

## 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

Coopers & Lybrand  
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 period from 29th September 1996 to 27th September 1997.

## Principal activities

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

The principal operating subsidiaries of the company are shown on page 19.

## Demerger from Hanson PLC

On 1st October 1996, for the purpose of enabling the demerger of the tobacco interests of Hanson PLC, Imperial Tobacco Holdings Limited, the company's parent company, was transferred to Imperial Tobacco Group PLC, a company which has since floated and which commenced trading on 1st October 1996.

## Financial results and dividends

The net profit after taxation for the period was £383m (1996: £276m).

The directors have declared dividends as follows:

	£000
Interim:	
paid 1st October 1996	100
paid 6th November 1996	15,000
paid 19th May 1997	110,000
Final:	
proposed	179,000
	<hr/>
	304,100

## Business and financial review

The company achieved a record trading profit, before demerger costs, of £307m (1996: £300m) despite fierce price competition in a market that is declining in the face of punitive duty increases.

Profit on ordinary activities before taxation of £471m (1996: £293m) includes income and interest from group undertakings of £158m (1996: nil).

The tax charge of £88m reflects the increased corporation tax rate now applicable to Imperial Tobacco following the demerger from the Hanson group.

UK Government Budgets lead to substantial fluctuations in working capital over the course of a 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 virtually reversed by the end of November 1997.

# Report of the Directors

## Business and financial review continued

The aim of successive Governments to reduce overall tobacco consumption through a policy of continuing increases in UK tobacco duty has further widened retail price differentials between the UK and other countries. This has resulted in a growth of cheap legal imports of cigarettes and handrolling tobacco into the UK. More significantly, however, it is having the perverse effect of increasing the incidence of bootlegged and smuggled tobacco goods coming into the UK, further undermining the legitimate UK market.

The total UK cigarette market declined by about 5% to around 77,000m in 1997. Imperial Tobacco's overall share of this market declined slightly from 38.2% in 1996 to 37.9% in the current year. Although the company's market share was eroded during the year, principally by activity in the ultra-low price sector, the rate of decline had been virtually halted by the year end. With Lambert & Butler, Regal, Superkings, and Embassy comprising four out of the top seven brand families, Imperial remains strongly placed.

The company's share of the UK duty paid market for handrolling tobacco has increased from 55.1% in 1996 to 57.5% in 1997, further consolidating its position as clear market leader. However, the UK duty paid handrolling market is in decline, largely due to the fact that UK handrolling taxes are by far the highest in the European Union. Government estimates suggest that around 70% of the handrolling tobacco consumed in the UK has been illegally imported into the country. Furthermore, independent research shows that as a result of the availability of cheap handrolling tobacco, overall consumption is increasing.

The UK market for cigars has declined only marginally in the last year, reflecting the world-wide buoyancy of cigar sales. Imperial Tobacco's overall market share increased from 46.5% in 1996 to 46.9% in 1997.

The UK pipe market continued its long term decline. Imperial's share fell marginally to just under 37% in 1997.

Imperial Tobacco has continued to invest appropriately in capital projects and apply proven management techniques to generate productivity improvements. As a direct consequence, the company has again achieved significant productivity increases in cigarette, handrolling, cigar and pipe tobacco manufacturing. The company's capital investment programme is driven by the constant need to increase manufacturing productivity. The overriding objective is to maintain Imperial Tobacco's position as one of the world's lowest cost producers of quality tobacco products.

## Outlook

The UK market is expected to continue to decline as a result of the Government's penal taxation policy and the hardening attitude to smoking. However, the company's low-cost production, reinforced by an increased investment in people, presents continuing opportunities for growth in targeted international markets.

# Report of the Directors

## Directorate

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

## 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, on demerger from Hanson PLC on 1st October 1996 or on their date of appointment, if later, and 27th September 1997 were as follows:-

	Ordinary shares		Sharesave options		Contingent rights to ordinary shares(LTIP and share matching scheme shares)		
	On 1/10/96	27/9/97	1/10/96	27/9/97	1/10/96	27/9/97	30/11/97
C J Davisson	-	760	-	5,887	-	36,824	25,091

Apart from the lapsing of contingent rights to ordinary shares, there have been no other changes in these holdings since 27th September 1997.

## 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	Granted 17/1/97 and balance at 27/9/97	Option grant price (pence)	Exercisable dates
C J Davisson	5,887	293	1/3/2002 - 31/8/2002

No options were exercised or lapsed during the period nor have there been any changes since 27th September 1997.

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

	Conditional awards in period and balance at 27/9/97	Performance period
C J Davisson	11,733	October 1996 - October 1997(Note)
	11,733	October 1996 - October 1998
	12,978	December 1996 - December 1999

No awards vested or lapsed during the period.

Note: Subsequent to the period end the performance condition in respect of these shares was not met and consequently the conditional award lapsed.

# Report of the Directors

## Directors' interest in shares(continued)

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

	Contingent rights arising in period and balance at 27/9/97	Expected vesting date
C J Davisson	380	January 2002

The mid market price of Imperial Tobacco Group PLC shares at the close of business on 26th September 1997 was 374.5p; the range of the mid market price during the year was 353.0p to 438.5p.

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 1,193,541 ordinary shares of Imperial Tobacco Group PLC held by the trust at 27th September 1997.

## 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 Sharesave and share matching schemes 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 period the company made charitable donations in the UK of £25,000 (1996: £18,000).

No political donations were made during the period.

# Report of the Directors

## Going concern

The directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## 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 period ended 27th September 1997. The directors also confirm that applicable Accounting Standards have been followed.

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 27th September 1997, the company's trade creditors represented 48 days of trade purchases. This excludes trade purchases of tobacco leaf for which special payment terms apply.

## Auditors

Coopers & Lybrand have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the annual general meeting.

By order of the Board



R C Hannaford

Company Secretary

Date 28 November 1997

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

We have audited the financial statements on pages 8 to 19.

## 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.

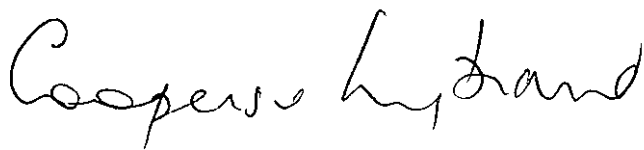
## Basis of opinion

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 work 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 affairs of the company as at 27th September 1997 and of the profit and total recognised gains of the company for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**

Chartered Accountants and Registered Auditors

Bristol

Date 1 December 1997.

# Profit and loss account

for the period 29th September 1996 to 27th September 1997

	Notes	1997 £m	1996 £m
<b>Turnover</b>		<b>3,517</b>	3,507
Duty in turnover		<b>(2,866)</b>	(2,864)
Costs and overheads less other income	2	<b>(344)</b>	(343)
Exceptional item - demerger costs	2	<b>6</b>	(7)
<b>Operating profit</b>		<b>313</b>	293
Income from shares in group undertakings		<b>140</b>	-
<b>Profit on ordinary activities before interest</b>		<b>453</b>	293
Net Interest receivable	4	<b>18</b>	-
<b>Profit on ordinary activities before taxation</b>		<b>471</b>	293
Taxation	5	<b>(88)</b>	(17)
<b>Profit on ordinary activities after taxation</b>		<b>383</b>	276
Dividends	6	<b>(304)</b>	(157)
<b>Surplus for the period transferred to reserves</b>	15	<b>79</b>	119

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 27th September 1997

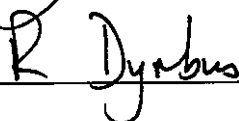
	Notes	27th September 1997 £m	28th September 1996 £m
<b>Fixed assets</b>			
Tangible assets	7	95	75
Investments	8	107	3
		<b>202</b>	<b>78</b>
<b>Current assets</b>			
Stocks	9	413	118
Debtors	10	958	823
Cash		85	32
		<b>1,456</b>	<b>973</b>
<b>Creditors: amounts falling due within one year</b>	11	<b>(1,182)</b>	<b>(650)</b>
<b>Net current assets</b>		<b>274</b>	<b>323</b>
<b>Total assets less current liabilities</b>		<b>476</b>	<b>401</b>
<b>Provisions for liabilities and charges</b>	12	<b>(15)</b>	<b>(19)</b>
<b>Net assets</b>		<b>461</b>	<b>382</b>
<b>Capital and reserves</b>			
Called up share capital	13	-	-
Profit and loss account	15	460	381
Equity Shareholders' funds		<b>460</b>	<b>381</b>
Non-equity Shareholders' funds	14	<b>1</b>	<b>1</b>
<b>Shareholders' funds</b>		<b>461</b>	<b>382</b>

The accounts on pages 8 to 19 were approved by the Board of Directors on **28 November 1997** 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.

## 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	4-8 years (straight-line)

## Deferred taxation

Deferred taxation is provided on 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.

## 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.

# Accounting policies

## Finance and operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is included in creditors. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the profit and loss account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the useful life of equivalent owned assets.

## Cash flow statement

The company has not presented a cash flow statement as it has taken advantage of the exemption conferred by FRS1(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

	1997 £m	1996 £m
Changes in stocks of finished goods and work in progress (excluding excise duty)	(6)	(9)
Raw materials and consumables (excluding excise duty)	143	132
Employment costs (note 3)	70	70
Depreciation	10	11
Other operating charges	127	139
	344	343
Exceptional item - costs related to the demerger from Hanson PLC	(6)	7
	338	350

At 28th September 1996, the estimated costs of demerger of £7m were provided within the company's accounts. In the event, actual costs of £5.6m incurred in the period ended 27th September 1997 were charged in the accounts of the company's ultimate holding company, Imperial Tobacco Group PLC. Accordingly, a corresponding release to the company's profit and loss account was made in 1997.

Other operating charges above include:	£000	£000
Rental of plant and machinery under operating leases	164	167
Rental of other assets under operating leases	36	49
Auditors' fees and expenses:		
for the audit	153	92
for non-audit work in the UK, principally for taxation and excise duties advice and, in 1996, in connection with the demerger	512	1,175

## 3 Directors and employees

### Employment costs

	1997 £m	1996 £m
Wages and salaries	65	65
Employers' social security costs	5	5
	70	70

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

	1997 Number	1996 Number
Average number of persons employed in the UK during the period	2,313	2,359

# Notes to the accounts

## 3 Directors and employees (continued)

### Directors' remuneration

	1997 £000	1996 £000
Salary	875	514
Benefits	63	41
Bonus	400	406
<b>Total remuneration</b>	<b>1,338</b>	<b>961</b>
<b>Compensation for loss of office</b>	<b>-</b>	<b>57</b>

The emoluments of the highest paid director were £388,000(1996: £251,000)

### 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 £123,000(1996:£59,000).

## 4 Interest

	1997 £m	1996 £m
<b>Interest payable</b>		
Group undertakings	(9)	-
<b>Interest receivable</b>		
Group undertakings	27	-
<b>Net interest receivable</b>	<b>18</b>	<b>-</b>

## 5 Taxation

	1997 £m	1996 £m
<b>UK</b>		
Corporation tax at 32% (1996 33%)	84	16
Deferred tax	4	1
	<b>88</b>	<b>17</b>

The taxation charge for the period has been reduced by £17m arising from group relief surrendered for nil consideration by other Imperial Tobacco Group PLC companies. In 1996, the taxation charge was reduced by £79m arising from group relief surrendered for nil consideration by other Hanson PLC companies.

# Notes to the accounts

## 6 Dividends

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

	1997 £m	1996 £m
Interim	125	157
Proposed final	179	-
	<b>304</b>	<b>157</b>

## 7 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures and vehicles £m	Total £m
<b>Cost</b>				
As at 29th September 1996	30	148	16	194
Additions	4	23	3	30
Disposals	-	(1)	(3)	(4)
<b>As at 27th September 1997</b>	<b>34</b>	<b>170</b>	<b>16</b>	<b>220</b>
<b>Accumulated depreciation</b>				
As at 29th September 1996	6	103	10	119
Charge for the period	1	6	3	10
Disposals	-	(1)	(3)	(4)
<b>As at 27th September 1997</b>	<b>7</b>	<b>108</b>	<b>10</b>	<b>125</b>
<b>Net book value</b>				
As at 28th September 1996	24	45	6	75
<b>As at 27th September 1997</b>	<b>27</b>	<b>62</b>	<b>6</b>	<b>95</b>

Land and buildings at net book value:

	1997 £m	1996 £m
Freehold	10	11
Long leasehold	17	13
	<b>27</b>	<b>24</b>

## 8 Fixed asset investments

	Subsidiary undertakings £m	Investment in Imperial Tobacco Group PLC shares £m	Total £m
As at 29th September 1996	3	-	3
Addition	100	-	100
Investment in Imperial Tobacco Group PLC shares	-	4	4
<b>As at 27th September 1997</b>	<b>103</b>	<b>4</b>	<b>107</b>

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

# Notes to the accounts

## 8 Fixed asset Investments (continued)

### Investments 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 Finance Limited (which changed its name to Imperial Tobacco Finance PLC on 21st October 1997). Imperial Tobacco Finance Limited became the wholly owned subsidiary of Imperial Tobacco Limited on 22nd July 1996, but did not commence trading until 1st October 1996, on demerger of the tobacco interests of Hanson PLC. The principal activity of Imperial Tobacco Finance Limited is the provision of treasury services to the Imperial Tobacco Group. The company's shareholding in Imperial Tobacco Finance Limited is:

	Ordinary shares of £1 each
At 29th September 1996	2
Subscription for cash on 18th July 1997	99,999,998
At 27th September 1997	<u>100,000,000</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 27th September 1997, the trust had acquired 1,193,541 ordinary shares in the open market at a cost of £4.4m financed by a gift of £1.7m and an interest free loan of £2.7m. The trust has waived its rights to dividends.

The market value of the shares at 27th September 1997 was £4m.

## 9 Stocks

	1997 £m	1996 £m
Raw materials	82	74
Work in progress	4	3
Finished stock	327	41
	<u>413</u>	<u>118</u>

## 10 Debtors

	1997 £m	1996 £m
<b>Amounts falling due within one year</b>		
Trade debtors	102	282
Amounts owed by parent company and fellow subsidiary undertakings	445	412
Amounts owed by subsidiary undertakings	408	96
Other debtors and prepayments	3	3
	<u>958</u>	<u>793</u>
<b>Amounts falling due after more than one year</b>		
Advance corporation tax	-	30
	<u>958</u>	<u>823</u>

# Notes to the accounts

## 11 Creditors

	1997 £m	1996 £m
<b>Amounts falling due within one year</b>		
Trade creditors	95	82
Amounts owed to subsidiary undertakings	622	216
Corporation tax	61	13
Other taxes, duties and social security contributions	184	289
Other creditors	15	13
Accruals and deferred income	26	37
Proposed dividend	179	-
	<b>1,182</b>	<b>650</b>

## 12 Provisions for liabilities and charges

	Restructuring and rationalisation £m	Deferred taxation £m	Other £m	Total £m
As at 29th September 1996	11	1	7	19
Provided in the period	1	4	(2)	3
Utilised in the period	(3)	-	(4)	(7)
As at 27th September 1997	<b>9</b>	<b>5</b>	<b>1</b>	<b>15</b>

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

	Provided		Unprovided	
	1997 £m	1996 £m	1997 £m	1996 £m
Excess of capital allowances	5	1	1	3
Chargeable gains on property	1	6	6	4
Short-term timing differences	(1)	(6)	(3)	(3)
	<b>5</b>	<b>1</b>	<b>4</b>	<b>4</b>

## 13 Called up share capital

	1997 £m	1996 £m
<b>Authorised, allotted and fully paid</b>		
100 ordinary shares of US\$1 each	-	-

## 14 Non-equity shareholders' funds

	1997 £m	1996 £m
<b>Authorised, allotted and fully paid</b>		
1,000,000 deferred shares of £1 each	1	1



# Notes to the accounts

## 15 Reserves

	Profit and loss account £m
At 29th September 1996	381
Surplus for the period	79
As at 27th September 1997	460

## 16 Capital commitments

	1997 £m	1996 £m
Contracted but not provided for	13	14

## 17 Contingent liabilities

Imperial Tobacco 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 will be vigorously contested.

Imperial Tobacco Limited has guaranteed the liabilities of its Irish subsidiaries, namely John Player & Sons Limited, Irish Tobacco Exports Limited and John Player Distributors Limited.

## 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.

The effect of the abolition of tax credits on UK dividends announced in the Chancellor's July 1997 Budget, based on an initial consideration by the Fund's actuaries, would still result in a residual surplus of assets over that required to meet total service liabilities, despite worsening the solvency of the Scheme.

There was no pension cost to disclose in respect of the Scheme for the period ended 27th September 1997. 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

	1997 £m	1996 £m
Profit on ordinary activities after taxation	383	276
Dividends	(304)	(157)
Net addition to shareholders' funds	79	119
Opening shareholders' funds	382	263
Closing shareholders' funds	461	382

## 20 Related party transactions

The company has taken advantage of the group dispensation permitted under FRS8 Related Party Transactions for 90% subsidiaries, not to disclose intra group transactions undertaken during the period.

## 21 Immediate and ultimate parent undertakings

For the period between 29th September 1996 and 1st October 1996 the ultimate parent undertaking and controlling party of Imperial Tobacco Limited was Hanson PLC, a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent undertaking and controlling party of Imperial Tobacco Limited at 27th September 1997 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 27th September 1997 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 International Limited	Export and marketing of tobacco products outside the UK
Imperial Tobacco Finance PLC (changed name from Imperial Tobacco Finance Limited on 21st October 1997)	Finance company
Sinclair Collis Limited	Cigarette vending machine operations in the UK

## Incorporated overseas

Name and country of incorporation	Principal activity
John Player & Sons Limited Republic of Ireland	Manufacture, marketing and distribution of tobacco products in the Republic of Ireland
Cadena Claassen B.V. The Netherlands	Manufacture, marketing and distribution of cigar outside the UK.
Cadena (Ireland) Limited Republic of Ireland	Cigar manufacture
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
Imperial Tobacco South Africa S.A. Panama	Marketing and distribution of tobacco products in the Republic of South Africa
Rizla International B.V. The Netherlands	Manufacture, marketing and distribution of handrolling tobacco papers and distributor of other tobacco accessories throughout the world