

Company Number: 1860181

**IMPERIAL TOBACCO LIMITED**

**Annual Report and Accounts 2001**



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## **Board of Directors**

G Davis	Chief Executive
R Dyrbus	Finance Director
C A C Inston	Corporate Affairs Director
G L Blashill	Managing Director - UK Division
K Hill	Managing Director - Logistics and Planning
F A Rogerson	Business Development Director

## **Company Secretary**

R C Hannaford

## **Registered Office**

PO Box 244  
Upton Road  
Bristol  
BS99 7UJ

## **Auditors**

PricewaterhouseCoopers  
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 29 September 2001.

## Principal activities

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

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

## Financial results and dividends

The profit after taxation for the financial year was £225m (2000: £231m).

The Directors have declared dividends as follows:

(In £'s million)

Proposed final	347
	347

## Business and financial review

The Company achieved an operating profit in the year of £301m (2000: £322m) with results depressed by unfavourable exchange movements of £4m, relating to group loans and foreign currency bank accounts (2000: favourable £11m).

However on the trading front, Imperial Tobacco had another successful year, recording significant growth in cigarette market share, which rose from an average share of 37.8% in 2000 to 39.7% in 2001. At the end of the financial year, Imperial Tobacco clearly led the market with a share of 41.4% in respect of its own brands. In August 2001, the Company reached agreement with Philip Morris to distribute their *Marlboro* range in the UK, which accounts for a further 6.5% of market. In addition, the Company recently agreed to manufacture and distribute their *Raffles* brand family. *Lambert and Butler* retained its position as the best selling cigarette with a market share of 15.8%.

The launch of the *Richmond Superkings* brands in September 2000 has also proved to be one of the most successful introductions by any manufacturer in recent years. Complemented by *Richmond King Size*, launched in September 1999, the brand family has now achieved a market share of over 7.5%.

While taxation on tobacco products continued at unprecedented levels, increased resources deployed by HM Customs & Excise to combat smuggling and a more modest excise duty increase in the Chancellor's Budget in March 2001, have contained the levels of illegal cross border trade and started the return to a more orderly market in the UK. However the issues relating to the retail price disparity between the UK and Europe will only be resolved by a fundamental reconsideration of excise duty rates in the UK.

In the UK duty paid market for roll your own tobacco, which has recovered to levels not seen for six years, *Golden Virginia* maintained its market leadership. With the *Drum* family further increasing its share to 13.2%, Imperial Tobacco recorded its highest ever share of the roll your own tobacco market, closing at 64.5% in September 2001.

Although the pipe tobacco market continued its decline, *St Bruno Ready Rubbed* retained market leadership and, together with *Gold Block*, helped Imperial Tobacco to maintain its market share at 39%.

In the cigar market the miniature sector continued to grow in an overall declining market. Imperial Tobacco's share grew slightly to 46.7%, benefiting from the successful launch in September 2000 of *Small Classic Filter*, an innovative miniature cigar with a filter.

Since success in the marketplace requires a high degree of customer focus, during the year the Company implemented a state of the art customer relationship management system, giving the salesforce immediate access to sales activity and marketing information. The blending of the Company's traditional skills and this new technology, together with a significant investment in trade marketing, have placed the Company as the leader in category management and retail space planning, based on independent research among its major retail customers.

## Outlook

The regulatory pressures facing the industry continue and while supporting the need for sensible and practical regulation, Imperial Tobacco will exercise its right to challenge proposed regulation which is unsoundly based. Consequently, the Company has initiated legal action against the EU Directive concerning the manufacture, presentation and sale of tobacco products.

While not underestimating the challenges, facing the Company, Imperial Tobacco remains confident that it has the proven strategy, flexible organisation structure and appropriate blend of skills and disciplines to meet them and continue to develop further its leading UK market positions in all product groups. Imperial Tobacco aims to at least maintain underlying profitability and benefit from a more resilient UK tobacco market.

# Report of the Directors

## Directorate

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

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

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

	Ordinary shares		Sharesave options		Contingent rights to ordinary shares (LTIP and Share Matching Scheme shares)	
	Balance at 24/9/00	Balance at 29/9/01	Balance at 24/9/00	Balance at 29/9/01	Balance at 24/9/00	Balance at 29/9/01
G L Blashill	48,362	51,016	5,887	5,887	66,101	69,896
K Hill	41,828	46,205	5,443	5,443	60,350	66,286
F A Rogerson	27,516	42,472	5,887	5,887	54,430	66,272

There have been no changes in these holdings since 29 September 2001.

## 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 24/9/00	Granted during year	Balance at 29/9/01	Weighted average exercise price (pence)	Range of exercisable dates of options held at 29/9/01
G L Blashill	5,887	-	5,887	293	1/3/2002 - 31/8/2002
K Hill	5,443	-	5,443	317	1/3/2002 - 31/12/2003
F A Rogerson	5,887	-	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 29 September 2001.

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

	Balance at 24/9/00	Granted during year	Vested during year	Market price at date of exercise (pence)	Balance at 24/9/00	Performance period
G L Blashill	13,670	-	(13,670)	638	-	December 1997 - December 2000
	8,819	-	-		8,819	December 1998 - December 2001
	9,405	-	-		9,405	December 1999 - December 2002
	-	9,459	-		9,459	November 2000 - November 2003
	31,894	9,459	(13,670)		27,683	
K Hill	12,658	-	(12,658)	638	-	December 1997 - December 2000
	8,819	-	-		8,819	December 1998 - December 2001
	9,781	-	-		9,781	December 1999 - December 2002
	-	9,459	-		9,459	November 2000 - November 2003
	31,258	9,459	(12,658)		28,059	
F A Rogerson	13,924	-	(13,924)	638	-	December 1997 - December 2000
	9,355	-	-		9,355	December 1998 - December 2001
	10,534	-	-		10,534	December 1999 - December 2002
	-	10,810	-		10,810	November 2000 - November 2003
	33,813	10,810	(13,924)		30,699	

During the year, the December 1997 - December 2000 award vested in full.

In respect of the December 1998 - December 2001 award, the extent of vesting cannot be determined until the end of the performance period. However, based on the total shareholder return to the end of the financial year, 100% of the award would vest.

# Report of the Directors

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

For illustrative purposes only, the share price on 21 November 2001, being the latest practicable date prior to publication, was 858p valuing the awards as follows:

	Award lapsing No. of shares	Award vesting No. of shares over which options granted	Award vesting illustrative value £
G L Blashill	-	8,819	75,667
K Hill	-	8,819	75,667
F A Rogerson	-	9,355	80,266

The value of any awards vesting in January 2002 could vary significantly from the above due to share price movements.

The December 1999 - December 2002 and the November 2000 - November 2003 awards are considered to be too distant from maturity to be included in the value projected above. However, based on performance criteria at the end of the financial year partial vesting would occur.

## Directors' contingent rights to shares under the Share Matching Scheme

	Balance at 24/9/00	Contingent rights arising	Vested during year	Market price at date of exercise (pence)	Balance at 29/9/01	Expected vesting date
G L Blashill	380	-	-		380	January 2002
	5,352	-	(5,352)	678	-	January 2001
	11,149	-	-		11,149	January 2002
	17,326	-	-		17,326	January 2003
	-	13,358	-		13,358	January 2004
	34,207	13,358	(5,352)		42,213	
K Hill	380	-	-		380	January 2002
	4,758	-	(4,758)	678	-	January 2001
	9,101	-	-		9,101	January 2002
	14,853	-	-		14,853	January 2003
	-	13,893	-		13,893	January 2004
	29,092	13,893	(4,758)		38,227	
F A Rogerson	380	-	-		380	January 2002
	5,764	-	-		5,764	January 2002
	14,473	-	-		14,473	January 2003
	-	14,956	-		14,956	January 2004
	20,617	14,956	-		35,573	

The middle market price of Imperial Tobacco Group PLC shares at the close of business on 28 September 2001 was 840.5p; the range of the middle market price during the year was 610p to 895p.

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 3,719,438 ordinary shares of Imperial Tobacco Group PLC held by the Trust at 29 September 2001.

## 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.

# Report of the Directors

## Employees (continued)

Employees are made aware of the financial and economic factors affecting the performance of the Company. To progress this aim, a European Employee Forum was established in 1996 at which employee representatives are briefed on pan-European issues.

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

## 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.

## Charitable and political donations

During the year the Company made charitable donations in the UK of £9,000 (2000: £5,000). No political donations were made during the year.

## Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence 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. 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 29 September 2001 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 29 September 2001, the Company's trade creditors represented 57 days (2000: 51 days) of trade purchases. This excludes trade purchases of leaf for which special payment terms apply.

## Auditors

A resolution to re-appoint PricewaterhouseCoopers as Auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board



R C Hannaford  
Company Secretary  
23 November 2001

# 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 and the related notes.

## 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.

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 29 September 2001 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors

Bristol

23 November 2001

## Profit and loss account

for the year ended 29 September 2001

<i>(In £'s million)</i>	Notes	2001	2000
<b>Turnover</b>		<b>3,933</b>	3,576
Duty in turnover		(3,244)	(2,841)
Costs and overheads less other income	2	(388)	(413)
<b>Operating profit</b>		<b>301</b>	322
Net interest	4	(8)	(13)
<b>Profit on ordinary activities before taxation</b>		<b>293</b>	309
Taxation	5	(68)	(78)
<b>Profit on ordinary activities after taxation</b>		<b>225</b>	231
Dividends	6	(347)	(414)
<b>Retained loss for the year</b>	14	<b>(122)</b>	(183)

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 29 September 2001

<i>(In £'s million)</i>	2001	2000
Retained loss for the year	(122)	(183)
<b>Total recognised gains and losses for the year</b>	<b>(122)</b>	<b>(183)</b>
Prior year adjustment for FRS 19 (see note 12)	1	
<b>Total gains and losses recognised since last annual report</b>	<b>(121)</b>	

# Balance sheet

at 29 September 2001

<i>(In £'s million)</i>	Notes	2001	Restated for FRS 19 * 2000
<b>Fixed assets</b>			
Tangible assets	7	143	143
Investments	8	500	505
		<b>643</b>	<b>648</b>
<b>Current assets</b>			
Stocks	9	173	217
Debtors	10	1,793	1,592
Cash		56	107
		<b>2,022</b>	<b>1,916</b>
<b>Creditors: amounts falling due within one year</b>	11	<b>(2,546)</b>	<b>(2,320)</b>
<b>Net current liabilities</b>		<b>(524)</b>	<b>(404)</b>
<b>Total assets less current liabilities</b>		<b>119</b>	<b>244</b>
<b>Provisions for liabilities and charges</b>	12	<b>(14)</b>	<b>(17)</b>
<b>Net assets</b>		<b>105</b>	<b>227</b>
<b>Capital and reserves</b>			
Called up share capital	13	1	1
Profit and loss reserve	14	104	226
<b>Equity shareholders' funds</b>	18	<b>105</b>	<b>227</b>

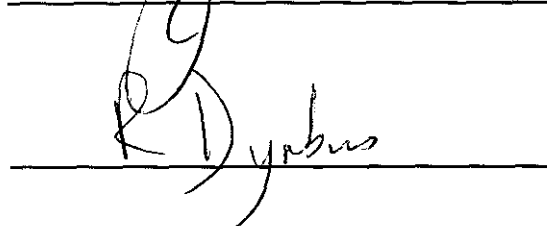
\* The net impact of the restatement was to reduce the deferred tax provision by £1m and increase the profit and loss account by a corresponding amount.

The accounts on pages 7 to 18 were approved by the Board of Directors on 23 November 2001 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 have been applied consistently with the exception of the changes arising on the adoption of new Accounting Standards in the year as explained 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.

## Changes in accounting policy and presentation

Changes in accounting policy and presentation have been made in order to comply with the following Financial Reporting Standards (FRS) issued by the Accounting Standards Board (ASB) in the financial year.

i) FRS 17 "Retirement Benefits" requires the assets of a defined benefit pension scheme to be measured at market value at each balance sheet date and the liabilities to be measured using a specified actuarial valuation method and to be discounted using a corporate bond rate.

It also requires the resulting pension scheme surplus or deficit to be recognised immediately on the Company balance sheet and any resulting actuarial gains and losses to be recognised immediately in the statement of total recognised gains and losses rather than being recognised gradually in the profit and loss account.

Full compliance with the standard is not required until the year ended September 2003, however, transitional disclosure has been made in note 17 to these accounts.

ii) FRS 18 "Accounting Policies" has been complied with in the preparation of these accounts but has not led to any changes in accounting policy.

iii) FRS 19 "Deferred Tax" has been adopted in the preparation of these accounts. The standard requires deferred taxation to be provided in full on all material timing differences between the recognition of gains and losses in the accounts and their recognition for tax purposes. Previously, provision was made for deferred taxation on all material timing differences to the extent that it was probable that a liability or asset would crystallise. The accounting policy has been changed in order to comply with FRS 19. The effect of this change in accounting policy is disclosed in note 12 to these accounts.

## 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 to 19 years	(straight line/reducing balance)
Motor vehicles	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.

## Capitalisation of interest

Interest incurred on borrowings for the financing of specific capital projects is capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

## 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.

## **Accounting policies**

### **Research and development**

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

### **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, subject to interest capitalised in respect of specific capital projects.

### **Cash flow statement**

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

# Notes to the accounts

## 1 Segmental information

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

Turnover is 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>	2001	2000
Changes in stocks of finished goods and work in progress (excluding excise duty)	14	32
Raw materials and consumables (excluding excise duty)	115	146
Employment costs (note 3)	84	80
Depreciation	17	15
Exchange movements	4	(11)
Other operating charges	154	151
	<b>388</b>	<b>413</b>

<i>(In £'s million)</i>	2001	2000
Other operating charges above include:		
Auditors' fees and expenses:		
for the audit	0.1	0.1
for non-audit work in the UK	0.1	0.3

## 3 Directors and employees

### Employment costs

<i>(In £'s million)</i>	2001	2000
Wages and salaries	77	73
Social security costs	7	7
	<b>84</b>	<b>80</b>

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

<i>(Number)</i>	2001	2000
	<b>2,276</b>	<b>2,324</b>

### Directors' emoluments

<i>(In £'s thousand)</i>	2001	2000
Salary <sup>1</sup>	1,515	1,467
Benefits	57	79
Bonus <sup>1</sup>	1,024	981
LTIP annual vesting <sup>2</sup>	1,105	526
LTIP vesting on retirement	68	211
SMS vesting on retirement	109	114
Consultancy fees to former Director	94	25
Total aggregate emoluments	<b>3,972</b>	<b>3,403</b>

<sup>1</sup> 2000 figure includes one month's payment to a former Director.

<sup>2</sup> Value of LTIP shares vesting in the year, based on closing share price on the day of vesting.

The emoluments of the highest paid Director were £1,291,000 (2000: £937,000).

### 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 £331,800 (2000: £293,400).

# Notes to the accounts

## 4 Net interest

<i>(In £'s million)</i>	2001	2000
<b>Interest payable</b>		
Group undertakings	54	46
On bank loans and overdrafts	-	11
	54	57
Interest capitalised	(1)	(2)
	53	55
<b>Interest receivable</b>		
Group undertakings	(43)	(39)
Other interest receivable and similar income	(2)	(3)
	(45)	(42)
	8	13

## 5 Taxation

### Analysis of charge in the year

<i>(In £'s million)</i>	2001	2000
<b>UK</b>		
<b>Current Tax</b>		
Corporation tax at 30.0% (2000: 30.0%)	73	79
Adjustments to current tax in respect of prior years	(5)	(4)
	68	75
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	3
	68	78

### 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>	2001	2000
Profit on ordinary activities before taxation	293	309
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2000: 30.0%)	88	93
Effects of:		
Group relief	(15)	(9)
Adjustments to tax charge in respect of prior years	(5)	(4)
Derivative (see note below)	2	(5)
Current deferred tax	-	(3)
Permanent disallowable items	-	2
Other	(2)	1
Total current tax	68	75

The 2001 tax charge is stated after reflecting a charge of £2m (2000: benefit of £5m) from a derivative taken out to hedge the taxation effect of euro denominated borrowings.

The taxation charge for the year has been reduced by £15m (2000: £9m) due to group relief surrendered for nil consideration by other Imperial Tobacco Group PLC companies.

### Factors that may affect future tax charges

No provision has been made for deferred tax on gains rolled over into replacement assets. Such tax would become payable only if the assets were sold without it being possible to claim rollover relief. The total amount unprovided is £4m. It is not envisaged that any tax will become payable in the foreseeable future.

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 declared as follows:

<i>(In £'s million)</i>	2001	2000
Interim	-	130
Proposed final	347	284
	<b>347</b>	<b>414</b>

## 7 Tangible fixed assets

<i>(In £'s million)</i>	Land and buildings	Plant and machinery	Fixtures and fittings	Total
<b>Cost</b>				
As at 24 September 2000	32	237	21	290
Additions	2	11	6	19
Disposals	-	(5)	(3)	(8)
<b>As at 29 September 2001</b>	<b>34</b>	<b>243</b>	<b>24</b>	<b>301</b>
<b>Accumulated depreciation</b>				
As at 24 September 2000	9	126	12	147
Charge for the year	1	14	2	17
Disposals	-	(4)	(2)	(6)
<b>As at 29 September 2001</b>	<b>10</b>	<b>136</b>	<b>12</b>	<b>158</b>
<b>Net book value</b>				
<b>As at 29 September 2001</b>	<b>24</b>	<b>107</b>	<b>12</b>	<b>143</b>
As at 23 September 2000	23	111	9	143

Interest capitalised on plant and machinery capital projects included in additions for the year amounted to £1m (2000: £2m). The cumulative amount of interest capitalised in the total cost of fixed assets above amounts to £3m (2000: £2m).

Land and buildings at net book value:

<i>(In £'s million)</i>	2001	2000
Freehold	8	8
Long leasehold	16	15
	<b>24</b>	<b>23</b>

## 8 Fixed asset investments

<i>(In £'s million)</i>	Subsidiary undertakings	Imperial Tobacco Group PLC shares	Total
As at 24 September 2000	487	18	505
Amortisation charge in the year	-	(5)	(5)
<b>As at 29 September 2001</b>	<b>487</b>	<b>13</b>	<b>500</b>

# Notes to the accounts

## 8 Fixed asset investments (continued)

### Investment in subsidiary undertakings

An addition was made to the investments in subsidiary undertakings during the period relating to the subscription for preference shares issued by Imperial Tobacco Holdings (1) Limited. The Company's shareholding in Imperial Tobacco Holdings (1) Limited is:

	Ordinary shares of £1 each	Preference shares of £1 each
At 24 September 2000	3,000,000	-
Subscription for cash on 26 March 2001	-	50,000
At 29 September 2001	3,000,000	50,000

### 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 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 29 September 2001, the trust held 3,719,438 (2000: 4,463,081) ordinary shares acquired in the open market at a cost of £18.4m (2000: £22.6m) financed by a gift of £1.7m and an interest free loan of £16.7m. None of the shares have been allocated to employees or Directors as at 29 September 2001. All finance costs and administration expenses connected with the Trust 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 Trust has waived its right to dividends.

The market value of the shares at 29 September 2001 was £31m (2000: £27m).

## 9 Stocks

<i>(In £'s million)</i>	2001	2000
Raw materials	127	112
Work in progress	4	5
Finished goods	42	100
	<b>173</b>	<b>217</b>

## 10 Debtors

<i>(In £'s million)</i>	2001	2000
<b>Amounts falling due within one year</b>		
Trade debtors	245	95
Amounts owed by parent company and fellow subsidiary undertakings	631	576
Amounts owed by subsidiary undertakings	902	913
Other debtors and prepayments	15	8
	<b>1,793</b>	<b>1,592</b>

# Notes to the accounts

## 11 Creditors

<i>(In £'s million)</i>	2001	2000
<b>Amounts falling due within one year</b>		
Trade creditors	55	95
Amounts owed to subsidiary undertakings	1,590	1,568
Corporation tax	29	66
Other taxes, duties, and social security contributions	486	258
Other creditors	33	45
Accruals and deferred income	6	4
Proposed dividend	347	284
	<b>2,546</b>	<b>2,320</b>

## 12 Provisions for liabilities and charges

<i>(In £'s million)</i>	Reorganisation and rationalisation	Deferred taxation	Other	Total
As at 24 September 2000 as previously stated	5	12	1	18
Prior year adjustment for FRS 19	-	(1)	-	(1)
As at 24 September 2000 as restated	5	11	1	17
Provided in the year	2	-	-	2
Utilised in the year	(5)	-	-	(5)
<b>As at 29 September 2001</b>	<b>2</b>	<b>11</b>	<b>1</b>	<b>14</b>

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

<i>(In £'s million)</i>	Provided		Unprovided	
	2001	Restated for FRS 19 2000	2001	Restated for FRS 19 2000
Excess of capital allowances	12	11	-	-
Chargeable gains on property	3	3	4	4
Short-term timing differences	(4)	(3)	-	-
	<b>11</b>	<b>11</b>	<b>4</b>	<b>4</b>

### Prior year adjustment for FRS 19

The Company policy for deferred taxation was changed during the year ended 29 September 2001 to comply with Financial Reporting Standard 19 "Deferred Tax" (see accounting policies). The effect is to reduce the opening deferred tax liability by £1m. The 2000 balance sheet has been restated accordingly. The profit and loss account for 2000 has not been restated as the effect is not material. The impact of the change in policy on the Profit after tax in the current year has been negligible.

## 13 Called up share capital

<i>(In £'s million)</i>	2001	2000
<b>Authorised, allotted and fully paid</b>		
1,000,000 ordinary shares of £1 each	1	1

## Notes to the accounts

### 14 Profit and loss reserve

<i>(In £'s million)</i>	2001	2000
Opening balance (originally £225m and £408m before addition of prior year adjustment of £1m)	226	409
Retained loss for the year	(122)	(183)
Closing balance	104	226

### 15 Capital commitments

<i>(In £'s million)</i>	2001	2000
Contracted but not provided for	4	10

### 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 1998. 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 5.4% per annum and that pay and pension increases would average 5% and 3% per annum respectively. The assets were brought into account at their market values.

At 31 March 1998, the market value of the assets of the Scheme was £2,348m. The total assets were sufficient to cover 113% 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.

A new valuation of the Scheme as at 31 March 2001 is currently being undertaken. This has yet to be completed but initial indications are that the Scheme remains in a sound financial position.

There was no pension cost to disclose in respect of the Scheme for the year ended 29 September 2001. 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.

#### FRS 17 disclosures for the year to 29 September 2001

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 actual valuation of the Scheme made at 31 March 1998 revealed a significant surplus on the basis of which the Company has been on a contribution holiday.

The contribution rate is set on a scheme-wide basis and will be reviewed at the next formal valuation, as at 31 March 2001, which is currently being undertaken.

## Notes to the accounts

### 18 Reconciliation of movements in shareholders' funds

<i>(In £'s million)</i>		Restated for FRS 19
	2001	2000
Profit on ordinary activities after taxation	225	231
Dividends	(347)	(414)
Net reduction in shareholders' funds	(122)	(183)
Opening shareholders' funds (originally £226m and £409m before addition of prior year adjustment of £1m)	227	410
Closing shareholders' funds	105	227

### 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 Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of Imperial Tobacco Limited at 29 September 2001 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 29 September 2001 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

## Principal subsidiaries

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

### Registered in England and Wales

Name	Principal activity
Imperial Tobacco Finance PLC	Finance company
Imperial Tobacco International Limited	Export and marketing of tobacco products
Rizla UK Limited	Manufacture of cigarette papers in the UK
Sinclair Collis Limited	Cigarette vending machine operations in the UK

### Incorporated overseas

Name and country of incorporation	Principal activity
Baelen International N.V., Belgium	Purchase of tobacco leaf
Cadena Holland B.V., The Netherlands	Manufacture, marketing and distribution of cigars
EFKA Canada Limited, Canada	Manufacture of cigarette papers and tubes in Canada
Ets. L. Lacroix Fils N.V. (Rizla Belgium N.V.), Belgium	Manufacture of cigarette papers and accessories and marketing and distribution of tobacco products in Belgium
Imperial Tobacco Agio GmbH, Germany	Marketing and distribution of tobacco products in Germany
Imperial Tobacco Australia Limited, Australia	Marketing and distribution of tobacco products in Australia
Imperial Tobacco France S.A., France	Marketing of tobacco products in France
Imperial Tobacco Overseas B.V., The Netherlands	Finance company
Imperial Tobacco Overseas Holdings B.V., The Netherlands	Finance company
Imperial Tobacco New Zealand Limited, New Zealand	Manufacture, marketing and distribution of tobacco products in New Zealand
Imperial Tobacco RYO Manufacturing B.V., The Netherlands	Manufacture of roll your own tobacco
ITL Pacific (HK) Limited, People's Republic of China	Marketing and distribution of tobacco products in Asia Pacific
John Player & Sons Limited, Republic of Ireland	Manufacture, marketing and distribution of tobacco products in the Republic of Ireland
John Player S.L., Spain	Marketing of tobacco products in Spain
Rizla International B.V., The Netherlands	Marketing and distribution of cigarette papers and other tobacco accessories
Tabakbedrijf Baelen N.V., Belgium	Manufacture of roll your own tobacco
Van Nelle (Ireland) Limited, Republic of Ireland	Manufacture of roll your own tobacco
Van Nelle Tabak Nederland B.V., The Netherlands	Distribution of tobacco products in The Netherlands
Van Nelle Tobacco International Holdings B.V., The Netherlands	Distribution of roll your own and pipe tobaccos

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

Incorporated overseas Name and country of incorporation	Effective % owned	Actual % owned	Principal activity
Tobacco S.A., France	75	75	Holding company
Coralma International S.A., France	75	100	Holding company
Dunkerquoise des Blends S.A., France	75	100	Tobacco processing
Ivoirienne de Participation et de Financement S.A., Cote d'Ivoire	75	100	Holding company
Societe Ivoirienne des Tabacs S.A., Cote d'Ivoire <sup>1</sup>	56	72	Manufacture, marketing and distributions of tobacco

<sup>1</sup> Listed on the Cote d'Ivoire Stock Exchange

In addition the Company also wholly owns the following partnership, whose place of business is Industriestrasse 6, Postfach 1257, D-78636 Trossingen, Germany.

Name and country	Principal activity
Imperial Tobacco (EFKA) GmbH & Co. KG, Germany	Manufacture of cigarette papers and tubes in Germany