

# IMPERIAL TOBACCO INTERNATIONAL LIMITED

## Financial Statements

For the year ended 30 September 2017

Company Number: 00116917

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## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### Company Information

<b>Directors</b>	POBERZNIK, Bogdan EBERLEIN, Rainer GLASNECK, Gunnar Paul PINTO DE OLIVEIRA, Avelino RIPPERGER, Andreas, Dr.
<b>Company Secretary</b>	POBERZNIK, Bogdan
<b>Registered Number</b>	00116917
<b>Registered Office</b>	121 Winterstoke Road Bristol BS3 2LL
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors. 2 Glass Wharf Bristol BS2 0FR

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### Strategic Report

The Directors present their Strategic Report together with the Directors' Report and audited financial statements of Imperial Tobacco International Limited (the Company) for the year ended 30 September 2017.

#### Review of the business

The principal activity of the Company is the marketing and export of tobacco and tobacco related product.

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC, which is the ultimate parent company within the Group, and the Directors of the Group manage operations at a Group level. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group's sales and marketing operations, which include the Company, is discussed in the Group's Annual Report which does not form part of this report, but is available at [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com)

In addition, the Directors of the Group manage the Group's risks at a Group level, rather than at an individual entity level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the business of the Company. The principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's Annual Report, which does not form part of this report.

In the normal course of business, the Group is exposed to market, liquidity and credit risk. The financial risk management policy is discussed in the Financial Risk Factors section of the Group's Annual Report, which does not form part of this report.

The Company is incorporated in the United Kingdom with the management of the Company transferring to Germany on 1 October 2011, and since this date has operated with a German branch.

Key performance indicators are assessed at a Group level, and are discussed in the Strategy section of the Group's Annual Report, which does not form part of this report.

#### Financial results

The results for the Company show a loss for the financial year of €7.054 million (2016: €3.079 million loss) and revenue of €2,367 million (2016: €2,441 million). For the year ended 30 September 2017, the Company's net assets were €40.078 million (2016: €47.041 million).

The Directors do not recommend payment of an ordinary dividend (2016: €nil).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amounts to €nil (2016: €nil).

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### Future Developments

The Company is well positioned to ensure the Group's global sales and marketing operations are serviced by the Group's worldwide manufacturing operations. The Group's sales growth strategies continue to evolve in line with changing consumer dynamics and regulatory impacts and the Group continues to focus on its cost base with ongoing consolidation of its manufacturing operations. The Company will continue to ensure its costs are tightly controlled, while delivering a high level of service and align its operation to best fulfil Group's global targets while adjusting to external factors.

### Employees

The Company's employment policies aim to attract, retain, train and motivate the very best people, recognising that this can be achieved only through offering equal opportunities and giving fair consideration to applications for employment, career development and promotion without having regard to an employee's gender, race, religion, age or disability. These policies also cover the continuation of employment and appropriate training for employees who become disabled during their employment.

To ensure employees can share in our success, the Company offers competitive pay and benefit packages linked, wherever possible, to performance. Employees are encouraged to build an ownership stake in Imperial Brands PLC shares, with a number of employee share plans offered during the year.

The Company is committed to providing an environment that encourages the continuous development of all its employees through skills enhancement and training programmes.

During 2017 the Company completed a project which saw a number of finance roles engaged in operational, transactional processing transferred to a third party outsource provider.

Information concerning employees and their remuneration is given in note 6 to the financial statements.

On behalf of the Board



PINTO DE OLIVEIRA, Avelino  
Director  
20 June 2018

## **IMPERIAL TOBACCO INTERNATIONAL LIMITED**

### **Directors' Report**

The Directors submit their report together with the Strategic Report and audited financial statements of the Company for the year to 30 September 2017.

#### **Future developments and going concern**

Future Developments are set out in the Strategic Report.

The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements.

#### **Share capital**

Details of the Company's share capital are shown in note 13 to the financial statements.

#### **Dividend**

As disclosed in the Strategic Report.

#### **Qualifying third party indemnity provisions**

Imperial Brands PLC has purchased Directors' and Officers' liability insurance that has been in force during the financial year and is currently in force. The Directors of the Company have the benefit of this insurance, which is a qualifying third party indemnity provision as defined by the Companies Act 2006.

#### **Research and development**

The Company recognises the importance of investing in research and development, which brings innovative improvements to the Company, both in the products supplied to the consumer and in production and marketing techniques.

#### **Directors**

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

EBERLEIN, Rainer

GLASNECK, Gunnar Paul

PINTO DE OLIVEIRA, Avelino

POBERZNIK, Bogdan

RIPPERGER, Andreas, Dr.

#### **Employees**

The Company's policy on involving UK employees in its affairs is set out in the Strategic Report.

#### **Branches outside the UK**

The Company has branches in Germany and Russia. Operations in Russia commenced November 2016 with revenue of €7.355 million (2016: €nil) and profit before tax of €0.931 million (2016: €nil)

## **IMPERIAL TOBACCO INTERNATIONAL LIMITED**

### **Statement of Directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Disclosure of information to Auditors**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By order of the Board



PINTO DE OLIVEIRA, Avelino  
Director  
20 June 2018

## Independent auditors' report to the members of Imperial Tobacco International Limited

### Report on the financial statements

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#### Our opinion

In our opinion, Imperial Tobacco International Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
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#### What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 30 September 2017;
- the Income Statement for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### Opinions on other matters prescribed by the Companies Act 2006

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In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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## Other matters on which we are required to report by exception

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### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## Responsibilities for the financial statements and the audit

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### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"): Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

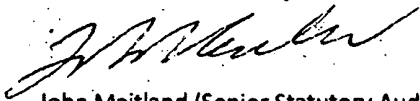
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.



## IMPERIAL TOBACCO INTERNATIONAL LIMITED

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



John Maitland (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

26 June 2018

# IMPERIAL TOBACCO INTERNATIONAL LIMITED

## Income Statement

For the Year Ended 30 September 2017

(In €'000)	Note	2017	2016
Revenue	4	2,367,022	2,240,799
Cost of sales		(2,279,561)	(2,176,837)
Gross profit		87,461	63,962
Distribution costs		(264,999)	(231,240)
Restructuring costs		(2,458)	(2,056)
Other administrative expenses		(94,246)	(90,624)
Administrative and other expenses		(96,704)	(92,680)
Other Operating Income		283,710	246,421
Operating profit / (loss)		9,468	(13,537)
Finance income		428	130
Finance costs		-	(56)
Net finance income		428	74
Profit / (Loss) before taxation	5	9,896	(13,463)
Tax on Profit / (Loss)		(16,950)	10,384
Profit / (Loss) for the year		(7,054)	(3,079)

All results derive from continuing operations.

**IMPERIAL TOBACCO INTERNATIONAL LIMITED**

**Statement of Comprehensive Income**  
**For the Year Ended 30 September 2017**

<b>(In €'000)</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Profit / (Loss) for the year</b>		<b>(7,054)</b>	<b>(3,079)</b>
<b>Other comprehensive income</b>			
Exchange movements		(29)	-
<b>Other comprehensive income for the year, net of taxation</b>		-	-
<b>Total comprehensive income for the year</b>		<b>(7,083)</b>	<b>(3,079)</b>

IMPERIAL TOBACCO INTERNATIONAL LIMITED


Statement of Financial Position


As at 30 September 2017

(In €'000)	Note	2017	2016
<b>Non-Current Assets</b>			
Intangible assets		1,729	2,985
Property, plant and equipment		1,739	1,820
Deferred tax assets	12	7,756	8,953
		11,224	13,758
<b>Current assets</b>			
Inventories	9	81,732	102,654
Trade and other receivables	10	493,430	440,344
Cash and cash equivalents		15,040	4,048
		590,202	547,046
<b>Total Assets</b>		<b>601,426</b>	<b>560,804</b>
<b>Current Liabilities</b>			
Trade and other payables	11	(561,348)	(513,763)
<b>Total Liabilities</b>		<b>(561,348)</b>	<b>(513,763)</b>
<b>Net assets</b>		<b>40,078</b>	<b>47,041</b>
<b>Equity</b>			
Share capital	14	209	209
Retained earnings		39,869	46,832
<b>Total equity</b>		<b>40,078</b>	<b>47,041</b>

The notes on pages 13 to 23 are an integral part of these financial statements.

The financial statements on pages 9 to 23 were approved by the Board of Directors on 20 June 2018 and signed on its behalf by

  
POBERZNIK, Bogdan  
Director

  
PINTO DE OLIVEIRA, Avelino  
Director

# IMPERIAL TOBACCO INTERNATIONAL LIMITED

## Statement of Changes in Equity

For the Year Ended 30 September 2017

(In €'000)	Share capital	Share premium	Retained earnings	Total equity
<b>At 1 October 2016</b>	209	-	46,832	47,041
Loss for the year	-	-	(7,054)	(7,054)
Exchange movements	-	-	(29)	(29)
<b>Total comprehensive expense</b>	-	-	(7,083)	(7,083)
<b>Transactions with owners</b>				
Costs of employees' services compensated by share schemes	-	-	120	120
<b>At 30 September 2017</b>	209	-	39,869	40,078
<b>At 1 October 2015</b>	209	-	49,911	50,120
Loss for the year	-	-	(3,079)	(3,079)
Exchange movements	-	-	-	-
<b>Total comprehensive expense</b>	-	-	(3,079)	(3,079)
<b>Transactions with owners</b>	-	-	-	-
<b>At 30 September 2016</b>	209	-	46,832	47,041

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### Notes to the Financial Statements

#### 1. Authorisation of financial statements and statement of compliance with FRS101

The financial statements of Imperial Tobacco International Limited (the Company) for the year ended 30 September 2017 were authorised for issue by the board of directors on 20 June 2018, and the balance sheet was signed on the board's behalf by Avelino Pinto De Oliveira and Bogdan Poberznik. Imperial Tobacco International Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and applicable accounting standards.

The Company's financial statements are presented in Euros which is the primary economic environment in which the Company operates. The functional currency of the UK and German branches is Euros, and that of the Russian branch is Russian roubles. All values are rounded to the nearest thousand Euro (€'000) except when otherwise indicated.

The Company is a wholly owned subsidiary of Imperial Brands PLC, registered in the United Kingdom. The results of the Company are included in the consolidated financial statements of Imperial Brands PLC which are available from 121 Winterstoke Road, Bristol, BS3 2LL or the website [www.imperialbrandspc.com](http://www.imperialbrandspc.com)

The principal accounting policies adopted by the Company are set out in note 2.

#### 2. Accounting policies

##### Basis of preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework FRS 101, as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis, except as described in the accounting policies on foreign currency, financial instruments and retirement benefits costs below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period and of assets and liabilities at the balance sheet date. The key estimates and assumptions are set out in note 3 Critical Accounting Estimates and Judgements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions. This could affect future financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- 101p8(a) & Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).
- 101p8(d) & IFRS 7, 'Financial Instruments: Disclosures'.
- 101p8(e) & Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- 101p8(f) & Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)"
- 101p8(g) & The following paragraphs of IAS 1, 'Presentation of financial statements':
  - (i) 10(d), (statement of cash flows)
  - (ii) 16 (statement of compliance with all IFRS),
  - (iii) 38A (requirement for minimum of two primary statements, including cash flow statements),
  - (iv) 38B-D (additional comparative information),
  - (v) 111 (cash flow statement information), and
  - (vi) 134-136 (capital management disclosures)
- 101p8(h) & IAS 7, 'Statement of cash flows'
- 101p8(i) & Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- 101p8(j) & Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- 101p8(k) & The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

### **New accounting standards and interpretations**

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 30 September 2017, have had a material impact on the Company.

### **Foreign currency**

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange ruling at the balance sheet date.

Transactions in currencies other than Euro currency are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement with exchange differences arising on trading transactions being reported in operating profit, and those arising on financing transactions being reported in net finance costs.

The carrying amounts of the Russian branch are translated at the rates of exchange ruling at the balance sheet date and resulting exchange differences are offset against exchange gains or losses on the translation of intra-group borrowings in reserves, through the Statement of Comprehensive Income.

## **IMPERIAL TOBACCO INTERNATIONAL LIMITED**

### **Revenue**

Revenue comprises the invoiced value for the sale of goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when the Company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Customer rebates and discounts may be offered to promote sales. The calculated costs are accrued and accounted for as incurred and matched as a deduction from the associated revenues (i.e. excluded from revenues reported in the income statement).

### **Other Operating Income**

Other operating income relates to recharges made to other Group companies for operating costs incurred on their behalf.

### **Interest**

Interest payable and receivable is recognised in the income statement on an accruals basis.

### **Taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in the shareholders' funds, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base.

A net deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is measured on a non-discounted basis.

### **Dividends**

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.



## **IMPERIAL TOBACCO INTERNATIONAL LIMITED**

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### **Financial Instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are classified as loans and payables. Payables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

### **Retirement benefit schemes**

The Company participates, together with other group companies, in a pension scheme for its employees, the Imperial Tobacco Pension Fund (the Scheme), which is of a defined benefit type. As it has not been possible to identify the underlying assets and liabilities attributable to each participating company on a consistent and reasonable basis, this is recognised in the financial statements of Imperial Tobacco Limited in its role as the "sponsoring company" in the Scheme. For defined contribution schemes, contributions are recognised as an employee benefit expense when they are due. Disclosures related to the schemes are also presented within the financial statements of Imperial Tobacco Limited.

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### 3. Critical accounting estimates and judgements

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

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

#### Accruals

The Company holds provisions where appropriate in respect of estimated future economic outflows which arise due to past events. Estimates are based on management judgement and information available at the balance sheet date. Actual outflows may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances dictate.

### 4. Segment information

The Company is engaged in only one class of business, the marketing and export of manufactured tobacco-related products. The analysis of turnover by location was as follows:

(In €'000)	2017	2016 <sup>1</sup>
Western Europe	1,242,362	1,089,133
Africa/Middle East	449,642	462,979
Eastern Europe	21,686	89,183
Asia Pacific/Americas	653,332	599,504
	2,367,022	2,240,799

<sup>1</sup> 2016 restated due to error in classification

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### 5. Profit / (Loss) before taxation

Profit / (Loss) before taxation is stated after charging / (crediting):

(In €'000)	2017	2016
Changes in inventories of finished goods and work in progress	20,922	(13,034)
Distribution expenses	264,999	231,240

Changes in inventories relate to decreased finished goods manufactured and stored prior to changes in EU regulations (the European Tobacco Products Directive (EUTPD)) which came into force in May 2016 and permit product manufactured prior to May 2016 to be sold by May 2017. These inventories have been sold during the year.

The increase in distribution expenses is due to losses experienced in exchange conversions due to currency fluctuations versus the Euro.

### Analysis of fees payable to PricewaterhouseCoopers LLP and its associates

(In €'000)	2017	2016
Audit of the Company financial statements	85	84

### 6. Directors and employees

#### Employment costs

(In €'000)	2017	2016
Wages and Salaries	15,081	15,757
Social security costs	1,809	1,614
Pension costs	41	44
Share-based payments	120	105
	17,051	17,520

The employee costs above include wages and salaries of €6,757,000 (2016: €6,374,000) and social security costs of €821,000 (2016: €649,000) which have been recharged from other group companies.

#### Average number of persons (including Directors) employed by the company during the year

Number of employees by activity	2017	2016
Selling, marketing and distribution	90	109

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### 6. Directors and employees (continued)

#### Directors' Emoluments

(In €'000)	2017	2016
Emoluments	894	934
SMS annual vesting <sup>1</sup>	283	324
	<b>1,177</b>	<b>1,258</b>

<sup>1</sup> During the year, four Directors (2016: three) exercised share options, and received shares under Share Matching Scheme (SMS). A total of 6,453 shares with a market value of €283,299 were exercised.

Four operational Directors' services to the Company and to a number of Group subsidiaries were of an executive nature, their emoluments were deemed to be wholly attributable to their services to the Company in the financial year to 30 September 2017. Accordingly, their emoluments are disclosed in these financial statements. The other Director is non-executive in nature, with their emoluments incurred by other Group companies, and not attributable to the Company.

The total aggregate emoluments of the highest paid Director were €348,000 (2016: €367,000), including SMS vesting of €121,000 (2016: €122,000).

#### Directors' pensions

Retirement benefits are accruing under a defined benefit scheme in respect of all the Company's Directors.

# IMPERIAL TOBACCO INTERNATIONAL LIMITED

## 7. Taxation

Analysis of charge in the period (In €'000)	2017	2016
UK corporation tax on profits for the year	12,905	-
Overseas tax	497	-
Adjustments in respect of prior years - UK	-	(7,190)
Adjustments in respect of prior years - Overseas	2,355	(150)
<b>Total current tax</b>	<b>15,757</b>	<b>(7,340)</b>
Origination and reversal of timing differences	1,063	(5,534)
Impact of change in tax rate	-	124
Adjustments in respect of prior years - UK	(32)	2,366
Adjustments in respect of prior years - Overseas	162	-
<b>Total deferred tax</b>	<b>1,193</b>	<b>(3,044)</b>
<b>Tax on profit on ordinary activities</b>	<b>16,950</b>	<b>(10,384)</b>

### Factors affecting the tax (credit) / charge for year

Tax for the year is higher (2016: lower) than the standard rate of corporation tax in the UK for the period of 19.5 per cent (2016: 20.0 per cent).

The differences are explained as follows:

In €'000	2017	2016
Profit on ordinary activities before taxation	9,896	(13,463)
Profit multiplied by standard rate of tax in the UK of 19.5% (2016: 20%)	1,930	(2,693)
Effects of:		
Remeasurement of deferred tax - reconciliation rate	(84)	124
Adjustments to tax charge in respect of prior years - UK CT	-	(7,190)
Adjustments to tax charge in respect of prior years - UK DT	(32)	2,366
Adjustments to tax charge in respect of prior years - overseas CT	2,355	(150)
Adjustments to tax charge in respect of prior years - overseas DT	162	-
Expenses not deductible for tax purposes	377	609
Difference in tax rate on overseas earnings	321	(3,139)
UK-UK transfer pricing	(272)	(311)
<b>Group relief surrendered</b>	<b>12,193</b>	<b>-</b>
<b>Tax on profit on ordinary activities</b>	<b>16,950</b>	<b>(10,384)</b>

The corporation tax for the year has been adjusted by €12.193 million (2016: €nil) due to surrender of group relief for nil consideration to (2016: to) other Imperial Brands PLC subsidiaries.

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### 7. Taxation (continued)

<b>Movement on current tax accounts:</b>	<b>2017</b>	<b>2016</b>
Effects of:		
At as 1 October	<b>2,553</b>	25,528
Charged / (credited) to the income statement	<b>15,757</b>	(7,340)
Charged / (credited) to other comprehensive income	<b>1</b>	-
<b>Cash paid</b>	<b>(7,016)</b>	<b>(15,635)</b>
As at 30 September	<b>11,295</b>	<b>2,553</b>
Analysed as:		
Liabilities	<b>12,905</b>	2,553
Assets	<b>(1,610)</b>	-
	<b>11,295</b>	<b>2,553</b>

#### Factors affecting future tax charges

There is no guarantee that the surrender of group tax losses by other Group undertakings will occur in the future.

The current year tax rate of 19.5 per cent arises from profits being taxed at 20 per cent until 1 April 2017.

The rate of corporation tax was reduced by 1.0 per cent from 20.0 per cent to 19.0 per cent on 1 April 2017. A further reduction to 17.0 per cent on 1 April 2020 was enacted as at the balance sheet date.

### 8. Dividends

The Directors do not recommend payment of an ordinary dividend (2016: €nil).

### 9. Inventories

<b>(In €'000)</b>	<b>2017</b>	<b>2016</b>
Finished inventories	81,732	102,654
	<b>81,732</b>	<b>102,654</b>

The cost of inventories recognised as an expense and included in "cost of sales" amounted to €1,566,045,000 (2016: €1,537,434,000).

### 10. Trade and other Receivables

<b>(In €'000)</b>	<b>2017</b>	<b>2016</b>
Trade receivables	67,475	63,169
Corporation Tax - Germany	1,563	-
Corporation Tax - Russia	47	-
Amounts owed by group undertakings	381,956	333,525
Prepayments and accrued income	42,389	43,650
	<b>493,430</b>	<b>440,344</b>

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### 11. Trade and other Payables

(In €'000)	2017	2016
Trade payables	11,037	13,577
Amounts owed to group undertakings	488,483	436,143
UK Corporation tax creditor	12,905	-
German Corporation tax creditor	-	2,553
Accruals and deferred income	48,923	61,490
	<b>561,348</b>	<b>513,763</b>

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

The Company is party to a cash pooling agreement, such that cash balances from Group companies participating in the arrangement are combined together at periodic times during the financial year. The cash pooling arrangement has a net overdraft facility attached to it that is shared amongst the Group companies within the cash pool. The rate of interest that is applied to this overdraft is a margin over base rate and is applied to the header account only.

### 12. Deferred Tax

The provision for deferred tax consists of the following deferred tax assets / (liabilities):

(In €'000)	2017	2016
Deferred tax assets due within 12 months	-	-
Deferred tax liabilities due within 12 months	-	-
Total provision	-	-
Deferred tax assets due after more than 12 months	7,756	8,953
Deferred tax liabilities due after more than 12 months	-	-
Total provision	7,756	8,953
<b>Total deferred tax provision</b>	<b>7,756</b>	<b>8,953</b>

Deferred tax assets (In €'000)	Capital allowances	Other	Losses	Total
As at 1 October 2015	45	24	5,840	5,909
Charged / (credited) to the income statement	79	(24)	3,113	3,168
Impact of change of corporation tax rate	(19)	-	(105)	(124)
As at 30 September 2016	105	-	8,848	8,953
Charged / (credited) to the income statement	53	120	(607)	(434)
Charged / (credited) to other comprehensive income	-	(4)	-	(4)
Utilised	-	-	(504)	(504)
Adjustment due to difference from prior period	-	-	(255)	(255)
<b>As at 30 September 2017</b>	<b>158</b>	<b>116</b>	<b>7,482</b>	<b>7,756</b>

## IMPERIAL TOBACCO INTERNATIONAL LIMITED

### 13. Retirement benefit schemes

#### Defined contribution scheme

The defined benefit scheme was closed to new entrants with effect from 1 October 2010 and new employees are now offered a defined contribution scheme instead. An amount of €41,105 (2016: €43,924) is recognised relating to the cost of the defined contribution scheme.

### 14. Share capital

(In €'000)	2017	2016
Authorised, allotted, called up and fully paid		
166,506 ordinary shares of £1 each (2016: 166,506)	209	209

### 15. Related party transactions

The Company has taken advantage of the Group exemption under the terms of IAS 24 from disclosing related party transactions with entities that are part of the Group since the Company is a wholly owned subsidiary of Imperial Brands PLC and is included in the consolidated financial statements of the Group, which are publicly available.

### 16. Related undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2017 was Imperial Brands PLC, a company incorporated in Great Britain and registered in England and Wales. The smallest and largest group in which the results of the Company are consolidated is that headed by Imperial Brands PLC, whose consolidated financial statements may be obtained from the Company Secretary, 121 Winterstoke Road, Bristol, BS3 2LL.