

Company Number: 1860181

IMPERIAL TOBACCO LIMITED

Annual Report and Accounts 2004



Board of Directors

G Davis	Chief Executive
R Dyrbus	Finance Director
G L Blashill	Regional Director Western Europe
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	(resigned 30 September 2004)
M R Phillips	(appointed 1 October 2004)

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 2004.

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 19.

Financial results and dividends

The profit after taxation for the financial year was £1,053m (2003: £343m).

The Directors have declared dividends as follows:

<i>(In £'s million)</i>	2004	2003
Proposed final	1,077	420

Business and financial review

The Company achieved an operating profit in the year of £393m (2003: £295m) with results reflecting growing market shares, relatively stable duty paid cigarette volumes, the benefits of manufacturer's price increases and cost efficiencies.

Branded cigarette market share continued to grow from an average share of 44.0% in 2003 to 44.6% in 2004. In the first full year of advertising restrictions in the UK, market shares benefited from brand equity inherent in its portfolio. The UK number one and number two cigarette brands, *Lambert and Butler* and *Richmond*, performed well with market shares of 16.2% and 13.2% respectively (2003: 16.3% and 11.5%). In addition there was a robust performance in a declining premium segment with *Regal* and *Embassy*.

It is encouraging that the UK market has stabilised this year, and the Company estimates the UK duty paid cigarette market at 53 billion cigarettes in the year to September 2004 (2003: 54 billion). As consumers have continued to search for greater value, the highly competitive ultra low price sector has grown, now accounting for 37% of the total market. In addition, the Company estimates that the UK roll your own tobacco market is up to 2,900 tonnes (2003: 2,800 tonnes).

The Company's market leadership in the UK roll your own tobacco market was further extended with a market share of over 65%, with *Golden Virginia* delivering a strong performance.

Imperial Tobacco's trade marketing capabilities continue to improve brand availability and point of sale visibility, despite reduced opportunities to communicate with consumers.

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.

In the context of stable market and continuing downtrading, the Company's strong brand equity across the product portfolio leaves it well placed for improving levels of profit delivery.

Report of the Directors

Directorate

The present Board of Directors is shown on page 1.

Directors' interests in shares (beneficial and family interests)

The declarable interests of Mr G Davis, Mr R Dyrbus, Mr D Cresswell and Mr F A Rogerson are disclosed in the published accounts of Imperial Tobacco Group PLC.

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 1/10/03	Balance at 30/9/04	Balance at 1/10/03	Balance at 30/9/04	Balance at 1/10/03	Balance at 30/9/04
G L Blashill	94,581	84,012	1,152	1,152	71,805	65,407
K Hill	79,370	79,370	1,979	1,979	72,443	64,924
K A Brown	2,131	8,045	1,125	1,125	12,037	28,589

There have been no changes in these holdings since 30 September 2004.

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 per cent 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 1/10/03	Granted during year	Exercised during year	Market price at date of exercise £	Balance at 30/9/04	Exercise price £	Range of exercisable dates of options held at 30/9/04
G L Blashill	1,152	-	-		1,152	8.24	1/8/2005 - 31/1/2006
K Hill	1,205	-	-		1,205	8.24	1/8/2007 - 31/1/2008
	774	-	-		774	8.22	1/8/2008 - 31/1/2009
K A Brown	1,125	-	-		1,125	8.22	1/8/2006 - 31/1/2007

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 Trusts. 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 in these holdings since 30 September 2004.

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

For the November 2002 award, the performance criterion is based on Imperial Tobacco Group PLC's earnings per share (EPS) growth. The award vests 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 the performance criterion remains challenging, the lower threshold was raised in 2003. Therefore for the 2003 award and the proposed 2004 award, 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 1/10/03	Granted during year	Vested during year	Market price at date of exercise £	Balance at 30/9/04	Performance period
G L Blashill	11,322	-	(11,322)	10.75	-	November 2000 - November 2003
	10,874	-	-		10,874	November 2001 - November 2004
	8,863	-	-		8,863	November 2002 - November 2005
	-	9,912	-		9,912	November 2003 - November 2006
	31,059	9,912	(11,322)		29,649	
K Hill	11,322	-	(11,322)	10.75	-	November 2000 - November 2003
	10,874	-	-		10,874	November 2001 - November 2004
	8,863	-	-		8,863	November 2002 - November 2005
	-	9,429	-		9,429	November 2003 - November 2006
	31,059	9,429	(11,322)		29,166	
K A Brown	9,906	-	-		9,906	November 2002 - November 2005
	-	10,638	-		10,638	November 2003 - November 2006
	9,906	10,638	-		20,544	

During the year, the November 2000 - November 2003 award vested in full.

In respect of the November 2001 - November 2004 award, based on Imperial Tobacco Group PLC's earnings per share to the end of the financial year, 100 per cent of the award will vest.

For illustrative purposes only, the share price on 4 November 2004, being the latest practicable date prior to publication, was £12.86 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	-	10,874	140
K Hill	-	10,874	140

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

The November 2002 - November 2005 and the November 2003 - November 2006 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 1/10/03	Contingent rights arising	Vested during year	Market price at date of exercise £	Balance at 30/9/04	Expected vesting date
G L Blashill	15,935	-	(15,935)	10.87	-	January 2004
	12,794	-	-		12,794	January 2005
	294	-	-		294	August 2007
	11,723	-	-		11,723	January 2006
	-	10,947	-		10,947	January 2007
	40,746	10,947	(15,935)		35,758	
K Hill	16,573	-	(16,573)	10.87	-	January 2004
	12,794	-	-		12,794	January 2005
	294	-	-		294	August 2007
	11,723	-	-		11,723	January 2006
	-	10,947	-		10,947	January 2007
	41,384	10,947	(16,573)		35,758	
K A Brown	2,131	-	-		2,131	January 2006
	-	5,914	-		5,914	January 2007
	2,131	5,914	-		8,045	

The middle market price of Imperial Tobacco Group PLC shares at the close of business on 30 September 2004 was £12.04 and the range of the middle market price during the year was £9.67 to £12.86.

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 4.1m ordinary shares of Imperial Tobacco Group PLC held by the Trusts at 30 September 2004.

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.

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 £6,000 (2003: £2,000). No political donations were made during the year (2003: £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. 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" 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 2004 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 2004, the Company's trade creditors represented 45 days of trade purchases. This excludes trade purchases of leaf for which special payment terms apply.

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



M R Phillips
Company Secretary
5 November 2004

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.

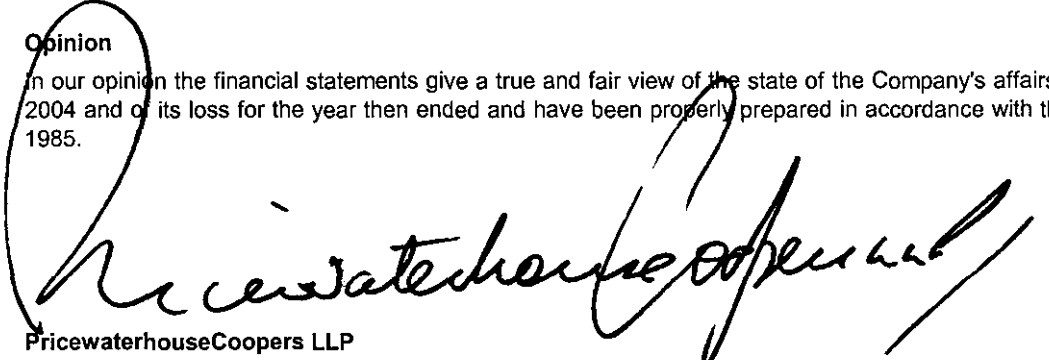
Basis of audit opinion

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 2004 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
5 November 2004

Profit and loss account

for the year ended 30 September 2004

<i>(In £'s million)</i>	Notes	2004	2003
Turnover		4,631	4,424
Duty in turnover		(3,880)	(3,667)
Costs and overheads less other income	2	(358)	(462)
Operating profit		393	295
Income from shares in group undertakings		740	80
Profit on ordinary activities before interest and taxation		1,133	375
Net interest	4	-	17
Profit on ordinary activities before taxation		1,133	392
Taxation	5	(81)	(49)
Profit on ordinary activities after taxation		1,052	343
Dividends	6	(1,077)	(420)
Loss for the year	14	(25)	(77)

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 2004

<i>(In £'s million)</i>	Notes	2004	2003
Fixed assets			
Tangible assets	7	141	134
Investments	8	3,626	1,506
		3,767	1,640
Current assets			
Stocks	9	119	138
Debtors	10	3,198	2,246
Cash		15	20
		3,332	2,404
Creditors: amounts falling due within one year	11	(6,094)	(3,024)
Net current liabilities		(2,762)	(620)
Total assets less current liabilities		1,005	1,020
Provisions for liabilities and charges	12	(16)	(11)
Net assets		989	1,009
Capital and reserves			
Called up share capital	13	11	11
Share premium account	14	973	973
Profit and loss account	14	5	25
Equity shareholders' funds	18	989	1,009

The accounts on pages 8 to 19 were approved by the Board of Directors on 5 November 2004 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 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.

Changes in accounting policy

Changes in accounting policy have been made following the adoption of UITF Abstract 17 (Revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts" as issued by the Accounting Standards Board (ASB).

The cost of employee share schemes is charged to the profit and loss account using the quoted market price of shares at the date of grant less the exercise price of the share options granted.

The profit and loss account for the year ended 30 September 2003 has not been restated as the effect in any one period is not material. The impact of the change in accounting policy in the year to 30 September 2004 on profit after tax is not material.

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 (income 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.

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.

Accounting policies

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 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>	2004	2003
Changes in stocks of finished goods and work in progress (excluding excise duty)	(2)	(6)
Raw materials and consumables (excluding excise duty)	121	161
Employment costs (note 3)	90	88
Depreciation	14	15
Exchange movements	-	25
Other operating charges	135	179
	358	462

<i>(In £'s million)</i>	2004	2003
Other operating charges above include:		
Auditors' fees and expenses:		
for the audit	0.1	0.1
for non-audit work in the UK	0.5	1.3

3 Directors and employees

Employment costs

<i>(In £'s million)</i>	2004	2003
Wages and salaries	83	81
Social security costs	7	7
	90	88

Average number of persons employed by the Company during the year

<i>(Number)</i>	2004	2003
	2,045	2,140

Directors' emoluments

<i>(In £'s thousand)</i>	2004	2003
Salary	2,300	1,937
Benefits	98	79
Bonus	1,943	1,317
LTIP annual vesting ¹	1,582	1,490
SMS annual vesting ¹	1,708	1,639
Total aggregate emoluments	7,631	6,462

¹ Value of LTIP and SMS vesting in the year.

The emoluments of the highest paid Director were £2,619,004 (2003: £2,153,003), 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 £443,000 (2003: £403,000).

Notes to the accounts

4 Net interest

<i>(In £'s million)</i>	2004	2003
Interest payable		
Group undertakings	-	29
Interest receivable		
Group undertakings	-	(46)
	-	(17)

5 Taxation

Analysis of charge in the year

<i>(In £'s million)</i>	2004	2003
UK		
Current tax		
Corporation tax at 30.0% (2003: 30.0%)	75	49
Adjustments to current tax in respect of prior years	1	1
	76	50
Deferred tax		
Origination and reversal of timing differences	7	(1)
Adjustment in respect of prior years	(2)	-
	5	(1)
	81	49

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>	2004	2003
Profit on ordinary activities before taxation	1,133	392
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2003: 30.0%)	340	117
Effects of:		
Group relief	(39)	(52)
Adjustments to tax charge in respect of prior years	1	1
Current deferred tax	(7)	1
Dividends from other UK Group companies (non-taxable)	(222)	(24)
Other	3	7
Total current tax	76	50

The taxation charge for the year has been reduced by £39m (2003: £52m) 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 declared as follows:

<i>(In £'s million)</i>	2004	2003
Proposed final	1,077	420

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 2003	35	248	36	319
Additions	-	17	17	34
Disposals	(5)	(16)	(3)	(24)
As at 30 September 2004	30	249	50	329
Accumulated depreciation				
As at 1 October 2003	11	153	21	185
Charge for the year	-	5	9	14
Disposals	(1)	(7)	(3)	(11)
As at 30 September 2004	10	151	27	188
Net book value				
As at 30 September 2004	20	98	23	141
As at 30 September 2003	24	95	15	134

Land and buildings at net book value:

<i>(In £'s million)</i>	2004	2003
Freehold	8	8
Long leasehold	12	16
	20	24

8 Fixed asset investments

<i>(In £'s million)</i>	Subsidiary undertakings	Imperial Tobacco Group PLC shares	Total
As at 1 October 2003 as previously stated	1,470	36	1,506
Prior year adjustments (see note 14)	-	5	5
As at 1 October 2003 as restated	1,470	41	1,511
Net investment in the year	2,124	-	2,124
Amortisation charge in the year	-	(9)	(9)
As at 30 September 2004	3,594	32	3,626

Notes to the accounts

8 Fixed asset investments (continued)

Investment in subsidiary undertakings

The increase in the investment in subsidiary undertakings relates 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 2004, the Trusts held 4.1m (2003: 5.5m) ordinary shares acquired in the open market at a cost of £37.2m (2003: £49.1m) financed by a gift of £1.7m and an interest free loan of £35.5m. None of the shares have been allocated to employees or Directors as at 30 September 2004. 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 2004 was £49m (2003: £54m).

9 Stocks

<i>(In £'s million)</i>	2004	2003
Raw materials	74	86
Work in progress	3	5
Finished goods	42	47
	119	138

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 be ordinarily utilised within two years.

10 Debtors

<i>(In £'s million)</i>	2004	2003
Amounts falling due within one year		
Trade debtors	552	496
Amounts owed by parent company and fellow subsidiary undertakings	893	775
Amounts owed by subsidiary undertakings	1,745	966
Other debtors and prepayments	8	9
	3,198	2,246

Notes to the accounts

11 Creditors

<i>(In £'s million)</i>	2004	2003
Amounts falling due within one year		
Bank overdrafts	1	8
Trade creditors	40	46
Amounts owed to subsidiary undertakings	4,380	1,943
Corporation tax	33	25
Other taxes, duties, and social security contributions	529	544
Other creditors	24	29
Accruals and deferred income	10	9
Proposed dividend	1,077	420
	6,094	3,024

12 Provisions for liabilities and charges

<i>(In £'s million)</i>	Reorganisation and rationalisation	Deferred taxation	Other	Total
As at 1 October 2003	3	6	2	11
Provided in the year	-	7	-	7
Other movements	-	(2)	-	(2)
As at 30 September 2004	3	11	2	16

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

<i>(In £'s million)</i>	Provided		Unprovided	
	2004	2003	2004	2003
Excess of capital allowances	13	10	-	-
Chargeable gains on property	-	-	4	4
Short-term timing differences	(2)	(4)	-	-
	11	6	4	4

13 Called up share capital

<i>(In £'s million)</i>	2004	2003
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 1 October 2003	973	25
Loss for the year	-	(25)
Credit in respect of employee share schemes (see below)	-	5
As at 30 September 2004	973	5

Employee share schemes:

The policy for accounting of share schemes was changed during the year ended 30 September 2004 to comply with UITF Abstract 17 (Revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts" (see Accounting Policies).

The profit and loss account for the year ended 30 September 2003 has not been restated as the effect in any one period is not material. The impact of the change in accounting policy in the year to 30 September 2004 on profit after tax is not material.

Notes to the accounts

15 Capital commitments

<i>(In £'s million)</i>	2004	2003
Contracted but not provided for	7	5

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 2004. 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 valuation of the Scheme, stock markets have fallen significantly and the market value of the assets of the Scheme has been affected by these developments. The liabilities of the Scheme are valued using a discount rate which reflects the market levels at the date of the valuation. Hence, the fall in the market value of the Scheme's assets does not, in itself, change the estimate of the cost of providing the pension benefits promised based on the methodology adopted for calculating the cost. The cost will be reassessed next year following the publication of the results of the formal valuation as at 31 March 2004.

FRS 17 disclosures for the year to 30 September 2004

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 2004 revealed a small surplus.

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>	2004	2003
Profit on ordinary activities after taxation	1,052	343
Dividends	(1,077)	(420)
Loss for the year	(25)	(77)
<i>Credit in respect of employee share schemes (see note 14)</i>	5	-
Net reduction in shareholders' funds	(20)	(77)
Opening shareholders' funds	1,009	1,086
Closing shareholders' funds	989	1,009

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 Credit Facilities dated 7 March 2002 and 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., a fellow subsidiary of Imperial Tobacco Group PLC.

At 30 September 2004, the contingent liability totalled £3,805m (2003: £4,344m).

21 Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of Imperial Tobacco Limited at 30 September 2004 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 2004 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
Dunkerquoise des Blends S.A., France	Tobacco processing
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) 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 Magyarország Dohányforgalmazó Kft, Hungary	Marketing and sale of tobacco products in Hungary
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 Slovakia, Slovakia	Manufacture, marketing and sale of tobacco products in the Slovak Republic
John Player & Sons Limited, Republic of Ireland	Manufacture, 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 International Praha spol s.r.o., Czech Republic	Marketing and sale of tobacco products in the Czech Republic
Reemtsma Kiev Tyutyunova Fabrika, Ukraine	Manufacture of cigarettes in the Ukraine
Reemtsma Ukraine, Ukraine	Marketing and sale of tobacco products in the Ukraine
OOO Reemtsma Volga Tabakfabrik, Russia	Manufacture of tobacco products in Russia
OOO Reemtsma, Russia	Marketing and sale of tobacco products in Russia
Tobaccor S.A.S., France	Holding investments in subsidiary companies
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
Reemtsma Kyrgyzstan AO, Kyrgyzstan	Manufacture, marketing and sale of tobacco products in Kyrgyzstan	98.7
Imperial Tobacco Polska S.A., Poland	Manufacture, marketing and sale of tobacco products in Poland	96
Societe Ivoirienne des Tabacs S.A. ¹ , Cote d'Ivoire	Manufacture, marketing and sale of tobacco products in the Ivory Coast	74
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: Max-Born-Strasse 4, 22761 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.