 per cent of the savings with the balance being split evenly between sales and marketing and corporate overheads.

ENLARGED GROUP ADJUSTED PROFIT FROM OPERATIONS

	Adjusted profit from operations 2008 £m	Adjusted profit from operations 2007 £m
Imperial	1,578	1,475
Altadis	641	-
Eliminations	11	-
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Group Total	2,230	1,475
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IMPERIAL TOBACCO REGIONAL RESULTS (EXCLUDING ALTADIS)

	Net revenue 2008 £m	Net revenue 2007 £m	Adjusted profit from operations 2008 £m	Adjusted profit from operations 2007 £m
UK	869	876	570	564
Germany	567	524	267	238
Rest of W. Europe	665	635	332	326
USA	239	117	115	52
Rest of the World	1,314	1,128	294	295
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Total	3,654	3,280	1,578	1,475
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	Cigarette volumes 2008 bn	Cigarette volumes 2007 bn	Fine cut tobacco volumes 2008 tonnes	Fine cut tobacco volumes 2007 tonnes
UK	21.4	22.9	2,350	2,200
Germany	19.5	20.4	4,150	4,700
Rest of W. Europe	18.0	19.6	12,800	14,900
USA	14.2	7.1	550	100
Rest of the World	134.0	130.3	3,300	2,550
Total	207.1	200.3	23,150	24,450

In the UK, despite the initial impact of public smoking bans on volumes, profits were up benefiting from price increases and reduced costs.

In Germany, results were up, benefiting from the strengthening euro exchange rate. Share gains in both cigarette and fine cut tobacco alongside selective price increases were offset by market volume declines, in part impacted by the introduction of public smoking restrictions, as well as ongoing downtrading.

In the Rest of Western Europe we delivered cigarette share growth in many markets and benefited by £37 million as a result of the strengthening euro exchange rate. However, following the Altadis acquisition, we have reassessed and reduced the levels of stock of Imperial Tobacco brands in Spain. This impacted Imperial Tobacco standalone operations but not the Group results as the offsetting amount is reflected within eliminations. Our performance was also impacted by the divestment of Interval in Europe and by travel retail declines in Western Europe. Taking these operational factors into account, we estimate that profit from operations in this region was reduced by around £50 million in the year ended 30 September 2008. Therefore, excluding foreign exchange, underlying growth was around 6 per cent.

In the USA our results were enhanced by a full year's contribution from Commonwealth Brands. The results also reflect market share gains in both cigarette and fine cut tobacco and price increases which more than offset cigarette market volume declines and additional investment on advertising and promotion to support our brand launches.

In the Rest of the World, we delivered strong performances in many markets across the region, particularly in Eastern Europe, Africa and the Middle East and we have made further significant investment in the region with a view to continuing this momentum.

This region also benefited from a foreign exchange benefit of £26 million, which helped offset the impact of the planned destocking in Taiwan and Russia. We also absorbed

duty to maintain market share and our competitive position in some Central European countries as the accession states move towards the end of their derogation periods. We estimate that the overall impact of these events was a reduction in profit from operations of around £50 million and, excluding foreign exchange gains that our underlying profit growth was around 8 per cent.

After increasing our marketing investment by around 10 per cent, particularly focusing on the USA, Turkey and Ukraine, we delivered underlying growth in total profit from operations of 4 per cent.

ALTADIS DIVISIONAL RESULTS

From 25 January 2008

	Cigarette and cigar volumes	Fine cut tobacco volumes tonnes	Net revenue £m	Distribution fees £m	Adjusted profit from operations £m
Cigarette	84.7bn	2,000	1,092		429
Cigar	2,162m		464		120
Logistics				641	139
Other					(37)
Eliminations					(10)

Total					641

ALTADIS DIVISIONAL RESULTS

In cigarette, we delivered a strong performance reflecting market share gains and improved profitability particularly in Spain, France and North Africa.

Within cigar, we performed well in the natural wrapper segments in the USA, with Habanos in the emerging markets of Eastern Europe, Latin America and Asia Pacific, and in Spain with mini cigars. Overall, the division was impacted by increasing smoking restrictions and the economic slowdown.

In Logistics, results were in line with our expectations with a good performance in Tobacco offsetting ongoing weakness in publications and transport.

Other costs relate to Altadis central overheads and support function costs.

OTHER FINANCIAL INFORMATION

NET FINANCE COSTS

Adjusted net finance costs were £623 million (2007: £237 million). On an adjusted basis, our interest cover was 3.6 times (2007: 6.2 times). Our interest cover for banking covenant purposes was higher as this excluded some matters, including the interest paid on the equitybridge.

Reported net finance costs of £536 million (2007: £181 million) include retirement benefit net finance income of £45 million (2007: £54 million) and fair value gains on interest rate derivatives of £42 million (2007: £2 million). Reported and adjusted net finance costs include £289 million related to the acquisition of Altadis.

PROFIT BEFORE TAX

Adjusted profit before tax was £1,607 million (2007: £1,238 million). Reported profit before tax was £621 million (2007: £1,237 million).

TAXATION

The adjusted tax charge for the year was £426 million (2007: £310 million) representing an adjusted effective tax rate of 26.5 per cent (2007: 25.0 per cent). The increase in the adjusted effective tax rate is due to the higher rates of tax applying to Altadis. The reported tax charge was £180 million (2007: £325 million).

EARNINGS PER SHARE AND DIVIDENDS

Adjusted earnings per share increased by 15 per cent to 136.9 pence. Basic earnings per share were 50.6 pence (2007: 116.7 pence), primarily impacted by restructuring costs, fair value movements on derivatives, amortisation of acquired intangibles and one-off acquisition accounting adjustments, partially offset by brand divestment gains.

The total amount of dividends payable in respect of 2008 is £588 million, an increase of 26 per cent on last year, which reflects growth in our adjusted attributable earnings to a little under £1.2 billion and maintains our payout ratio at around 50 per cent, in line with previous years. We have proposed a final dividend of 42.2 pence per share such that the total dividend for the year is 63.1 pence. Following approval by shareholders, this dividend will be paid, on 20 February 2009, to those shareholders on the register at close of business on 23 January 2009.

DEBT AND CASH

Our business is highly cash generative and we aim to convert around 100 per cent of our profit from operating activities after net capital expenditure into cash. We have

performed a review of all aspects of capital employed to enable us to deliver further sustainable improvements in our working capital.

At the end of September 2008 we had committed financing facilities in place of around £14 billion. Around 66 per cent was bank facilities with the balance raised through capital market bond issues.

Our closing adjusted net debt was £11.5 billion which was denominated in the following currencies: 62 per cent euros, 25 per cent US dollars and the remaining 13 per cent mainly sterling.

Our all-in cost of debt was stable at 5.5 per cent. We had a successful dual-tranche bond issuance in September 2008 where the £1.2 billion raised has fulfilled our short term financing needs. In the short term, we will utilise the high level of cash we generate to reduce debt and to continue to create additional value for our shareholders.

At 30 September 2008, our reported net debt had increased to £11.7 billion (2007: £4.9 billion). Eliminating accrued interest, the fair value of interest rate derivatives and finance lease liabilities, our adjusted net debt was £11.5 billion (2007: £4.8 billion). Additional borrowings to finance the Altadis acquisition have been partially offset by the proceeds of £4.9 billion from the rights issue. Our cash conversion was 86 per cent (2007: 81 per cent). This level was achieved despite the lower than usual level of Altadis net debt at the date of acquisition which normalised in February, resulting in a cash outflow of approximately £400 million. Excluding this impact, our cash conversion was 103 per cent, slightly ahead of our target.

FOREIGN EXCHANGE

Net revenue was increased by £257 million mainly as a result of the stronger euro exchange rate. Adjusted profit from operations was increased by £93 million and this was partially offset by an adverse impact on adjusted net finance costs of £19 million.

ACQUISITIONS AND NON-CORE-ASSET DISPOSALS

On 25 January 2008, we completed the acquisition of Altadis for a total cash consideration of €50 per share representing an enterprise value for Altadis of €15.2 billion (£11.3 billion as of 25 January 2008), taking into account Altadis' net debt and the interests of minority shareholders at that date. Our tender for the 40.38 per cent Logista minority which we did not acquire through the Altadis acquisition ended on 6 May 2008, with 37.3 per cent accepting our offer. We subsequently used the squeeze-out mechanism to compulsorily acquire all of the remaining Logista shares for a total cash consideration of €925 million.

On 14 April 2008 we completed the disposal of Altadis' 49.95 per cent shareholding in Aldeasa S.A. to Autogrill S.A. for a total cash consideration of €275 million and a

number of fine cut and pipe tobacco brands were sold to Philip Morris International for €254 million on 30 June 2008.

Continuing the programme of non-core asset disposals of €650 million originally announced by Altadis in April 2007, €380 million had been realised as at 30 September 2008. This includes the sale of Logista's stake in Iberia for €220 million prior to our acquisition of Altadis. Since completion of the Altadis acquisition €34 million has been realised.

RIGHTS ISSUE

In June we completed a 1 for 2 rights issue at a subscription price of 1475 pence which raised £4.9 billion and we used the proceeds to repay the equity bridge facility put in place to part fund the Altadis acquisition.

NEW GEOGRAPHIC ANALYSIS

Following the acquisition we will be reporting Tobacco results for the enlarged Group using a new geographic analysis reflecting the way we manage our business. Further information can be found in our Preliminary Results presentation on our corporate website at www.imperial-tobacco.com.

To aid understanding of our 2008 results, we have also provided details of the contribution of the standalone Imperial Tobacco and Altadis businesses, as well as a geographic breakdown of the existing Imperial Tobacco business and a divisional breakdown for Altadis.

NEW GEOGRAPHIC ANALYSIS OF TOBACCO 2008

	Net Revenue £m	Adjusted profit from operations £m
UK	869	584
Germany	664	309
Spain	411	150
Rest of EU	1,250	494
Americas	542	166
Rest of the World	1,502	404
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	5,238	2,107
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Robert Dyrbus
Finance Director

OPERATING REVIEW

UNITED KINGDOM

MARKET DYNAMICS

We estimate that the duty paid cigarette market declined by 5 per cent to 45.5 billion cigarettes in the year (2007: 47.9 billion).

We estimate that 2-3 per cent of the decline was attributable to the smoking bans introduced in England, Wales and Northern Ireland in 2007, with the balance due to normal long-term decline.

In contrast, market volumes of duty paid fine cut tobacco rose by an estimated 7 per cent to 3,750 tonnes during the year (2007: 3,500 tonnes).

From 1 October 2008, all tobacco products manufactured for sale in the UK must have a pictorial health warning on the reverse of the pack, although there is a sell-through period for products without these warnings of 12 months for cigarettes and 24 months for fine cut tobacco.

OUR PERFORMANCE

In the UK, net revenue was £869 million, with adjusted profit from operations of £584 million.

We lead the UK market in cigarette, fine cut tobacco and rolling papers. We have a 45.9 per cent cigarette market share, led by Lambert & Butler at 16.2 per cent (2007: 16.6 per cent) and Richmond at 16.1 per cent (2007: 15.7 per cent), the two best-selling cigarette brands in the country.

Our value offering, Windsor Blue, had another successful year, increasing its market share to 3 per cent (2007: 2.6 per cent).

Value brands and products are growing in many mature markets, particularly those with high taxation as consumers continue to downtrade in search of value, and the UK is no exception.

Downtrading is likely to continue in the current economic climate and to capitalise on this we launched the JPS Silver range in the economy sector in November 2008.

Our fine cut tobacco market share declined to 61.6 per cent (2007: 63.6 per cent), with our market leading premium brand, Golden Virginia, declining due to downtrading.

However, we continued to improve the share of our value brand, Gold Leaf, which is now up to 2.6 per cent.

Rizla, the world's leading rolling paper brand and number one in the UK, delivered another strong performance in the year.

OUTLOOK

The UK is an important market and one where we remain focused on strengthening our leadership position.

We expect a more normal rate of decline in duty paid cigarette volumes in the coming year and further growth in duty paid fine cut tobacco volumes.

The portfolio initiatives we have taken in recent years have continued to build our position at the value end of both cigarette and fine cut tobacco, leaving us well placed to capitalise on the downtrading trend.

Regulation continues to increase but we are very experienced at successfully managing the impact on our business.

In our response to the Department of Health consultation document on the future of tobacco control, we took the opportunity to reiterate our support for initiatives to reduce youth smoking and illicit trade.

We robustly opposed a number of proposals which we consider to be unnecessary and disproportionate, including proposals to ban product display, vending sales and 10 packs. The Department of Health is expected to publish a summary of all the responses received by 8 December 2008. Further information is available on our website: www.imperial-tobacco.com.

MARKET SIZE

	2008	2007
Cigarette (1)	45.5bn	47.9bn
Fine cut tobacco (1)	3,750t	3,500t

MARKET SHARE

	2008	2007
Cigarette (1)	45.9%	46.4%
Fine cut tobacco (1)	61.6%	63.6%

(1) Imperial Tobacco estimates.

GERMANY

MARKET DYNAMICS

In Germany, dutypaid cigarette volumes have declined by an estimated 3 per cent to just under 88 billion cigarettes (2007: 91 billion).

This was largely influenced by the introduction of public smoking restrictions in all states. These restrictions have recently eased in some states following a court ruling that some aspects of the legislation were unconstitutional.

Downtrading remains a key dynamic, with the value price sector share now up to 24 per cent of factory made cigarettes (2007: 19 per cent).

Private label's cigarette share continues to fall, now down to 11.3 per cent (2007: 12.5 per cent).

The level of both legal and illegal cross-border flows reduced slightly to an estimated 20 per cent during the year but still remains a significant problem.

Other tobacco product volumes fell by an estimated 5 per cent to 34 billion cigarette equivalents (2007: 36 billion). This was largely due to a 24 per cent decline in eco-cigarillos as a result of legal changes to the product specifications coming into effect from January 2008.

OUR PERFORMANCE

In Germany, net revenue was £664 million, with adjusted profit from operations up to £309 million.

Against a challenging market environment we delivered a number of good performances in Germany, including increasing our cigarette share to 27.4 per cent.

In recent years JPS has achieved significant success and continued to build on its impressive growth record in 2008. JPS now accounts for 7.8 per cent of the market (2007: 6.4 per cent) and has become the second best-selling cigarette brand in Germany.

Our mid-priced brand West continues to be impacted by downtrading but our premium brand Gauloises Blondes was resilient in maintaining its share at 5.6 per cent.

Our market share of other tobacco products was up to 20 per cent. Both JPS and Route 66 made market share gains to 8.4 and 2.5 per cent respectively and performed particularly well in the make your own sector.

We continue to manufacture eco-cigarillos and during the year we improved our share of this segment to 15.1 per cent.

OUTLOOK

We remain focused on improving our competitive position in Germany and further developing our strong market shares.

We have a broad portfolio which we will continue to leverage in order to capitalise on growth opportunities. Our strength in value brands and products means we are well placed to benefit from downtrading, both within cigarette and from cigarette into other tobacco products, whilst continuing to support our key brands, such as West and Gauloises Blondes.

The market environment is evolving and we will continue to monitor cross-border inflows and participate in the ongoing debate regarding restrictions on smoking in public places.

MARKET SIZE

	2008	2007
Cigarette (1)	88bn	91bn
Other tobacco products (1) (2)	34bn	36bn

MARKET SHARE

	2008 Enlarged Group	2008 Altadis	2008 Imperial Tobacco	2007 Imperial Tobacco
Cigarette (1)	27.4%	5.8%	21.6%	21.3%
Other tobacco products (1)	20.0%	0.6%	19.4%	19.1%

(1) Imperial Tobacco estimates.

(2) As cigarette equivalents.

SPAIN

MARKET DYNAMICS

Spain is a key market for the enlarged Group.

Tobacco sales are through two distinct channels - tobacconists, who account for two thirds of volumes, and vending machines which account for the balance.

During the year market volumes of duty paid cigarettes remained stable at an estimated 90 billion, while volumes of fine cut tobacco have seen significant growth to approximately 3,600 tonnes (2007: 2,800 tonnes).

The cigar market was up 5 per cent to around 1.1 billion units.

Volumes of large and medium-sized cigars have declined following the introduction of smoking restrictions, although this has been more than offset by the growth in volumes of small cigars.

OUR PERFORMANCE

In Spain, net revenue was £411 million and adjusted profit from operations was £150 million.

Our position in Spain has been significantly enhanced following the acquisition of Altadis, and we now have a market leading position across all tobacco categories.

Our cigarette market share was 37.1 per cent (2007: 5.9 per cent) with Fortuna, a mid-price offering and the second best-selling cigarette brand in Spain, broadly maintaining its share at 12.1 per cent.

Nobel, also in the mid-price sector, and our value brand Ducados Rubio performed well in the year, growing their shares to 6.1 and 4.9 per cent respectively.

Our fine cut tobacco market share has declined to 49.1 per cent as a result of competition and downtrading, which we have taken steps to address with the price repositioning of Golden Virginia and Drum during the year.

Our cigar market share, including Habanos brands, is at 36.8 per cent, mainly driven by three brands: Farias, Vegafina and Dux.

All three brand families are building on a broad and loyal consumer base and are represented across all the different sub-segments.

With Farias we are number one in both large and miniature cigars, whilst Vegafina is the leading non-Habanos premium brand and Dux is number two in the medium-sized segment.

OUTLOOK

Our broad brand and product portfolio gives us the opportunity to enhance our market leading positions, which we will support by improving our sales and trade focus.

As part of the integration of Altadis and Imperial Tobacco, we plan to improve our sales effectiveness and customer service by combining the three sales forces of Imperial Tobacco and Altadis cigarettes and Altadis cigars into one unified team.

We will also optimise the visibility of our brands and point of sale activities at tobacconists and increase our presence in the vending channel.

We launched a new Fortuna pack design in the year which was well received by consumers and we are focused on developing further innovative packaging initiatives for our products.

We will also seek to build on our leading cigar position, particularly in the growing miniature cigars segment.

MARKET SIZE

	2008	2007
Cigarette (1)	90bn	90bn
Fine cut tobacco (1)	3,600t	2,800t

MARKET SHARE

	2008 Enlarged Group	2008 Altadis	2008 Imperial Tobacco	2007 Imperial Tobacco
Cigarette (1)	37.1%	31.9%	5.2%	5.9%
Other tobacco products (1)	49.1%	2.2%	46.9%	53.2%

(1) Imperial Tobacco estimates. Full Year 2007 figures adjusted for divestments.

REST OF EU

MARKET DYNAMICS

We have replaced our Rest of Western Europe region with the Rest of EU, which for our purposes includes some non-EU countries which we have incorporated on the grounds of geographic proximity.

In the region as a whole, we estimate that cigarette market volumes declined by 3 per cent to 382 billion cigarettes.

Regional fine cut tobacco volumes grew by 1 per cent to an estimated 34,000 tonnes.

OUR PERFORMANCE

In the Rest of EU, net revenue was £1,250 million and adjusted profit from operations was £494 million.

France is a key market for us in this region and one where the Altadis acquisition has significantly increased our cigarette share, now up to 29.3 per cent with gains from JPS, Gauloises Blondes, News and Fortuna. We are the leader in the French cigar market with a 23.5 per cent share.

We delivered a good performance in Poland, growing Route 66 and West, while JPS and Fortuna improved our position in Belgium. JPS also helped to increase our share in The Netherlands and we achieved further strong growth from Davidoff in Greece, where our cigarette share is now up to 10.9 per cent.

The regional fine cut tobacco market remains extremely competitive. In The Netherlands, by far the largest regional market, our share was at 50.7 per cent with both our value brands, Zilver and Evergreen, making gains.

In Hungary, we have captured 40.6 per cent of the rapidly growing fine cut tobacco market and our share in the Czech Republic increased significantly to 51.8 per cent, driven by strong growth in our Paramount brand.

OUTLOOK

We expect further modest declines in regional cigarette market volumes and continued growth in fine cut tobacco market volumes.

Our versatile portfolio provides a number of growth opportunities. We remain focused on further improving our cigarette position, delivering growth across the pricing spectrum, and see considerable scope for building on our growing fine cut tobacco market shares in a number of accession countries.

MARKET SIZE

	2008	2007
Cigarette (1)	382bn	391bn
Fine cut tobacco (1)	34,000t	33,650t

CIGARETTE MARKET SHARE (1)

	2008 Enlarged Group	2008 Altadis	2008 Imperial Tobacco	2007 Imperial Tobacco
Belgium	16.5%	6.1%	10.4%	10.6%
Czech Republic	12.2%	0.3%	11.9%	12.0%

France	29.3%	24.8%	4.5%	4.0%
Greece	10.9%	0.6%	10.3%	9.7%
Hungary	12.6%	0.3%	12.3%	13.2%
Ireland	26.6%	0.0%	26.6%	26.4%
Italy	2.7%	1.5%	1.2%	1.3%
Netherlands	13.5%	2.1%	11.4%	10.6%
Poland	25.1%	7.6%	17.5%	16.9%

FINE CUT TOBACCO MARKET SHARES (1)

	2008 Enlarged Group	2008 Altadis	2008 Imperial Tobacco	2007 Imperial Tobacco
Belgium	11.9%	3.1%	8.8%	8.8%
Czech Republic	51.8%	0.0%	51.8%	27.7%
France	24.4%	13.2%	11.2%	11.4%
Greece	41.9%	0.0%	41.9%	43.8%
Hungary	40.6%	0.0%	40.6%	28.7%
Ireland	64.0%	0.0%	64.0%	65.6%
Italy	46.7%	3.2%	43.5%	47.7%
Netherlands	50.7%	0.2%	50.5%	50.6%
Poland	2.0%	0.0%	2.0%	2.1%

(1) Imperial Tobacco estimates. Full Year 2007 figures adjusted for divestments.

AMERICAS

MARKET DYNAMICS

The Americas is a major growth area for us as we continue to focus on building our geographic footprint in these profitable markets.

Currently, the main focus of our operations is the USA where we estimate that the overall cigarette market declined by 4 per cent to 351 billion cigarettes during the year. The discount segment remained broadly stable and accounts for around 27 per cent of the total cigarette market.

In fine cut tobacco, we estimate market volumes grew by 5 per cent to 9,100 tonnes as a result of further downtrading from cigarettes.

Sales of cigars have been generally affected by the economic slowdown and public smoking restrictions, particularly in the premium segment, although this is being offset by positive trends in the smaller sizes.

In the USA, further tobacco tax increases are expected in 2009 and we continue to monitor the ongoing debate around the potential for the Food & Drug Administration to assume responsibility for tobacco regulation.

Our growing Americas profile also includes a small presence in Mexico and Canada, where we launched Davidoff in 2007, and Argentina, where we gained our position through the Altadis acquisition.

OUR PERFORMANCE

Net revenue in the year was £542 million, with adjusted profit from operations of £166 million.

Our USA cigarette volumes were 14.2 billion, with our cigarette share up to 4.3 per cent of the total market and 14.2 per cent of the discount segment.

Both our key discount brands, USA Gold at 2.6 per cent and Sonoma at 1.6 per cent, grew share.

Having established a secure footing in the value for money end of the cigarette market, we have taken steps to expand our portfolio, launching Davidoff, initially in ten cities, and Fortuna in Florida and Texas, with encouraging early results.

Our fine cut tobacco volumes continue to grow and were up to 600 tonnes in the year.

During the year we launched our own fine cut tobacco brand, Premier. The acquisition of Lignum 2 added the Rave brand to our growing portfolio and doubled our market share, which was around 8 per cent in September.

In acquiring Altadis, we gained market leadership, in value terms, in the large cigar segment with a strong presence in all the cigar categories in the USA.

In challenging market conditions, our natural wrapper brands of Backwoods and Dutch Masters performed well following the introduction of new flavoured variants and two price increases.

In October 2008, we took up the option to acquire the remaining 49 per cent of JR Cigar not previously owned by Altadis as another step towards consolidating our market position. The company is a nationwide distributor of cigars and related products.

OUTLOOK

We have made considerable progress in the short time we have been present in the USA tobacco market and see attractive opportunities for expanding our profile.

Our multi-product portfolio means we are well placed to respond swiftly and efficiently to changing market dynamics.

We also remain focused on improving our national distribution capabilities in the USA and are currently in the process of expanding our cigarette sales force.

Our ambition is to continue to enhance our cigarette presence and build on the excellent progress we have made in fine cut tobacco, whilst consolidating our position in cigar.

MARKET SIZE

	2008	2007
Cigarette – USA (1)	351bn	367bn
Fine cut tobacco – USA(1)(2)	9,100t	8,700t

MARKET SHARE

	2008	2007
Cigarette – USA(1)(3)	4.3%	4.0%
Fine cut tobacco – USA(1)	5.8%	1.0%

(1) Imperial Tobacco estimates.

(2) USA fine cut tobacco volumes have been restated to exclude pipe tobacco.

(3) Our USA cigarette market share estimate in 2007 has been restated to reflect a changed basis of calculation.

REST OF THE WORLD

Our Rest of the World region contains a diverse array of markets which offer considerable opportunities for growth.

OUR PERFORMANCE

In the Rest of the World, net revenue grew to £1,502 million, with adjusted profit from operations up to £404 million.

We had an excellent year in Africa, increasing our volumes and market share in many countries.

The acquisition of Altadis has enhanced our position in this important growth region, giving us a market leading position in Morocco, with our key brand Marquise. Our volumes have also grown strongly in Algeria with Gauloises Blondes.

Our performance in the Middle East has been equally strong, with further volume and share growth. Gauloises Blondes is now our largest cigarette brand in the region, complemented by Gitanes and Davidoff.

Eastern Europe generates 54 per cent of our Rest of the World cigarette volumes, predominantly in Russia and the Ukraine.

In Russia, sales were affected by destocking, both at the distributor and wholesale levels, following the merger of the two largest tobacco distributors.

In the Ukraine we increased volumes of our value brand Classic by 55 per cent, while in Azerbaijan we further built on our track record of growth with gains from West and Davidoff.

In Asia, our Taiwan share declined as a result of increased competition and downtrading. However, our new cigarette factory will generate substantial cost savings and improve our competitiveness in this important market. In Vietnam, we have strengthened our position with a new production and sales joint venture, and in Laos our A brand generated further share growth.

Our presence in Asia has been strengthened as a result of the Altadis acquisition and we now have a strong position in Cambodia.

Australia remains extremely competitive, particularly in the low price cigarette sector, resulting in a slight fall in our market share, although we continue to lead the fine cut tobacco market with a 61.1 per cent share.

OUTLOOK

Our primary objective is to build on our enhanced footprint by leveraging our brand and product portfolios.

There are many opportunities for us to develop our business in this region and we will particularly focus on maintaining our growth momentum in Africa, the Middle East, Eastern Europe and Asia.

In Africa our strong portfolio of local brands will continue to drive our volume and share growth, with growing support from our international brands. In the Middle East we will continue to enhance market share through the development of our international brands.

Our cigarette volumes are growing in Eastern Europe and we remain focused on building on our success.

Our extended geographic reach presents a platform to expand the distribution of Habanos cigar brands, such as Cohiba and Montecristo, into new markets and we see particular growth opportunities in Eastern Europe and Asia.

CIGARETTE MARKET SHARES (1)

	2008 Enlarged Group	2008 Altadis	2008 Imperial Tobacco	2007 Imperial Tobacco
Australia	17.2%	0.0%	17.2%	17.5%
Azerbaijan	39.4%	0.0%	39.4%	36.6%
Cambodia	25.6%	25.6%	0.0%	0.0%
Ivory Coast	84.8%	0.1%	84.7%	84.7%
Lebanon	21.1%	17.4%	3.7%	3.3%
Morocco	87.3%	87.3%	0.0%	0.0%
Russia	11.0%	5.5%	5.5%	5.5%
Saudi Arabia	9.7%	0.5%	9.2%	7.0%
Taiwan	9.7%	0.0%	9.7%	11.7%
Turkey	3.2%	0.0%	3.2%	2.5%
Ukraine	21.8%	0.1%	21.7%	20.6%

(1) Imperial Tobacco estimates. Full Year 2007 figures adjusted for divestments.

MANUFACTURING

The acquisition of Altadis has substantially increased our international manufacturing footprint.

Our manufacturing capabilities now extend across North America, Europe, Africa, the Middle East and Australasia, where we produce a broad range of high quality cigarettes, tobaccos, cigars, rolling papers and tubes.

The Altadis acquisition increased our manufacturing sites from 31 factories to 58. In combining two such large footprints, there will inevitably be a degree of over-capacity, and as part of our integration strategy we proposed closing six sites and restructuring a number of others in order to address this and improve operational efficiencies. We have so far completed the closure of our cigar and fine cut tobacco factory in Slovakia and remain committed to supporting employees affected by integration.

OUR PERFORMANCE

We have maintained our focus on simplification and standardisation while managing integration, and have delivered further operational improvements within the Imperial Tobacco portfolio. Productivity improved by 5 per cent and we reduced overall cigarette unit costs by 3 per cent.

In addition, the number of blends and ingredients we use have decreased by a further 9 and 6 per cent respectively.

Like Imperial Tobacco, Altadis has continually reviewed its manufacturing operations in recent years and has delivered a steady progression of efficiency enhancements which we will seek to build on. A key area of focus this year has been integrating the Altadis supply chain processes with our own in order to benefit from ongoing synergies.

In October 2008 we obtained the manufacturing licence for our new factory in Taiwan and are currently in the final phase of test production. The factory is a state-of-the-art facility with the most modern technologies available and we expect it to be fully operational in January 2009. The factory will enable us to respond more swiftly to changing market dynamics and provides a strong platform for further expansion in the Asia-Pacific region.

It is inevitable that rising costs will present a challenge to our business and in order to mitigate their impact we continue to focus on deriving efficiencies from our cost base.

We are constantly looking at the processes for controlling and improving our environmental performance and ISO14001 is an international standard applied to our manufacturing bases. This year, we increased the number of Imperial Tobacco factories with ISO14001 accreditation to 74 per cent (2007: 68 per cent). This standard is also in place in 12 Altadis factories and in all the main distribution centres of our Logistics business.

OUTLOOK

Our long-term strategy of simplification, standardisation and supply chain optimisation, whilst maintaining quality, remains central to the success of our manufacturing operations. Our focus on cost optimisation and efficiency improvements is being extended across our enlarged manufacturing portfolio.

The tobacco industry is evolving and flexibility is therefore key to our success. We will ensure that we respond quickly to changing market dynamics and consumer preferences, and will continue to deliver the quality of product necessary to build upon our strong presence in the international tobacco markets.

LOGISTICS

We are one of the largest distributors of tobacco and other products in Europe.

OVERVIEW

The logistics operations acquired with Altadis comprised a wholly owned company in France and a majority stake in Logista, a publicly traded company focused on the Spanish, Portuguese and Italian markets. Both companies owe their roots to the traditional distribution activities of previously state-owned tobacco manufacturers that became a part of Altadis.

Following the acquisition of Altadis, Spanish takeover law required that we either reduced our majority shareholding in Logista to below 30 per cent or made an offer for those shares not already held by the Group. We reviewed the overall logistics business and decided to launch an offer for the remaining shares, which was completed at a cost of €925 million in June 2008.

The business has a strategy of expansion through both organic growth and acquisitions. In the last decade logistics has diversified from tobacco distribution within France and Spain into new markets and a range of new and related product groups. As a result, our operations are split into two distinct areas: tobacco and other products.

Our tobacco logistics business is the largest of its kind in Europe and has in excess of 90 per cent market share in the distribution of tobacco within Spain, France and Italy. Tobacco logistics delivers products for international manufacturers, including Imperial Tobacco, to tobacconists and other sales outlets across Southern Europe.

The business is run on an operationally neutral basis, providing bespoke solutions based on our technology, and ensuring that all customers are treated equally.

Through our other products activities, we manage the full logistics value chain of a diverse range of products for clients including those from the pharmaceutical, publishing, transportation and telecommunications industries.

These range from telephone cards, stamps, magazines and books, to promotional items and industrial courier services. Today, our Logistics division distributes to around 200,000 outlets across Europe. These span convenience stores, tobacconists, bakeries, kiosks, pharmacies, grocery stores, service stations and stationers.

MARKET DYNAMICS

In tobacco logistics, the continued gradual decline in the volumes of cigarettes consumed across Western Europe requires distributors to focus on offering additional services while improving operating efficiencies. Expansion into additional territories is a strategy our Logistics business has pursued successfully in Portugal, Italy and, more recently, Poland.

Through the scale and efficiency of our distribution activities we are providing customers with a range of services they would find difficult to replicate elsewhere.

The other products logistics business has proven successful in identifying areas where the growth dynamics are favourable, such as pharmaceuticals, books and transportation.

In transportation, we are one of the largest business-to-business courier and industrial parcel delivery operators in Spain, offering long distance services across Europe. This

has seen attractive growth over the last five years, with opportunities for further growth through diversification into related areas within and beyond Spain.

OUR PERFORMANCE

Distribution fees in the eight months to September were £607 million, with adjusted profits from operations of £121 million. Our overall performance was in line with our expectations.

The good performance of tobacco logistics reflected a cigarette price increase in Italy and stable tobacco volumes in Spain, which offset a decline in French volumes following the extension of the public smoking bans in January 2008.

In other products logistics, our traditional wholesale business performed well in a difficult environment. However, our overall business was affected by continued weakness in publications and the impact of the economic downturn on the transport business.

OUTLOOK

The current economic conditions present challenges for our other products logistics business but we anticipate a stable tobacco performance going forward, with the benefit of cigarette price increases by tobacco manufacturers compensating for slight cigarette volume declines.

The Logistics business has grown rapidly and we see further opportunities both within the regulated markets of Western Europe and the unregulated markets of Central and Eastern Europe, where industry consolidation is likely.

Logistics is a profitable and highly cash generative part of the Group, and our long-term strategy is one of continuing to enhance service levels to existing customers whilst looking for opportunities to extend our logistics footprint into additional countries and related other products.

FINANCIAL REPORTING

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the European Union (collectively IFRS) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

FINANCIAL STATEMENTS

The figures and financial information for the year ended 30 September 2008 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the Auditors yet reported on

them. The financial statements have been prepared in accordance with our accounting policies published in our financial statements available on our website www.imperial-tobacco.com.

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2008

	2008 £m	2007 £m
Revenue	20,528	12,344
Duty and similar items	(10,412)	(9,064)
Other cost of sales	(6,253)	(990)
Cost of sales	(16,665)	(10,054)
Gross profit	3,863	2,290
Distribution, advertising and selling costs	(1,462)	(659)
Administrative and other expenses	(1,244)	(213)
Profit from operations	1,157	1,418
Investment income	402	318
Finance costs	(938)	(499)
Net finance costs	(536)	(181)
Profit before taxation	621	1,237
Taxation	(180)	(325)
Profit for the year	441	912
Attributable to:		
Equity holders of the Company	428	905
Minority interests	13	7
Earnings per ordinary share *		
- Basic	50.6p	116.7p
- Diluted	50.4p	116.2p

All activities derive from continuing operations.

* Comparative per share figures have been restated to reflect the bonus element of the rights issue.

Reconciliation from profit from operations to adjusted profit from operations
for the year ended 30 September 2008

	2008 £m	2007 £m
Profit from operations	1,157	1,418
Acquisition accounting adjustments	161	-
Amortisation of acquired intangibles	309	23
Brand divestment gain	(174)	-
Fair value gains and losses on derivative financial instruments	314	34
Restructuring costs	463	-
Adjusted profit from operations	<u>2,230</u>	<u>1,475</u>

Reconciliation from net finance costs to adjusted net finance costs
for the year ended 30 September 2008

	2008 £m	2007 £m
Net finance costs	(536)	(181)
Fair value gains and losses on derivative financial instruments	(42)	(2)
Retirement benefits net financing income	(45)	(54)
Adjusted net finance costs	<u>(623)</u>	<u>(237)</u>

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2008

	2008 £m	2007 £m
Non-current assets		
Intangible assets	19,792	4,950
Property, plant and equipment	1,822	640
Investments in associates	16	4
Retirement benefit assets	441	602
Trade and other receivables	98	7
Derivative financial instruments	76	-
Deferred tax assets	392	52
	<u>22,637</u>	<u>6,255</u>

Current assets		
Inventories	2,858	998
Trade and other receivables	2,951	1,254
Current tax assets	31	50
Cash and cash equivalents	642	380
Derivative financial instruments	97	71
	-----	-----
	6,579	2,753
	-----	-----
Total assets	29,216	9,008
	-----	-----
Current liabilities		
Borrowings	(2,678)	(1,067)
Derivative financial instruments	(238)	(219)
Trade and other payables	(6,183)	(1,593)
Finance lease liabilities	(2)	-
Current tax liabilities	(370)	(267)
Provisions	(187)	(26)
	-----	-----
	(9,658)	(3,172)
	-----	-----
Non-current liabilities		
Borrowings	(9,558)	(4,053)
Derivative financial instruments	(2)	-
Trade and other payables	(14)	(5)
Finance lease liabilities	(24)	-
Deferred tax liabilities	(2,294)	(208)
Retirement benefit liabilities	(546)	(397)
Provisions	(764)	(32)
	-----	-----
	(13,202)	(4,695)
	-----	-----
Total liabilities	(22,860)	(7,867)
	-----	-----
Net assets	6,356	1,141
	-----	-----
Equity		
Share capital	107	73
Share premium account	5,833	964
Retained earnings	(109)	58
Exchange translation reserve	476	23
	-----	-----
Equity attributable to equity holders of the Company	6,307	1,118
Minority interests	49	23
	-----	-----

Total equity	6,356	1,141
--------------	-------	-------

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 September 2008

	2008 £m	2007 £m
Exchange movements	541	58
Net actuarial (losses)/gains on retirement benefits	(156)	202
Deferred tax relating to net actuarial losses/(gains) on retirement benefits	57	(59)
Deferred tax on share based payments	(6)	-
Current tax on share based payments	1	5
Current tax on exchange movements	(88)	-
Net income recognised directly in equity	349	206
Profit for the year	441	912
Total recognised income and expense for the year	790	1,118
Attributable to:		
Equity holders of the Company	777	1,111
Minority interests	13	7
Total recognised income and expense for the year	790	1,118

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2008

	2008 £m	2007 £m
Cash flows from operating activities	1,700	999
Cash flows from investing activities		
Interest received	101	15
Purchase of property, plant and equipment	(214)	(128)
Proceeds from sale of property, plant and equipment	34	5
Purchase of intangible assets – software	(12)	(5)
Purchase of intangible assets – trademarks	(5)	(5)
Proceeds from brand divestment	191	-
Purchase of businesses – net of cash acquired	(9,642)	(966)
Proceeds from sale of businesses – net of cash disposed	222	-
Net cash used in investing activities	(9,325)	(1,084)

Cash flows from financing activities		
Interest paid	(608)	(227)
Purchase of treasury shares	-	(105)
Proceeds from sale of shares held by Employee Share Ownership Trusts	5	7
Purchase of shares held by Employee Share Ownership Trusts	(26)	(55)
Proceeds from rights issue	4,903	-
Settlement of exchange rate derivative financial instruments	13	-
Increase in borrowings	13,815	2,324
Repayment of borrowings	(9,646)	(1,317)
Increase in collateralisation deposits	(188)	-
Repayment of obligations under finance leases	(1)	-
Dividends paid to minority interests	(9)	(4)
Dividends paid to equityholders of the Company	(487)	(434)
	-----	-----
Net cash generated by financing activities	7,771	189
	-----	-----
Net increase in cash and cash equivalents	146	104
Cash and cash equivalents at start of year	380	263
Effect of foreign exchange rates	116	13
	-----	-----
Cash and cash equivalents at end of year	642	380
	-----	-----

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental information

Following the acquisition of Altadis, Imperial Tobacco comprises two distinct businesses - Tobacco and Logistics - which have been used as the basis for the primary segment reporting below. The Tobacco segment comprises the manufacture, marketing and sale of tobacco and tobacco-related products, including sales to (but not by) the Logistics segment. The Logistics segment 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. Central costs of the Enlarged Group are allocated to the Tobacco and Logistics segments based on management's assessment of the level of support provided to each business segment. The business segments presented reflect the management structure of the Group and the way in which the Group's management reviews business performance. Transactions between segments are undertaken on an arm's length basis reflecting market prices for comparable products and services.

Prior to the Altadis acquisition, Imperial Tobacco Group undertook a single principal activity, being the manufacture, marketing and sale of tobacco and tobacco-related products. Comparative data for 2007 is consequently shown as Tobacco.

Segmental revenue

	2008 Tobacco £m	2008 Logistics £m	2008 Elimin- ations £m	2008 Total £m	2007 Tobacco £m
External revenue	14,967	5,561	-	20,528	12,344
Inter-segment revenue	683	-	(683)	-	-
Total segment revenues	15,650	5,561	(683)	20,528	12,344

Segmental profit from operations and reconciliation to adjusted profit from operations

	2008 Tobacco £m	2008 Logistics £m	2008 Elimin- ations £m	2008 Unallo- cated £m	2008 Total £m	2007 Tobacco £m
Profit from operations	1,531	23	(83)	(314)	1,157	1,418
Acquisition accounting adjustments	76	-	85	-	161	-
Amortisation of acquired intangibles	225	84	-	-	309	23
Brand divestment gain	(174)	-	-	-	(174)	-
Fair value gains and losses on derivative financial instruments	-	-	-	314	314	34
Restructuring costs	449	14	-	-	463	-
Adjusted profit from operations	2,107	121	2	-	2,230	1,475

Fair value gains and losses on derivative financial instruments for 2008 are shown as unallocated as they cannot reasonably be allocated between the Tobacco and Logistics segments.

Segmental assets and liabilities

	2008 Tobacco £m	2008 Logistics £m	2008 Elimin- ations £m	2008 Total £m	2007 Tobacco £m
Operating assets	22,741	6,082	(845)	27,978	8,455
Unallocated assets:					
Cash and cash equivalents	n/a	n/a	n/a	642	380
Taxation	n/a	n/a	n/a	423	102
Derivative financial instruments	n/a	n/a	n/a	173	71
	-----	-----	-----	-----	-----
Total assets	n/a	n/a	n/a	29,216	9,008
	-----	-----	-----	-----	-----
	2008 Tobacco £m	2008 Logistics £m	2008 Elimin- ations £m	2008 Total £m	2007 Tobacco £m
Operating liabilities	(3,692)	(4,092)	64	(7,720)	(2,053)
Unallocated liabilities:					
Borrowings	n/a	n/a	n/a	(12,236)	(5,120)
Taxation	n/a	n/a	n/a	(2,664)	(475)
Derivative financial instruments	n/a	n/a	n/a	(240)	(219)
	-----	-----	-----	-----	-----
Total liabilities	n/a	n/a	n/a	(22,860)	(7,867)
	-----	-----	-----	-----	-----

Other segmental information

	2008 Tobacco £m	2008 Logistics £m	2008 Elimin- ations £m	2008 Total £m	2007 Tobacco £m
Additions to property, plant and equipment	184	30	-	214	128
Additions to intangible assets	12	5	-	17	10
Depreciation	108	15	-	123	88
Amortisation	207	89	-	296	27
Impairments	38	-	-	38	-

Geographical information

2008

	European Union £m	Americas £m	Rest of the World £m	Total £m
External revenue	17,013	874	2,641	20,528
Operating assets by location	20,407	3,317	4,254	27,978
Additions to property, plant and equipment	151	2	61	214
Additions to intangible assets	17	-	-	17

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.

2007

	European Union £m	Americas £m	Rest of the World £m	Total £m
External revenue	10,358	270	1,716	12,344
Operating assets by location	5,418	1,035	2,002	8,455
Additions to property, plant and equipment	85	2	41	128
Additions to intangible assets	4	5	1	10

Further segmental and geographical analysis of results

To aid understanding of our 2008 results, we present below the contribution of the two businesses combined, comprising the standalone Imperial Tobacco and Altadis businesses; further details of the results of the Tobacco and Logistics segments, a geographic breakdown of the existing Imperial Tobacco business (excluding Altadis), a divisional analysis of the Altadis result using Altadis' historical divisions, and finally a regional analysis of the Tobacco segment for the Enlarged Group.

Two businesses combined

	Adjusted profit from operations 2008 £m	Adjusted profit from operations 2007 £m
Imperial	1,578	1,475
Altadis	641	-
Eliminations	11	-
	----- 2,230 -----	----- 1,475 -----

Tobacco segment

	2008 £m	2007 £m
Revenue	15,650	12,344
Net revenue	5,238	3,280
Profit from operations	1,531	1,418
Adjusted profit from operations	2,107	1,475
Adjusted operating margin %	40.2%	45.0%

Logistics segment

	2008 £m	2007 £m
Revenue	5,561	-
Distribution fees	607	-
Profit from operations	23	-
Adjusted profit from operations	121	-
Adjusted distribution margin %	19.9%	-

Imperial Tobacco regional results (excluding Altadis)

	Net revenue 2008 £m	Net revenue 2007 £m	Adjusted profit from operations 2008 £m	Adjusted profit from operations 2007 £m
UK	869	876	570	564
Germany	567	524	267	238
Rest of Western Europe	665	635	332	326
USA	239	117	115	52
Rest of the World	1,314	1,128	294	295
	----- 3,654 -----	----- 3,280 -----	----- 1,578 -----	----- 1,475 -----

Altadis divisional results
From 25 January 2008

	Net revenue £m	Distribution fees £m	Adjusted profit from operations £m
Cigarette	1,092		429
Cigar	464		120
Logistics		641	139
Other			(37)
Eliminations			(10)
			----- 641 -----

New geographic analysis of Tobacco 2008

	Net revenue £m	Adjusted profit from operations £m
UK	869	584
Germany	664	309
Spain	411	150
Rest of European Union	1,250	494

Americas	542	166
Rest of the World	1,502	404
	-----	-----
	5,238	2,107
	-----	-----

2. Restructuring costs

	2008 £m	2007 £m
Employment related (mainly termination)	420	-
Asset impairments	17	-
Other operating charges	26	-
	-----	-----
	463	-
	-----	-----

Restructuring costs 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 the next three years. In addition to the European Integration projects, restructuring costs include expenses relating to the closure of our cigar factory in Selma, Alabama, USA, the integration of the recently acquired Lignum 2 operation with Commonwealth Brands, and costs in relation to streamlining Logistics operations in France. Provision has been made to the extent that the conditions for provision recognition under IAS 37 were met at the balance sheet date.

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

There were no restructuring costs in the year ended 30 September 2007.

3. Net finance costs

	2008 £m	2007 £m
Interest on bank deposits	(74)	(14)
Expected return on retirement benefit assets	(224)	(203)
Fair value gains on derivative financial instruments	(104)	(101)
	-----	-----
Investment income	(402)	(318)
	-----	-----
Interest on bank and other loans	697	251
Interest on retirement benefit liabilities	179	149

Fair value losses on derivative financial instruments	62	99
	-----	-----
Finance costs	938	499
	-----	-----
Net finance costs	536	181
	-----	-----

Reconciliation from net finance costs to adjusted net finance costs

	2008 £m	2007 £m
Reported net finance costs	536	181
Expected return on retirement benefit assets	224	203
Interest on retirement benefit liabilities	(179)	(149)
Fair value gains on derivative financial instruments	104	101
Fair value losses on derivative financial instruments	(62)	(99)
	-----	-----
Adjusted net finance costs	623	237
	-----	-----

4. Taxation

Analysis of charge in the year

	2008 £m	2007 £m
Current tax		
UK corporation tax at 29% (2007: 30%) being the average enacted rate for the year	2	120
Overseas taxation	359	172
	-----	-----
Total current taxation	361	292
Deferred tax		
Origination and reversal of temporary differences	(181)	33
	-----	-----
Total tax charge	180	325
	-----	-----

Reconciliation from reported taxation to adjusted taxation

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.

	2008 £m	2007 £m
Reported taxation	180	325
Taxon acquisition accounting adjustments	51	-
Deferred tax on amortisation of acquired intangibles	40	(10)
Taxon brand divestment gain	(59)	-
Taxon fair value gains and losses on derivative financial instruments	79	10
Taxon restructuring costs	148	-
Taxon retirement benefits net financing income	(13)	(15)
	-----	-----
Adjusted tax charge	426	310
	-----	-----

Factors affecting the taxcharge for the year

The tax on Group's profit before tax differs from the theoretical amount that would arise using the average enacted rate for the year of 29% (2007: 30%) as follows:

	2008 £m	2007 £m
Profit before tax	621	1,237
	-----	-----
Tax at the average enacted UK corporation tax rate of 29% (2007: 30%)	180	371
Tax effects of:		
Differences in effective tax rates on overseas earnings	(9)	(51)
Unrecognised deferred tax assets	-	3
Items not deductible for tax purposes	15	9
Adjustments in respect of prior periods	(6)	(7)
	-----	-----
Total tax charge	180	325
	-----	-----

Factors that may affect future charges

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, as the Group is able to control the source and timing of future remittances. The Group currently has no plans to remit dividends which would result in a material tax cost.

Movement on current tax account

	2008	2007
	£m	£m
At 1 October	(217)	(259)
Exchange movements	(11)	(1)
Acquisitions	(75)	-
Charged to income statement	(361)	(292)
(Charged)/credited to equity	(87)	5
Cash paid	401	320
Other movements	11	10
	-----	-----
At 30 September	(339)	(217)
	-----	-----

Analysis of current tax account

	2008	2007
	£m	£m
Current tax assets	31	50
Current tax liabilities	(370)	(267)
	-----	-----
	(339)	(217)
	-----	-----

5. Dividends

Amounts recognised as distributions to ordinary equity holders in the year.

	2008	2007
	£m	£m
Final dividend for the year ended 30 Sept 2007 of 42.2p per share (2006: 37.8p)	326	293
Interim dividend for the year ended 30 Sept 2008 of 20.9p per share (2007: 18.2p)	161	141
	-----	-----
	487	434
	-----	-----

A final dividend for the year ended 30 September 2008 of 42.2 pence per share has been proposed. This amounts to £427 million based on the number of shares ranking for dividend at 30 September 2008. At the year end, the shareholders had not yet approved the final dividend and therefore it is not included in the balance sheet as a liability.

The dividend per share figures included in the table above reflect the bonus element of the rights issue as described in note 6.

6. Earnings per share

Basic earnings per share is based on the profit for the year attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the year 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 on the grounds they are anti-dilutive.

	Post rights issue basis 2008 £m	Post rights issue basis 2007 £m	Pre rights issue basis 2007 £m
Earnings: basic and diluted	428	905	905
	-----	-----	-----
	Post rights issue basis 2008 Millions of shares	Post rights issue basis 2007 Millions of shares	Pre rights issue basis 2007 Millions of shares
Weighted average number of shares:			
Shares for basic earnings per share	846.5	775.5	673.8
Potentially dilutive share options	3.0	3.3	2.9
	-----	-----	-----
Shares for diluted earnings per share	849.5	778.8	676.7
	-----	-----	-----
Basic earnings per share	50.6p	116.7p	134.3p
Diluted earnings per share	50.4p	116.2p	133.7p
	-----	-----	-----

Basic and diluted earnings per share for 2007 have been calculated on both a pre rights issue and post rights issue basis. The pre rights issue basis uses the historical weighted average number of shares. For the post rights issue basis the weighted average number of shares has been calculated to reflect the increased number of shares in issue after the rights issue and the bonus element for periods prior to the closing date of the rights issue. The bonus factor used was 1.1509.

Reconciliation from reported to adjusted earnings and earnings per share on a post rights issue basis

	2008 EPS	2008 Earnings £m	2007 EPS	2007 Earnings £m
Reported basic	50.6p	428	116.7p	905
Acquisition accounting adjustments	13.0p	110	- p	-
Amortisation of acquired intangibles	31.8p	269	4.3p	33
Brand divestment	(13.6)p	(115)	- p	-
Fair value gains and losses on derivative financial instruments	22.8p	193	2.8p	22
Restructuring costs	37.2p	315	- p	-
Retirement benefit net financing income	(3.8)p	(32)	(5.0)p	(39)
Adjustments above attributable to minority interests	(1.1)p	(9)	- p	-
Adjusted	136.9p	1,159	118.8p	921
Adjusted diluted	136.4p	1,159	118.3p	921

7. Acquisitions

2008

On 25 January 2008 the Spanish Securities Exchange Commission, the Comision Nacional del Mercado de Valores ('CNMV'), announced that acceptances representing 95.81% of Altadis, S.A.'s share capital had been received and Imperial Tobacco's offer to purchase Altadis had become unconditional. The Group exercised the squeeze-out provision available under Spanish law on 25 January 2008 to compulsorily purchase the remaining shares at the offer price of €50 per share. The squeeze-out was completed on 21 February 2008. As a consequence the acquisition has been fully consolidated from 25 January 2008 when the Group obtained control of Altadis.

Through the acquisition of Altadis, the Group acquired direct control of Logista, and pursuant to its obligations under Spanish regulations, the Group made an offer for those shares in Logista not already owned by Altadis. The offer, at a price of €52.50 per share, completed on 6 May 2008, resulting in a total shareholding in Logista of 96.92%. The remainder of the shares were subsequently acquired on 9 June 2008 by using the squeeze-out provision available under Spanish law.

In May 2008, the Group acquired Lignum 2 Inc., a seller of quality discount cigarettes in the United States, for a total of £11 million cash. Its net assets had nil book and fair value, giving rise to goodwill of £11 million.

During the year the Group also acquired interests in a number of small businesses. The aggregate consideration for these acquisitions amounted to £3 million. Full IFRS disclosures have not been provided for these small acquisitions as they are not considered to be significant to the Group as a whole.

During 2005 the Group acquired a 43% interest in Skruf Snus AB. The acquisition agreement included a commitment to acquire the remaining shares and provided the Group with immediate control of its operating and financial policies. Accordingly the acquisition was accounted for as a 100% subsidiary to reflect the substance of the transaction. In June 2008 the Group acquired the remaining 57% for a consideration of £39 million. This amount exceeded the £10 million contingent consideration originally booked by £29 million, which has been recorded as goodwill. No further consideration is payable to the former shareholders.

Details of Altadis' net assets and goodwill arising on the acquisition of Altadis and the subsequent purchase of the minority interest in Logista are as follows:

	Book Value £m	Provisional fair value adjustments £m	Provision al fair value under IFRS £m
Intangibles	484	6,038	6,522
Property, plant and equipment	638	375	1,013
Investments in associates	13	-	13
Inventories	1,378	81	1,459
Trade and other receivables	2,020	-	2,020
Derivative financial instruments	28	(6)	22
Cash	593	-	593
Borrowings	(1,715)	40	(1,675)
Trade and other payables	(4,493)	(23)	(4,516)
Current and deferred tax	152	(2,079)	(1,927)
Retirement benefit net liabilities	(148)	-	(148)
Provisions	(210)	(242)	(452)
Investment in Aldeasa	50	152	202
	-----	-----	-----
Net assets	(1,210)	4,336	3,126
Minority interests	(183)	(230)	(413)
Goodwill			6,687

Consideration for the acquisition of Altadis	9,400

Minority interest in Logista at 6 May 2008	420
Additional goodwill	311
Consideration for the purchase of Logista minority	-----
	731

Total goodwill in relation to Altadis and Logista	6,998

Total consideration for Altadis and Logista	10,131

The provisional fair value adjustments represent management's current best estimates of the adjustments required to restate Altadis' assets from book value to fair value at acquisition. The principal provisional fair value adjustments are in respect of intangibles, which comprise cigarette and cigar trademarks and supply contracts and have been independently valued using the income method, and property, plant and equipment for which we have engaged independent valuers. With the exception of premium cigar trademarks that the Directors have determined have an indefinite life, cigarette and mass market cigar trademarks are being amortised on a straight line basis over their estimated useful lives ranging from 20 to 30 years. Supply contracts are being amortised over periods ranging from 3 to 15 years. The goodwill of £6,998 million arising on the acquisition of Altadis represents a strategic premium to acquire Altadis' leading positions in the world cigar market and the western European logistics market, the synergies expected to be realised following acquisition and the assembled sales, manufacturing and distribution workforces.

The Group's share of Aldeasa's assets and liabilities had been classified as held for sale upon acquisition and fair valued at that date at €275 million (£202 million). The investment in Aldeasa was disposed of on 14 April 2008 for cash consideration of €275 million at no profit or loss.

Consideration for Altadis satisfied by:

	£m
Cash	9,358
Direct costs related to the acquisition	42

Total consideration	9,400

Consideration for Logista minority satisfied by:

	£m
Cash	729

Direct costs related to the acquisition	2

Total consideration	731

The purchase price for Altadis on a debt free basis is as follows:

	£m
Total consideration	9,400
Borrowings at acquisition	1,675
Cash	(593)

Total Purchase Price	10,482

Cash flows relating to acquisitions

	£m
Altadis	
Total consideration	9,400
Exchange rate movements between completion and settlement of the acquisition	33
Fees paid by Altadis	18
Cash acquired	(593)

	8,858

Total consideration for Logista minority	731
Other businesses acquired	53

Acquisition cash flows reflected in investing activities in consolidated cash flow statement	9,642

2007

On 2 April 2007, the Group acquired from Houchens Industries Inc 100% of the share capital of CBHC Inc, which trades as Commonwealth Brands and manufactures and sells quality discount cigarettes across the United States. The acquired business contributed revenue of £252 million and profit from operations of £35 million after charging £17 million for amortisation of acquired intangibles in the period from 2 April 2007 to 30 September 2007. If the acquisition had occurred on 1 October 2006, Group revenue would have been £12,561 million and Group profit from operations for the year would have amounted to £1,446 million, these amounts having been estimated by including Commonwealth Brands' results for the six months prior to acquisition adjusted to reflect the Group's accounting policies and changes in depreciation and amortisation due to fair value adjustments.

During the year the Group also acquired interests in a number of small businesses including in January 2007 a controlling interest in Tremaco, a tobacco and tobacco-related products distribution business based in Estonia. The aggregate consideration for these acquisitions amounted to £1 million. Full IFRS disclosures have not been provided for these small acquisitions as they are not considered to be significant to the Group as a whole.

Details of Commonwealth Brands' net assets acquired are as follows:

	Book value £m	Fair value adjust- ments £m	Fair value under IFRS £m
Intangibles	163	507	670
Property, plant and equipment	14	(4)	10
Inventories	37	-	37
Trade and other receivables	6	-	6
Unrestricted cash	29	-	29
Restricted cash	123	-	123
Trade and other payables	(177)	(4)	(181)
Dividend payable to Houchens by Commonwealth Brands	(194)	-	(194)
Borrowings	(279)	-	(279)
	-----	-----	-----
Net assets	(278)	499	221
Goodwill			305

Total consideration			526

The fair value adjustment in respect of intangibles relates to Commonwealth Brands' cigarette brands, principally USA Gold and Sonoma, which have been independently valued using the income method. The intangibles are being amortised over their estimated useful lives of 20 years. Goodwill represents a strategic premium to immediately establish critical mass in the US market and acquire assembled sales, manufacturing and distribution workforces.

Consideration for Commonwealth Brands satisfied by:

	£m
Cash	516
Direct costs related to the acquisition	10

Total consideration	526

The purchase price for Commonwealth Brands on a debt free basis was as follows:

	£m
Total consideration	526
Dividend payable to Houchens by Commonwealth Brands	194
Borrowings at acquisition	279
Unrestricted cash	(29)

Total purchase price	970

Cash flows relating to acquisitions

	£m
Commonwealth Brands	
Total consideration	526
Dividend paid to Houchens at acquisition	194
Borrowings repaid at acquisition	279
Unrestricted cash acquired	(29)

	970
Other businesses acquired	1

Total cash flows arising due to acquisitions	971
Direct costs related to Commonwealth Brands acquisition not paid at the balance sheet date	(5)

Acquisition cash flows reflected in investing activities in consolidated cash flow statement	966

8. Cash flows from operating activities

	2008 £m	2007 £m
Profit for the year	441	912
Adjustments for:		
Taxation	180	325
Finance costs	938	499
Investment income	(402)	(318)
Share of post-tax profits of associates	(2)	-
Depreciation, amortisation and impairment	457	115
Profit on disposal of property, plant and equipment	(1)	(2)
Profit on the divestment of brands	(174)	-

Adjusted net debt

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

	2008 £m	2007 £m
Reported net debt	(11,687)	(4,888)
Accrued interest	158	88
Fair value of interest rate derivatives	(40)	15
Finance lease liabilities	26	-
Adjusted net debt	(11,543)	(4,785)

10. Rights issue

On 20 May 2008 the Group announced a fully underwritten 1 for 2 rights issue to part finance the Altadis acquisition. The subscription price of 1,475 pence per share represented a 30.2 per cent discount to the theoretical ex-rights price after adjusting for the interim dividend, for which new shares issued under the rights issue were not eligible. The rights issue closed on 11 June 2008, by which time valid acceptances were received in respect of 329,215,281 new shares representing 97.19% of the total number of new shares offered to shareholders. The remaining 9,526,679 new shares were placed by the underwriters on 12 June 2008. The total number of new shares issued was 338,741,960. Proceeds of the rights issue, after costs of £93 million, were £4,903 million.

11. Post balance sheet events

On 7 October 2008 the Group acquired the outstanding 49% minority shareholdings in 800 JR Cigar and MCM Management for USD81 million.

FINANCIAL CALENDAR

Ex-dividend date for final dividend	21 January 2009
Final dividend record date	23 January 2009
Final dividend payable	20 February 2009