

Company Number: 1860181

IMPERIAL TOBACCO LIMITED

Annual Report and Accounts 2006



Board of Directors

G Davis	Chief Executive
R Dyrbus	Group Finance Director
G L Blashill	Group Sales and Marketing Director
D Cresswell	Manufacturing Director
K Hill	Special Projects Director
F A Rogerson	Corporate Affairs Director
Miss K A Brown	Group Human Resources Director

Company Secretary

M R Phillips

Registered Office

PO Box 244
Upton Road
Bristol
BS99 7UJ

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
31 Great George Street
Bristol
BS1 5QD

Report of the Directors

The Directors submit their report together with the audited financial statements of the Company for the year to 30 September 2006

Business review and principal activities

The principal activity of the Company is the manufacture, marketing and sale of tobacco and tobacco-related products

The Company is a wholly owned subsidiary of Imperial Tobacco Group PLC (the "Group") and the Directors of the Group manage the operations at a Group level. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group's UK operations, which includes the Company, is discussed on pages 18, 19 and 27 of the Group's Annual Report which does not form part of this report, but is available at www.imperial-tobacco.com

In addition, the Directors of the Group manage the Group's risks at a Group level, rather than at an individual company level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Group, which include those of the Company, are discussed on page 14 of the Group's Annual Report which does not form part of this report.

The principal operating subsidiaries of the Company are shown on page 19

Financial results and dividends

The results for the Company show profit after taxation of £1,138m (2005 restated £948m) and turnover of £4,657m (2005 £4,592m) for the financial year

The Directors have declared dividends as follows

<i>(In £'s million)</i>	2006	2005
Interim paid, 30 June 2006	285	-
Interim paid, 28 September 2006	623	-
Proposed final	10	430
	918	430

With the adoption of FRS 21 in the year, the proposed final dividends are not accrued for in the financial statements

Research and development

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

Future outlook

In the context of further regulation, we do not expect the introduction of public place smoking bans in the UK to have significant long term effect on the Company's business. The Company believes smokers will continue to choose to smoke regardless of regulations

The diversity of the Company's brand and product portfolio continues to provide further opportunities within a downtrading environment. This, along with the Company's commitment to sales and marketing excellence and focus on costs, efficiency and flexibility, ensures a strong performance from which the Company seeks to deliver further improvements in profits

Board of Directors

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

Employees

The Company's employment policies are designed to attract, retain, train and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, 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 plans were offered during the year

The Company is committed to providing an environment that encourages the continuous development of its employees through skills enhancement and training programmes

Employees are made aware of the financial and economic factors affecting the performance of the Company. To progress this aim further employee representatives are briefed on pan-European issues through a European Employee Forum

Information concerning employees and their remuneration is given in note 3 to the accounts

Report of the Directors

Charitable and political donations

During the year the Company made charitable donations in the UK of £15,000 (2005 £18,000) No political donations were made or incurred during the year (2005 £nil)

Going concern

The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements

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) agree 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 30 September 2006, the Company's trade creditors represented 43 days (2005 34 days) of trade purchases This excludes trade purchases of leaf for which special payment terms apply

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the balance sheet date and of the profit or loss of the Company for that period

The Directors consider that suitable accounting policies have been used These have been applied consistently, with the exception of the changes arising on the adoption of new Accounting Standards in the year as explained in "Changes in accounting policy and presentation" under "Accounting Policies" They also confirm that reasonable judgements and estimates have been made in preparing the financial statements for the year ended 30 September 2006 and that applicable Accounting Standards have been followed

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any given time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditors and disclosure of information to Auditors

Each of the Directors in office as of the date of approval of this report confirms that

- so far as they are aware, there is no relevant audit information (that is, information needed by the Company's Auditors in connection with preparing their report) of which the Company's Auditors are unaware, and
- they have each taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the Annual General Meeting

By order of the Board



M R Phillips
Company Secretary
11 April 2007

Independent auditors' report to the members of Imperial Tobacco Limited

We have audited the financial statements of Imperial Tobacco Limited for the year ended 30 September 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes

The financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the Report of Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

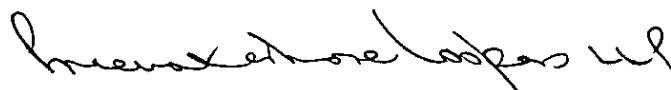
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of Directors is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
11 April 2007

Profit and loss account

for the year ended 30 September 2006

<i>(In £'s million)</i>	Notes	2006	Restated 2005
Turnover		4,657	4,592
Duty		(3,847)	(3,817)
Costs and overheads less other income	2	(406)	(411)
Operating profit		404	364
Income from shares in group undertakings		868	770
Profit on ordinary activities before interest and taxation		1,272	1,134
Net interest	4	(124)	(117)
Profit on ordinary activities before taxation		1,148	1,017
Taxation	5	(10)	(69)
Profit on ordinary activities after taxation		1,138	948
Dividends	6	(1,338)	(1,077)
Loss for the year	14	(200)	(129)

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

Statement of total recognised gains and losses

for the year ended 30 September 2006

<i>(In £'s million)</i>	2006	2005
Loss for the year	(200)	(129)
Total recognised losses for the year	(200)	(129)
Prior year adjustment - FRS 20	8	
Prior year adjustment - FRS 21	205	
Total gains recognised since last annual report	13	

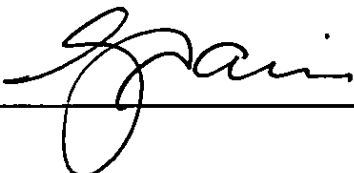
Balance sheet

at 30 September 2006


<i>(In £'s million)</i>	Notes	2006	Restated 2005
Fixed assets			
Tangible assets	7	146	143
Investments	8	3,664	3,628
		3,810	3,771
Current assets			
Stocks	9	77	93
Debtors	10	2,782	2,512
Cash		4	10
		2,863	2,615
Creditors' amounts falling due within one year	11	(5,622)	(5,152)
Net current liabilities		(2,759)	(2,537)
Total assets less current liabilities		1,051	1,234
Provisions for liabilities and charges	12	(28)	(21)
Net assets		1,023	1,213
Capital and reserves			
Called up share capital	13	11	11
Share premium account	14	973	973
Profit and loss account	14	39	229
Equity shareholders' funds	19	1,023	1,213

The accounts on pages 5 to 18 were approved by the Board of Directors on 11 April 2007 and signed on its behalf by

G Davis
Director



R Dyrbus
Director



Accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and UK Generally Accepted Accounting Principles. The principal accounting policies have been applied consistently with the exception of the changes arising on the adoption of new Accounting Standards in the year as set out below.

Basis of accounting

The financial statements 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.

Changes in accounting policy and presentation

Following the introduction of a number of new standards issued by the Accounting Standards Board which became effective during the year, the Company has made changes to its accounting policies, as follows:

FRS 17 "Retirement Benefits" The Company participates, together with other Group companies, in a defined benefit arrangement for its employees. As it has not been possible to identify the underlying assets and liabilities attributable to each participating company, the multi-employer exemption available under FRS 17 has been adopted and accounting on a defined contribution basis is applied.

FRS 20 "Share-based payment" FRS 20 has been adopted during the period. This change in accounting policy has been reflected in the accounts as a prior year adjustment. This results in an additional charge of £8m to the profit and loss account for the year ended 30 September 2005. As a consequence of the reversal of the charge previously recorded under UITF 17 "Employee Share Schemes" the carrying value of the investment in parent shares has been restated to the lower of cost and realisable amount resulting in an increase in net assets of £9m as at 30 September 2005.

Had the previous accounting policy been maintained during the year ended 30 September 2006, profit before tax would have been £9m higher.

FRS 21 "Events after the Balance Sheet Date" The profit and loss account for the year ended 30 September 2005 and the balance sheet at 30 September 2005 have been restated following the adoption of FRS 21. Following adoption of the Standard final dividends payable and receivable are recognised as a liability or asset in the Company's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which dividends are paid.

The adoption of FRS 21 has resulted in an increase in income receivable from group undertakings of £225m (2005: £515m). Shareholders' funds have increased by £205m at 30 September 2005 and £337m at 30 September 2004 due to the write back of the dividend proposed by the Company at 30 September 2005 and the change in the timing of recognising dividends receivable from group undertakings.

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 less residual values over their expected useful lives as follows:

Freehold and leasehold buildings	up to 50 years	(straight line)
Plant and equipment	3 to 19 years	(straight line/reducing balance)
Fixtures and motor vehicles	3 to 4 years	(straight line)

Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less costs to sell) and value in use. Value in use is based on the present value of the future cash flows relating to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Impairment losses are reversed where the recoverable amount increases because of a change in economic conditions or in the expected use of the asset.

Share-based payments

The cost of employees' services received in exchange for grant of rights under equity-based employee compensation schemes is measured at the fair value of the equity instruments granted and is expensed over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions (e.g. Imperial Tobacco Group PLC's adjusted basic earnings per share). Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of equity instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. The fair value is measured based on an appropriate valuation model, taking into account the terms and conditions upon which the equity instruments were granted.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Cost includes all direct expenditure and an allocation of production overheads based on the normal level of activity.

Deferred taxation

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. Deferred tax assets and liabilities have not been discounted.

Turnover

Turnover represents the amount charged to customers in respect of goods sold, services supplied and licence fees, exclusive of applicable sales taxes or equivalents but inclusive of excise duty.

Sales of goods are recognised when risks and rewards of ownership pass to the customer and when collectibility of the related receivables is reasonably assured.

Sales of services which include fees for distributing third party products are recognised in the accounting period in which the services are rendered. Licence fees are recognised on an accruals basis in accordance with the substance of the relevant agreements.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction, or where forward foreign exchange 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.

Pension costs

The pension costs charged to the profit and loss account are the contributions payable by the Company during the period.

The Company participates, together with other Group companies, in a defined benefit arrangement for its employees. As it has not been possible to identify the underlying assets and liabilities attributable to each participating company, the multi-employer exemption available under FRS 17 has been adopted and accounting on a defined contribution basis is applied.

Interest

Interest payable and receivable is recognised in the profit and loss account on an accruals basis.

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 sale of tobacco and tobacco related products

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

2 Costs and overheads less other income

<i>(In £'s million)</i>	2006	Restated 2005
Changes in stocks of finished goods and work in progress (excluding excise duty)	3	4
Raw materials and consumables (excluding excise duty)	112	118
Employment costs (note 3)	127	113
Depreciation	22	25
Other operating charges	142	151
	406	411

<i>(In £'s million)</i>	2006	2005
Other operating charges above include		
Auditors' fees and expenses		
Audit fees in respect of the audit of the accounts of the Company	0 2	0 1
Fees for other services supplied pursuant to legislation	0 4	1 0
	0 6	1 1
Other services relating to taxation	0 7	1 1

3 Directors and employees

Employment costs

<i>(In £'s million)</i>	2006	Restated 2005
Wages and salaries	92	86
Social security costs	10	9
Pension costs	10	5
Share-based payments	15	13
	127	113

Average number of persons employed by the Company during the year

<i>(Number)</i>	2006	2005
	1,917	1,944

Directors' emoluments

<i>(In £'s thousand)</i>	2006	2005
Salary	2,815	2,556
Benefits	105	99
Bonus	1,642	1,864
Taxable relocation allowance	1	-
Pension salary supplement	131	-
LTIP annual vesting †	2,108	1,911
SMS annual vesting †	1,898	1,762
Total aggregate emoluments	8,700	8,192

† Value of LTIP and SMS vesting in the year

The emoluments of the highest paid Director were £2,700,483 (2005 £2,720,782), details of which are shown in the Annual Report of Imperial Tobacco Group PLC

Directors' pensions

Retirement benefits are accruing under a defined benefit 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 year end, was £520,000 (2005 £483,000)

Notes to the accounts

4 Net interest

<i>(In £'s million)</i>	2006	2005
Interest payable		
Group undertakings	183	170
Interest receivable		
Group undertakings	(59)	(53)
	124	117

5 Taxation

Analysis of charge in the year

<i>(In £'s million)</i>	2006	2005
UK		
Current tax		
Corporation tax at 30.0% (2005 30.0%)	24	62
Adjustments to current tax in respect of prior years	(13)	1
	11	63
Deferred tax		
Origination and reversal of timing differences	2	3
Adjustments to deferred tax in respect of prior years	(3)	3
	(1)	6
	10	69

Factors affecting the current tax charge for the year

The tax assessed for the year is lower than the standard higher rate of corporation tax in the UK (30.0%). A reconciliation between the current tax charge at the standard UK rate and the actual current tax charge is shown below:

<i>(In £'s million)</i>	2006	Restated 2005
Profit on ordinary activities before taxation	1,148	1,017
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2005 30.0%)	344	305
Effects of		
Group relief	(60)	(9)
Adjustments to tax charge in respect of prior years	(13)	1
Current deferred tax	(2)	(3)
Dividends from other UK Group companies (non-taxable)	(260)	(231)
Other	2	-
Total current tax	11	63

The taxation charge for the year has been reduced by £60m (2005 £9m) due to group relief surrendered for nil consideration by other Imperial Tobacco Group PLC companies

Factors that may affect future tax charges

The current tax charge benefits from the surrender of group relief. There is no guarantee that the surrender of group tax losses will occur in the future.

Notes to the accounts

6 Dividends

The dividends payable on the ordinary shares were as follows

<i>(In £'s million)</i>	2006	Restated 2005
Final dividend for the year ended 30 September 2005 of £39.70 per share (2004 £99.45)	430	1,077
Interim dividends for the year ended 30 September 2006 of £83.84 per share (2005 £nil)	908	-
	1,338	1,077

A final dividend for the year ended 30 September 2006 of £10m (£0.92 per share) has been proposed. At the date of the year end, the shareholders had not yet approved the final dividend at the Annual General Meeting and therefore it is not included in the balance sheet as a liability.

7 Tangible fixed assets

<i>(In £'s million)</i>	Land and buildings	Plant and machinery	Fixtures and motor vehicles	Total
Cost				
As at 1 October 2005	30	245	63	338
Additions	1	10	16	27
Disposals	-	(3)	(9)	(12)
As at 30 September 2006	31	252	70	353
Accumulated depreciation				
As at 1 October 2005	10	150	35	195
Charge for the year	1	11	10	22
Disposals	-	(3)	(7)	(10)
As at 30 September 2006	11	158	38	207
Net book value				
As at 30 September 2006	20	94	32	146
As at 30 September 2005	20	95	28	143

Land and buildings at net book value

<i>(In £'s million)</i>	2006	2005
Freehold	8	8
Long leasehold	12	12
	20	20

8 Fixed asset investments

<i>(In £'s million)</i>	Subsidiary undertakings	Imperial Tobacco Group PLC shares	Total
As at 1 October 2005 as previously stated	3,594	25	3,619
Prior year adjustment - FRS 20	-	9	9
As at 1 October 2005 as restated	3,594	34	3,628
Purchase of shares	-	55	55
Satisfaction of share awards	-	(19)	(19)
As at 30 September 2006	3,594	70	3,664

Notes to the accounts

8 Fixed asset investments (continued)

Investment in subsidiary undertakings

The investment in subsidiary undertakings relates to the Company's shareholdings in subsidiaries, which are all registered in England and Wales

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 PLC Employee and Executive Benefit Trust and the Imperial Group PLC 2001 Employee Benefit Trust. These Trusts have been established to acquire ordinary shares in Imperial Tobacco Group PLC, by subscription or purchase, from funds provided by Imperial Tobacco Limited to satisfy rights to shares arising on the exercise of share-based employee benefit schemes. At 30 September 2006, the Trusts held 4.2m (2005: 3.0m) ordinary shares acquired in the open market at a cost of £69.5m (2005: £33.5m) financed by a gift of £19.2m and an interest free loan of £110.8m. None of the shares have been allocated to employees or Directors as at 30 September 2006. All finance costs and administration expenses connected with the Trusts are charged to the profit and loss account of Imperial Tobacco Limited as they accrue. The Trusts have waived their rights to dividends.

The market value of the shares at 30 September 2006 was £75m (2005: £49m).

9 Stocks

<i>(In £'s million)</i>	2006	2005
Raw materials	44	55
Work in progress	3	3
Finished goods	30	35
	77	93

It is generally recognised industry practice to classify leaf tobacco stocks as a current asset although part of such stock, because of the duration of the processing cycle, ordinarily would not be consumed within one year. Leaf tobacco held within raw material stocks at the balance sheet date will ordinarily be utilised within two years.

10 Debtors

<i>(In £'s million)</i>	2006	Restated 2005
Amounts falling due within one year		
Trade debtors	577	550
Amounts owed by parent company and fellow subsidiary undertakings	155	136
Amounts owed by subsidiary undertakings	2,037	1,815
Other debtors and prepayments	13	11
	2,782	2,512

Notes to the accounts

11 Creditors

<i>(In £'s million)</i>	2006	Restated 2005
Amounts falling due within one year		
Bank overdrafts	46	-
Trade creditors	30	31
Amounts owed to parent company and fellow subsidiary undertakings	376	3
Amounts owed to subsidiary undertakings	4,506	4,473
Corporation tax	20	26
Other taxes, duties, and social security contributions	604	582
Other creditors	26	22
Accruals and deferred income	14	15
	5,622	5,152

12 Provisions for liabilities and charges

<i>(In £'s million)</i>	Reorganisation and rationalisation	Deferred taxation	Other	Total
As at 1 October 2005	2	17	2	21
Provided/(released) in the year	9	(1)	1	9
Utilised in the year	(1)	-	(1)	(2)
As at 30 September 2006	10	16	2	28

The reorganisation and rationalisation provision relates primarily to the closure of our Liverpool factory announced in the current year which will be utilised within the next year

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

<i>(In £'s million)</i>	Provided		Unprovided	
	2006	2005	2006	2005
Excess of capital allowances	17	18	-	-
Chargeable gains on property	-	-	5	4
Short-term timing differences	(1)	(1)	-	-
	16	17	5	4

13 Called up share capital

<i>(In £'s million)</i>	2006	2005
Authorised		
100,000,000 ordinary shares of £1 each	100	100
Issued and fully paid		
10,830,000 ordinary shares of £1 each	11	11

14 Reserves

<i>(In £'s million)</i>	Share Premium account	Restated Profit and loss account
As at 1 October 2005 as previously stated	973	16
Prior year adjustment - FRS 20	-	8
Prior year adjustment - FRS 21	-	205
As at 1 October 2005 as restated	973	229
Loss for the year	-	(200)
Share-based payments reserves credit	-	10
As at 30 September 2006	973	39

Notes to the accounts

15 Capital commitments

<i>(In £'s million)</i>	2006	2005
Contracted but not provided for	17	2

16 Legal proceedings

Imperial Tobacco 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 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, 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 Company.

17 Pensions

The Company participates, together with other Group companies, in a pension scheme for its employees, the Imperial Tobacco Pension Fund ("the Scheme"), which is of a defined benefit type. The assets of the Scheme are held in trustee administered funds. As it has not been possible to identify the underlying assets and liabilities attributable to each participating company, the multi-employer exemption available under FRS 17 has been adopted and accounting on a defined contribution basis is applied. The contribution rate is set on a scheme-wide basis.

An actuarial valuation of the Scheme was made at 31 March 2004. 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, the rates of increase in pay and pensions and estimated mortality rates. On the basis that the Scheme is continuing it was assumed that the future investment returns relative to market values at the valuation date would be 5.85% per annum and that pay and pension increases would average 4.5% and 2.75% per annum respectively. The assets were brought into account at their market values.

At 31 March 2004, the market value of the assets of the Scheme was £2,248m. The total assets were sufficient to cover 108% of the benefits that had accrued to members for past service, after allowing for expected future pay increases. However the assets were not sufficient to cover future service benefits for current members and, as a result of this deficiency, the payment of contributions recommenced during the 2004/2005 financial year at the level of £10m per year as set by the Scheme Actuary. The financial position of the Scheme and the level of contributions to be paid will be reviewed at the next actuarial valuation, expected to be carried out at 31 March 2007.

Imperial Tobacco Group PLC, the Company's ultimate parent company, reports under International Financial Reporting Standards. An actuarial valuation of the Scheme, performed in accordance with International Accounting Standard 19 "Employee Benefits" was undertaken at 30 September 2006 and revealed a surplus of £383m. No separate actuarial valuation of the Scheme has been performed in accordance with FRS 17.

Notes to the accounts

18 Share Schemes

The Company recognised total expenses of £15m (2005 £13m) related to share-based payment transactions during the year (note 3)

During the period, Imperial Tobacco Group operated a number of share-based employee benefit schemes as follows

Sharesave Plan

Under the Sharesave Plan which is part of the Group International Plan, the Imperial Tobacco Group Board may offer options to purchase ordinary shares in Imperial Tobacco Group PLC to employees who enter into a Save as You Earn (SAYE) savings contract. The options may normally be exercised during the six months after expiry of the SAYE contract, either three or five years after entering the Plan

Long Term Incentive Plan (LTIP)

Each year since 1996 annual awards have been made to Directors and other senior executives under the LTIP. The awards, which vest three years after grant are subject to the satisfaction of specified performance criteria measured over a three-year performance period. Further information relating to the performance criteria and the terms of the scheme are set out in the Report of Directors

In respect of the November 2002 - November 2005 award 100% of the award vested in full on 25 November 2005

In respect of the November 2003 - November 2006 award 100% of the award vested in full on 18 November 2006

Share Matching Scheme

The Share Matching Scheme is designed to encourage employees to acquire and retain Imperial Tobacco Group PLC ordinary shares

For Directors and most of the Company's management, individuals may elect to invest any proportion up to a maximum of 100% of their gross bonus in Imperial Tobacco Group PLC ordinary shares to be held by the Employee Benefit Trusts. Provided that the shares elected for are left in the Trusts 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 is 1:1 to encourage Directors and managers to build a meaningful shareholding in the Group

There was an initiative in 2002 to mark the centenary of the founding of The Imperial Tobacco Company (of Great Britain and Ireland) Limited. All employees of the Company employed on 10 December 2001, the date of the centenary were invited to purchase up to £3,000 worth of Imperial Tobacco Group PLC ordinary shares and lodge them with the Employee Benefit Trusts. Provided these shares are left in the Trusts, the lodged shares will be matched on a sliding scale from 20% for one year's retention to a maximum of 100% if they are retained for five years

Year from 1 October 2005 to 30 September 2006							
Date of grant	Granted	Balance outstanding at 1 October 2004	Balance outstanding at start of year	Options exercisable at start of year	Exercised in year	Lapsed / Cancelled in year	Options exercisable at end of year
		(Number)	(Number)	(Number)	(Number)	(Number)	(Number)
Sharesave options							
19 June 1999	500,614	613	-	-	-	-	-
5 June 2000	1,004,751	284,460	-	-	-	-	-
7 June 2001	632,827	205,021	182,041	-	(162,496)	(8,031)	11,514
31 May 2002	771,349	636,086	311,998	12,644	(14,126)	(14,529)	283,343
4 June 2003	581,553	529,151	486,649	-	(296,207)	(12,765)	177,677
26 May 2004	380,339	376,446	351,195	-	(3,572)	(11,853)	335,770
23 May 2005	357,533	-	354,776	-	(7,249)	(6,545)	340,982
22 May 2006	307,595	-	-	-	-	(2,739)	304,856
	4,536,561	2,031,777	1,686,659	12,644	(483,650)	(56,462)	1,454,142
Conditional awards							
Share matching scheme							
12 August 2002 - Centenary Scheme	188,510	155,154	137,909	-	(12,476)	(5,503)	119,930
29 January 2002	462,457	436,980	-	-	-	-	-
29 January 2003	448,187	366,571	258,313	-	(251,864)	(6,449)	-
29 January 2004	487,184	468,290	299,571	-	(39,338)	(47,456)	212,777
29 January 2005	359,952	-	381,305	-	(17,017)	(56,795)	307,493
15 February 2006	356,347	-	-	-	(1,014)	(17,486)	337,847
	2,302,637	1,426,995	1,077,098	-	(321,709)	(133,689)	978,047
Long term incentive plan							
26 November 2001	314,960	242,928	-	-	-	-	-
25 November 2002	286,285	266,486	191,934	-	(190,532)	(1,402)	-
18 November 2003	318,884	302,605	242,056	-	(8,714)	(8,708)	224,634
9 November 2004	243,372	-	232,329	-	(6,138)	(20,684)	205,507
2 November 2005	303,336	-	-	-	(29)	(1,681)	301,626
	1,466,837	812,019	666,319	-	(205,413)	(32,475)	731,767
Total options/awards	8,306,035	4,270,791	3,430,076	12,644	(1,010,772)	(222,626)	3,163,956

Notes to the accounts

18 Share Schemes (continued)

Year from 1 October 2004 to 30 September 2005						Year from 1 October 2005 to 30 September 2006*			
Date of grant	Share price at grant date £	Exercise price of options/awards outstanding at end of year £	Contractual life of options/awards outstanding at end of year (No. of months)	Exercise price of options currently exercisable at end of year £	Share price at date of exercise for shares exercised during the year £	Exercise price of options outstanding at end of year £	Contractual life of options/awards outstanding at end of year (No. of months)	Exercise price of options currently exercisable at end of year £	Share price at date of exercise for shares exercised during the year £
Share save options									
19 June 1999	6.25	n/a	n/a	n/a	13.81	n/a	n/a	n/a	n/a
5 June 2000	4.68	n/a	n/a	n/a	15.09	n/a	n/a	n/a	n/a
7 June 2001	6.58	4.83	15	n/a	13.39	4.83	3	4.83	17.44
31 May 2002	11.55	8.24	26	8.24	14.75	8.24	15	n/a	17.00
4 June 2003	10.79	8.22	25	n/a	14.46	8.22	26	8.22	18.01
26 May 2004	12.29	10.08	37	n/a	14.90	10.08	25	n/a	17.15
23 May 2005	14.79	11.73	48	n/a	n/a	11.73	36	n/a	17.99
22 May 2006	16.38	n/a	n/a	n/a	n/a	13.95	48	n/a	n/a
Conditional awards									
Share matching scheme									
12 August 2002 - Centenary Scheme			22		14.26		10		16.93
29 January 2002			n/a		13.90		n/a		n/a
29 January 2003			4		14.20		n/a		16.59
29 January 2004			16		14.31		4		16.90
29 January 2005			28		15.64		16		17.00
15 February 2006			n/a		n/a		29		16.81
Long term incentive plan									
26 November 2001			n/a		13.66		n/a		n/a
25 November 2002			2		14.05		n/a		16.89
18 November 2003			14		14.19		2		17.01
9 November 2004			25		14.94		13		16.95
2 November 2005			n/a		n/a		25		16.78

* All measures in these columns are weighted averages

Notes to the accounts

18 Share Schemes (continued)

The weighted average exercise prices of options granted, exercised and lapsed during the year were

	2006	2005
Granted	£13 95	£11 73
Exercised	£7 15	£5 61
Lapsed/cancelled	£8 82	£8 11

Option Pricing

For the purposes of valuing options to calculate the share-based payment charge, the Black-Scholes option pricing model has been used for all the share option and share matching schemes and for the Long term incentive plans except for the LTIP granted in November 2005, where the Monte Carlo model was used

A summary of the assumptions used in the Black-Scholes model for 2005 and 2006 is as follows

	2006		2005		
	Sharesave	Share match	Sharesave	Share match	LTIP
Risk-free interest rate	4.6% - 4.7%	4.2%	4.2% - 4.3%	4.4%	4.6%
Volatility	16.0% - 21.0%	17.0%	22.0% - 24.0%	23.0%	23.0%
Expected lives of options granted	3 - 5 yrs + 6 mths	3 yrs	3 - 5 yrs + 6 mths	3 yrs	3 yrs
Dividend yield	3.9%	3.9%	4.4%	4.4%	4.4%
Fair value	£3 75 - £4 33	£15 58	£3 27 - £3 55	£12 30	£11 21
Share price used to determine exercise price	£17 44	£17 52	£14 66	£14 02	£12 79
Exercise price	£13 95	n/a	£11 73	n/a	n/a

Volatility is determined based on the three or five year share price history (the time period being determined by the length of the scheme)

Market condition features were incorporated into the Monte Carlo model for the total shareholder return elements of the Long Term Incentive Plan, in determining fair value at grant date. Assumptions used in this model were as follows

	2006
Future Imperial Tobacco Group share price volatility	16.0%
Future Imperial Tobacco Group dividend yield	3.8%
Share price volatility of tobacco and alcohol comparator group	16.0% - 30.0%
Share price volatility FTSE 100 comparator group	13.0% - 94.0%
Correlation between Imperial Tobacco and the companies in the alcohol and tobacco comparator group	23.0%
Correlation between Imperial Tobacco and the companies in the FTSE 100 comparator group	21.0%

Notes to the accounts

19 Reconciliation of movements in shareholders' funds

		Restated
<i>(In £'s million)</i>	2006	2005
Profit on ordinary activities after taxation	1,138	948
Dividends	(1,338)	(1,077)
Loss for the year	(200)	(129)
Share-based payments reserves credit	10	9
Net reduction in shareholders' funds	(190)	(120)
Opening shareholders' funds as previously stated	1,000	989
Prior year adjustment - FRS 20	8	7
Prior year adjustment - FRS 21	205	337
Opening shareholders' funds as restated	1,213	1,333
Closing shareholders' funds	1,023	1,213

20 Related party transactions

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

21 Contingent liabilities

Together with Imperial Tobacco Group PLC, Imperial Tobacco Finance PLC, Imperial Tobacco Finance (2) PLC and Imperial Tobacco Enterprise Finance Limited, fellow subsidiaries of Imperial Tobacco Group PLC, the Company guarantees all outstandings under a Credit Facility dated 10 February 2005, and from 31 May 2002 all existing issues from a €10bn debt issuance programme

From 10 February 2003, the Company is also a guarantor together with Imperial Tobacco Group PLC for US \$600m guaranteed notes issued by Imperial Tobacco Overseas B V , a fellow subsidiary of Imperial Tobacco Group PLC

At 30 September 2006, the contingent liabilities totalled £3,998m (2005 £3,529m)

22 Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of Imperial Tobacco Limited at 30 September 2006 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 The Company Secretary, PO Box 244, Upton Road, Bristol, BS99 7UJ

The immediate parent undertaking of Imperial Tobacco Limited at 30 September 2006 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales

Principal Subsidiaries

The principal wholly owned subsidiaries of the Company held throughout the year all of which are 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
Sinclair Collis Limited	Cigarette vending in the UK

Incorporated overseas

Name and country of incorporation	Principal activity
Badische Tabakmanufaktur Roth-Händle GmbH Germany	Manufacture of tobacco products in Germany
Dunkerquoise des Blends S A , France	Tobacco processing in France
Ets L Lacroix Fils N V (Rizla Belgium N V) Belgium	Manufacture marketing and sale of tobacco products in Belgium
Gunnar Stenberg AS Norway	Marketing and sale of tobacco products in Norway
Imperial Tobacco (Asia) Pte Ltd Singapore	Marketing and sale of tobacco products in South East Asia
Imperial Tobacco Australia Limited Australia	Marketing and sale of tobacco products in Australia
Imperial Tobacco CR s r o , Czech Republic	Marketing and sale of tobacco products in the Czech Republic
Imperial Tobacco France S A S France	Marketing of tobacco products in France
Imperial Tobacco Hellas S A Greece	Marketing and sale of tobacco products in Greece
Imperial Tobacco Italy Srl Italy	Marketing of tobacco products in Italy
Imperial Tobacco Magyarország Dohányforgalmazó Kft Hungary	Marketing and sale of tobacco products in Hungary
Imperial Tobacco Mullingar Republic of Ireland	Manufacture of fine cut tobacco in the Republic of Ireland
Imperial Tobacco New Zealand Limited New Zealand	Manufacture marketing and sale of tobacco products in New Zealand
Imperial Tobacco Overseas B V , the Netherlands	Finance company
Imperial Tobacco Sigara ve Tutunculuk Sanayi ve Ticaret A S Turkey	Marketing and sale of tobacco products in Turkey
Imperial Tobacco Slovakia A S Slovak Republic	Manufacture marketing and sale of tobacco products in the Slovak Republic
Imperial Tobacco Tutun Urunleri Satış ve Pazarlama A S , Turkey	Manufacture of tobacco products in Turkey
John Player & Sons Limited Republic of Ireland	Marketing and sale of tobacco products in the Republic of Ireland
John Player S A Spain	Marketing and sale of tobacco products in Spain
Reemtsma Cigarettenfabriken GmbH Germany	Manufacture, marketing and sale of tobacco products in Germany and export of tobacco products
Reemtsma International Asia Services Limited China	Marketing of tobacco products in China
Reemtsma Ukraine Ukraine	Marketing and sale of tobacco products in Ukraine
OOO Reemtsma Volga Tabakfabrik Russia	Manufacture of tobacco products in Russia
OOO Reemtsma Russia	Marketing and sale of tobacco products in Russia
Robert Burton Associates Limited, USA	Marketing and sale of rolling papers and tubes in the USA
Tobacco S A S France	Holding investments in subsidiary companies
Van Nelle Canada Limited Canada	Manufacture of tubes and sale of tobacco products in Canada
Van Nelle Tabak Nederland B V the Netherlands	Manufacture marketing and sale of tobacco products in the Netherlands

The principal partly owned subsidiaries of the Company, held throughout the year, are shown below. All are unlisted unless otherwise indicated.

Incorporated overseas		Percentage owned *
Name and country of incorporation	Principal activity	
Imperial Tobacco Polska S A Poland	Manufacture marketing and sale of tobacco products in Poland	96.5
Reemtsma Kiev Tyutyunova Fabrika Ukraine	Manufacture of cigarettes in Ukraine	99.8
Reemtsma Kyrgyzstan QJSC Kyrgyzstan	Manufacture marketing and sale of tobacco products in Kyrgyzstan	98.7
Skruf Snus AB Sweden	Manufacture marketing and sale of tobacco products in Sweden	43.0
Société Ivoirienne des Tabacs S A ¹ Côte d'Ivoire	Manufacture marketing and sale of tobacco products in the Ivory Coast	74.1
Tobacna Ljubljana d o o Slovenia	Marketing and sale of tobacco products in Slovenia	76.5
Tutunski Kombinat AD Macedonia	Manufacture marketing and sale of tobacco products in Macedonia	99.1

¹ Listed on the Côte d'Ivoire Stock Exchange

In addition, the Company also wholly owns the following partnership:

Name and country	Principal activity
Imperial Tobacco (EFKA) GmbH & Co. KG Germany	Manufacture of tubes in Germany
Principal place of business Industriestrasse 8 Postfach 1257 D-78636 Trossingen Germany	

* The percentage of issued share capital held by immediate parent and the effective voting rights of the Company are the same, with the exception of Tobacna Ljubljana d o o in which the Company holds a 99% interest.

With the exception of Imperial Tobacco Finance PLC which is wholly owned by the Company, none of the shares in the subsidiaries is held directly by the Company.