

Company Number: 1860181

IMPERIAL TOBACCO LIMITED

Annual Report and Accounts 2003



Board of Directors

G Davis	Chief Executive
R Dyrbus	Finance Director
G L Blashill	Managing Director - UK Division
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

R C Hannaford

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 financial statements of the Company for the year to 30 September 2003.

Principal activities

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

The principal operating subsidiaries of the Company are shown on page 18.

Financial results and dividends

The profit after taxation for the financial year was £344m (2002: £558m).

The Directors have declared dividends as follows:

(In £'s million)	2003	2002
Proposed final	420	560

Business and financial review

The Company achieved an operating profit in the year of £295m (2002: £325m) with results boosted by a strong trading performance.

Imperial Tobacco had another successful year, with branded cigarette market share continuing to grow from an average share of 42.9% in 2002 to 44.0% in 2003, further extending our market leadership. *Lambert and Butler*, the top selling UK cigarette brand family, grew market share during the year to 16.2% in September 2003. *Richmond* continued to strengthen and remains the second largest selling brand family in the UK with market share consistently growing in the four years since its launch to 12.2% in September 2003. In the premium sector, *Embassy* has delivered another robust performance closing the year with market share of 3.9%.

In Imperial Tobacco's second year of distributing the *Marlboro* brand family in the UK on behalf of Philip Morris, retail distribution has been increased such that its market share reached 7.5% in September 2003.

The UK Government announcement in October 2002 of increased duty paid indicative levels for EU travellers, from 800 cigarettes to 3,200, prompted an initial decline in the size of the UK duty paid market. However, the market stabilised towards the end of the year, and Imperial Tobacco estimates the UK duty paid cigarette market at 54 billion cigarettes in the year to September 2003 (2002: 56 billion) with a roll your own tobacco market of 2,800 tonnes (2002: 2,800 tonnes).

Imperial Tobacco's position in the roll your own tobacco market was maintained with a market share of over 64%, with *Golden Virginia* retaining clear leadership of the category. *Drum* and *Drum Gold*, now available in new resealable pouches, strengthened their position to 15.8% market share at the end of the year.

Imperial Tobacco's cigar range including *Classic*, *Panama* and *King Edward Coronets*, had a good year with market share growing to 38.6% of the small cigar sector.

In light of UK legislation, which significantly restricted tobacco advertising and sponsorship, brand availability and visibility has been strengthened at the point-of-sale. Focus has been on developing a leading position in the supply of merchandising display furniture to retail outlets with over 33,000 units installed in the various retail channels in the UK.

Outlook

The challenges facing the UK tobacco industry continue, through regulatory pressure on our freedom to manufacture and market our products, and ongoing Government policies of seeking ever higher levels of excise duty, and while supporting the need for sensible and practical regulation, the Company will continue to challenge proposed regulation which it considers to be unsoundly based.

The size of the market will continue to be a key factor affecting profit delivery. In the context of moderate market decline, we seek opportunities to improve profits through effective management of the brand portfolio and cost efficiencies.

Report of the Directors

Directorate

The present Board of Directors is shown on page 1. Mr G E C Lankester, Group Human Resources Director, retired on 1 May 2003. Miss K A Brown was appointed on 1 May 2003.

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)	
	Balance at ¹ 29/9/02	Balance at ² 30/9/03	Balance at ¹ 29/9/02	Balance at ² 30/9/03	Balance at ¹ 29/9/02	Balance at ² 30/9/03
G L Blashill	94,547	94,581	1,152	1,152	83,151	71,805
D Cresswell	70,491	69,385	2,008	2,008	82,070	75,940
K Hill	77,086	79,370	3,489	1,979	81,287	72,443
G E C Lankester	23,891	29,741	2,006	2,006	56,980	62,664
F A Rogerson	70,461	66,270	2,008	2,008	87,499	80,904
K A Brown	2,131	2,131	-	1,125	12,037	12,037

¹ Or date of appointment if later

² Or date of retirement if earlier

There have been no changes in these holdings since 30 September 2003.

Directors' share options

Directors are eligible to participate in Imperial Tobacco Group PLC's savings-related Sharesave Scheme. Under this scheme, options are granted at a discount of up to 20% of the closing 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.

	Balance at ¹ 29/9/02	Granted during year	Exercised during year	Market price at date of exercise £	Balance at ² 30/9/03	Exercise price £	Range of exercisable dates of options held at 30/9/03
G L Blashill	1,152	-	-		1,152	8.24	1/8/2005 - 31/1/2006
D Cresswell	2,008	-	-		2,008	8.24	1/8/2007 - 31/1/2008
K Hill	2,284	-	(2,284)	10.80	-	3.02	1/7/2003 - 31/12/2003
	1,205	-	-		1,205	8.24	1/8/2007 - 31/1/2008
	-	774	-		774	8.22	1/8/2008 - 31/1/2009
G E C Lankester	2,006	-	-		2,006	4.83	1/8/2004 - 31/1/2005
F A Rogerson	2,008	-	-		2,008	8.24	1/8/2007 - 31/1/2008
K A Brown	-	1,125	-		1,125	8.22	1/8/2006 - 31/1/2007

¹ Or date of appointment if later

² Or date of retirement if earlier

Directors may elect to invest any proportion of their gross bonus in Imperial Tobacco Group PLC ordinary shares to be held by the Employee Benefit Trust. Provided that the shares elected for are left in the Trust for three years and the individual remains in employment with the Group, the Director would receive the original shares plus additional shares. The matching ratio for bonuses is 1:1 to encourage Directors to build a meaningful shareholding in the Group.

There have been no changes since 30 September 2003.

Directors' conditional share awards under the Long-Term Incentive Plan

For all outstanding and future awards, the performance criterion is based on Imperial Tobacco Group PLC's earnings per share (EPS) growth. Awards vest on a sliding scale depending on average growth in basic EPS based on an agreed protocol to allow appropriate adjustments for amortisation, exceptional and extraordinary items. The adjustments are confirmed by the Auditors after adjusting for inflation over the period of the award. No vesting occurs unless the Company's average real EPS growth is positive. Full vesting occurs if real EPS growth is equal to or exceeds 10 per cent. Between these two points the award vests on a straight-line basis. In order to ensure that performance criterion remains challenging for the proposed award in 2003 and for future awards, vesting will only occur if the average real EPS growth exceeds 3 per cent per annum. The upper threshold of 10 per cent real EPS growth will remain unchanged. There is no opportunity to retest if the performance criterion is not achieved.

Report of the Directors

Directors' conditional share awards under the Long-Term Incentive Plan (continued)

	Balance at ¹ 29/9/02	Granted during year	Vested during year	Market price at date of exercise £	Balance at ² 30/9/03	Performance period
G L Blashill	11,257	-	(11,257)	10.40	-	December 1999 - December 2002
	11,322	-	-		11,322	November 2000 - November 2003
	10,874	-	-		10,874	November 2001 - November 2004
	-	8,863	-		8,863	November 2002 - November 2005
	33,453	8,863	(11,257)		31,059	
D Cresswell	11,707	-	(11,707)	10.04	-	December 1999 - December 2002
	12,131	-	-		12,131	November 2000 - November 2003
	11,225	-	-		11,225	November 2001 - November 2004
	-	9,906	-		9,906	November 2002 - November 2005
	35,063	9,906	(11,707)		33,262	
K Hill	11,707	-	(11,707)	9.855	-	December 1999 - December 2002
	11,322	-	-		11,322	November 2000 - November 2003
	10,874	-	-		10,874	November 2001 - November 2004
	-	8,863	-		8,863	November 2002 - November 2005
	33,903	8,863	(11,707)		31,059	
G E C Lankester	9,006	-	(9,006)	9.255	-	December 1999 - December 2002
	9,705	-	-		9,705	November 2000 - November 2003
	9,822	-	-		9,822	November 2001 - November 2004
	-	9,906	-		9,906	November 2002 - November 2005
	28,533	9,906	(9,006)		29,433	
F A Rogerson	12,609	-	(12,609)	9.09	-	December 1999 - December 2002
	12,939	-	-		12,939	November 2000 - November 2003
	11,926	-	-		11,926	November 2001 - November 2004
	-	10,427	-		10,427	November 2002 - November 2005
	37,474	10,427	(12,609)		35,292	
K A Brown	9,906	-	-		9,906	November 2002 - November 2005
	9,906	-	-		9,906	

¹ Or date of appointment if later

² Or date of retirement if earlier

During the year, the December 1999 - December 2002 award vested in full.

In respect of the November 2000 - November 2003 award, based on Imperial Tobacco Group PLC's earnings per share to the end of the financial year, 100% of the award will vest.

For illustrative purposes only, the share price on 12 November 2003, being the latest practicable date prior to publication, was £10.095 valuing the awards as follows:

	Award lapsing No. of shares	Award vesting No. of shares over which options granted	Award vesting illustrative value £'000
G L Blashill	-	11,322	114
D Cresswell	-	12,131	122
K Hill	-	11,322	114
G E C Lankester	-	9,705	98
F A Rogerson	-	12,939	131

The value of any awards vesting could vary significantly from the above due to share price movements.

The November 2001 - November 2004 and the November 2002 - November 2005 awards are considered to be too distant from maturity to be included in the value projected above. However, in respect of these awards, Imperial Tobacco Group PLC's adjusted earnings per share have grown by more than 10 per cent in real terms in the financial year and therefore, if this performance is maintained over the relevant performance periods both awards would vest in full.

Report of the Directors

Directors' contingent rights to shares under the Share Matching Scheme

	Balance at 1 29/9/02	Contingent rights arising	Vested during year	Market price at date of exercise £	Balance at 2 30/9/03	Expected vesting date
G L Blashill	20,675	-	(20,675)	9.355	-	January 2003
	15,935	-	-		15,935	January 2004
	12,794	-	-		12,794	January 2005
	294	-	-		294	August 2007
	-	11,723	-		11,723	January 2006
	49,698	11,723	(20,675)		40,746	
D Cresswell	16,430	-	(16,430)	9.355	-	January 2003
	16,577	-	-		16,577	January 2004
	13,706	-	-		13,706	January 2005
	294	-	-		294	August 2007
	-	12,101	-		12,101	January 2006
	47,007	12,101	(16,430)		42,678	
K Hill	17,723	-	(17,723)	9.355	-	January 2003
	16,573	-	-		16,573	January 2004
	12,794	-	-		12,794	January 2005
	294	-	-		294	August 2007
	-	11,723	-		11,723	January 2006
	47,384	11,723	(17,723)		41,384	
G E C Lankester	6,707	-	(6,707)	9.355	-	January 2003
	10,481	-	-		10,481	January 2004
	10,965	-	-		10,965	January 2005
	294	-	-		294	August 2007
	-	11,471	-		11,471	January 2006
	28,447	11,471	(6,707)		33,211	
F A Rogerson	17,270	-	(17,270)	9.355	-	January 2003
	17,841	-	-		17,841	January 2004
	14,620	-	-		14,620	January 2005
	294	-	-		294	August 2007
	-	12,857	-		12,857	January 2006
	50,025	12,857	(17,270)		45,612	
K A Brown	2,131	-	-		2,131	January 2006
	2,131	-	-		2,131	

1 Or date of appointment if later

2 Or date of retirement if earlier

The middle market price of Imperial Tobacco Group PLC shares at the close of business on 30 September 2003 was £9.81 and the range of the middle market price during the year was £9.09 to £11.10.

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 Share Ownership Trusts (ESOTs)

The Imperial Tobacco Group PLC Employee and Executive Benefit Trust and the Imperial Tobacco Group PLC 2001 Employee Benefit Trust have 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 Trusts, each of the Directors is deemed to have a contingent interest in the 5.5m ordinary shares of Imperial Tobacco Group PLC held by the Trusts at 30 September 2003.

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 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 schemes were offered during the year.

The Company is committed to providing an environment which encourages the continuous development of our employees through skills enhancement and comprehensive training programmes. This commitment has been recognised at Nottingham, our principal factory, through the achievement of an Investor in People award.

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 £2,000 (2002: £3,000). No political donations were made during the year (2002: £nil).

Going concern

The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future.

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 and applied consistently. They also confirm that reasonable judgements and estimates have been made in preparing the financial statements for the year ended 30 September 2003 and that applicable Accounting Standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any 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.

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 30 September 2003, the Company's trade creditors represented 52 days of trade purchases. This excludes trade purchases of leaf for which special payment terms apply.

Auditors

Following the conversion of our Auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 5 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as Auditors.

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

By order of the Board



R C Hannaford
Company Secretary
13 November 2003

Independent auditors' report to the members of Imperial Tobacco Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the related notes and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

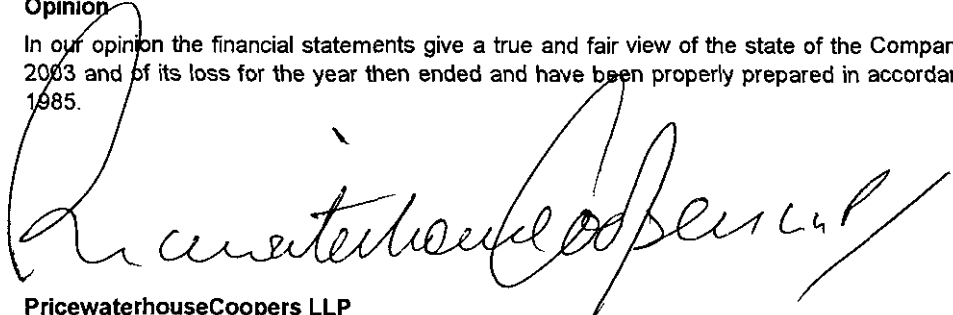
Basis of audit opinion

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 30 September 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
13 November 2003

Profit and loss account

for the year ended 30 September 2003

<i>(In £'s million)</i>	Notes	2003	2002
Turnover		4,424	4,295
Duty in turnover		(3,667)	(3,558)
Costs and overheads less other income	2	(462)	(412)
Operating profit		295	325
Income from shares in group undertakings		80	295
Profit on ordinary activities before interest		375	620
Net interest	4	17	15
Profit on ordinary activities before taxation		392	635
Taxation	5	(49)	(77)
Profit on ordinary activities after taxation		343	558
Dividends	6	(420)	(560)
Loss for the year	14	(77)	(2)

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.

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

Balance sheet

at 30 September 2003

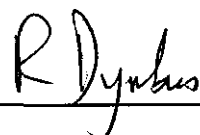
<i>(In £'s million)</i>	Notes	2003	2002
Fixed assets			
Tangible assets	7	134	141
Investments	8	1,506	1,489
		1,640	1,630
Current assets			
Stocks	9	138	172
Debtors	10	2,246	2,304
Cash		20	12
		2,404	2,488
Creditors: amounts falling due within one year	11	(3,024)	(3,023)
Net current liabilities		(620)	(535)
Total assets less current liabilities		1,020	1,095
Provisions for liabilities and charges	12	(11)	(9)
Net assets		1,009	1,086
Capital and reserves			
Called up share capital	13	11	11
Share premium account	14	973	973
Profit and loss account	14	25	102
Equity shareholders' funds	18	1,009	1,086

The accounts on pages 8 to 18 were approved by the Board of Directors on 13 November 2003 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.

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

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

Stocks

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

Deferred taxation

Deferred taxation is provided 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 supplied, exclusive of VAT but inclusive of excise duty.

Foreign currencies

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

Pension costs

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

Interest

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

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>	2003	2002
Changes in stocks of finished goods and work in progress (excluding excise duty)	(6)	(4)
Raw materials and consumables (excluding excise duty)	161	128
Employment costs (note 3)	88	91
Depreciation	15	22
Exchange movements	25	3
Other operating charges	179	172
	462	412

<i>(In £'s million)</i>	2003	2002
Other operating charges above include:		
Auditors' fees and expenses:		
for the audit	0.1	0.1
for non-audit work in the UK	1.3	0.3

3 Directors and employees

Employment costs

<i>(In £'s million)</i>	2003	2002
Wages and salaries	81	84
Social security costs	7	7
	88	91

Average number of persons employed by the Company during the year

<i>(Number)</i>	2003	2002
	2,140	2,230

Directors' emoluments

<i>(In £'s thousand)</i>	2003	2002
Salary	1,937	1,704
Benefits	79	64
Bonus	1,317	1,159
LTIP annual vesting ¹	1,490	964
LTIP vesting on retirement ²	-	376
SMS annual vesting ¹	1,639	793
SMS vesting on retirement ²	-	352
Total aggregate emoluments	6,462	5,412

¹ Value of LTIP and SMS vesting in the year.

² Retirement of Director due to ill-health on 14 December 2001.

The emoluments of the highest paid Director were £2,153,503 (2002: £1,605,000), 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 period end, was £403,000 (2002: £369,300).

Notes to the accounts

4 Net interest

<i>(In £'s million)</i>	2003	2002
Interest payable		
Group undertakings	29	31
Interest receivable		
Group undertakings	(46)	(45)
Other interest receivable and similar income	-	(1)
	(46)	(46)
	(17)	(15)

5 Taxation

Analysis of charge in the year

<i>(In £'s million)</i>	2003	2002
UK		
Current Tax		
Corporation tax at 30.0% (2002: 30.0%)	49	71
Adjustments to current tax in respect of prior years	1	10
	50	81
Deferred tax		
Origination and reversal of timing differences	(1)	(4)
	49	77

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%). The differences are explained below:

<i>(In £'s million)</i>	2003	2002
Profit on ordinary activities before taxation	392	635
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2002: 30.0%)	117	191
Effects of:		
Group relief	(52)	(34)
Adjustments to tax charge in respect of prior years	1	10
Derivative (see note below)	-	1
Current deferred tax	1	3
Dividends from other UK Group companies (non-taxable)	(24)	(89)
Other	7	(1)
Total current tax	50	81

The taxation charge for the year has been reduced by £52m (2002: £34m) due to group relief surrendered for nil consideration by other Imperial Tobacco Group PLC companies.

The 2002 tax charge is stated after reflecting a charge of £1m from a derivative taken out to hedge the taxation effect of euro denominated borrowings.

Notes to the accounts

6 Dividends

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

<i>(In £'s million)</i>	2003	2002
Proposed final	420	560

7 Tangible fixed assets

<i>(In £'s million)</i>	Land and buildings	Plant and machinery	Fixtures and motor vehicles	Total
Cost				
As at 29 September 2002	35	247	33	315
Additions	-	13	6	19
Disposals	-	(12)	(3)	(15)
As at 30 September 2003	35	248	36	319
Accumulated depreciation				
As at 29 September 2002	11	148	15	174
Charge for the year	-	8	7	15
Disposals	-	(3)	(1)	(4)
As at 30 September 2003	11	153	21	185
Net book value				
As at 30 September 2003	24	95	15	134
As at 28 September 2002	24	99	18	141

Land and buildings at net book value:

<i>(In £'s million)</i>	2003	2002
Freehold	8	8
Long leasehold	16	16
	24	24

8 Fixed asset investments

<i>(In £'s million)</i>	Subsidiary undertakings	Imperial Tobacco Group PLC shares	Total
As at 29 September 2002	1,470	19	1,489
Net investment in the year	-	22	22
Amortisation charge in the year	-	(5)	(5)
As at 30 September 2003	1,470	36	1,506

Notes to the accounts

8 Fixed asset investments (continued)

Investment in subsidiary undertakings

The investment in subsidiary undertakings relate to the ordinary shares issued by Imperial Tobacco Holdings (1) Limited.

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 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 30 September 2003, the Trusts held 5.5m (2002: 3.9m) ordinary shares acquired in the open market at a cost of £49.1m (2002: £26.7m) financed by a gift of £1.7m and an interest free loan of £47.4m. None of the shares have been allocated to employees or Directors as at 30 September 2003. All finance costs and administration expenses connected with the Trusts are charged to the profit and loss account as they accrue. The cost of shares is being amortised over the performance period of the associated schemes. The Trusts have waived their rights to dividends.

The market value of the shares at 30 September 2003 was £54m (2002: £39m).

9 Stocks

<i>(In £'s million)</i>	2003	2002
Raw materials	86	115
Work in progress	5	4
Finished goods	47	53
	138	172

10 Debtors

<i>(In £'s million)</i>	2003	2002
Amounts falling due within one year		
Trade debtors	496	306
Amounts owed by parent company and fellow subsidiary undertakings	775	706
Amounts owed by subsidiary undertakings	966	1,280
Other debtors and prepayments	9	12
	2,246	2,304

Notes to the accounts

11 Creditors

<i>(In £'s million)</i>	2003	2002
Amounts falling due within one year		
Bank overdrafts	8	-
Trade creditors	46	67
Amounts owed to subsidiary undertakings	1,943	1,697
Corporation tax	25	39
Other taxes, duties, and social security contributions	544	623
Other creditors	29	26
Accruals and deferred income	9	11
Proposed dividend	420	560
	3,024	3,023

12 Provisions for liabilities and charges

<i>(In £'s million)</i>	Reorganisation and rationalisation	Deferred taxation	Other	Total
As at 29 September 2002	-	7	2	9
Provided/(released) in the year	3	(1)	1	3
Utilised in the year	-	-	(1)	(1)
As at 30 September 2003	3	6	2	11

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

<i>(In £'s million)</i>	Provided		Unprovided	
	2003	2002	2003	2002
Excess of capital allowances	10	11	-	-
Chargeable gains on property	-	-	4	4
Short-term timing differences	(4)	(4)	-	-
	6	7	4	4

13 Called up share capital

<i>(In £'s million)</i>	2003	2002
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	Profit and loss account
As at 29 September 2002	973	102
Loss for the year	-	(77)
As at 30 September 2003	973	25

Notes to the accounts

15 Capital commitments

<i>(In £'s million)</i>	2003	2002
Contracted but not provided for	5	1

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 operates a pension scheme for UK 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.

An actuarial valuation of the Scheme was made at 31 March 2001. The assumptions which had the most significant effect when valuing the Scheme's liabilities were those relating to the rate of investment return earned on the Scheme's existing assets and the rates of increase in pay and pensions. It was assumed that the future investment returns relative to market values at the valuation date would be 5% per annum and that pay and pension increases would average 4.25% and 2.5% per annum respectively. The assets were brought into account at their market values.

At 31 March 2001, the market value of the assets of the Scheme was £2,439m. The total assets were sufficient to cover 111% of the benefits that had accrued to members for past service, after allowing for expected future pay increases. Company contributions to the Scheme remain suspended having regard to the surplus disclosed in this valuation.

There was no pension cost to disclose in respect of the Scheme for the year ended 30 September 2003. The pension cost has been assessed in accordance with the advice of Watson Wyatt LLP, actuaries and consultants, using the projected unit method. There were no outstanding or prepaid contributions at the balance sheet date.

Since the date of the last formal actuarial valuation of the Scheme, stock markets have fallen significantly impacting the valuation of the assets of the Scheme. The pension cost will be reassessed following the next formal valuation as at 31 March 2004. This valuation is not expected to have a material effect on the future profits of the Company.

FRS 17 disclosures for the year to 30 September 2003

The Company operates a defined benefit arrangement for UK employees. As it has not been possible to identify the underlying assets and liabilities attributable to each participating company, multi-employer treatment and therefore accounting on a defined contribution basis is applied.

An actuarial valuation of the Scheme updated at 30 September 2003 revealed a small deficit.

The contribution rate is set on a scheme-wide basis.

Notes to the accounts

18 Reconciliation of movements in shareholders' funds

<i>(In £'s million)</i>	2003	2002
Profit on ordinary activities after taxation	343	558
Dividends	(420)	(560)
Loss for the year	(77)	(2)
New ordinary shares issued	-	983
Net (reduction in)/increase to shareholders' funds	(77)	981
Opening shareholders' funds	1,086	105
Closing shareholders' funds	1,009	1,086

19 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.

20 Contingent liabilities

Together with Imperial Tobacco Group PLC and Imperial Tobacco Finance PLC, a fellow subsidiary of Imperial Tobacco Group PLC, the Company guarantees all outstandings under a Credit Facility dated 17 December 2002 and from 31 May 2002 all outstandings from a euro 6bn 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..

Also as at 28 September 2002, together with Imperial Tobacco Group PLC and Imperial Tobacco Finance PLC, the Company guaranteed from 31 May 2002 all outstandings under a Credit Facility dated 7 March 2002.

At 30 September 2003, the contingent liability totalled £4,344m (2002: £4,029m).

21 Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of Imperial Tobacco Limited at 30 September 2003 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 2003 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
Rizla UK Limited	Manufacture of rolling papers in the UK

Incorporated overseas

Name and country of incorporation	Principal activity
Badische Tabakmanufaktur Roth-Händle GmbH, Germany	Manufacture, marketing and sale of tobacco products in Germany
Ets. L. Lacroix Fils N.V. (Rizla Belgium N.V.), Belgium	Manufacture of rolling papers and accessories and marketing and sale of tobacco products in Belgium
Imperial Tobacco (Asia) Ptd. Ltd., Singapore	Marketing and sale of cigarettes in South East Asia
Imperial Tobacco Australia Limited, Australia	Marketing and sale of tobacco products in Australia
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
John Player & Sons Limited, Republic of Ireland	Manufacture, marketing and sale of tobacco products in the Republic of Ireland
Reemtsma Debreceeni Dohánygyár Kft, Hungary	Manufacture, marketing and sale of cigarettes in Hungary
John Player S.A., Spain	Marketing and sale of cigarettes in Spain
Imperial Tobacco (Asia) Ptd. Ltd., China	Marketing of cigarettes in China
Reemtsma International Beteiligungsgesellschaft mbH, Germany	Holding investment in subsidiary companies
Reemtsma International China Ltd., China	Distribution of cigarettes in Hong Kong
Reemtsma International Praha spol s.r.o., Czech Republic	Marketing and sale of cigarettes in the Czech Republic
Reemtsma Kiev Tyutyunova Fabrika, Ukraine	Manufacture of cigarettes in the Ukraine
Reemtsma Ukraine, Ukraine	Marketing and sale of cigarettes in the Ukraine
OOO Reemtsma Volga Tabakfabrik, Russia	Manufacture of tobacco products in Russia
OOO Reemtsma, Russia	Marketing and sale of cigarettes in Russia
Slovak International Tabac a.s., Slovak Republic	Manufacture, marketing and sale of tobacco products in the Slovak Republic
Van Nelle (Ireland), Republic of Ireland	Manufacture of roll your own tobacco
Van Nelle Tabak Nederland B.V., The Netherlands	Manufacture of roll your own and pipe tobaccos and marketing and sale of tobacco products in The Netherlands
Van Nelle Tobacco International Holdings B.V., The Netherlands	Sale of roll your own and pipe tobaccos

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

Incorporated overseas

Name and country of incorporation	Principal activity	% owned ²
CINTA Compagnie Indépendante des Tabacs S.A., Belgium	Marketing and sale of tobacco products in Belgium	75
Dunkerquoise des Blends S.A., France	Tobacco processing	100
Reemtsma Cigarettenfabriken GmbH, Germany	Manufacture, marketing and sale of tobacco products in Germany and export of cigarettes	90
Reemtsma Kyrgyzstan AO, Kyrgyzstan	Manufacture, marketing and sale of tobacco products in Kyrgyzstan	99
Reemtsma Polska S.A., Poland	Manufacture, marketing and sale of tobacco products in Poland	96
Societe Ivoirienne des Tabacs S.A., Cote d'Ivoire	Manufacture, marketing and sale of tobacco products in the Ivory Coast	73
Tobaccor S.A., France	Holding investments in subsidiary companies	86
Tobačna Ljubljana d.o.o., Slovenia	Manufacture, marketing and sale of tobacco products in Slovenia	76

¹ Listed on the Cote d'Ivoire Stock Exchange

In addition the Company also wholly owns the following partnerships:

Name and country	Principal activity
Imperial Tobacco (EFKA) GmbH & Co. KG, Germany Principal place of business: Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany.	Manufacture of tubes in Germany
Reemtsma Holding GmbH & Co. KG, Germany Principal place of business: Parkstrasse 51, 22605 Hamburg, Germany.	Holding investments in subsidiary companies

² 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 Tobačna Ljubljana d.o.o. in which the Company holds 99% of the voting rights.

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