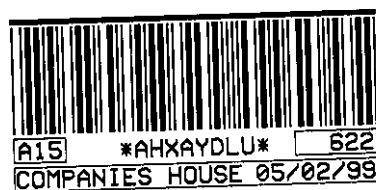


Company Number: 1860181

**Imperial Tobacco Limited**  
**Report & Accounts 1998**



## **Board of Directors**

G Davis  
R Dyrbus  
S T Painter  
C A C Inston  
C J Davisson

Chief Executive  
Finance Director  
Business Development Director  
Corporate Affairs Director  
Strategic Marketing Director

## **Secretary**

R C Hannaford

## **Registered Office**

PO Box 244  
Upton Road  
Bristol  
BS99 7UJ

## **Auditors**

PricewaterhouseCoopers  
Bull Wharf  
Redcliff Street  
Bristol  
BS1 6QR

# Report of the Directors

The directors submit their report together with the financial statements of the company for the year to 26th September 1998.

## Principal activities

The principal activity of the company is the manufacture, marketing and distribution of tobacco and tobacco related products.

The principal operating subsidiaries of the company are shown on page 20.

## Financial results and dividends

The net profit after taxation for the year was £275m (1997: £383m).

The directors have declared dividends as follows:

		£000
Interim:	paid 17th June 1998	74,000
Final:	proposed	188,000
		<u>262,000</u>

## Business and financial review

The company achieved a trading profit of £289m (1997: £307m before demerger costs). Results for 1998 were depressed by adverse exchange movements of £14m (1997: £nil) on group loans.

Profit on ordinary activities before taxation of £342m (1997: £471m) includes net income and interest from group undertakings of £53m (1997: £158m).

UK Government Budgets led to substantial fluctuations in working capital over the course of the year. Capital employed tends to peak in the month following the Budget and then reduce over the following months. The Chancellor's July 1997 Budget, therefore, led to an August peak in capital employed, which remained some £220m above its typical level at 27th September 1997 and which had reversed by the end of the current year.

# Report of the Directors

## Business and financial review continued

The total UK cigarette market declined by about 7% to around 72,000m in 1998. Imperial Tobacco's overall share of this market declined only slightly from 37.9% in 1997 to 37.8% in the current year, despite the continued growth of the ultra low price sector. With the Lambert and Butler brand family firmly established as the UK's leading cigarette, together with robust performances from Regal, Superkings and Embassy, Imperial remains strongly placed with four out of the top seven brand families.

The UK duty paid roll-your-own market continues its decline, down over 11% during the year. However, this has been more than offset by the continued growth in smuggled and bootlegged product, which the Government acknowledges now accounts for around 75% of total roll-your-own consumption. Golden Virginia remains by far the UK's best selling roll-your-own tobacco, with a share of 57% of the UK duty paid market, up almost two percentage points over the year.

Following a period of stability in the UK cigar market, reflecting the worldwide buoyancy of cigar sales, the market fell by around 7% during the current year. However, within the market decline, Imperial Tobacco's share was maintained at around 47%.

The UK pipe tobacco market continued its decline during 1998. However, Imperial Tobacco's market share increased marginally to over 37%.

During 1998 Imperial Tobacco have again generated significant productivity gains derived from continuing investment, application of proven management disciplines and the benefit of increased production volumes.

## Outlook

The official UK market is expected to decline as the Government's penal taxation policy continues to erode the official market, while encouraging the smuggling of contraband products. However, the outstanding growth in our international business, together with the strategic benefits and marketing synergies derived from our acquisitions, means that at the end of 1998 we are even better placed to continue to deliver a strong performance.

# Report of the Directors

## Directorate

The present Board of Directors is shown on page 1. There were no changes in the composition of the Board during the year.

## Directors' interests in shares (beneficial and family interests)

The only declarable interests of the directors in the shares of Imperial Tobacco Group PLC, the ultimate holding company, were as follows:-

	Ordinary shares		Sharesave options		Contingent rights to ordinary shares (LTIP and share matching scheme shares)		
	28/9/97	26/9/98	28/9/97	26/9/98	28/9/97	26/9/98	27/11/98
<b>C J Davisson</b>	<b>760</b>	<b>12,178</b>	<b>5,887</b>	<b>5,887</b>	<b>36,824</b>	<b>45,356</b>	<b>45,356</b>

Contingent rights to 9,816 ordinary shares vest on 30 November 1998 following the performance criterion being met in part, in respect of the conditional award of 11,733 shares made in October 1996 under the long term incentive plan.

## Directors' share options

Directors are eligible to participate in Imperial Tobacco Group PLC's savings-related share option scheme (Sharesave). Under this scheme, options are granted at a discount of up to 20% of the mid-market price on the day prior to invitation, to employees who have contracted to save up to £250 per month over a period of three or five years.

## Directors' Sharesave options

	Balance at 28/9/97 and at 26/9/98	Option grant price (pence)	Exercisable date
<b>C J Davisson</b>	<b>5,887</b>	<b>293</b>	<b>1/3/2002 - 31/8/2002</b>

No options were exercised or lapsed during the year, nor have there been any changes since 26th September 1998.

## Directors' conditional share awards under the long-term incentive plan

	Balance at 28/9/97	Granted during year	Lapsed during year	Balance at 26/9/98	Performance period
<b>C J Davisson</b>	<b>11,733</b>	<b>-</b>	<b>(11,733)</b>	<b>-</b>	<b>October 1996 - October 1997</b>
	<b>11,733</b>	<b>-</b>	<b>-</b>	<b>11,733</b>	<b>October 1996 - October 1998 (note)</b>
	<b>12,978</b>	<b>-</b>	<b>-</b>	<b>12,978</b>	<b>December 1996 - December 1999</b>
	<b>-</b>	<b>14,556</b>	<b>-</b>	<b>14,556</b>	<b>December 1997 - December 2000</b>
	<b>36,444</b>	<b>14,556</b>	<b>(11,733)</b>	<b>39,267</b>	

No awards vested during the year.

Note: Subsequent to the year end, the performance criterion in respect of these shares was met in part and as a result, the contingent right to 9,816 ordinary shares vests on 30 November 1998, the balance having lapsed.

# Report of the Directors

## Directors' interest in shares (continued)

### Directors' contingent rights to shares under the share matching scheme

	Balance at 28/9/97	Contingent rights arising in year	Balance at 26/9/98	Expected vesting date
C J Davisson	380	-	380	January 2002
	-	5,709	5,709	January 2001
	380	5709	6089	

The mid market price of Imperial Tobacco Group PLC shares at the close of business on 25th September 1998 was 611.0p; the range of the mid market price during the year was 363.5p to 611.0p.

The declarable interests of the other directors are disclosed in the published accounts of Imperial Tobacco Group PLC. The company's Register of Directors' interests (which is open to inspection at the company's registered office) contains full details of directors' shareholdings and options.

## Employee benefit trust

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 company 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. As potential beneficiaries of the trust, each of the directors is deemed to have a contingent interest in the 2,434,293 ordinary shares of Imperial Tobacco Group PLC held by the trust at 26th September 1998.

## Employees

The company's employment policies are designed to attract, retain and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of sex, race, religion or disability.

To ensure employees can share in our success the company offers competitive pay and benefit packages and, wherever possible links rewards to individual and team performance. Employees are encouraged to build an ownership stake in Imperial Tobacco Group PLC shares; opportunities to join the Sharesave scheme were offered during the year.

Employees are made aware of the financial and economic factors affecting the performance of the company. To progress this aim further, a European Employee Forum has been established at which employee representatives are briefed on pan-European issues.

## Research and development

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

## Charitable and political donations

During the year the company made charitable donations in the UK of £2,000 (1997: £25,000).

No political donations were made during the year.

# Report of the Directors

## Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 26th September 1998. The directors also confirm that applicable Accounting Standards have been followed and that the statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Creditor payment policy

The company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers, the company's policy is to:

- (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- (b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

As at 26th September 1998, the company's trade creditors represented 47 days (1997: 48 days) of trade purchases. This excludes trade purchases of tobacco leaf for which special payment terms apply.

## Year 2000 compliance

Imperial Tobacco Group PLC, the company's ultimate parent company, commenced a programme to assess the impact of the 'Year 2000' issue on all its operations in 1997, with the finance director sponsoring the programme at board level. The project is proceeding to plan and around 80% of business-critical systems are already 'Year 2000' compliant. Further areas have been identified where changes are required but procedures are in place to resolve the systems issues. The associated costs are not considered material.

To address the risk of third parties failing to comply, Imperial Tobacco Group PLC is undertaking an evaluation process to assess the 'Year 2000' status of key suppliers and customers. Additional contingency plans are being developed to mitigate the risk of business interruption.

# Report of the Directors

## Economic and Monetary Union ('EMU')

From 1st January 1999, a single currency, the 'Euro' will be introduced in the EU, with eleven Member States participating in the first wave of monetary union. Imperial Tobacco Group PLC companies and operations directly affected by EMU have been addressing the operational and financial impact of this development, including the review of their systems to ensure that they are Euro compatible and that there is flexibility for suppliers and customers with pan-European operations. The costs associated with this are expected to be modest. Until such time as the UK agrees to join EMU, Imperial Tobacco Group PLC companies intend to use the pound sterling for all their domestic transactions.

## Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1st July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

By order of the Board



**R C Hannaford**  
Company Secretary  
27th November 1998



# Report of the auditors to the members of Imperial Tobacco Limited

We have audited the financial statements on pages 9 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

## Respective responsibilities of directors and auditors

As described on page 6, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

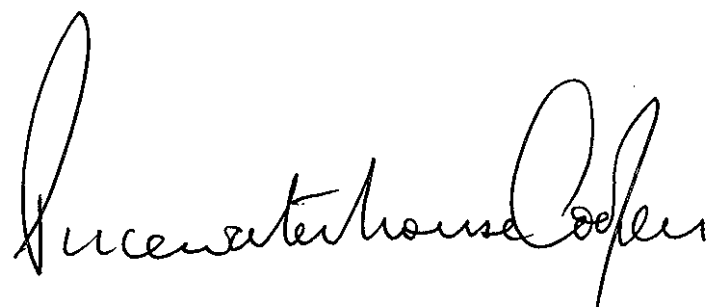
## Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 26th September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A large, stylized handwritten signature in black ink, which appears to read 'PricewaterhouseCoopers', is written across the middle of the page.

**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
Bristol

30 NOVEMBER 1998

# Profit and loss account

for the 52 weeks ended 26th September 1998

	Notes	1998 £m	1997 £m
<b>Turnover</b>		<b>3,513</b>	3,517
Duty in turnover		<b>(2,835)</b>	(2,866)
Costs and overheads less other income	2	<b>(389)</b>	(344)
Exceptional item - demerger costs	2	-	6
<b>Operating profit</b>		<b>289</b>	313
Income from shares in group undertakings		<b>60</b>	140
<b>Profit on ordinary activities before interest</b>		<b>349</b>	453
Net interest (payable)/receivable	4	<b>(7)</b>	18
<b>Profit on ordinary activities before taxation</b>		<b>342</b>	471
Taxation	5	<b>(67)</b>	(88)
<b>Profit on ordinary activities after taxation</b>		<b>275</b>	383
Dividends	6	<b>(262)</b>	(304)
<b>Retained profit for the year</b>	15	<b>13</b>	79

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.

The company has no recognised gains or losses other than those included in the profits above and therefore no separate statement of total recognised gains and losses has been presented.


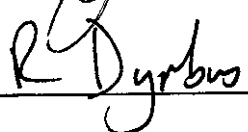
# Balance sheet

at 26th September 1998

	Notes	1998 £m	1997 £m
<b>Fixed assets</b>			
Tangible assets	7	107	95
Investments	8	333	107
		<u>440</u>	<u>202</u>
<b>Current assets</b>			
Stocks	9	155	413
Debtors	10	1,736	958
Cash		34	85
		<u>1,925</u>	<u>1,456</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(1,876)</u>	<u>(1,182)</u>
<b>Net current assets</b>		<u>49</u>	<u>274</u>
<b>Total assets less current liabilities</b>		<u>489</u>	<u>476</u>
<b>Provisions for liabilities and charges</b>	12	<u>(15)</u>	<u>(15)</u>
<b>Net assets</b>		<u>474</u>	<u>461</u>
<b>Capital and reserves</b>			
Called up share capital	13	-	-
Profit and loss account	15	473	460
		<u>473</u>	<u>460</u>
Equity Shareholders' funds			
Non-equity Shareholders' funds	14	1	1
<b>Shareholders' funds</b>	19	<u>474</u>	<u>461</u>

The accounts on pages 9 to 20 were approved by the Board of Directors on *27 November 1998* and signed on its behalf by:

G Davis  
Director

  
\_\_\_\_\_  
  
\_\_\_\_\_

R Dyrbus  
Director

# 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.

The company is not required to produce consolidated accounts in accordance with section 228(1)(a), Companies Act 1985.

## Turnover

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

## 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	3-15 years	(straight-line / reducing balance)
Motor vehicles	4 years	(straight-line)

## 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.

## Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes an addition for overheads where appropriate.

## Research and development

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

## Foreign currencies

Transactions in overseas 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.

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 they finance those investments, are dealt with through reserves and in the statement of total recognised gains and losses. Other exchange differences are dealt with in the profit and loss account.

# Accounting policies

## **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.

## **Cash flow statement**

The company has not presented a cash flow statement as it has taken advantage of the exemption conferred by FRS 1 (revised).

# Notes to the accounts

## 1 Segmental information

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

Turnover is attributable solely to UK activities and accordingly no analysis of turnover, operating profit or capital employed is shown.

## 2 Costs and overheads less other income

	1998 £m	1997 £m
Changes in stocks of finished goods and work in progress (excluding excise duty)	(18)	(6)
Raw materials and consumables (excluding excise duty)	156	143
Employment costs (note 3)	75	70
Depreciation	12	10
Exchange adjustments	14	-
Other operating charges	150	127
	389	344
Exceptional item - release of provision related to the demerger from Hanson PLC	-	(6)
	389	338
Other operating charges above include:	£m	£m
Auditors' fees and expenses:		
for the audit	0.2	0.2
for non-audit work in the UK	0.3	0.5

UK non-audit fees of £0.3m for PricewaterhouseCoopers in 1998 include £0.2m paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as auditors. UK non-audit fees in 1997 comprise solely amounts paid to the previous auditors Coopers & Lybrand.

## 3 Directors and employees

### Employment costs

	1998 £m	1997 £m
Wages and salaries	70	65
Employers' social security costs	5	5
	75	70

### Average number of persons employed by the company during the year

	1998 Number	1997 Number
Average number of persons employed in the UK during the year	2,262	2,313

# Notes to the accounts

## 3 Directors and employees (continued)

### Directors' emoluments

	1998 £000	1997 £000
Salary	1,010	875
Benefits	67	63
Bonus	677	400
<b>Total aggregate emoluments</b>	<b>1,754</b>	<b>1,338</b>

The emoluments of the highest paid director were £542,000 (1997: £388,000)

### Directors' pensions

Retirement benefits are accruing under a defined benefits scheme, in respect of qualifying services of all of the company's directors.

The accrued pension of the highest paid director, payable from normal retirement age and calculated as if he had left service at the period end, was £186,000 (1997: £123,000).

## 4 Net Interest

	1998 £m	1997 £m
<b>Interest payable</b>		
Group undertakings	(42)	(9)
<b>Interest receivable</b>		
Group undertakings	35	27
<b>Net interest (payable)/receivable</b>	<b>(7)</b>	<b>18</b>

## 5 Taxation

	1998 £m	1997 £m
<b>UK</b>		
Corporation tax at 31% (1997: 32%)	66	84
Prior year adjustment	(2)	-
Deferred tax	3	4
	<b>67</b>	<b>88</b>

The taxation charge for the year has been reduced by £23m (1997: £17m) arising from group relief surrendered for nil consideration by other Imperial Tobacco Group PLC companies.

# Notes to the accounts

## 6 Dividends

The dividends payable on the deferred shares were declared as follows:

	1998 £m	1997 £m
Interim	74	125
Proposed final	188	179
	<b>262</b>	<b>304</b>

## 7 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures and vehicles £m	Total £m
<b>Cost</b>				
As at 28th September 1997	34	170	16	220
Reclassifications	(1)	1	-	-
Additions	1	20	3	24
Disposals	-	(4)	(1)	(5)
<b>As at 26th September 1998</b>	<b>34</b>	<b>187</b>	<b>18</b>	<b>239</b>
<b>Accumulated depreciation</b>				
As at 28th September 1997	7	108	10	125
Charge for the year	1	8	3	12
Disposals	-	(4)	(1)	(5)
<b>As at 26th September 1998</b>	<b>8</b>	<b>112</b>	<b>12</b>	<b>132</b>
<b>Net book value</b>				
As at 27th September 1997	27	62	6	95
<b>As at 26th September 1998</b>	<b>26</b>	<b>75</b>	<b>6</b>	<b>107</b>

Land and buildings at net book value:

	1998 £m	1997 £m
Freehold	10	10
Long leasehold	16	17
	<b>26</b>	<b>27</b>

## 8 Fixed asset investments

	Subsidiary undertakings £m	Investment in Imperial Tobacco Group PLC shares £m	Total £m
As at 28th September 1997	103	4	107
Additions	221	5	226
<b>As at 26th September 1998</b>	<b>324</b>	<b>9</b>	<b>333</b>



# Notes to the accounts

## 8 Fixed asset Investments (continued)

### Investment in subsidiary undertakings

The addition to the investments in subsidiary undertakings during the period relates to the subscription for additional ordinary shares issued by Imperial Tobacco Holdings (1) Limited. The company's shareholding in Imperial Tobacco Holdings (1) Limited is:

	Ordinary shares of £1 each
At 28th September 1997	102
Subscription for cash on 1st July 1998	999,898
At 26th September 1998	<u>1,000,000</u>

### Investment in Imperial Tobacco Group PLC shares

The investment in Imperial Tobacco Group PLC shares consists of shares in Imperial Tobacco Group PLC held by the Imperial Tobacco Group employee benefit trust. The trust has been established to acquire ordinary shares in Imperial Tobacco Group PLC, by subscription or purchase, from funds provided by the company 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 26th September 1998, the trust had acquired 2,434,293 ordinary shares (1997: 1,193,541) in the open market at a cost of £9.7m (1997: £4.4m) financed by a gift of £1.7m and an interest free loan of £8m. None of the shares have been allocated to employees or directors as at 26th September 1998. All finance costs and administration expenses connected with the trust 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 right to dividends.

The market value of the shares at 26th September 1998 was £15m (1997: £4m).

## 9 Stocks

	1998 £m	1997 £m
Raw materials	81	82
Work in progress	4	4
Finished goods	70	327
	<u>155</u>	<u>413</u>

## 10 Debtors

	1998 £m	1997 £m
<b>Amounts falling due within one year</b>		
Trade debtors	307	102
Amounts owed by parent company and fellow subsidiary undertakings	483	445
Amounts owed by subsidiary undertakings	945	408
Other debtors and prepayments	1	3
	<u>1,736</u>	<u>958</u>

# Notes to the accounts

## 11 Creditors

	1998 £m	1997 £m
<b>Amounts falling due within one year</b>		
Trade creditors	73	95
Amounts owed to subsidiary undertakings	1,123	622
Corporation tax	75	61
Other taxes, duties and social security contributions	371	184
Other creditors	12	15
Accruals and deferred income	34	26
Proposed dividend	188	179
	<b>1,876</b>	<b>1,182</b>

## 12 Provisions for liabilities and charges

	Restructuring and rationalisation £m	Deferred taxation £m	Other £m	Total £m
As at 28th September 1997	9	5	1	15
Provided in the year	1	3	-	4
Utilised in the year	(4)	-	-	(4)
<b>As at 26th September 1998</b>	<b>6</b>	<b>8</b>	<b>1</b>	<b>15</b>

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

	Provided		Unprovided	
	1998 £m	1997 £m	1998 £m	1997 £m
Excess of capital allowances	7	5	1	1
Chargeable gains on property	1	1	6	6
Short-term timing differences	-	(1)	(3)	(3)
	<b>8</b>	<b>5</b>	<b>4</b>	<b>4</b>

## 13 Called up share capital

	1998 £m	1997 £m
<b>Authorised, allotted and fully paid</b>		
100 ordinary shares of US \$1 each	-	-

## 14 Non-equity shareholders' funds

	1998 £m	1997 £m
<b>Authorised, allotted and fully paid</b>		
1,000,000 deferred shares of £1 each	1	1

# Notes to the accounts

## 15 Reserves

	1998	1997
	£m	£m
Opening balance	460	381
Retained profit for the period	13	79
Closing balance	473	460

## 16 Capital commitments

	1998	1997
	£m	£m
Contracted but not provided for	12	13

## 17 Legal Proceedings

Imperial Tobacco Limited is currently involved in a number of legal cases in the UK in which claimants are seeking damages for alleged smoking-related health effects. In the opinion of the company's lawyers, the company 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, management believes that the pending actions will not have a material adverse effect upon the results of the operations, cash flow or financial condition of the company.

## 18 Pensions

The company operates a pension scheme for UK employees, the Imperial Tobacco Pension Fund ("the Scheme"), which is of the defined benefit type. The assets of the Scheme are held in trustee administered funds.

An actuarial valuation of the Scheme was made at 31st March 1995. The assumptions which had the most significant effect on the results of the valuation were those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the future investment returns would be 9% per annum, that dividends from existing equity holdings would increase at 4.5% per annum, that pay increases would average 6.5% per annum and that pension increases would be 4.5% per annum.

At the date of the last actuarial valuation of the Scheme at 31st March 1995, the market value of the assets of the Scheme was £1,746m. The total assets were sufficient to cover 115% of the benefits that had accrued to members for past service, after allowing for expected future increases in earnings and for benefit improvements which have subsequently been implemented. Company contributions to the Scheme remain suspended having regard to the surplus disclosed in this valuation.

A new actuarial valuation of the Scheme as at 31st March 1998 is currently being undertaken but has yet to be completed. The initial indication is that the Scheme remains in a sound financial position.

There was no pension cost to disclose in respect of the Scheme for the year ended 26th September 1998. 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.

# Notes to the accounts

## 19 Reconciliation of movements in shareholders' funds

	1998 £m	1997 £m
Profit on ordinary activities after taxation	275	383
Dividends	(262)	(304)
Net addition to shareholders' funds	13	79
Opening shareholders' funds	461	382
Closing shareholders' funds	474	461

## 20 Related party transactions

The company has taken advantage of the group dispensation permitted under FRS 8 Related Party Transactions for 90% subsidiaries, not to disclose intra group transactions undertaken during the period.

## 21 Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of Imperial Tobacco Limited at 26th September 1998 was Imperial Tobacco Group PLC, a company incorporated in Great Britain and registered in England and Wales whose consolidated financial statements may be obtained from PO Box 244, Upton Road, Bristol, BS99 7UJ.

The immediate parent undertaking of Imperial Tobacco Limited at 26th September 1998 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

# Principal subsidiaries

The principal subsidiaries of the company, all of which are wholly-owned and unlisted, are shown below.

## Registered in England and Wales

Name	Principal activity
Imperial Tobacco Finance PLC	Finance company
Imperial Tobacco International Limited	Export and marketing of tobacco products outside the UK
Imperial Tobacco Overseas Holdings Limited	Holding investments in subsidiary companies
Sinclair Collis Limited	Cigarette vending machine operations in the UK

## Incorporated overseas

Name and country of incorporation	Principal activity
Cadena Claassen B.V. The Netherlands	Manufacture, marketing and distribution of cigars outside of the UK
Cadena (Ireland) Limited Republic of Ireland	Cigar manufacture
Imperial Tobacco Holdings (Netherlands) B.V. The Netherlands	Holding investments in subsidiary companies
Imperial Tobacco Overseas B.V. The Netherlands	Finance company
Imperial Tobacco Overseas Holdings B.V. The Netherlands	Finance company
ITL Pacific (HK) Limited People's Republic of China	Marketing and distribution of tobacco products in Asia Pacific
John Player & Sons Limited Republic of Ireland	Manufacture, marketing and distribution of tobacco products in the Republic of Ireland
Rizla International B.V. The Netherlands	Holding company of group engaged in manufacture, marketing and distribution of cigarette papers and distribution of other tobacco accessories throughout the world
Van Nelle Holdings B.V. The Netherlands	Holding investments in subsidiary companies
Van Nelle Tabaksproduktiemaatschappij B.V. The Netherlands	Manufacture of roll-your-own and pipe tobaccos
Van Nelle Tabak Nederland B.V. The Netherlands	Distribution of roll-your-own and pipe tobaccos in the Netherlands
Van Nelle Tobacco International B.V. The Netherlands	Distribution of roll-your-own and pipe tobaccos throughout the world