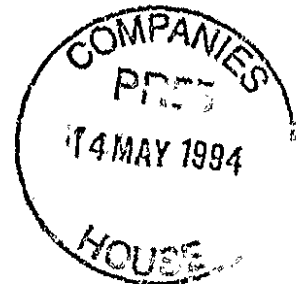




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BRITISH-AMERICAN TOBACCO COMPANY LIMITED

REPORT AND ACCOUNTS
FOR THE YEAR TO 31 DECEMBER 1993



British-American Tobacco Company Limited

BAT Co Ltd

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Notice of meeting

Notice is hereby given that the ninety-first annual general meeting of British-American Tobacco Company Limited will be held at Millbank, Knowle Green, Staines TW18 1DY, on Tuesday 3 May 1994 at 9.30 am for the transaction of the following business:

- 1 To receive and consider the accounts for the year ended 31 December 1993 and the reports of the directors and auditors thereon.
- 2 To elect directors.
- 3 To re-elect Price Waterhouse as auditors
- 4 To authorise the directors to fix the auditors' remuneration

By order of the board

P I. Clarke, Secretary
7 March 1994

Note:

Only the holders of ordinary shares are entitled to attend or be represented at the meeting. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. Such proxy need not be a member of the Company.

Secretary and registered office

P I. Clarke, Secretary,
Knowle Green, Staines,
Middlesex TW18 1DY

Registrar

Lloyds Bank Plc, Registrar's Department,
Goring-by-Sea, Worthing,
West Sussex BN99 6DA

Auditors

Price Waterhouse,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY

Price Waterhouse, who replaced Coopers & Lybrand as auditors during the year, have indicated their willingness to continue in office.

Report of the Directors of BAT Co Ltd

Board of Directors

Chairman

Barry David Bramley

Other Directors

Paul Nicholas Adams

Nicholas George Brookes
(resigned 17 March 1993)

Norman Davis

Keith Silvester Dunt

Richard Stuart Hartley

Richard Henry Pilbeam

Jimmi Rembiszewski

Donald Stuart Watterton

In pursuance of the articles of association Messrs P N Adams, N Davis and D S Watterton retire from the board at the annual general meeting and will be proposed for re-election.

No director had any material interest in a contract of significance with the Company or with any subsidiary undertaking during the year.

Directors' Interests

The interests in the share and loan capital and share option schemes of B.A.T Industries p.l.c. and its subsidiary undertakings at the end of the financial year, as shown by the register kept by the Company, of the persons who at that time were directors, are shown below. The holdings at the beginning of the financial year, adjusted, where necessary, to reflect a 1:1 capitalisation issue by B.A.T Industries p.l.c. in May 1993, are shown in brackets. There are no non-beneficial holdings.

	B.A.T Industries p.l.c.			
	Ordinary 25p Shares		Share Options	
P N Adams	2,045	(784)	41,740	(38,860)
B D Bramley	162,239	(155,268)	247,566	(247,566)
N Davis	5,545	(4,706)	39,462	(38,222)
K S Dunt	2,019	(1,366)	46,008	(43,668)
R S Hartley	45,646	(43,264)	25,556	(24,556)
R H Pilbeam	18,680	(17,030)	54,560	(52,840)
J Rembiszewski	575	(Nil)	50,173	(41,540)
D S Watterton	1,817	(1,174)	51,386	(50,466)

Holdings at 7 March 1994 are shown below where they differ from those at the end of the financial year.

R H Pilbeam 18,835

Share options granted during the year were as follows:

P N Adams	2,880
N Davis	1,240
K S Dunt	2,340
R S Hartley	1,000
R H Pilbeam	1,720
J Rembiszewski	8,633
D S Watterton	920

No share options were exercised. Details of the share option schemes are included in the Report and Accounts of B.A.T Industries p.l.c.

W. D. & H.O. Wills Holdings Ltd

Ordinary

Australian \$ 1 Shares

P N Adams	2,000	(2,000)
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Parent Company

The whole of the equity share capital of BAT Co Ltd is owned by Staines Investments Limited, a wholly owned subsidiary company of B.A.T Industries p.l.c. Both the parent company and the ultimate parent company are incorporated in the United Kingdom and registered in England and Wales.

Copies of the Report and Accounts of B.A.T Industries p.l.c. the only company which prepares group accounts into which the results of the Group - BAT Co Ltd and its subsidiary undertakings - are consolidated, may be obtained from:

The Company Secretary,
Windsor House,
50 Victoria Street,
London SW1H 0NL.

Principal Activities

The Group's principal activities are the marketing and manufacture of tobacco products.

Some 240 cigarette brand names are in use throughout the world and in addition an extensive range of smoking tobacco and cigars is manufactured.

The companies of the Group, as well as being large buyers of tobacco from the traditional markets such as the USA, Canada, Brazil, Africa and the Near East, have also pioneered tobacco growing by independent farmers in other parts of the world and developed leaf exports. Many companies continue to give technical assistance to farmers growing tobacco crops.

There are also investments in overseas companies engaged in food, agri-business, paper and packaging, hotel and other commercial activities.

Changes in the Group

At the end of February 1993, Pioneer Tobacco Co Ltd, an associated undertaking operating in Ghana, became a subsidiary following the acquisition of a further 10 per cent holding in the equity share capital. The change in status of Pioneer Tobacco Co Ltd has not had a material impact on the overall results of the Group.

Report of the Directors of BAT Co Ltd *continued*

Strategic Exchange of Brands

In June 1993 the Group acquired from American Brands, Inc. its Lucky Strike and Pall Mall cigarette businesses in France and certain other parts of the world outside the USA, as well as the right to supply the brands to the duty free trade in the USA. At the same time, the Group transferred to American Brands, Inc. its Benson & Hedges business in the duty paid markets of the European Union and received substantial consideration in addition.

The profit of £138 million arising on the exchange represents the consideration payable to the Group, net of estimated reorganisation expenses of £14 million. The proceeds consist of £70 million in cash, with the balance representing the net present value of deferred consideration relating to Benson & Hedges sales in certain European markets over a ten year period.

In order to assist in understanding the Group's results for the year and in view of its unusual materiality, the directors believe that it is appropriate to show the profit on exchange of brands separately to trading profit on the face of the profit and loss account.

Review of the Year

Progress continues with the launching of key brands into new markets and the further development of global marketing activities and the Group is well positioned to benefit from the continuing demand for high quality products. Increasingly, the Group's focus, both from a management priority and a communications viewpoint, will be in support of its range of international brands which, in developing their long term momentum, offer the best scope for profitable growth in the future.

After excluding the impact of the strategic exchange of brands, the Group has still achieved a satisfactory increase in profit, although volume was slightly lower. There were difficult trading conditions in a number of markets as well as trade distortions in the early part of the year.

Exports from the UK showed significant further growth with State Express 555 and John Player Gold Leaf both making good progress. Overall profits increased substantially, benefiting from higher volume and the sterling US dollar exchange rate. The major development programme at the Southampton factory is progressing well and production volumes continued to increase.

In Continental Europe, Barclay gained market share in Holland and Switzerland and was successfully launched in France. However, total cigarette sales were lower and, with difficult trading conditions in Spain and the growth of lower price segments in some other markets, overall profits were down. The company in Hungary made encouraging progress with Sopiane maintaining its market leadership, and profits were higher.

In South America, Bigott in Venezuela achieved a significant increase in market share and, along with

Chiletabacos, produced higher profits. However, overall profits in South and Central America were adversely affected by the costs of restructuring the local export business and increased competition in Argentina and Central America.

In Australia, Wills reported higher trading profit and maintained market share, but overall profit was lower following a one-off book adjustment for state licence fees. BAT Hong Kong faced difficult domestic market conditions and profits were lower. By the end of the year, BAT China had opened seven representative offices in China and sales and marketing plans are progressing well. Most companies elsewhere in Asia showed encouraging increases in profits.

Profits from the companies in Africa were higher with excellent performances in Kenya and Nigeria.

Associated Undertakings

In Denmark, Skandinavisk Tobakskompagni reported marginally lower domestic and export volumes but profits were slightly up. In India, ITC increased market share while profits benefited substantially from improved margins and higher export volumes.

Transfers to Reserves

After taking into account dividends of £301 million, the profit transferred to Group reserves was £223 million.

Corporate Governance

Except as detailed below, BAT Co Ltd has complied throughout the year with the principal recommendations of the Cadbury Code of Best Practice and, since 1 July 1993, with all the Code's agreed guidelines. The areas of non-compliance are with the full knowledge and continuing acceptance of the ultimate parent company, B.A.T. Industries p.l.c.

With respect to paragraphs 1.3, 2.1, 2.2, 2.3, 2.4, 3.3 and 4.3 of the Code, there are no non-executive members on the board of directors. With respect to paragraph 3.3, there is no remuneration committee, the directors' emoluments being subject to the approval of B.A.T. Industries p.l.c. With respect to paragraph 4.3, the Company has an audit committee consisting of three representatives of B.A.T. Industries p.l.c.

Employment of the Disabled in the United Kingdom

The Group's policy on recruitment is based on the ability of a candidate to perform the job. Full and fair consideration is given to applications for employment from the disabled where they have the appropriate skills and abilities to perform the job.

If a disabled applicant proves a suitable candidate for employment, modification of facilities and the provision of special equipment and facilities is considered favourably. If employees become disabled during the

course of their employment with the Group and as a result are unable to perform their normal jobs, every effort is made to offer suitable alternative employment to them, to provide assistance with re-training and to deal with their cases as co-passionately as possible.

It is Group policy to encourage the training and further development of all employees where this is of benefit to the individual and to the company concerned. This of course includes the provision of training to meet the special needs of disabled employees.

Employee Involvement

The Company supports the concept of employee involvement and follows a process of regular communications with all employees about the business, its plans, issues and progress.

This communication programme is based on business briefings, supported by regular editions of two Company magazines, B&T Bulletin and Tobacco News, the issue of information sheets on specific subjects, and employee consultation through appropriate committees.

Regular news sheets and presentations are used to keep staff fully informed about the UK management reorganisation and the factory expansion programme.

UK employees are able to have a greater involvement in the financial performance of the business through the ultimate parent company's SAYE share option and share participation schemes.

Employees

The geographical spread of the average number of persons employed by the Group is as follows:

	1993	1992
United Kingdom	1,656	1,619
Europe	3,085	3,421
Caribbean & Central America	2,106	2,125
South America	6,942	7,054
Australasia	2,067	2,261
Asia	9,453	10,301
Africa	10,635	10,872
	<u>35,944</u>	<u>37,653</u>

The industrial spread is:

Tobacco	32,417	34,018
Other activities	3,527	3,635
	<u>35,944</u>	<u>37,653</u>

Research and Development Activities

Research and development is an integral part of the business supporting the growing and blending of tobacco leaf, and the design, production and marketing of competitive cigarette products.

Research is also undertaken into various aspects of the current medical controversy on smoking, including continued significant funding of independent medical studies.

Directors' and Officers' Liability Insurance

During 1993, the Company purchased Directors' and Officers' liability insurance cover for its directors and officers.

Charitable Contributions

Payments for charitable purposes made by the Group amounted to £1.0 million of which £0.4 million was paid in the United Kingdom. This forms part of the Group's community involvement programme. The Company operates a matched giving scheme which supports employees' fundraising efforts.

Directors' Statement of Responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements. The report of the auditors, shown on the next page, sets out their responsibilities in relation to the financial statements.

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 and the Group as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the directors are required to:

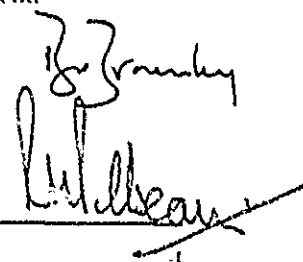
- select appropriate accounting policies and apply them consistently, subject to any material departures being disclosed and explained;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The directors consider that they have met their responsibilities as set out in this statement.

On behalf of the board
B D Bramley, R H Pilbeam *Directors*
7 March 1994



Auditors' Report to the Shareholders of British-American Tobacco Company Limited

We have audited the financial statements on pages 6 to 20 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 4 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to 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 the information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1993 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse

Chartered Accountants and Registered Auditors

Southwark Towers,
32 London Bridge Street,
London SE1 9SY

7 March 1994

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Group Profit and Loss Account

For the year ended 31 December

£ millions

	1993	1992
Turnover (note 1)	5,154	4,548
Trading profit	512	475
Profit on exchange of brands (note 2)	138	
Operating profit (note 1)	650	475
Investment income (note 5)	48	53
Interest paid (note 6)	43	30
	655	498
Share of associated undertakings' profit before taxation (page 21)	56	46
Profit on ordinary activities before taxation	711	544
Taxation on ordinary activities (note 7)	147	116
Profit on ordinary activities after taxation	564	428
Attributable to minority shareholders	40	46
Profit for the year (note 8)	524	382
Dividends (note 9)	301	248
Retained profit - translated at average rates of exchange	223	134
Earnings per share (note 10)	105.4p	76.9p

Statement of Total Recognised Gains and Losses

For the year ended 31 December

£ millions

	1993	1992
Profit for the year	524	382
Difference on exchange arising on the retranslation of retained profit at closing rates of exchange	(2)	5
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year	(30)	54
Total recognised gains relating to the year	492	441

The reconciliation of movements in the interest of BAT Co Ltd shareholders is dealt with in note 21 on page 18.

Notes are shown on pages 6 to 8 and 11 to 20.

Group Turnover and Profit Analyses

£ millions

	1993	%	1992	%
Geographical analyses				
Turnover including duty, excise and other taxes				
United Kingdom	593	11	499	11
Europe	1,081	21	963	21
Caribbean/ Central America	159	3	159	3
South America	1,197	23	1,022	22
Australasia	749	15	617	14
Asia	960	19	940	21
Africa	415	8	357	8
	<u>5,154</u>	<u>100</u>	<u>4,548</u>	<u>100</u>
Trading profit				
United Kingdom	235	46	142	30
Europe	28	6	47	10
Caribbean/ Central America	14	3	27	6
South America	83	16	86	18
Australasia	16	3	30	6
Asia	78	15	98	21
Africa	58	11	45	9
	<u>512</u>	<u>100</u>	<u>475</u>	<u>100</u>
Industrial analyses				
Turnover including duty, excise and other taxes				
Tobacco	5,061	98	4,466	98
Other activities	93	2	82	2
	<u>5,154</u>	<u>100</u>	<u>4,548</u>	<u>100</u>
Trading profit				
Tobacco	501	98	466	98
Other activities	11	2	9	2
	<u>512</u>	<u>100</u>	<u>475</u>	<u>100</u>
Profit on ordinary activities before taxation				
Tobacco	701	99	536	99
Other activities	10	1	8	1
	<u>711</u>	<u>100</u>	<u>544</u>	<u>100</u>

The analyses are based on the area of manufacture in respect of sales of the Group's own manufacture and the area of the purchasing subsidiary undertaking in respect of sales of products manufactured outside the Group. Royalty income less related expenditure is included in the geographical area in which the licensor is located. A geographical analysis of turnover in 1993 based on location of market would not be materially different with the exception of sales from the United Kingdom to Asia and Africa which amounted to £520 million and £17 million respectively.

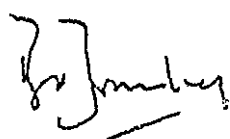
Balance Sheets

31 December

£ millions

	Group		Company	
	1993	1992	1993	1992
Assets				
Tangible fixed assets (note 12)	758	691	28	27
Investments in Group companies (note 14)			366	365
Investments in associated undertakings (note 15)	89	74	2	2
Other investments and long term loans (note 16)	31	32	25	27
Fixed assets	878	797	421	421
Stocks (note 17)	862	814	1	1
Debtors (note 18)	464	366	335	212
Current investments (note 19)	433	282	415	276
Short term deposits	111	121		2
Cash and bank balances	37	48	4	2
Total assets	2,785	2,428	1,176	914
Liabilities				
Capital and reserves				
Share capital	135	135	135	135
Other reserves	105	111	28	28
Profit and loss account	1,031	850	605	443
Associated undertakings	73	58		
Interest of BAI Co Ltd shareholders (note 21)	1,344	1,151	768	606
Interest of minority shareholders	164	165		
Shareholders' funds	1,508	1,319	768	606
Provisions for liabilities and charges (note 22)	107	104	18	22
Borrowings (note 25)	401	278	139	32
Creditors (note 26)	769	727	251	254
Total funds employed	2,785	2,428	1,176	914

On behalf of the board
B D Bramley, R H Pilbeam *Directors*
7 March 1994

Notes are shown on pages 6, 8 and 11 to 20.

Group Cash Flow Statement

For the year ended 31 December

£ millions

	1993	1992
Net cash inflow from operating activities (note 4)	<u>555</u>	<u>443</u>
Investment income	48	52
Interest paid	(43)	(31)
Dividends from associated undertakings	23	15
Dividends to BAT Co Ltd shareholders	(301)	(307)
Dividends to minorities	(32)	(22)
Net cash outflow from return on investments and servicing of finance	<u>(305)</u>	<u>(293)</u>
Taxation paid	<u>(80)</u>	<u>(86)</u>
Capital expenditure	(181)	(164)
Sales of fixed assets	14	33
Subsidiary undertakings:		
- purchases	(2)	(19)
- sales		6
Other investments:		
- purchases	(15)	(8)
- sales	9	9
Net cash outflow from investing activities	<u>(175)</u>	<u>(143)</u>
Net cash outflow before external financing (from above items)	<u>(5)</u>	<u>(79)</u>
Increases in external borrowings	57	57
Repayments of external borrowings	(52)	(26)
Movements in borrowings from the ultimate holding company and fellow subsidiary undertakings	103	41
Capital element of finance lease repayments	(2)	(2)
Net cash inflow from financing activities	<u>106</u>	<u>70</u>
Increase / (decrease) in cash and cash equivalents	<u>101</u>	<u>(9)</u>

Analysis of cash flow changes

	Financing activities		Cash and cash equivalents	
	1993	1992	1993	1992
Balance at 1 January	180	93	319	330
Effect of changes in exchange rates	(8)	17		(2)
Net cash flows	106	70	101	(9)
Inception of finance leases	3			
Balance at 31 December (notes 27 and 20)	<u>281</u>	<u>180</u>	<u>420</u>	<u>319</u>

Notes to the Financial Statements

£ millions

	1993	1992
1 Turnover and operating profit		
Turnover including duty, excise and other taxes	5,154	4,548
Duty, excise and other taxes	<u>2,740</u>	<u>2,383</u>
	2,414	2,165
Other operating income	<u>215</u>	<u>82</u>
Operating income	2,629	2,247
Operating charges	<u>1,979</u>	<u>1,772</u>
Operating profit	<u>650</u>	<u>475</u>
Other operating income includes:		
Proceeds on exchange of brands (note 2)	152	-
Operating charges comprise:		
Raw materials and consumables	885	846
Change in stock of finished goods and work in progress	11	(30)
Staff costs	371	335
Depreciation	77	68
Other operating charges	<u>635</u>	<u>553</u>
	<u>1,979</u>	<u>1,772</u>
Staff costs comprise:		
Wages and salaries	291	262
Social security costs	54	46
Other pension costs	<u>26</u>	<u>27</u>
	<u>371</u>	<u>335</u>
Other pension costs comprise:		
Funded plans - defined contribution	2	2
- defined benefit	13	11
Unfunded plans - defined benefit	<u>11</u>	<u>14</u>
	<u>26</u>	<u>27</u>
Information in respect of the number of persons employed by the Group is given on page 4.		
Depreciation includes:		
Depreciation in respect of assets held under finance leases	3	2
Other operating charges include:		
Reorganisation expenses relating to exchange of brands (note 2)	14	-
Rent of machinery and equipment (operating leases)	1	1
Rent of land and buildings (operating leases)	28	14
Research and development expenses	13	17
Finance charges in respect of finance leases	1	1
Auditors' fees (BAT Co Ltd £198,000 1992 £184,000)	<u>1.71</u>	<u>1.65</u>
Non audit fees paid to the Company's auditors were £243,000 (1992 £5,000)		

2 Profit on exchange of brands

In June 1993 the Group acquired from American Brands, Inc. its Lucky Strike and Pall Mall cigarette businesses in France and certain other parts of the world outside the USA, as well as the right to supply the brands to the duty free trade in the USA. At the same time, the Group transferred to American Brands, Inc. its Benson & Hedges business in the duty paid markets of the European Union and received substantial consideration in addition.

The profit of £138 million arising on the exchange represents the consideration payable to the Group, net of estimated reorganisation expenses of £14 million. The proceeds consist of £70 million in cash, with the balance representing the net present value of deferred consideration relating to Benson & Hedges sales in certain European markets over a ten year period (note 18).

In order to assist in understanding the Group's results for the year and in view of its unusual materiality, the directors believe that it is appropriate to show the profit on exchange of brands separately to trading profit on the face of the profit and loss account.

3 Directors' remuneration

	1993 £	1992 £
Salary and other emoluments	1,388,090	1,426,924
Annual performance related bonuses	314,130	246,863
Pension contributions	221,040	286,360
Directors' emoluments as managers	1,923,260	1,960,147
Pensions to past directors and their dependants	44,342	51,480
Compensation for loss of office	-	32,016
	<u>1,967,602</u>	<u>2,043,673</u>
The emoluments of Mr Barry Bramley, the Chairman and highest paid director, were:		
Salary and other emoluments	279,977	284,948
Annual performance related bonus	81,900	122,359
Pension contributions	37,774	51,117
	<u>399,651</u>	<u>458,424</u>

Other than the Chairman, who is a member of the B.A.T. Industries p.l.c. Directors' Incentive Bonus Scheme, the Company's directors participate in the BAT Co Ltd Directors' Incentive Bonus Scheme. Under both schemes, a director's bonus depends on the performance of the BAT Co Ltd Group. Targets are set at the beginning of each year and are measured in terms of both financial and business performance. The financial elements include profit, cash flow and dividend growth and the business criteria are related to market shares and a number of other relevant strategic goals, many of which are of a long term nature. The extent of bonus entitlement is determined by B.A.T. Industries p.l.c.

Due to differences under the two schemes in the timing of approvals of bonus entitlements, the Chairman's bonus in 1993 is based on the 1993 performance of the Group while those of the other directors are based on the Group's performance in 1992.

The emoluments (excluding pension contributions) of the directors of BAT Co Ltd, all of whose services were principally within the UK, are set out in the following table:

£	1993	1992	£	1993	1992
365,001 - 370,000	-	1	155,001 - 160,000	1	2
360,001 - 365,000	1	-	145,001 - 150,000	2	-
275,001 - 280,000	1	-	135,001 - 140,000	-	2
230,001 - 235,000	-	1	130,001 - 135,000	-	1
195,001 - 200,000	1	-	125,001 - 130,000	-	1
180,001 - 185,000	1	-	50,001 - 55,000	1	-
175,001 - 180,000	1	1			

Details of directors' interests in share options are disclosed on page 2.

Notes to the Financial Statements

£ millions

	1993	1992
4 Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	650	473
Depreciation	77	68
Profits on sales of fixed assets		(19)
Increase in stocks	(83)	(121)
Increase in debtors	(130)	(57)
(Decrease) / increase in provisions for liabilities and charges	(2)	10
Increase in creditors other than obligations under finance leases	90	81
Movements in current accounts with the ultimate holding company and fellow subsidiary undertakings	(40)	24
Other	(7)	(18)
Net cash inflow from operating activities	555	443

Operating profit includes the profit on the exchange of brands referred to in note 2. The deferred consideration and the provision for related costs of reorganisation are reflected in movements in debtors and provisions for liabilities and charges above and the net cash inflow arising on the exchange of brands in 1993 is £67 million.

5 Investment income

Fellow subsidiary undertakings	32	37
Trade investments	1	1
Long term loans	1	
Current investments	1	1
(unlisted)	35	39
Short term deposits	13	14
	48	53

6 Interest paid

Short term - bank loans and overdrafts	30	21
- other loans	4	3
of which £11 million (1992 £7 million) is on loans repayable by instalments	34	24
Fellow subsidiary undertakings	9	6
	43	30

£ millions

7 Taxation on ordinary activities

	1993	1992
UK Corporation Tax on profits of the period at 33% (1992 33%)	82	75
Double taxation relief	(61)	(62)
UK taxation	21	13
Overseas taxation	93	89
Current taxation	114	102
Deferred taxation	13	(3)
Taxation charge BAT Co Ltd and subsidiary undertakings	127	99
Share of associated undertakings' taxation	20	17
Total taxation	147	116

The charge for UK taxation has been reduced by £57 million (1992 £64 million) in respect of ACT and group loss relief surrendered by the ultimate holding company and fellow subsidiary undertakings.

8 Profit for the year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in these financial statements. The profit for the year dealt with in the accounts of the Company was £463 million (1992 £318 million). During 1992, the Company also received dividends of £38 million from United Kingdom subsidiary undertakings out of prior year reserves.

	1993	1992
9 Dividends of BAT Co Ltd		
5% Preference stock (3.5% net)	0.16	0.16
6% Preference stock (4.2% net)	0.25	0.25
Ordinary shares - Interims	301.00	248.00
	<u>301.41</u>	<u>248.41</u>

10 Earnings per share

Earnings per ordinary share are based on equity earnings of £524 million (1992 £382 million) and the 497 million issued ordinary shares of 25p each.

105.4p 76.9p

11 Operating leases

	Land and buildings		Other	
	1993	1992	1993	1992
Annual commitments under non-cancellable operating leases comprise:				
Leases which expire				
within 1 year	3	2	1	1
beyond 1 year and within 5 years	14	12	3	3
beyond 5 years	7	7		
	<u>24</u>	<u>21</u>	<u>4</u>	<u>4</u>

The majority of leases of land and buildings are subject to rent reviews.

Notes to the Financial Statements

£ millions

12 Tangible fixed assets

	Freehold land & buildings	Leasehold land & buildings	Plant, machinery & equipment	Assets in course of construction	Total
Group					
Cost:					
1 January 1993	204	50	773	60	1,087
Differences on exchange	(6)	(3)	(27)	(3)	(39)
Subsidiary undertakings acquired		4	7		11
Expenditure	22	3	80	73	178
Reallocations	7	1	51	(59)	
Disposals	(3)	(1)	(31)	(1)	(36)
31 December 1993	224	54	853	70	1,201
Depreciation:					
1 January 1993	39	20	337		396
Differences on exchange	(1)	(1)	(10)		(12)
Subsidiary undertakings acquired		3	4		7
Charged to Profit and Loss Account	6	1	69		76
Adjustments on disposals	(1)		(23)		(24)
31 December 1993	43	23	377		443
<i>Net values at 31 December 1993</i>	181	31	476	70	758
<i>Net values at 31 December 1992</i>	165	30	486	60	691
Company					
Cost:					
1 January 1993	2	4	30	5	41
Expenditure		1	4	1	6
Reallocations	3		3	(6)	
Disposals		(1)	(3)		(4)
31 December 1993	5	4	34	-	43
Depreciation:					
1 January 1993	1		13		14
Charged to Profit and Loss Account			4		4
Adjustments on disposals			(3)		(3)
31 December 1993	1		14		15
<i>Net values at 31 December 1993</i>	4	4	20	-	28
<i>Net values at 31 December 1992</i>	1	4	17	5	27
		Group		Company	
		1993	1992	1993	1992
Leasehold land and buildings comprise:					
<i>Net value of long leasehold</i>		17	19		
<i>Net value of short leasehold</i>		14	11	4	4
		31	30	4	4
Cost of land on which no depreciation is provided		38	41	1	1
Net values of assets held under finance leases		13	14	-	-
Net values of fixtures, fittings, tools and equipment included in plant machinery and equipment		54	57	7	5

£ millions

13 Future capital expenditure

Authorised by the directors of BAT Co Ltd or its subsidiary undertakings but not provided for in these accounts of which contracts have been placed for

Group		Company	
1993	1992	1993	1992
208	218	1	1
59	93	-	-

14 Investments in Group companies (see page 22)

	Shareholdings	Loans	Company Total
Cost:			
1 January 1993	378	4	382
Acquisitions	1	-	1
31 December 1993	<u>379</u>	<u>4</u>	<u>383</u>
Provision in respect of a permanent diminution in value:			
1 January 1993	17	-	17
31 December 1993	<u>17</u>	-	<u>17</u>
Net value, at 31 December 1993	362	4	366
Net values at 31 December 1992	361	4	365

15 Investments in associated undertakings (see page 21)

	Group Shareholdings (at net tangible asset value)		Company Shareholdings (at cost)	
1 January 1993	74		2	
Differences on exchange	(6)			
Retentions	12			
Goodwill on acquisitions	(2)			
Other movements	11			
31 December 1993	<u>89</u>		<u>2</u>	
	Group (at net tangible asset value)		Company (at cost)	
	1993	1992	1993	1992
Shareholdings:				
Listed abroad	52	37	1	1
(Market value Group £623 million 1992 £460 million Company £14 million 1992 £18 million)				
Unlisted	37	37	1	1
	<u>89</u>	<u>74</u>	<u>2</u>	<u>2</u>

16 Other investments and long term loans

	Other investments	Long term loans	Group Ultimate holding company	Long term loans	Company Ultimate holding company
1 January 1993	2	5	25	2	25
Differences on exchange		(1)			
Acquisitions and advances		4			
Disposals and repayments	(1)	(3)		(2)	
31 December 1993	<u>1</u>	<u>5</u>	<u>25</u>	<u>-</u>	<u>25</u>
	1993	1992			
Other investments comprise:					
Unlisted - equity	1	2			

Notes to the Financial Statements

£ millions

17 Stocks	Group		Company	
	1993	1992	1993	1992
Raw materials and components	661	538	1	1
Consumable stores	44	42		
Finished goods and work in progress	158	159		
Goods purchased for resale	59	75		
	<u>862</u>	<u>814</u>	<u>1</u>	<u>1</u>
Current replacement cost of stocks	898	872	1	1

18 Debtors	Group				Company			
	Total		Receivable beyond one year		Total		Receivable beyond one year	
	1993	1992	1993	1992	1993	1992	1993	1992
Trade debtors	262	254		1				
Other debtors	79	83	5	5	9	11		
Prepayments and accrued income	123	29	70	3	84	4	67	
Receivable from fellow subsidiary undertakings					1	1		
Receivable from subsidiary undertakings					241	196		
	<u>464</u>	<u>366</u>	<u>75</u>	<u>9</u>	<u>335</u>	<u>212</u>	<u>67</u>	<u>-</u>

Prepayments and accrued income in 1993 include deferred consideration of £79 million in respect of the exchange of brands referred to in note 2. These amounts are receivable up to 2003.

19 Current investments	Group		Company	
	1993	1992	1993	1992
Listed abroad - equity (Market value £6 million 1992 £3 million)	6	3		
Unlisted - equity	1	1		
Unlisted - other	11	2		
	<u>18</u>	<u>6</u>		
Loans to fellow subsidiary undertakings due within one year	415	276	415	276
	<u>433</u>	<u>282</u>	<u>415</u>	<u>276</u>

20 Reconciliation of cash and cash equivalents

	Group	
	1993	1992
Current investments	433	282
Short term deposits	111	121
Cash and bank balances	37	48
	<u>581</u>	<u>451</u>
of which the following are not cash and cash equivalents		
- Current investments	(15)	(6)
- Short term deposits	(20)	(23)
	<u>546</u>	<u>422</u>
Cash and cash equivalent elements of		
- Bank loans and overdrafts	(122)	(103)
- Miscellaneous short term borrowings	(4)	
	<u>420</u>	<u>319</u>

£ millions

21 Interest of BAT Co Ltd shareholders

Group	Share capital	Other reserves	Profit and loss account	Associated undertakings	Total
1 January 1993	135	111	850	58	1,154
Differences on exchange		(13)	(13)	(6)	(32)
Retained profit			211	12	223
Goodwill on acquisitions		1		(2)	(1)
Transfers		6	(17)	11	
31 December 1993	135	105	1,031	73	1,344

Cumulative goodwill eliminated amounted to £7 million (1992 £6 million)

Company				
1 January 1993	135	28	443	606
Retained profit			162	162
31 December 1993	135	28	605	768

Authorised, issued and fully paid
1993 1992

The share capital comprises:		
Ordinary shares of 25p each	124	124
5% (now 3.5% + tax credit) Cumulative preference stock	5	5
6% (now 4.2% + tax credit) Second cumulative preference stock	6	6
	135	135

22 Provisions for liabilities and charges

	Group				Company		
	Unfunded pensions	Deferred Taxation	Other	Total	Unfunded pensions	Other	Total
1 January 1993	56	5	43	104	12	10	22
Differences on exchange	(3)		(3)	(6)			
In respect of the year	11	13	19	43	1	4	5
Utilised during the year	(10)		(24)	(34)	(1)	(8)	(9)
31 December 1993	54	18	35	107	12	6	18

23 Contingent liabilities

At 31 December 1993 there were no material contingent liabilities or guarantees.

BAT Co Ltd has guaranteed borrowings by subsidiary undertakings of £20 million (1992 £9 million), and borrowing facilities of £14 million (1992 £6 million) which had not been utilised at the end of the financial year. In addition, jointly with a fellow subsidiary undertaking, BAT Co Ltd has guaranteed borrowings by the ultimate holding company of £314 million (1992 £314 million) and borrowing facilities of £127 million (1992 £127 million) which had not been utilised at the end of the financial year.

24 Pensions

The Group operates 72 active retirement pension plans covering in excess of 21,000 employees worldwide or 63 per cent of the work-force. The majority of these employees belong to defined benefit schemes, most of which are funded externally. In some countries, however, as shown in note 22 on page 18, separate provisions are made, covered by assets retained within the companies concerned. The remainder belong to defined contribution schemes providing benefits equal solely to contributions paid plus interest.

Pension commitments are financed according to an accepted current practice in each territory.

Defined benefit scheme costs are determined following valuations by qualified actuaries who generally use either the attained age method or the projected unit method. All the schemes have been formally valued within the last three years. No individual scheme carries more than 63 per cent of the total projected accrued commitments of such schemes.

The assumptions which have the most significant effects on the results of the valuations are those relating to the return on investments and the rates of increase in salaries and pensions. Typical assumptions for the United Kingdom and European schemes are that investment returns will be 4 to 9.5 per cent per annum, salary increases will be 4 to 7.5 per cent per annum and pension increases will not exceed 5 per cent per annum.

The actuarial value of the assets in externally funded defined benefit schemes was £543 million which was not less than the total value of projected accrued benefits, which are based on ultimate rather than current pay. For the principal schemes, the actuarial asset value was sufficient to cover between 94 per cent and 132 per cent of projected accrued liabilities. Any deficits or surpluses are being eliminated by increased company contributions, reduced company contributions or enhancement of scheme benefits. Certain schemes showed deficits on a current funding level basis, but these are considered not to be material in the context of the whole Group.

The total market value of assets in externally funded defined benefit schemes, at the dates of their most recent valuations, was £563 million which was not less than the value of the accrued liabilities.

As shown in note 1 on page 11 the total pension cost to the Group, including additions to provisions in respect of unfunded pensions, was £26 million (1992 £27 million). In the main, the total cost equates to the regular annual cost.

25 Borrowings

	Bank loans and overdrafts		Group Total borrowings		Company Total borrowings	
	1993	1992	1993	1992	1993	1992
Miscellaneous - long term			5	10		
Miscellaneous - short term			14	13		
Bank loans and overdrafts			213	187		
			<u>232</u>	<u>210</u>		
of which £29 million (1992 £36 million) is secured on Group assets			169	68		
Loans from fellow subsidiary undertakings					139	32
Loans from subsidiary undertakings			<u>401</u>	<u>278</u>	<u>139</u>	<u>32</u>
Repayable as follows:						
Due beyond 5 years (all repayable by instalments)			3	4		
Due between 2 and 5 years	44	31	50	39		
Due between 1 and 2 years	19	9	23	12		
	<u>63</u>	<u>40</u>	<u>76</u>	<u>55</u>		
Due within 1 year	150	147	325	223	139	32
Total	<u>213</u>	<u>187</u>	<u>401</u>	<u>278</u>	<u>139</u>	<u>32</u>
Total amount due on long term loans which are repayable by instalments	<u>-</u>	<u>1</u>	<u>5</u>	<u>11</u>		

£ millions

26 Creditors	Total		Payable within one year		Payable beyond one year	
	1993	1992	1993	1992	1993	1992
Group						
Trade creditors	152	148	151	146	1	2
Duty, excise and other taxes	271	251	271	251		
Obligations under finance leases	6	5	3	2	3	3
Bills payable	47	27	41	20	6	7
Accrued charges and deferred income	86	65	83	62	3	3
Taxation on profits - United Kingdom	14		14			
Taxation on profits - overseas	64	60	63	58	1	2
Other taxation and social security	38	38	30	27	8	11
Due to the ultimate holding company and fellow subsidiary undertakings	48	83	48	83		
Sundry creditors	43	50	37	46	6	4
Total - (unsecured)	769	727	741	695	28	32
Obligations under finance leases payable beyond one year comprise:						
Due between 2 and 5 years					1	2
Due between 1 and 2 years					2	1
					3	3
Company						
Accrued charges and deferred income	4		4			
Taxation on profits - United Kingdom	4		4			
Due to the ultimate holding company and fellow subsidiary undertakings	10	19	10	19		
Due to subsidiary undertakings	231	228	231	228		
Sundry creditors	2	7	2	7		
Total - (unsecured)	251	254	251	254		
27 Financing activities					Group	
					1993	1992
Financing activities comprise:						
Total borrowings (note 25)					401	278
Obligations under finance leases					6	5
					407	283
of which the following are cash and cash equivalents						
- Bank loans and overdrafts					(122)	(103)
- Miscellaneous short term borrowings					(4)	
Financing activities at 31 December					281	180
28 Deferred taxation			Provided		Unprovided	
			1993	1992	1993	1992
Group						
Excess of capital allowances over depreciation			12	8	44	41
Stock relief in respect of overseas stocks			2	2	3	3
Losses available for set off against future taxable profits					(3)	(1)
Capital gains			30		14	
ACT available for set off			(24)	(4)	(14)	(3)
Other timing differences			(2)	(1)	(17)	(7)
			18	5	27	33
Company			nil	nil	nil	nil

Associated Undertakings

The principal associated undertakings in the BAT Co Ltd Group are listed below. The geographical analysis is based on the main area of operation, which is also the country of incorporation.

£ millions

		Latest available information	Total issued capital	% Shares held
Denmark				
Skandinavisk Tobakskompagni AS	Class I Ordinary	30/6/93	1	nil
<i>tobacco</i>	@ Class II Ordinary		30	33
India				
ITC Ltd	+ Ordinary	30/9/93	25	32
<i>tobacco, oil seeds and edible oils, hotels, paper and packaging, international trading</i>				
(In October 1993, ITC Ltd's issued share capital increased to £26 million following an issue of ordinary shares. As the result of the Group not participating in this share issue, its percentage interest in ITC Ltd has reduced to 31%.)				
VST Industries Ltd	+ Ordinary	30/9/93	3	31 (30)
<i>tobacco</i>				
Trinidad & Tobago				
The West Indian Tobacco Co Ltd	@ + Ordinary	31/12/93	4	46
<i>tobacco</i>				

@ Held by BAT Co Ltd + Listed abroad

BAT Co Ltd's beneficial interest is shown in brackets where this differs from that of the sub-holding company.

Profit and Loss Account

	Year to 31 December 1993		Year to 31 December 1992	
	Total	Group's share	Total	Group's share
Turnover	2,443	801	2,159	712
Trading profit	186		150	
Net interest	(15)		(10)	
Profit before taxation	171	56	140	46
Taxation	61	20	50	17
Profit after taxation	110	36	90	29
Dividends (see below)		24		20
Retained profit		12		9
Dividends comprise income from:				
Listed investments		7		5
Unlisted investments		17		15
		24		20

Principal Subsidiary Undertakings

The principal subsidiary undertakings in the BAT Co Ltd Group, which are mainly engaged in the tobacco industry, unless indicated otherwise, are listed below. The geographical analysis is based on the main area of operation. The country of incorporation is the same as the main country of operation except where identified. Undertakings incorporated in the United Kingdom are registered in England and Wales.

	% shares			% shares	
	held by BAT	attrib- utable to BAT		held by BAT	attrib- utable to BAT
United Kingdom			Australasia continued		
Ardath Tobacco Co Ltd	100	100	Fiji		
BAT (UK and Export) Ltd	-	100	Wills (Fiji) Ltd	50	83
Europe			New Zealand		
Belgium			WD & HO Wills (New Zealand) Ltd	-	86
BAT Benelux SA	28	100	Papua New Guinea		
Velasques Sigarenfabrieken NV	-	100	Wills (PNG) Ltd	-	67
Channel Islands			Solomon Islands		
The Jersey Tobacco Distributors Ltd	-	100	Solomon Islands Tobacco Co Ltd	50	83
Cyprus			Asia		
BAT (Cyprus) Ltd	-	89	Bangladesh		
Finland			Bangladesh Tobacco Co Ltd	-	63
BAT Finland Oy	100	100	China		
Hungary			BAT China Ltd	100	100
BAT Pécsi Dohánygyár Kft	91	91	(incorporated in the United Kingdom)		
Malta			Hong Kong		
MTC Tobacco Company Ltd	100	100	British-American Tobacco Co		
Netherlands			(Hong Kong) Ltd	100	100
BAT Nederland BV	-	100	Indonesia		
Henri Wintermans' Sigarenfabrieken BV	-	100	PT BAT Indonesia	70	70
Spain			Malaysia		
BAT España SA	49	50	Malaysian Tobacco Co Berhad	-	54
Switzerland			Pakistan		
BAT (Suisse) SA	77	99	Pakistan Tobacco Co Ltd	63	63
Caribbean/Central America			Singapore		
Barbados			British American Tobacco Co		
British-American Tobacco Co			(Singapore) Ltd	80	80
(Barbados) Ltd	100	100	Sri Lanka		
Costa Rica			Ceylon Tobacco Co Ltd	77	84
Republic Tobacco Co	80	80	Africa		
El Salvador			Cameroon		
Cigarrería Morzán SA de CV	75	75	BAT Cameroun SA	92	92
Guatemala			Ghana		
Tabacalera Nacional SA	73	73	Pioneer Tobacco Co Ltd	55	55
Guyana			Kenya		
Demerara Tobacco Co Ltd	70	70	BAT Kenya Ltd	-	59
Honduras			Malawi		
Tabacalera Hondureña SA	80	80	BAT (Malawi) Ltd	75	75
Nicaragua			Mauritius		
Tabacalera Nicaraguense SA	60	60	British-American Tobacco (Mauritius) plc	-	100
Panama			(incorporated in the United Kingdom)		
Tabacalera Istmeña SA	100	100	Nigeria		
Surinam			Nigerian Tobacco Co PLC	59	59
Tobacco Co of Suriname NV	100	100	Sierra Leone		
South America			Aureol Tobacco Co Ltd	86	86
Argentina			South Africa		
Nobleza-Piccardo SAICYF	70	70	Ulico Holdings Ltd	63	63
Chile			Willards Foods (Pty) Ltd <i>foods</i>	-	63
Empresas COT SA the company through			Uganda		
which the Group's interests in Chile are held	2	70	BAT Uganda 1984 Ltd	70	70
Chiletabacos SA	-	70	Zaire		
Consorcio Agro-Industrial			BAT Zaire SARI	100	100
de Malloa SA <i>foods</i>	-	70	Zambia		
Venezuela			BAT Zambia Ltd	100	100
CA Cigarrera Bigott Sucs	100	100	Zimbabwe		
Australasia			BAT Zimbabwe Ltd	85	85
Australia			Export Leaf Tobacco Co of		
WD & HO Wills Holdings Ltd	-	67	Africa (Pvt) Ltd	100	100
WD & HO Wills (Australia) Ltd	-	67	Tobacco Processors Zimbabwe (Pvt) Ltd	-	70