Imperial Tobacco Group PLC
2000 Accounts

Consolidated Profit & Loss Account

for the year ended 23 September 2000

(in £'s million)	Notes	2000	1999	1998
Turnover	1	5,220	4,494	4,029
Duty in turnover	2	(3,920)	(3,292)	(3,081)
Costs and overheads less other income	3	(740)	(684)	(512)
Operating profit	1	560	518	436
Net interest	5	(110)	(118)	(111)
Profit on ordinary activities before taxation		450	400	325
Taxation	6	(127)	(113)	(94)
Profit on ordinary activities after taxation		323	287	231
Dividends	7	(163)	(142)	(121)
Retained profit for the year	19	160	145	110
Earnings per ordinary share				
- Basic	8	62.6p	55.5p	44.5p
- Adjusted	8	64.1p	55.5p	44.5p
- Diluted	8	62.3p	55.2p	44.4p
Dividends per ordinary share				
- Interim	7	10.1p	8.8p	7.6p
- Proposed final	7	21.6p	18.7p	15.8p

The turnover and profit figures above are directly related to continuing operations. There is no difference between the profit as shown above and that calculated on an historical cost basis.

Statement of Total Recognised Gains and Losses

(in £'s million)	2000	1999	1998
Profit on ordinary activities after taxation	323	287	231
Exchange movements on retranslation of net investments and related borrowings	(10)	(4)	1
Taxation (debit)/credit on unhedged borrowings	(5)	(3)	12
Total recognised gains for the year	308	280	244

Consolidated Balance Sheet

at 23 September 2000

(in £'s million)	Notes	2000	1999
Fixed assets			
Intangible assets	9	130	145
Tangible assets	10	190	171
Investments	11	18	18
		338	334
Current assets			
Stocks	12	458	361
Debtors	13	253	262
Investments	11	150	147
Cash		330	204
		1,191	974
Creditors: amounts falling due within one year	14	(1,954)	(1,402)
Net current liabilities		(763)	(428)
Total assets less current liabilities		(425)	(94)
Creditors: amounts falling due after more than one year	14	(820)	(1,342)
Provisions for liabilities and charges	16	(42)	(40)
Net liabilities		(1,287)	(1,476)
Capital and reserves			
Called up share capital	17	52	52
Profit and loss reserve	19	(1,339)	(1,528)
Shareholders' funds	26	(1,287)	(1,476)

Consolidated Cash Flow Statement

for the year ended 23 September 2000

(in £'s million)	Notes	2000	1999	1998
Net cash inflow from operating activities	23	470	623	665
Returns on investments and servicing of finance				
Interest received		17	28	11
Interest paid		(99)	(149)	(109)
Net cash outflow from returns on investments and servicing of finance		(82)	(121)	(98)
Taxation		(115)	(107)	(78)
Capital expenditure and financial investment				
Purchase of tangible and intangible fixed assets		(49)	(62)	(31)
Sale of tangible fixed assets		2	1	1
Purchase of fixed asset investments		(1)	(12)	(5)
Net cash outflow from capital expenditure and financial investment		(48)	(73)	(35)
Acquisitions and disposals				
Payments to acquire businesses		(1)	(134)	(669)
Net cash acquired with businesses		-	-	7
Deferred consideration in respect of prior year acquisitions		(2)	-	-
Net cash outflow from acquisitions and disposals		(3)	(134)	(662)
Equity dividends paid		(148)	(128)	(113)
Net cash inflow/(outflow) before management of liquid resources and financing		74	60	(321)
Management of liquid resources				
Increase in investments held as current assets		(2)	(5)	(27)

Financing			
Debt due within one year - increase/(decrease) in short-term borrowings	624	(160)	490
Debt due beyond one year - (decrease)/increase in borrowings	(564)	241	(166)
Net cash inflow from financing	60	81	324
Increase/(decrease) in cash in the year	132	136	(24)

Accounting Policies

The accounts have been prepared in accordance with Accounting Standards currently applicable in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below.

Basis of accounting
The accounts have been prepared in accordance with the historical cost convention.

Basis of consolidation
The consolidated accounts incorporate the audited accounts of Imperial Tobacco Group PLC and all its subsidiary undertakings.

US filing and corresponding amounts
The financial statements incorporate the financial information required to satisfy the Company's US Form 20-F filing requirements which includes three year profit and loss account and cash flow statement information.

Intangible fixed assets – goodwill
Subsidiaries acquired have been dealt with in the consolidated accounts using acquisition accounting. Upon the acquisition of a subsidiary, the fair values that reflect the condition at the date of acquisition are attributed to the identifiable assets and liabilities acquired. Adjustments are also made to bring the accounting policies of subsidiaries acquired into alignment with those of the Group. Where the consideration paid exceeds the fair value of the net assets acquired, the difference is treated as goodwill.

Goodwill arising on acquisitions made on or after 27 September 1998 is capitalised and amortised on a straight line basis over its useful economic life, a period not exceeding 20 years. Previously all goodwill was written off against reserves in the period of acquisition. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill previously written off to reserves. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

Intangible fixed assets – trade marks and licences
Trade marks and licences are included at cost and depreciated in annual equal instalments over a period which does not exceed 20 years. In some instances, although it is expected that the economic benefit of certain acquisitions will extend beyond 20 years, there is an element of uncertainty when forecasting this far into the future and these assets are amortised over 20 years. Where the estimated useful life is less than 20 years, these assets are amortised over their useful life.

Tangible fixed assets
Tangible fixed assets are shown at cost less depreciation. No depreciation is provided on freehold land. Depreciation of other fixed assets is calculated to write off their cost over their expected useful lives as follows:

Freehold and leasehold buildings	up to 50 years	(straight line)
General plant and equipment	2 to 20 years	(straight line/reducing balance)
Motor vehicles	4 to 5 years	(straight line)

Impairment of fixed assets
The carrying value of fixed assets is subject to review and any impairment is charged to the profit and loss account.

Capitalisation of interest
Interest incurred on borrowings for the financing of specific capital projects is capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Cost includes an addition for overheads where appropriate.

Deferred taxation
Deferred taxation is provided using the liability method in respect of timing differences except where the liability or asset is not expected to crystallise in the foreseeable future.

Turnover
Turnover represents the amount charged to customers in respect of goods supplied, exclusive of VAT but inclusive of excise duty.

Research and development Expenditure on research and development is written off in the period in which it is incurred.

Foreign currencies
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction, or where forward cover contracts have been arranged, at the contracted rates. Monetary assets and liabilities denominated in foreign currencies, where a contracted rate does not apply, are retranslated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the profit and loss account.

The profit and loss accounts of overseas subsidiaries are translated at the average rate of exchange ruling during the year. The balance sheets of the overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Differences between the profit and loss accounts translated at average rates and at balance sheet rates are shown as a movement in reserves and in the statement of total recognised gains and losses.

Where practicable, the Group's overseas equity investments are hedged by borrowings in the currencies in which those assets are denominated. Exchange differences arising on the retranslation of the overseas net investments, including goodwill, less exchange differences on the borrowings, to the extent that they finance those investments, are dealt with through reserves and in the statement of total recognised gains and losses. Other exchange gains and losses are dealt with in the profit and loss account.

Derivative financial instruments
Derivative financial instruments are used to reduce exposure to foreign exchange and interest rate risks. Instruments qualify for hedge accounting where the underlying asset or liability has characteristics which can be directly related to the instrument transacted. The gains and losses on those instruments, qualifying for hedge accounting, are recognised in the financial statements over the life of the transaction. All current derivative financial instruments qualify for hedge accounting under UK GAAP. The Group excludes all short term debtors and creditors from its derivatives and financial instrument disclosures (other than those on currency risks relating to monetary assets and liabilities).

Pension costs
The cost of providing pensions is charged to the profit and loss account over employees' service lives. Variances arising from actuarial valuations are charged or credited to profit over the estimated remaining service lives of the employees, to the extent that any resulting credit does not exceed the regular cost.

Interest
Interest payable and receivable is recognised in the profit and loss account on an accruals basis, subject to interest capitalised in respect of capital projects. Derivative transactions, principally interest rate swaps, are used to reduce exposure to interest rate movements on a proportion of floating rate debt. Hedge accounting is applied to these transactions and as a result the interest differentials under these transactions are recognised in the financial statements by adjustment of interest payable (and receivable) over the life of the transactions.

Notes to the Accounts

1. Segmental information

The Group is engaged in only one class of business, the manufacture, marketing and distribution of tobacco products and tobacco related accessories.

The geographical analysis of turnover, operating profit and capital employed was as follows:

(in £'s million)	2000	1999	1998
Turnover			
By destination			
UK	3,551	3,554	3,521
International	1,669	940	508
	5,220	4,494	4,029
By origin			
UK	4,004	3,793	3,666
International	1,216	701	363
	5,220	4,494	4,029

Turnover derived from intra-segmental transactions between the UK and international segments amounted to £269m (1999:£57m). Intra-segmental turnover in 1998 was not material.

(in £'s million)	2000	1999	1998
Operating profit			
By destination			
UK	329	330	319
International	231	188	117
	560	518	436
By origin			
UK	438	429	387
International	122	89	49
	560	518	436

Capital employed			
By location (based on origin)			
UK	63	1	97
International	134	70	18
	197	71	115

Capital employed is reconciled to the consolidated balance sheet as follows:

(in £'s million)	2000	1999
Net liabilities	(1,287)	(1,476)
Intangible fixed assets	(130)	(145)
Taxation	120	91
Net debt	1,383	1,505
Dividend payable	111	96
	197	71

2. Duty in turnover

(in £'s million)	2000	1999	1998
UK	2,885	2,860	2,873
International	1,035	432	208
	3,920	3,292	3,081

3. Costs and overheads less other income

(in £'s million)	2000	1999	1998
Changes in stocks of finished goods and work in progress (excluding excise duty)	8	(18)	(23)
Raw materials and consumables (excluding excise duty)	228	228	188
Employment costs (note 4)	153	141	111
Depreciation and amortisation	33	20	16
Other operating charges	318	313	220
	740	684	512

(in £'s million)	2000	1999	1998
Other operating charges include:			
Auditors' fees and expenses (including Company: £69,000; 1999: £64,900; 1998: £69,000)	0.7	0.6	0.5

(in £'s million)	2000	1999	1998
Auditors' fees and expenses for non-audit work, being advice in connection with:			
Acquisitions	0.4	0.7	1.0
US bond issue	-	0.1	-
US registrations	-	-	0.3
Other work, principally taxation advice	0.4	0.4	0.4
In the UK	0.8	1.2	1.7
Overseas	0.4	0.2	0.2
	1.2	1.4	1.9

UK non-audit fees of £1.7m for PricewaterhouseCoopers in 1998 include £1.4m paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as Auditors. The Group has not sought any management consultancy services from its Auditors.

4. Directors and employees

(in £'s million)	2000	1999	1998
Employment costs			
Wages and salaries	133	121	99
Social security costs	15	17	11
Pension costs	5	3	1
	153	141	111

Average number of persons employed by the Group during the year

(Number)	2000	1999	1998
UK	2,690	2,677	2,666
Overseas	2,225	1,629	964
	4,915	4,306	3,630

Details of Directors' emoluments and interests are provided within the Remuneration Report on pages 39 to 46. These disclosures form part of the financial statements. The highest paid Director during the year was Mr G Davis and details of his emoluments are shown on pages 41 to 46.

5. Net interest

(in £'s million)	2000	1999	1998
Interest payable			
On bank loans and overdrafts	61	109	92
On other loans	68	33	29
	129	142	121
Interest capitalised	(2)	-	-
	127	142	121
Interest receivable	(17)	(24)	(10)
	110	118	111

6. Taxation

(in £'s million)	2000	1999	1998
UK			
Corporation tax at 30.0% (1999: 30.5%; 1998: 31%)	95	89	82
Prior year adjustment	(5)	1	(1)
Deferred tax	5	1	2
	95	91	83
Overseas			
Current tax	32	22	11
	127	113	94

7. Dividends on ordinary shares

(in £'s million)	2000	1999	1998
Interim 10.1p (1999: 8.8p; 1998: 7.6p)	52	46	39
Proposed final 21.6p (1999: 18.7p; 1998: 15.8p)	111	96	82
	163	142	121

8. Earnings per share

(In pence)	2000	1999	1998
Earnings per share			
Basic	62.6	55.5	44.5
Adjustment for amortisation	1.5	-	-
Adjusted	64.1	55.5	44.5
Diluted	62.3	55.2	44.4

(In £'s millions)	2000	1999	1998
Earnings			
Basic	323	287	231
Adjustment for amortisation	8	-	-
Adjusted earnings	331	287	231

Adjusted earnings per share have been calculated using earnings before amortisation of the intangible assets acquired in Australia and New Zealand in September 1999.

There would be no significant dilution of earnings if the outstanding share options referred to in note 18 were exercised.

(Number)	2000	1999	1998
Weighted average number of shares outstanding during the year			
Basic	516,347,148	517,425,091	519,125,439
Effect of share options	1,891,145	2,251,110	1,423,547
Diluted	518,238,293	519,676,201	520,548,986

9. Intangible fixed assets

(In £'s million)	Trade marks, licences	Goodwill	Total
Cost			
As at 26 September 1999	137	9	146
Acquisitions	-	1	1
Additions	1	-	1
Exchange movements	(7)	-	(7)
As at 23 September 2000	131	10	141
Accumulated amortisation			
As at 26 September 1999	-	1	1
Charge for the year	9	1	10
As at 23 September 2000	9	2	11
Net book value			
As at 23 September 2000	122	8	130
As at 25 September 1999	137	8	145

10. Tangible fixed assets

(In £'s million)	Land and buildings	Plant and machinery	Fixtures and vehicles	Total
Cost				
As at 26 September 1999	56	295	38	389
Exchange movements	(1)	(4)	-	(5)
Reclassifications	-	10	(10)	-
Additions	3	37	8	48
Disposals	(4)	(8)	(4)	(16)
As at 23 September 2000	54	330	32	416
Accumulated depreciation				

As at 26 September 1999	19	170	29	218
Exchange movements	(1)	(2)	-	(3)
Reclassifications	-	10	(10)	-
Charge for the year	1	18	4	23
Disposals	(1)	(7)	(4)	(12)
As at 23 September 2000	18	189	19	226
Net book value				
As at 23 September 2000	36	141	13	190
As at 25 September 1999	37	125	9	171

Interest capitalised on plant and machinery capital projects included in additions for the year amounted to £2m (1999: £nil). The cumulative amount of interest capitalised in the total cost of fixed assets above amounts to £2m (1999: £nil).

Land and buildings at net book value:

(in £'s million)	2000	1999
Freehold	20	21
Long leasehold	16	16
	36	37

11. Investments

(in £'s million)	2000	1999
Fixed asset investments		
At beginning of year	18	9
Investment in own shares in the year	1	12
Amortisation charge in the year	(1)	(3)
At end of year	18	18

The investment in own shares represents shares in Imperial Tobacco Group PLC held by the Imperial Tobacco Group PLC Emplyee Benefit Trust (note 18). The market value of the shares at 23 September 2000 was £27m (1999: £30m)

(in £'s million)	2000	1999
Current asset investments		
Short-term deposits	6	16
Other liquid assets	144	131
	150	147

12. Stocks

(In £'s million)	2000	1999
Raw materials	179	154
Work in progress	14	11
Finished stock	222	154
Other stock	43	42
	458	361

13. Debtors

(In £'s million)	2000	1999
Amounts falling due within one year		
Trade debtors	209	238
Other debtors and prepayments	41	22
	250	260
Amounts falling due after more than one year		
Other debtors and prepayments	3	2
	253	262

14. Creditors

(In £'s million)	2000	1999
Amounts falling due within one year		
Borrowings (note 15)	1,044	517
Trade creditors	132	116
Corporate taxes	100	75
Other taxes, duties and social security contributions	415	479
Other creditors	54	33
Accruals and deferred income	98	86
Proposed dividend	111	96
	1,954	1,402

(In £'s million)	2000	1999
Amounts falling due after more than one year		
Borrowings (note 15)	819	1,339
Other creditors	-	3
Accruals and deferred income	1	-
	820	1,342

15. Borrowings and financial instruments

(In £'s million)	2000	1999
Amounts falling due within one year		
Bank loans and overdrafts	445	154
Commercial paper	599	363
	1,044	517
Amounts falling due after more than one year		
Bank loans - between one and two years	-	971
Other loans - after five years	819	368

	819	1,339
Total borrowings	1,863	1,856

The loans maturing after five years are the US $600m global bond, which matures in April 2009 and the €750m euro bond which matures in September 2006.

The Group's policies in respect of foreign currency and interest rate risk management and the related use of financial instruments are set out in the Treasury section of the Financial Review on page 26. These disclosures form part of the financial statements.

(i) Interest rate risk profile of financial liabilities

				Fixed rate financial liabilities	
	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency (in £'s million)	2000	2000	2000	2000	2000
Sterling	957	527	430	7.0	4.7
Euro	770	572	198	3.2	1.9
Australian dollar	132	132	–	n/a	n/a
New Zealand dollar	2	2	–	n/a	n/a
US dollar	2	2	–	n/a	n/a
	1,863	1,235	628	5.8	3.8

Currency (in £'s million)	Total 1999	Floating rate financial liabilities 1999	Fixed rate financial liabilities 1999	Fixed rate financial liabilities: Weighted average interest rate % 1999	Fixed rate financial liabilities: Weighted average period for which rate is fixed Years 1999
Sterling	966	191	775	6.2	3.6
Euro	731	434	297	3.3	2.2
Australian dollar	143	143	–	n/a	n/a
US dollar	16	16	–	n/a	n/a
	1,856	784	1,072	5.4	3.2

The floating rate financial liabilities comprise of bank borrowings, capital market issuance and commercial paper. The majority of bank borrowings bear interest at rates fixed in advance for periods ranging from one month to three months by reference to the LIBOR (in the case of sterling and Australian dollar borrowings) and the EURIBOR (in the case of euro borrowings). The capital market issuance in place at the year end bear interest (post interest and currency swaps) at rates fixed in advance for six months by reference to LIBOR (in the case of the US dollar bond) and three months by reference to EURIBOR (in the case of the euro bond). The commercial paper bears interest at market rates depending upon the maturity issued and market conditions prevailing at issue.

The figures shown in the tables above take into account various interest rate and currency swaps and hence the US dollar denominated bond issued in 1999 is shown within the sterling balance. The fixed rate financial liabilities do not show the forward start swaps.

Other financial instruments held are shown in the analysis on pages 66 and 67.

(ii) Currency risk disclosure

Functional currency of Group operation (in £'s million)	Net foreign currency monetary assets/(liabilities)					
	Sterling 2000	Euro 2000	US dollars 2000	Swiss francs 2000	Other 2000	Total 2000
Sterling	–	76	61	(40)	(1)	96
Euro	143	–	–	–	11	154
Swiss francs	30	–	–	–	–	30
	173	76	61	(40)	10	280

Functional currency of Group operation (in £'s million)	Net foreign currency monetary assets/(liabilities) Sterling 1999	Euro 1999	US dollars 1999	Swiss francs 1999	Other 1999	Total 1999
Sterling	–	(14)	(12)	(41)	2	(65)
Euro	112	–	(14)	46	12	156
Swiss francs	30	19	–	–	–	49
	142	5	(26)	5	14	140

The figures in the table above take into account the effect of the US dollar currency swaps held as shown in the analysis on pages 66 and 67.

(iii) Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available to it as at 23 September 2000 in respect of which all conditions precedent have been met at that date were as follows:

(in £'s million)	2000	1999
Expiring in one year or less	1,474	556
Expiring in more than one year but not more than two years	–	329
	1,474	885

In the above table £615m (1999: £518m) was in support of the US dollar and euro commercial paper programmes. In addition, there are other uncommitted facilities made available to the Group.

(iv) Fair values of derivative financial instruments

(in £'s million)	Positive fair values 2000	Negative fair values 2000	Fair value 2000	Book value 2000
Derivative financial instruments held to manage the interest and currency profile				
Interest rate swaps and similar instruments	9	(20)	(11)	–
Currency swaps	16	–	16	–

(in £'s million)	Positive fair values 1999	Negative fair values 1999	Fair value 1999	Book value 1999
Derivative financial instruments held to manage the interest and currency profile				
Forward foreign currency contracts	3	(2)	1	1
Interest rate swaps and similar instruments	10	(13)	(3)	–
Interest rate caps and collars	–	(1)	(1)	–
Currency swaps	–	(26)	(26)	–

The figures shown in the tables above for derivative financial instruments, have been derived from third party valuations as at the balance sheet date.

(v) Detailed analysis of financial assets and financial liabilities

The following table shows the financial assets and financial liabilities held by the Group at 23 September 2000.

	Maturity date and weighted average interest rate									
	2000	(%)	2001	(%)	2002	(%)	There-after	(%)	Total	Fair-value
	(In £'s million unless otherwise indicated)									
Assets/liabilities (all at floating rates after cross currency swaps before the effect of interest rate swaps)										
Cash deposits										
- Sterling			366	6.2					366	366
- Euro			88	3.3					88	88
- Other			26	5.2					26	26
Total cash deposits			480						480	480
Weighted average receivable interest rate (%)				5.6					5.6	
Short term debt										
- Sterling			(589)	6.3					(589)	(589)
- Euro			(319)	5.0					(319)	(319)
- Australian dollars			(132)	6.6					(132)	(132)
- New Zealand dollars			(2)	6.9					(2)	(2)
- United States dollars			(2)	6.5					(2)	(2)
Total short term debt			(1,044)						(1,044)	(1,044)

Long term debt										
- Sterling							(368)	7.7	(368)	(378)
- Euro							(451)	5.5	(451)	(456)
Total long term debt							(819)		(819)	(834)
Weighted average payable interest rate (%)				5.9				6.5	6.2	

The following table shows the financial assets and financial liabilities held by the Group at 25 September 1999.

	Maturity date and weighted average interest rate									
	2000	(%)	2001	(%)	2002	(%)	There-after	(%)	Total	Fair-value
	(In £'s million unless otherwise indicated)									
Assets/liabilities (all at floating rates after cross currency swaps before the effect of interest rate swaps)										
Cash deposits										
- Sterling	240	5.4							240	240
- Euro	91	2.8							91	91
- Other	20	5.0							20	20
Total cash deposits	351								351	351
Weighted average receivable interest rate (%)		4.7							4.7	
Short term debt										
- Sterling	(167)	5.5							(167)	(167)
- Euro	(334)	3.0							(334)	(334)
- United States dollars	(16)	5.6							(16)	(16)
Total short term debt	(517)								(517)	(517)
Long term debt										
- Sterling			(431)	5.5			(368)	6.5	(799)	(776)
- Euro			(397)	2.9					(397)	(397)
- Australian dollars			(143)	5.0					(143)	(143)
Total long term debt			(971)				(368)		(1,339)	(1,316)
Weighted average payable interest rate (%)		3.9		4.4				6.5	4.7	

The cash deposits earn interest at floating rates of interest and are comprised mainly of short term money market deposits with a maturity date not exceeding one year.

(vi) Hedges

(in £'s million)	Gains 2000	Losses 2000	Gains 1999	Losses 1999
Unrecognised gains and losses on hedges at beginning of year	10	(40)	–	(26)
Gains and losses arising in previous years recognised in the year	(1)	1	–	2
Gains and losses arising before the start of the year not recognised in the year	9	(39)	–	(24)
Gains and losses arising in the year not recognised in the year	16	19	10	(16)
Unrecognised gains and losses on hedges at end of year	25	(20)	10	(40)
Of which:				
Gains and losses expected to be recognised in the next year	1	–	1	(1)
Gains and losses expected to be recognised in the years following next year	24	(20)	9	(39)

(vii) Derivative financial instruments

The following table presents the derivative financial instruments held by the Group at 23 September 2000. The table presents the nominal value of such investments used to calculate the contractual payments under such contracts, analysed by maturity date, together with the related weighted average interest rate where relevant. Some of the interest rate swaps have embedded options and assumptions have been made based on the year end third party mark to market valuations to determine whether such options are likely to be exercised in order to determine the probable maturity date.

(in £'s million)	2001	2002	2003	2004	2005	There-after	Total	Fair-value
Sterling interest rate derivatives								
Interest rate swaps – pay fixed, receive variable:								
Notional amount		150		75		280[1]	505	(9)
Weighted average interest rate to pay (%)		7.3		7.6		6.3	6.8	
Euro interest rate derivatives								
Interest rate swaps – pay fixed, receive variable:								
Notional amount	63	63		72			198	7

Weighted average interest rate to pay (%)	2.9	3.2	3.5		3.2	
Interest rate swaps – pay variable, receive fixed:						
Notional amount				453	453	(9)
Weighted average interest rate to receive (%)				6.0	6.0	
Weighted average margin over EURIBOR to pay (%)				1.0	1.0	
Interest rate swaps – pay variable, receive variable:						
Notional amount		42			42	–
Weighted margin over EONIA to receive (%)		0.5			0.5	
Weighted margin over EURIBOR to pay (%)		0.5			0.5	
Taxation equalisation derivatives						
Notional amount	276				276	–
Currency swaps						
Notional amount				370[2]	370	16
US dollar interest rate to receive (%)				7.1	7.1	
Sterling interest margin over LIBOR to pay (%)				1.3	1.3	
Notional amount			60[2]		60	–
Sterling interest rate to receive (%)			7.4		7.4	
Interest margin over EURIBOR to pay (%)			0.9		0.9	

The Group has entered into certain swap transactions with contractual maturities exceeding those of the underlying debt being hedged, in anticipation of there being additional floating rate debt when the existing debt matures.

Notes

1 The following trades are included within this balance:

- £25m forward start 5 year swaption starting October 2006 at 5.5% at the counterparties option.
- £50m forward start 5 year swaps starting October 2001 at 5.5% with the counterparties option to extend for a further 5 years.
- £70m swaps maturing April 2003 at 6.0% with the counterparties option to extend for a further 5 years.

2 Principal amounts under the cross currency swaps are exchanged at the start and maturity of these trades.

The following table presents the derivative financial instruments held by the Group at 25 September 1999. This has been restated to show maturity dates by accounting year instead of calendar year.

(in £'s million)	2000	2001	2002	2003	2004	There-after	Total	Fair-value
Sterling interest rate derivatives								
Interest rate swaps – pay fixed, receive variable:								
Notional amount	225		150		125	280	780	(10)
Weighted average interest rate to pay (%)	4.4		7.4		7.6	6.3	6.2	
Caps (purchased):								
Notional amount	70						70	–
Weighted average strike price (%)	8.0						8.0	
Caps (sold):								
Notional amount	70						70	–
Weighted average receive rate (%)	8.0						8.0	
Written floors:								
Notional amount	70						70	–
Weighted average receive rate (%)	6.3						6.3	
Euro interest rate derivatives								
Interest rate swaps – pay fixed, receive variable:								
Notional amount	45	67	67		75		254	4
Weighted average interest rate to pay (%)	3.0	2.9	3.2		3.5		3.2	
Interest rate swaps – pay variable, receive fixed:								
Notional amount						414	414	2
Weighted average interest rate to receive (%)						6.0	6.0	
Weighted average margin over EURIBOR to pay (%)						1.0	1.0	

Caps (purchased):								
Notional amount	43						43	–
Weighted average strike price (%)	4.5						4.5	
Written floors:								
Notional amount	43						43	–
Weighted average receive rate (%)	3.8						3.8	
Taxation equalisation derivatives								
Notional amount	291	291					582	–
Currency swaps								
Notional amount						370	370	(26)
US dollar interest rate to receive (%)						7.1	7.1	
Sterling interest margin over LIBOR to pay (%)						1.3	1.3	

16. Provisions for liabilities and charges

(in £'s million)	Reorganisation and rationalisation	Deferred taxation	Other	Total
As at 26 September 1999	15	16	9	40
Provided in the year	–	5	3	8
Utilised in the year	(3)	(1)	(2)	(6)
As at 23 September 2000	12	20	10	42

The reorganisation and rationalisation provision covers committed costs relating mainly to the restructuring plan for roll your own tobacco production announced following the acquisition of Van Nelle Tabak in July 1998, and is expected to be utilised within the next two years.

Other provisions relate mainly to unfunded pension liabilities on pension schemes in Europe. The Group's main pension schemes are held in separately administered funds and are described in note 22.

The amounts provided for deferred taxation and the amounts unprovided were as follows:

	Provided		Unprovided	
(in £'s million)	2000	1999	2000	1999
Excess of capital allowances	11	10	1	1
Chargeable gains on property	3	1	5	7
Short term timing differences	6	5	(4)	(4)
Other timing differences	–	–	(1)	(1)
	20	16	1	3

UK deferred taxation is provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiary undertakings only where there is an intention to remit such profits.

17. Called up share capital

(in £'s million)	2000	1999
Authorised		
1,000,000,000 ordinary shares of 10p each	100	100
Issued and fully paid		
520,857,801 ordinary shares of 10p each	52	52

18. Share options

The following options and conditional awards over ordinary shares have been granted and are outstanding at the end of the year.

Date of grant	Date exercisable/ performance period	Option grant price (in £'s)	Granted	Exercised	Lapsed or cancelled	Outstanding at 23 Sept 2000
Sharesave options						
1997						
UK						
6 Dec 1996	1/3/2000-31/8/2002	2.93	2,043,461	(566,210)	(242,764)	1,234,487
14 May 1997	1/7/2000-31/12/2002	3.23	465,225	(141,867)	(88,969)	234,389

1998						
UK						
12 June 1998	1/7/2001-31/12/2003	3.61	728,203	(14,518)	(67,211)	646,474
1999						
UK						
9 June 1999	1/8/2002-31/1/2005	5.50	546,565	(100)	(235,849)	310,616
France						
21 June 1999	1/8/2002-31/1/2003	5.70	13,287	–	(2,090)	11,197
Other						
21 June 1999	1/8/2002-31/1/2003	5.50	170,670	–	(63,824)	106,846
2000						
Australia/New Zealand						
20 January 2000	1/3/2003-31/8/2003	5.32	50,755	–	(10,544)	40,211
UK						
5 June 2000	1/8/2003-31/1/2006	4.32	1,020,642	–	(1,255)	1,019,387
Ireland						
5 June 2000	1/8/2003-31/1/2004	4.32	135,836	–	(1,902)	133,934
France						
16 June 2000	1/8/2003-31/1/2004	4.82	7,821	–	283	8,104
Other (including Australia/New Zealand)						
16 June 2000	1/8/2003-31/1/2004	4.32	112,687	–	(2,235)	110,452
		(in dollars)				
US						
1999						
21 June 1999	1/8/2002-31/1/2003	8.80	7,092*	–	(1,320)	5,772
2000						
16 June 2000	1/8/2003-31/1/2004	6.55	5,084**	–	–	5,084
			5,307,328	(722,695)	(717,680)	3,866,953

* Granted as 3,546 American Depositary Shares representing 7,092 ordinary shares.
** Granted as 2,542 American Depositary Shares representing 5,084 ordinary shares.

Date of grant	Date exercisable/ performance period	Granted	Exercised	Lapsed or cancelled	Outstanding at 23 Sept 2000
Conditional awards					
Share Matching Scheme	See details opposite				
16 January 1997		93,541	(7,634)	(14,320)	71,587
15 January 1998		81,567	(9,090)	(7,560)	64,917
14 January 1999		370,264	(14,509)	(19,524)	336,231
28 January 2000		696,942	(5,214)	(43,662)	648,066
		1,242,314	(36,447)	(85,066)	1,120,801
Long-Term Incentive Plan					
1997					
6 December 1996	Dec 1996-Dec 1999	351,387	(234,729)	(116,658)	–
1998					
1 December 1997	Dec 1997-Dec 2000	427,696	(59,122)	(50,800)	317,774
1999					
1 December 1998	Dec 1998-Dec 2001	341,692	(721)	(45,061)	(295,910)
2000					
29 November 1999	Dec 1999-Dec 2002	347,201	(864)	(14,467)	331,870
		1,467,976	(295,436)	(226,986)	945,554
		8,017,618	(1,054,578)	(1,029,732)	5,933,308

UK Sharesave Scheme

Under the terms of the Imperial Tobacco Group PLC Sharesave Scheme the Board may offer options to purchase ordinary shares in the Company to UK employees who enter into an Inland Revenue approved Save As You Earn (SAYE) savings contract. The price at which options may be offered is up to 20% less than the mid-market price of an Imperial Tobacco Group PLC share on the London Stock Exchange on the day prior to the invitation. The options may normally be exercised during the period of six months after the expiry of the SAYE contract, either three or five years after entering the Scheme.

International Sharesave Plan

Under the Plan the Board may offer options to purchase ordinary shares or American Depositary Shares (ADS's) in the Company to non-UK employees who enter into a savings contract. The price at which options may be offered varies depending on local laws, but for ordinary shares will not be less than 80% of the mid-market price of an Imperial Tobacco Group PLC share on the London Stock Exchange on the day prior to invitation. In respect of ADS's the price will not be less than 80% of the closing price on the New York Stock Exchange on the same day. Options may normally be exercised during the six months after expiry of the savings contract, three years after entering the Plan.

Long-Term Incentive Plan

In respect of the performance period ending in December 1999, the Company's total shareholder return ranked the Company in 33rd position in the FT-SE 100 Index, exceeding the bottom 67 companies in the Index and therefore approximately 70% of the award vested on 11 January 2000. In respect of the December 1997 – December 2000 award, the extent of vesting cannot be determined until the end of the performance period. However, based on the total shareholder return to the end of the financial year, 100% of the awards would vest.

Share Matching Scheme

The Share Matching Scheme is designed to encourage employees to acquire and retain Imperial Tobacco Group PLC ordinary shares. In January 1997, employees of the Group were given the opportunity to purchase up to £3,000 worth of Imperial Tobacco Group PLC ordinary shares and lodge them with the Employee Benefit Trust under a share matching arrangement. Provided that the shares are left in the Trust, the lodged shares will be matched with additional shares on a sliding scale ranging from 10% for one year's retention, up to a maximum of 50% for five years' retention.

For Executive Directors and selected management, individuals may elect to invest any proportion of their gross bonus in Imperial Tobacco Group PLC ordinary shares to be held by the Employee Benefit Trust. Provided that the shares elected for are left in the Trust for three years, and the individual remains in employment with the Group, the participant would receive the original shares plus additional shares. The matching ratio for bonuses earned in the 1996/97 financial year was 1:2. For subsequent years this ratio has been enhanced to 1:1 to further encourage Directors and managers to build a meaningful shareholding in the Group.

Employee Share Ownership Trust (ESOT)

The Imperial Tobacco Group PLC Employee Benefit Trust has been established to acquire ordinary shares in Imperial Tobacco Group PLC, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise of share options and on the vesting of the share matching and performance-related share awards. At 23 September 2000, the Trust held 4.5m (1999: 4.2m) ordinary shares, with a nominal value of £446,308, all acquired in the open market at a cost of £22.6m (1999: £21.8m) financed by a gift of £1.7m and an interest free loan of £20.9m. None of the ESOT shares have been allocated to employees or Directors as at 23 September 2000. All finance costs and administration expenses connected with the ESOT are charged to the profit and loss account as they accrue. The cost of the shares is being amortised over the performance period of the associated schemes. The Trust has waived its rights to dividends and the shares held by the Trust are excluded from the calculation of basic earnings per share.

19. Reserves

(in £'s million)	Goodwill reserve	Exchange translation reserve	Capital reserve	Profit and loss reserve	Total
As at 27 September 1998	(2,418)	11	483	211	(1,713)
Profit for the year	-	-	-	145	145
Goodwill:					
– transfer	2,418	-	(483)	(1,935)	-
– exchange movement	-	(51)	-	51	-
– transfer to goodwill	-	-	-	(4)	(4)
Other net exchange movements	-	47	-	-	47
Taxation debit on unhedged borrowings	-	(3)	-	-	(3)
As at 25 September 1999	-	4	-	(1,532)	(1,528)
Profit for the year	-	-	-	160	160
Goodwill:	-		-		
– exchange movement	-	(44)	-	44	-
Other net exchange movements	-	34	-	-	34
Taxation debit on unhedged borrowings	-	(5)	-	-	(5)
As at 23 September 2000	-	(11)	-	(1,328)	(1,339)

The capital reserve comprised a £455m difference arising on the merger of Imperial Tobacco Group PLC with Imperial Tobacco Holdings Limited and the profit and loss account balance at the date of the demerger of £28m.

The cumulative amount of goodwill written off against the Group's reserves, net of goodwill relating to undertakings disposed of, is £2,327m (1999: £2,371m).

The 1999 goodwill transfer has been made in accordance with Financial Reporting Standard No.10 "Goodwill and Intangible Assets" (FRS 10) which requires goodwill to be written off against certain reserves rather than being maintained as a separate reserve.

Included in other net exchange movements are exchange gains of £50m (1999: £52m) arising on borrowings denominated in foreign currencies designated as hedges of foreign net investments.

20. Capital commitments

(in £'s million)	2000	1999
Contracted but not provided for	11	24

21. Legal proceedings

The Group is currently involved in a number of legal cases in which claimants are seeking damages for alleged smoking-related health effects. In the opinion of the Group's lawyers, the Group has meritorious defences to these actions, all of which are being vigorously contested. Although it is not possible to predict the outcome of the pending litigation, the Directors believe that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the Group.

22. Pensions

The Group operates pension schemes in the UK and overseas, principally those operated by Imperial Tobacco Limited, John Player & Sons Limited, Rizla companies, Van Nelle Tabak companies, Imperial Tobacco Australia Limited and Imperial Tobacco New Zealand Limited. The main schemes are of the defined benefit type and the assets are held in trustee administered funds.

The principal Group scheme, covering UK employees, is the Imperial Tobacco Pension Fund ('the Scheme'). An actuarial valuation of the Scheme was made at 31 March 1998. The assumptions which had the most significant effect when valuing the Scheme's liabilities were those relating to the rate of investment return earned on the Scheme's existing assets and the rates of increase in pay and pensions. It was assumed that the future investment returns relative to market values at the valuation date would be 5.4% per annum and that pay and pension increases would average 5% and 3% per annum respectively. The assets were brought into account at their market value.

At 31 March 1998, the market value of the assets of the Scheme was £2,348m. The total assets were sufficient to cover 113% of the benefits that had accrued to members for past service, after allowing for expected future pay increases. Group contributions to the Scheme remain suspended having regard to the surplus disclosed in this valuation.

There was no pension cost to disclose in respect of the Scheme for the year ended 23 September 2000. The pension cost has been assessed in accordance with the advice of Watson Wyatt Partners, actuaries and consultants, using the projected unit method. There were no outstanding or prepaid contributions at the balance sheet date.

The pension cost relating to foreign schemes is calculated in accordance with local accounting principles. The pension cost for the overseas schemes in the year was £5m (1999: £3m).

23. Reconciliation of operating profit to net cash flow from operating activities

(in £'s million)	2000	1999	1998
Operating profit	560	518	436
Depreciation and amortisation	33	20	16
Increase/(decrease) in provisions for liabilities and charges	-	8	(3)
(Increase)/decrease in stocks	(114)	(74)	235
Decrease/(increase) in debtors	38	149	(207)
(Decrease)/ increase in creditors	(47)	2	188
Working capital cash (outflow)/inflow	(123)	77	216
Net cash inflow from operating activities	470	623	665

24. Reconciliation of net cash flow to movement in net debt

(in £'s million)	2000	1999	1998
Increase/(decrease) in cash in the year	132	136	(24)
Cash inflow from increase in debt	(60)	(81)	(324)
Cash outflow from increase in liquid resources	2	5	27
Change in net debt resulting from cash flows	74	60	(321)
Currency and other movements	48	52	(40)
Movement in net debt in the year	122	112	(361)
Opening net debt	(1,505)	(1,617)	(1,256)
Closing net debt	(1,383)	(1,505)	(1,617)

25. Analysis of net debt

(in £'s million)	Cash	Current asset investments	Loans due within one year	Loans due after one year	Total
As at 27 September 1998	72	142	(696)	(1,135)	(1,617)
Cash flow	136	5	160	(241)	60
Exchange movements	(4)	-	19	37	52
As at 25 September 1999	204	147	(517)	(1,339)	(1,505)
Cash flow	132	2	(624)	564	74
Exchange movements	(6)	1	97	(44)	48
As at 23 September 2000	330	150	(1,044)	(819)	(1,383)

26. Reconciliation of movements on shareholders' funds

(in £'s million)		2000	1999
Profit on ordinary activities after taxation		323	287
Dividends		(163)	(142)
Retained profit for the year		160	145
Goodwill	– transfer to goodwill	-	(4)
	– exchange movement	44	51
Other net exchange movements		(10)	(4)
Taxation debit on unhedged borrowings		(5)	(3)
Net addition in shareholders' funds		189	185
Opening shareholders' funds		(1,476)	(1,661)
Closing shareholders' funds		(1,287)	(1,476)

27. Summary of differences between UK and US generally accepted accounting principles ("GAAP")

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"). Such principles differ in certain respects from generally accepted accounting principles in the United States ("US GAAP"). A summary of principal differences and additional disclosures applicable to the Group is set out below.

(in £'s million)	Explanation reference	2000	1999	1998
Profit on ordinary activities after taxation under UK GAAP		323	287	231
US GAAP adjustments:				
Pensions	(i)	24	16	18
Amortisation of goodwill	(ii)	(13)	(15)	(7)
Amortisation of intangible assets	(ii)	(4)	(10)	(2)
Deferred taxation	(iii)	(7)	(3)	-
Mark to market adjustments on interest rate swaps	(iv)	-	12	(13)
Net income under US GAAP		323	287	227

(in pence)	Explanation reference	2000	1999	1998
Amounts in accordance with US GAAP				
Basic net income per ordinary share	(vii)	62.6	55.5	43.7
Diluted net income per ordinary share	(vii)	62.3	55.2	43.6

(in £'s million)	Explanation reference	2000	1999
Shareholders' funds under UK GAAP		(1,287)	(1,476)
US GAAP adjustments:			
Pensions	(i)	277	253
Goodwill, less accumulated amortisation of £38m (1999: £25m)	(ii)	526	572
Intangible assets, less accumulated amortisation of £16m (1999: £12m)	(ii)	321	343
Deferred taxation	(iii)	(196)	(196)
Mark to market adjustments on interest rate swaps	(iv)	(1)	(1)

Proposed dividend	(v)	111	96
ESOT shares	(vi)	(18)	(18)
Shareholders' deficit under US GAAP		(267)	(427)

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(i) Pensions

Group contributions to the Imperial Tobacco Pension Fund ('the Scheme') are suspended as a result of the surplus disclosed in note 22. Under UK GAAP, in accordance with SSAP 24, no pension expense has been reflected in the profit and loss account and no pension asset has been recognised in the balance sheet.

Under US GAAP, the annual pension cost comprises the estimated cost of benefits accruing in the period as determined in accordance with Statement of Financial Accounting Standards No. 87. Under SFAS 87, a pension asset representing the excess of Scheme assets over benefit obligations has been recognised in the balance sheet.

(ii) Goodwill and intangible assets

Both UK and US GAAP require purchase consideration to be allocated to the net assets acquired at their fair value on the date of acquisition, with the difference between the consideration and fair value of the identifiable tangible net assets recorded as goodwill. Under UK GAAP, goodwill arising and intangible assets acquired on acquisitions made on or after 27 September 1998 are capitalised and amortised over a period not exceeding 20 years. Prior to 27 September 1998, all goodwill and identifiable intangible assets were written off to reserves on acquisition.

Under US GAAP, goodwill and identifiable intangible assets are capitalised and amortised over a period not exceeding 40 years.

(iii) Deferred taxation

Under UK GAAP, deferred taxation is provided using the liability method to the extent that it is probable that the asset or liability will crystallise in the foreseeable future.

US GAAP requires deferred taxation to be provided in full using the liability method. In addition, US GAAP requires the recognition of the deferred tax consequences of differences between the assigned values and the tax bases of the identifiable intangible assets, with the exception of non-tax deductible goodwill, in a purchase business combination. Consequently, the deferred tax liability attributable to identifiable intangible assets has been recognised and is being amortised over 40 years.

(iv) Derivative financial instruments

The Group has entered into certain swap transactions with contractual maturities exceeding those of the underlying debt being hedged, in anticipation of there being additional floating rate debt when the existing debt matures. Under UK GAAP, derivative financial instruments that reduce exposures on anticipated future transactions, may be accounted for using hedge accounting.

Under US GAAP, derivative financial instruments must meet specific criteria before hedge accounting can be applied. Instruments that do not meet the specified criteria are marked to market.

(v) Proposed dividends

Under UK GAAP, dividends paid and proposed are shown on the face of the profit and loss account as an appropriation of the current year's earnings. Proposed dividends are provided on the basis of recommendation by the Directors and are subject to subsequent approval by shareholders.

Under US GAAP, dividends are recorded in the period in which they are approved by the shareholders.

(vi) Shares held by the Employee Share Ownership Trust (ESOT)

Under UK GAAP, shares held by the Trust are recorded at cost and reflected as a fixed asset investment in the Group's balance sheet.
Under US GAAP, these shares are recorded at cost and reflected as a deduction from shareholders' funds.

(vii) Net income per ordinary share

The following table sets forth the computation of basic and diluted net income per share in accordance with Statement of Financial Accounting Standards No. 128.

(In £'s million)	2000	1999	1998
Numerator:			
Numerator for basic and diluted net income per share	323	287	227
Denominator (number of shares):			
Denominator for basic net income per share	516,347,148	517,425,091	519,125,439
Effect of Common Stock Equivalents (number of shares):			
Employees share options	1,891,145	2,251,110	1,423,547
Denominator for diluted net income per share	518,238,293	519,676,201	520,548,986

Basic net income per share	62.6p	55.5p	43.7p
Diluted net income per share	62.3p	55.2p	43.6p

(viii) US GAAP equity roll forward

Shareholders' equity roll forward prepared in accordance with US GAAP is as follows:

(In £'s million)	2000	1999
Balance at beginning of year	(427)	(570)
Net income	323	287
Dividends	(148)	(128)
ESOT shares	-	(9)
Other net exchange movements	(10)	(4)
Taxation debit on unhedged borrowings	(5)	(3)
Balance at end of year	(267)	(427)

(ix) Cash flow statements

The consolidated cash flow statements have been prepared under UK GAAP in accordance with FRS 1 (revised) and present substantially the same information as required under SFAS 95. There are certain differences between FRS 1 (revised) and SFAS 95 with regard to classification of items within the cash flow statement.

In accordance with FRS 1 (revised), cash flows are prepared separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources and financing. Under SFAS 95, cash flows are classified under operating activities, investing activities and financing activities. Under FRS 1 (revised), cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Under SFAS 95, cash and cash equivalents are defined as cash and investments with original maturities of three months or less.

A summary of the Group's cash flows from operating, investing and financing activities classified in accordance with SFAS 95 is presented below. For the purposes of this summary, the Group considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

(In £'s million)	2000	1999	1998
Net cash provided by operating activities	273	394	489
Net cash used in investing activities	(50)	(195)	(692)
Net cash (used in)/provided by financing activities	(89)	(58)	206

Net increase in cash and cash equivalents	134	141	3
Effect of exchange rate changes on cash	(5)	(4)	-
Cash and cash equivalents at beginning of year	351	214	211
Cash and cash equivalents at end of year	480	351	214
Cash and cash equivalents at end of year are:			
Cash at bank and in hand	330	204	72
Current asset investments	150	147	142

(x) Impact of new accounting standards

Accounting for derivative instruments and hedging activities

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after 15 June 2000 (24 September 2000 for the Group). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. For fair value hedge transactions in which the Group is hedging changes in an asset's, liability's, or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash flow hedge transactions, in which the Group is hedging the variability of cash flows related to a variable rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognised in the current period earnings.

The Group will adopt SFAS 133 for its accounting period beginning on 24 September 2000. On that date, the Group will record a transition adjustment in its accounting records to bring the accounting for its derivatives into compliance with SFAS 133. The transition adjustment will be calculated using the assumption that none of the hedging relationships that persisted prior to the adoption of SFAS 133 will be hedge accounted after the adoption of SFAS 133. This decision has been made because the Group has decided not to satisfy the SFAS 133 requirements to achieve hedge accounting for its hedges at the date of adoption of SFAS 133. The transition adjustment will result in an increase of £4m in the Group's profits before tax under US GAAP for the year ended 23 September 2000 and will be accounted for as a cumulative effect type change in accounting principle.

28. Post balance sheet events

On 29 September 2000 the Company acquired Baelen International N.V. and Tabakbedrijf Baelen N.V. ("the Baelen group"), a Belgian manufacturer of roll your own tobacco.

On 2 October 2000 the Company completed the acquisition of the EFKA group, a manufacturer of rolling papers and tubes.