

# IMPERIAL TOBACCO INTERNATIONAL LIMITED

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ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

COMPANY NUMBER: 00116917

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## COMPANY INFORMATION

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DIRECTORS	PINTO DE OLIVEIRA, Avelino GLASNECK, Gunnar Paul RIPPERGER, Andreas, Dr. EBERLEIN, Rainer POBERZNIK, Bogdan (Resigned 21 August 2018) GÜLEN, Can (Appointed 21 August 2018) HENTSCHEL, Rainer Rudolf Albrecht (Appointed 21 August 2018)
COMPANY SECRETARY	POBERZNIK, Bogdan (Resigned 21 August 2018) GÜLEN, Can (Appointed 21 August 2018)
REGISTERED NUMBER	00116917
REGISTERED OFFICE	121 WINTERSTOKE ROAD BRISTOL BS3 2LL
INDEPENDENT AUDITORS	PRICEWATERHOUSECOOPERS LLP CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS 2 GLASS WHARF BRISTOL BS2 0FR

## STRATEGIC REPORT

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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 2018.

### Review of the business

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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

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The results for the Company show a profit for the financial year of €12.5 million (2017: €7.1 million loss) and revenue of €2,316 million (2017: €2,367 million). For the year ended 30 September 2018, the Company's net assets were €52.6 million (2017: €40.1 million).

The Directors propose a final ordinary dividend payment of €39.0 million (2017: €nil).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amounts to €nil (2017: €nil).

### Future Developments

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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 operations to best fulfil the Group's global targets while adjusting to external factors.

The Company's cross-border EU supply chain is affected by the UK's referendum vote to leave the European Union. Whilst the terms of the departure from the EU remain unclear, the Company has extensively assessed the impact of all potential leave scenarios. Possible outcomes are considered in the context of their impact on existing risks, rather than being reported as principal risks in themselves. Key areas of impact assessment and preparedness for potential outcomes, include product and raw material supply, financing, foreign exchange, regulatory change, taxation, and people related risks.

### Employees

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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.

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

On behalf of the Board



GÜLEN, Can  
Director  
07 June 2019

## DIRECTORS REPORT

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The Directors submit their report together with the Strategic Report and audited financial statements of the Company for the year to 30 September 2018.

### Future developments and going concern

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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

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Details of the Company's share capital are shown in note 14 to the financial statements.

### Dividend

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As disclosed in the Strategic Report.

### Qualifying third party indemnity provisions

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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

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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

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

PINTO DE OLIVEIRA, Avelino  
EBERLEIN, Rainer  
GLASNECK, Gunnar Paul  
RIPPERGER, Andreas, Dr.  
POBERZNIK, Bogdan (Resigned 21 August 2018)  
GÜLEN, Can (Appointed 21 August 2018)  
HENTSCHEL, Rainer Rudolf Albrecht (Appointed 21 August 2018)

### Employees

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

### Branches outside the UK

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The Company has branches in Germany and Russia.

### Statement of directors' responsibilities in respect of the financial statements

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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 the 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 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.

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.

### Directors' confirmations

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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

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

By order of the Board



GÜLEN, Can

Director

07 June 2019

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMPERIAL TOBACCO INTERNATIONAL LIMITED

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## Report on the audit of 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 September 2018; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.



*Use of this report*

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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## **Other required reporting**

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### **Companies Act 2006 Exception Reporting**

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Richard French (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
07 June 2019

## INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

(In €'000)	Note	2018	2017
Revenue	4	2,315,863	2,367,022
Cost of sales		(2,225,297)	(2,279,561)
Gross profit		90,566	87,461
Distribution costs		(271,949)	(264,999)
Restructuring costs		(2,443)	(2,458)
Other administrative expenses		(80,842)	(94,246)
Administrative and other expenses		(83,285)	(96,704)
Other Operating Income		274,002	283,710
Operating Profit / (Loss)		9,334	9,468
Finance income		732	428
Finance costs		-	-
Net finance income		732	428
Profit / (Loss) before taxation	5	10,066	9,896
Tax on Profit / (Loss)		2,423	(16,950)
Profit / (Loss) for the year		12,489	(7,054)

All results derive from continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

(In €'000)	Note	2018	2017
Profit / (Loss) for the year		12,489	(7,054)
Other comprehensive income			
Exchange movements		(9)	(29)
Total comprehensive income for the year		12,480	(7,083)

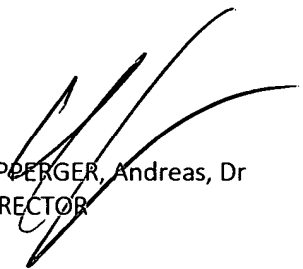
## STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

(In €'000)	Note	2018	2017
<b>Non-Current Assets</b>			
Intangible assets		1,361	1,729
Property, plant and equipment		1,883	1,739
Deferred tax assets	8	328	7,756
		<b>3,572</b>	<b>11,224</b>
<b>Current assets</b>			
Inventories	10	88,669	81,732
Trade and other receivables	11	485,849	493,430
Cash and cash equivalents		17,308	15,040
		<b>591,826</b>	<b>590,202</b>
<b>Total Assets</b>		<b>595,398</b>	<b>601,426</b>
<b>Current Liabilities</b>			
Trade and other payables	12	(542,817)	(561,348)
<b>Total Liabilities</b>		<b>(542,817)</b>	<b>(561,348)</b>
<b>Net assets</b>		<b>52,581</b>	<b>40,078</b>
<b>Equity</b>			
Share capital	14	209	209
Retained earnings		52,372	39,869
<b>Total equity</b>		<b>52,581</b>	<b>40,078</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 07 June 2019 and signed on its behalf by:



RIPBERGER, Andreas, Dr  
DIRECTOR



GÜLEN, Can  
DIRECTOR

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

(In €'000)	Share capital	Share premium	Retained earnings	Total equity
At 1 October 2017	209	-	39,869	40,078
Profit for the year	-	-	12,489	12,489
Exchange movements	-	-	(9)	(9)
Other comprehensive income	-	-	-	-
Total comprehensive expense	-	-	12,480	12,480
Transactions with owners				
Costs of employees' services compensated by share schemes	-	-	23	23
Dividends paid	-	-	-	-
At 30 September 2018	209	-	52,372	52,581
At 1 October 2016	209	-	46,832	47,041
Loss for the year	-	-	(7,054)	(7,054)
Exchange movements	-	-	(29)	(29)
Other comprehensive income	-	-	-	-
Total comprehensive expense	-	-	(7,083)	(7,083)
Transactions with owners				
Costs of employees' services compensated by share schemes	-	-	120	120
Dividends paid	-	-	-	-
At 30 September 2017	209	-	39,869	40,078

## NOTES TO THE FINANCIAL STATEMENTS

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

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The financial statements of Imperial Tobacco International Limited (the Company) for the year ended 30 September 2018 were authorised for issue by the board of directors on 26 April 2019, and the balance sheet was signed on the board's behalf by Can Gülen and Dr. Andreas Ripperger. 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.imperialbrandsplc.com](http://www.imperialbrandsplc.com)

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

### 2. Accounting policies

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#### **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.

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)
- 101p89(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**

The following Standards which have not been adopted in these financial statements that are in issue but not yet effective for the 2018 year end are:

- IFRS 9 'Financial Instruments' and
- IFRS 15 'Revenue from Contracts with Customers'.

These will be adopted in the financial year commencing 1 October 2018.

- IFRS 16 'Leases' will be adopted in the year commencing 1 October 2019.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets will be classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables, the Company does not currently hold any significant financial assets. The application of this requirement is not expected to materially impact the financial statements.

Impairment of financial assets: Impairment provisions will be calculated using a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. The expected credit loss model requires the recognition of a provision which reflects future impairment risk. Provision levels will be calculated on the residual credit risk after consideration of any credit protection which is used by the Company.

Receivables which have already become overdue will continue to be provided in line with the current provisioning policy.

IFRS 15 'Revenue from Contracts with Customers' will be effective for the period beginning 1 October 2018. IFRS 15 introduces an amended framework for revenue recognition and replaces the existing guidance in IAS 18 'Revenue'. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers.

The Company has assessed the impact of the adoption of IFRS 15. Following the review of our performance obligations revenue will continue to be recognised when the Company has delivered products to a customer, the customer has accepted those products and collectability of the related receivables is reasonably assured. We will reclassify certain distribution, advertising and selling costs arising from payments to customers, from overheads / other costs of sales to discounts from revenue. These costs are judged as not distinct from the related sales to the customer. This will reduce revenue, but will have no net impact on gross profit. The Company will take the option to restate the comparative figures on adoption of the standard. We estimate that the adoption will reduce the level of revenue recorded in the year ended 30 September 2018 by approximately £29 million.

IFRS 16 'Leases' will be effective for the period beginning 1 October 2019. The new standard requires operating leases to be accounted for through the recognition of a 'right of use asset' and a corresponding lease liability. Interest-bearing borrowings and non-current assets will increase on implementation of this standard. Operating lease costs will no longer be classified within the income statement based on amounts paid, but via a 'right of use asset' depreciation charge recognised within operating profit and a lease interest expense within finance costs, subject to the exemptions on amount and duration. The Company is currently assessing the impact of the new standard. Our initial assessment of IFRS 16 leases is that it will not have a material effect on the Company's net assets or results.

#### **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.



**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.

**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.

### **3. Critical accounting estimates and judgements**

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*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)	2018	2017
Western Europe	1,339,378	1,242,362
Africa/Middle East	351,540	449,642
Eastern Europe	26,878	21,686
Asia Pacific/Americas	598,067	653,332
	<b>2,315,863</b>	<b>2,367,022</b>

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

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

(In €'000)	2018	2017
Changes in inventories of finished goods and work in progress	(6,937)	20,922
Distribution costs	271,949	264,999

Changes in inventories relate to increased finished goods manufactured and stored within the Duty Free supply chain.

(In €'000)	2018	2017
Audit of the Company financial statements	94	85

**6. Directors and employees****Employment costs**

(In €'000)	2018	2017
Wages and Salaries	7,980	15,081
Social security costs	897	1,809
Pension costs	51	41
Share-based payments	23	120
	<b>8,951</b>	<b>17,051</b>

The employee costs above include wages and salaries of €6,284,000 (2017: €6,757,000) and social security costs of €781,000 (2017: €821,000) 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	2018	2017
Selling, marketing and distribution	50	90

**Directors Emoluments**

(In €'000)	2018	2017
Emoluments	961	894
SMS annual vesting <sup>1</sup>	178	283
	<b>1,139</b>	<b>1,177</b>

<sup>1</sup> During the year, four Directors (2017: four) exercised share options, and received shares under Share Matching Scheme (SMS).

Five 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 2018. 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 €323,000 (2017: €348,000, including SMS vesting of €57,000 (2017: €121,000)).

**Directors' pensions**

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

**7. Taxation**

Analysis of charge / (credit) in the period (In €'000)	2018	2017
UK corporation tax on profits for the year	-	12,905
Overseas tax	3,070	497
Adjustments in respect of prior years - UK	(12,905)	-
Adjustments in respect of prior years - Overseas	-	2,355
<b>Total current tax</b>	<b>(9,835)</b>	<b>15,757</b>
Origination and reversal of timing differences	7,495	1,063
Adjustments in respect of prior years - UK	(82)	(32)
Adjustments in respect of prior years - Overseas	-	162
<b>Total deferred tax</b>	<b>7,413</b>	<b>1,193</b>
<b>Tax on profit on ordinary activities</b>	<b>(2,422)</b>	<b>16,950</b>

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

Tax for the year is lower (2017: higher) than the standard rate of corporation tax in the UK for the period of 19.0 per cent (2017: 19.5 per cent). The differences are explained as follows:

IMPERIAL TOBACCO INTERNATIONAL LIMITED

(In €'000)	2018	2017
Profit on ordinary activities before taxation	10,066	9,896
Profit multiplied by standard rate of tax in the UK of 19% (2017: 19.5%)	1,913	1,930
Effects of:		
Movements in current year unrecognised deferred tax	2,646	-
Adjustment to prior year deferred tax recognised	7,481	-
Remeasurement of deferred tax - reconciliation rate	7	(84)
Adjustments to tax charge in respect of prior years - UK CT	(12,905)	-
Adjustments to tax charge in respect of prior years - UK DT	(82)	(32)
Adjustments to tax charge in respect of prior years - overseas CT	-	2,355
Adjustments to tax charge in respect of prior years - overseas DT	-	162
Expenses not deductible for tax purposes	169	377
Foreign tax paid	2,683	-
Difference in tax rate on overseas earnings	23	321
UK-UK transfer pricing	(231)	(272)
Group relief (claimed)/surrendered	(4,126)	12,193
Tax on profit on ordinary activities	(2,422)	16,950

The corporation tax for the year has been adjusted by (€4.126 million) (2017: €12.193 million) due to the claim of group relief for nil consideration from (2017: to) other Imperial Brands PLC subsidiaries.

<b>Movement on current tax accounts:</b>	<b>2018</b>	<b>2017</b>
Effects of:		
At as 1 October	11,295	2,553
Charged / (credited) to the income statement	(9,835)	15,757
Charged / (credited) to other comprehensive income	17	1
Cash paid	(3,791)	(7,016)
<b>As at 30 September</b>	<b>(2,314)</b>	<b>11,295</b>
<b>Analysed as:</b>		
Liabilities	293	12,905
Assets	(2,607)	(1,610)
	<b>(2,314)</b>	<b>11,295</b>

**Factors that may affect 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 19.0 per cent arises from profits being taxed at 19.0 per cent until 30 September 2018.

The rate of corporation tax was reduced by 1.0 per cent from 20.0 percent to 19.0 percent on 1 April 2017.

A further reduction to 17.0 per cent on 1 April 2020 was enacted as at the balance sheet date.

The effect of these reductions, if applied to the deferred tax balance at 30 September 2018 would be immaterial.

**8. Deferred Tax**

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

(In €'000)	2018	2017
Deferred tax assets due within 12 months	82	-
Deferred tax liabilities due within 12 months	-	-
Total provision	82	-
Deferred tax assets due after more than 12 months	246	7,756
Deferred tax liabilities due after more than 12 months	-	-
Total provision	246	7,756
Total deferred tax provision	328	7,756

Deferred tax assets (In €'000)	Capital allowances	Other	Losses	Total
As at 1 October 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)
As at 30 September 2017	158	116	7,482	7,756
Charged / (credited) to the income statement	57	(71)	(7,482)	(7,495)
Charged / (credited) to other comprehensive income	-	(15)	-	(15)
Adjustment due to difference from prior period	-	-	-	82
As at 30 September 2018	215	30	-	328

**9. Dividends**

The Directors propose an ordinary dividend payment of €39.0 million (2017: €nil).

**10. Inventories**

(In €'000)	2018	2017
Finished inventories	88,669	81,732
	88,669	81,732

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to €1,541,031,773 (2017: €1,566,045,000).

**11. Trade and other Receivables**

(In €'000)	2018	2017
Trade receivables	97,418	67,475
Corporation Tax - Germany	2,607	1,563
Corporation Tax - Russia	-	47
Amounts owed by group undertakings	346,203	381,956
Prepayments and accrued income	39,621	42,389
	<b>485,849</b>	<b>493,430</b>

**12. Trade and other Payables**

(In €'000)	2018	2017
Trade payables	3,727	11,037
Amounts owed to group undertakings	503,724	488,483
UK Corporation tax creditor	-	12,905
RU Corporation tax creditor	293	-
Accruals and deferred income	35,073	48,923
	<b>542,817</b>	<b>561,348</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.

**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 €51,410 (2017: €41,105) is recognised relating to the cost of the defined contribution scheme.

**14. Share capital**

(In €'000)	2018	2017
Authorised, allotted, called up and fully paid 166,506 ordinary shares of £1 each (2017: 166,506)	<b>209</b>	<b>209</b>

**15. Related party transactions**

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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**

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The ultimate parent undertaking and controlling party of the Company at 30 September 2018 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.

**17. Post Balance Sheet Disclosures**

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The Company is currently progressing with the cessation of the operation of its branch in Russia. It is expected this will be completed by 30 September 2019.