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	**6 months ended 31 March 2003**	6 months ended 30 March 2002	Year ended 28 September 2002
Profit attributable to shareholders under UK GAAP		**182**	183	272
US GAAP adjustments:				
Pensions	(i)	**2**	8	13
Amortisation of goodwill	(ii)	**92**	(5)	48
Amortisation of brands/trade marks/licences	(ii)	**(44)**	(3)	(38)
Deferred taxation	(iii)	**29**	7	16
Mark to market adjustments due to non designation of hedge accounting per SFAS 133	(iv)	**(39)**	(23)	(10)
Employee share schemes charge to the profit and loss account	(vii)	**6**	(4)	(4)
Acquisitions inventory step-up	(viii)	**–**	–	(42)
Restructuring costs on acquisition	(ix)	**–**	–	44
Net income under US GAAP		**228**	163	299

(In pence)	Explanation reference	**6 months ended 31 March 2003**	Restated 6 months ended 30 March 2002	Year ended 28 September 2002
Amounts in accordance with US GAAP				
Basic net income per ordinary share	(x)	**31.5**	26.3	45.1
Basic net income per ADS	(x)	**63.0**	52.6	90.2
Diluted net income per ordinary share	(x)	**31.3**	26.2	44.8
Diluted net income per ADS	(x)	**62.6**	52.4	89.6

(In £'s million)	Explanation reference	**31 March 2003**	30 March 2002	28 September 2002
Equity shareholders' funds under UK GAAP		**52**	(992)	(92)
US GAAP adjustments:				
Pensions	(i)	**338**	321	335
Goodwill, less accumulated amortisation of £(89)m (2002: £56m)	(ii)	**(1,140)**	456	(1,122)
Brands/trade marks/licences, less accumulated amortisation of £106m (2002: £27m)	(ii)	**2,928**	364	2,712
Deferred taxation	(iii)	**(1,021)**	(244)	(967)
Mark to market adjustments due to non designation of hedge accounting per SFAS 133	(iv)	**56**	82	95
Proposed dividend	(v)	**86**	62	167
ESOT shares	(vi)	**(28)**	(7)	(19)
Employee share schemes	(vii)	**2**	(4)	(4)
Shareholders' funds under US GAAP		**1,273**	38	1,105

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(i) Pensions

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 for the UK and Irish pension schemes. A pension liability and related pension expense is recognised for the German unfunded pension schemes.

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 pension fund assets over benefit obligations has been recognised in the balance sheet.

(ii) 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. Under UK GAAP, goodwill arising and separately identifiable and separable intangible assets acquired on acquisitions made on, or after, 27 September 1998 are capitalised and amortised over their useful life, not exceeding a period of 20 years. Prior to 27 September 1998, all goodwill and separately identifiable and separable intangible assets were written off to reserves on acquisition.

Under US GAAP, identifiable intangible assets are separately valued and amortised over their useful lives. The separately identifiable intangible assets included in the US GAAP balance sheet are principally comprised of brand rights which are being amortised over 25 to 30 years.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" with effect from 1 July 2001 and accordingly goodwill generated on acquisitions after this date was not amortised. For purchase transactions prior to 1 July 2001, goodwill was capitalised and amortised over its useful life. From 29 September 2002, in accordance with SFAS 142, the Company no longer amortises goodwill but rather will test such assets for impairment on an annual basis or where there is an indicator of impairment.

The Company has completed the first step of the impairment test under the transitional requirements of SFAS 142 and no impairment charge of goodwill was indicated. A reconciliation of previously reported net income under US GAAP and income per share to the amounts adjusted for the exclusion of goodwill amortisation is presented below. Income per ordinary share adjusted for goodwill charges is calculated by adding back the goodwill charge to net income and dividing by the weighted average ordinary shares outstanding for all periods presented.

(In £'s million)	**6 months ended 31 March 2003**	6 months ended 30 March 2002	Year ended 28 September 2002
Net income under US GAAP	**228**	163	299
Adjustment for net goodwill amortisation	**–**	11	27
Adjusted	**228**	174	326

(In pence)	**6 months ended 31 March 2003**	Restated 6 months ended 30 March 2002	Year ended 28 September 2002
Basic net income per ordinary share	**31.5**	26.3	45.1
Adjustment for net goodwill amortisation	**–**	1.8	4.1
Adjusted	**31.5**	28.1	49.2
(In pence)			
Diluted net income per ordinary share	**31.3**	26.2	44.8
Adjustment for net goodwill amortisation	**–**	1.8	4.0
Adjusted	**31.3**	28.0	48.8

Comparative figures for March 2002 have been restated to reflect the bonus element of the two for five discounted rights issue approved on 8 April 2002.

SUMMARY OF DIFFERENCES BETWEEN UK AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

(iii) Deferred taxation

Under UK GAAP, deferred taxation is provided in full on all material timing differences. Deferred tax assets are recognised where their recovery is considered more likely than not.

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 the useful lives of the underlying intangible assets.

(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.

US GAAP requires the Group to record all derivatives on the balance sheet at fair value. The Group has decided not to satisfy the SFAS 133 requirements to achieve hedge accounting for its derivatives, where permitted, and accordingly movements in the fair value of derivatives are recorded in the profit and loss account.

(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 period's earnings. Proposed dividends are provided on the basis of recommendation by the Directors.

Under US GAAP, dividends are recorded in the period in which they are formally declared.

(vi) Shares held by the Employee Share Ownership Trusts (ESOTs)

Under UK GAAP, shares held by the Trusts 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) Employee share schemes charge to the profit and loss account

Under UK GAAP, the cost of shares purchased by the ESOTs in conjunction with an employee share scheme are charged to the profit and loss account according to the book value of the shares at the date of purchase. The cost of employee share schemes not held under the ESOTs are charged using the quoted market price of shares at the date of grant. The charge is accrued over the vesting period of the shares in both cases.

Under US GAAP, the compensation cost is recognised for the difference between the exercise price of the share options granted and the quoted market price of the shares at the date of grant or measurement date and accrued over the vesting period of the options. For option plans which contain performance criteria, compensation cost is remeasured at each period end until all performance criteria have been met.

(viii) Inventory step-up

On acquisition under UK GAAP, the fair value of inventory is represented by the acquired companies' current cost of reproducing that inventory.

On acquisition under US GAAP, the fair value represents the selling price less any further costs to be incurred to sale.

(ix) Restructuring costs

On acquisition under UK GAAP, restructuring provisions may only be recognised as a fair value adjustment, if the acquired company had an irrevocable commitment to restructure which was not conditional on the completion of the purchase.

On acquisition under US GAAP, restructuring liabilities relating solely to the acquired entity may be provided in the opening balance as a fair value exercise, if specific criteria about restructuring plans are met.

(x) Net income per ordinary share

Basic net income per ordinary share has been computed using US GAAP net income and weighted average ordinary shares. Diluted net income per ordinary share has been calculated by taking into account the weighted average number of shares that would be issued on conversion into ordinary shares of options held under employee share schemes. There would be no significant dilution of earnings if outstanding share options were exercised.

Each American Depositary Share (ADS) represents two Imperial Tobacco Group PLC ordinary shares.

Comparative figures have been restated to reflect the bonus element of the two for five discounted rights issue approved on 8 April 2002.