

British-American Tobacco (Holdings) Limited
Registered Number 262254

Directors' Report and Accounts

For the year ended 31 December 2002



British-American Tobacco (Holdings) Limited

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British-American Tobacco (Holdings) Limited

Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2002

Principal activities

The Company is a holding company of a group of companies, which includes a number of subsidiaries, the principal business activities of which are the marketing and manufacture of tobacco brands.

Review of the year to 31 December 2002

The loss for the year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of tax amounted to £8,258,000 (2001: £181,719,000 profit).

Accounting policy

Accounting Standard FRS17 on Retirement Benefits was issued in 2001 and represented a radical change in accounting for pension costs and other post retirement benefits. The standard requires financial statements to reflect the assets and liabilities arising from retirement benefit obligations and any related funding, measured at fair value. The charge to income will be analysed in more detail and there will be additional disclosures.

During 2002 the Accounting Standards Board decided to allow deferral of full implementation of FRS17 until 2005, while the International Accounting Standards Board considers revisions to its standard on employee benefits.

Consequently, as the Company still reports under SSAP24 and is continuing to make use of the transitional arrangement permitted under FRS17, the reported income and shareholders' equity is not affected by the standard. However, additional disclosures are being made as required by the standard and the information shown in note 16. The impact of FRS17 would be to increase reported shareholders' funds at 31 December 2002 by £15,085,000 (2001: £2,134,000 decrease).

Dividends

The Directors recommend the payment of an interim dividend for the year of £50,000,000 (2001: £114,000,000). The loss for the financial year after dividends of £58,258,000 will be offset against reserves (2001: £67,719,000 profit transferred to reserves).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2002 to the date of this report are as follows:

	Appointed	Resigned
Martin Faulkner Broughton	Chairman	
Paul Nicholas Adams		
Hans Christian Bischoff		18 February 2003
Peter John Brickley		31 March 2003
Nicholas George Brookes		
Georg Caesar Domizlaff		
Charles Richard Green		14 February 2002
John Nolan Jewell		31 March 2003
Anthony Cameron Johnston		1 August 2002

British-American Tobacco (Holdings) Limited

Directors' report

Board of Directors (continued)

	Appointed	Resigned
Anthony Jones		
Jacques Malan Kruger	1 August 2002	
Antonio Monteiro de Castro		
Michael Charles Terrell Prideaux		
Tessa Rae Raeburn		
Paul Ashley Rayner		
Jimmi Rembiszewski		
John Benedict Stevens		
Peter Henry Taylor	31 March 2003	
Neil Robert Withington		

Directors' interests

The interests of those persons who were Directors at 31 December 2002 in the share capital and share option and award schemes of British American Tobacco p.l.c., and its subsidiaries, according to the register maintained under Section 325 of the Companies Act 1985, are shown below with the exception of Messrs M.F. Broughton, P.A. Rayner, A. Monteiro de Castro and P.N. Adams, which are disclosed in the Report and Accounts of British American Tobacco p.l.c.

British American Tobacco p.l.c. Ordinary 25p shares

	1 January 2002*	31 December 2002
H.C. Bischoff	3,171	4,152
P.J. Brickley	3,710	10,945
N.G. Brookes	22,677	24,160
G.C. Domizlaff	12,135	46,877
J.N. Jewel	2,055	2,200
A. Jones	3,171	4,055
J.M. Kruger	-	-
M.C.T. Prideaux	37,004	69,839
T.R. Raeburn	1,000	1,981
J. Rembiszewski	8,470	96,637
J.B. Stevens	7,062	11,305
N.R. Withington	31,652	32,766

*Or date of appointment if later.

British-American Tobacco (Holdings) Limited

Directors' report

Directors' interests (continued)

In addition to the shares shown above, during the year the Directors held the following interests in the ordinary shares of British American Tobacco p.l.c. which are held in trust pursuant to the British American Tobacco Deferred Share Bonus Scheme:

British American Tobacco p.l.c. Ordinary 25p shares

	1 January 2002*	31 December 2002
H.C. Bischoff	47,375	59,106
P.J. Brickley	26,796	31,451
N.G. Brookes	88,015	109,131
G.C. Domizlaff	52,511	69,331
J.N. Jewel	51,816	66,103
A. Jones	56,473	70,550
J.M. Kruger	31,478	36,373
M.C.T. Prideaux	52,389	65,528
T.R. Raeburn	3,875	16,310
J. Rembiszewski	76,245	95,015
J.B. Stevens	29,655	40,213
N.R. Withington	44,184	57,323

*Or date of appointment if later.

Details of the Deferred Share Bonus Scheme are included in the Report and Accounts of British American Tobacco p.l.c.

British American Tobacco p.l.c. Share options and awards

	1 January 2002*	Granted	Exercised	31 December 2002
H.C. Bischoff	180,622	-	-	180,622
P.J. Brickley	109,034	38,414	20,601	126,847
N.G. Brookes	369,664	70,389	63,653	376,400
G.C. Domizlaff	147,942	56,068	34,742	169,268
J.N. Jewel	218,251	47,625	82,646	183,230
A. Jones	215,564	52,401	-	267,965
J.M. Kruger	89,643	18,518	-	108,161
M.C.T. Prideaux	237,914	43,797	48,221	233,490
T.R. Raeburn	98,557	41,451	-	140,008
J. Rembiszewski	374,571	62,568	170,540	266,599
J.B. Stevens	94,383	35,194	18,625	110,952
N.R. Withington	187,118	43,797	24,216	206,699

*Or date of appointment if later.

In addition to those interests disclosed above, on 31 December 2002, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Plan held a total of 37,696,678 ordinary shares in British American Tobacco p.l.c. (1 January 2002: 32,171,834 ordinary shares). All employees, including the Directors of the Company, are deemed to have a beneficial interest in the shares that are held by the trusts for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share "E" Option Scheme and from 1998 onwards for options granted under the British American Tobacco Share Option Scheme or awards of ordinary shares made under the British American Tobacco Long Term Incentive Plan and the British American Tobacco Deferred Share Bonus Scheme.

Details of the trusts and the share option and award schemes are included in the Report and Accounts of British American Tobacco p.l.c.

British-American Tobacco (Holdings) Limited

Directors' report

Tangible fixed assets

The movement of fixed assets is shown in note 6 to the accounts.

Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, publications and regular meetings with employee representatives.

The Company actively encourages employee share ownership through the continuing introduction of new employee share plans, the most recent of which are the Partnership Share Scheme and the Share Reward Scheme.

The Company has Employment Policies which are committed to providing a work environment that is free from harassment, bullying and discrimination – these policies are available to all staff on the Company's intranet. There is no discrimination against people with disabilities who apply to join the Company and anyone within the Company with disability is awarded the same opportunities for promotion, training and career development as other staff. We aim to establish and maintain a safe working environment for all staff, including those with disabilities.

Creditor payment policy

The Company follows the Better Payment Practice Code* and therefore for both the current and the next financial year aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction, in any case within the supplier's own standard payment period, and also aims to pay all of its suppliers within a reasonable period of their invoices being received.

In respect of all of its suppliers, it is the Company's policy to:

- agree the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment;
- abide by the terms of payment;
- avoid any delays when legitimately questioning invoices.

The proportion which the amount owed to trade creditors at 31 December 2002 bears to the amounts invoiced by suppliers during the year then ended equated to a 33 days proportion of 365 days (2001: 35 days).

* Details of the Better Payment Practice Code are available from the Company Secretary.

British-American Tobacco (Holdings) Limited

Directors' report

Statement of Directors' responsibilities

The following Statement sets out the responsibilities of the Directors in relation to the financial statements. The report of the independent auditors, shown on page 8, sets out their responsibilities in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company 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;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; 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 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 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.

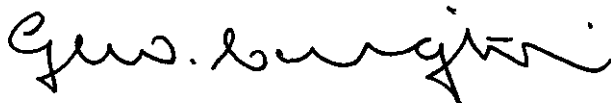
The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

Auditors

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 25 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

On behalf of the Board



Assistant
Secretary

31 October

2003

Report of the independent auditors to the members of British-American Tobacco (Holdings) 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. 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.

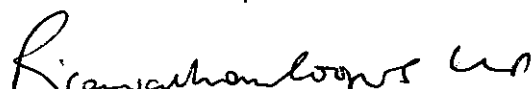
Basis of audit opinion

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 affairs of the Company as at 31 December 2002 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
1 Embankment Place
London
WC2N 6RH

31 October 2003

British-American Tobacco (Holdings) Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Operating income	2	188,583	208,471
Operating charges	3	(271,679)	(238,630)
Operating loss		(83,096)	(30,159)
Income from shares in subsidiary undertakings		130,742	230,056
Investment income from group undertakings		220,326	660
Investment income from group undertakings includes:			
Profit on liquidation of Alsterufer Investments Limited	7	650,667	-
Loss on wind up of Brown and Williamson Limited	7	(439,795)	-
Write down of investment in:			
Companhia Continental De Cigarros Limited	7	(219,466)	-
Interest payable to group undertakings		(54,043)	(19,677)
(Loss)/profit on ordinary activities before taxation		(5,537)	180,880
Taxation on ordinary activities	5	(2,721)	839
(Loss)/profit for the financial year		(8,258)	181,719
Dividends - interim proposed on equity shares		(50,000)	(114,000)
(Decrease)/increase in reserves		(58,258)	67,719

All the activities during the year are in respect of continuing operations.

There are no recognised gains and losses other than the loss for the financial year.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

Notes are shown on pages 11 to 21.

British-American Tobacco (Holdings) Limited

Balance sheet – 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible assets	6	102,205	101,203
Investments in subsidiary undertakings	7	665,031	1,452,449
		767,236	1,553,652
Current assets			
Debtors - amounts falling due within one year	8	2,274,342	3,449,052
Creditors – amounts falling due within one year	9	(2,176,368)	(2,398,490)
Net current assets		97,974	1,050,562
Total assets less current liabilities		865,210	2,604,214
Creditors – amounts falling due after more than one year	10	(577,469)	(2,383,870)
Provisions for liabilities and charges	11	(141,697)	(16,042)
Net assets		146,044	204,302
Capital and reserves			
Called up share capital	13	84,630	84,630
Share premium	14	744	744
Profit and loss account	14	60,670	118,928
Total equity shareholders' funds	15	146,044	204,302

The financial statements on pages 9 to 21 were approved by the Directors on **31 October** 2003 and signed on behalf of the Board.

Director



Notes are shown on pages 11 to 21.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

1 Accounting policies

A summary of the principal accounting policies is set out below.

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards.

(2) Cash flow statement

The Company is a wholly-owned subsidiary of British American Tobacco p.l.c. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 (Revised) from publishing a cash flow statement.

(3) Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the profit and loss account in the year.

(4) Accounting for income

Income is accounted for on a receivable basis and provision is made where delays are anticipated in the receipt of monies from overseas.

(5) Retirement benefit costs

The costs of providing pensions, calculated by reference to actuarial valuations, are charged against profits on a systematic basis. Where surpluses and deficits arise they are allocated over the expected average remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension schemes are treated as assets or liabilities in the balance sheet.

The Company has continued to account for retirement benefit costs in accordance with SSAP24 Accounting for Pension Costs. The transitional disclosures required by FRS17 Retirement Benefits for 2002 are set out on in note 16.

(6) Taxation

Taxation provided is that chargeable on the profits of the period, together with deferred taxation.

Deferred taxation is provided in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. However, in adopting FRS19, the Group has chosen not to discount deferred tax assets and liabilities.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

1 Accounting policies (continued)

(7) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated on a straight-line basis to write off the cost of tangible fixed assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are:

	%
Plant and machinery	7
Other equipment and fittings	10-20
Motor vehicles	25
Process control and computer equipment	20
Leasehold assets: short leases	Over the period of the lease

(8) Fixed asset investments

Fixed asset investments are stated at cost less provisions for any impairment in value.

(9) Leased assets

The annual payments under operating leases are charged to the profit and loss account.

(10) Financial instruments

The Company utilises cross-currency swaps as part of its exchange rate management. These cross-currency swaps are revalued at the balance sheet date and used to adjust the book values of the related foreign currency borrowings.

2 Operating income

Operating income comprises technical and advisory fees receivable.

3 Operating charges

	2002 £'000	2001 £'000
Other operating leases	7,880	6,785
Staff costs	155,230	123,750
Depreciation	13,563	11,762
Auditors' fees	1,075	1,050
Technical and advisory fees	62	-
Other operating charges	93,869	95,283
	271,679	238,630

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

3 Operating charges (continued)

	2002 £'000	2001 £'000
Staff costs:		
Wages and salaries	140,325	109,414
Social security costs	11,670	6,844
Other pension costs	2,098	6,094
Share participation scheme	1,137	1,398
	155,230	123,750

The average weekly number of persons employed by the Company during the year was:

	2002 Number	2001 Number
Administration	283	348
IT	68	68
Marketing	143	79
Overseas	24	96
	518	591

The Company has annual commitments in respect of operating leases as follows:

	2002 Building £'000	2001 Building £'000
Expiring within one year	386	-
2 – 5 years	1,546	-
Beyond 5 years	10,607	7,776
	12,539	7,776

4 Directors' emoluments

The aggregate emoluments of the Directors payable by the Company or its subsidiary undertakings in respect of their services to those companies while Directors of the Company were:

	2002	2001
Aggregate emoluments	£8,366,175	£10,938,223
Amounts (excluding shares) receivable under long term incentive schemes	£519,531	£753,517
	Number	Number
Directors exercising share options during the year	6	9
Directors entitled to receive shares under a long term incentive scheme	18	16
Directors retirement benefits accruing under:		
(i) Defined benefit schemes	15	16
(ii) Money purchase schemes	-	-
(iii) Both defined benefit and money purchase schemes	-	-

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

4 Directors' emoluments (continued)

The above figures do not include Messrs M.F. Broughton, P.A. Rayner, A. Monteiro de Castro and P.N. Adams on the basis that they are paid for their services to the ultimate holding company, British American Tobacco p.l.c., and details of their remuneration can be found in that Company's annual accounts.

Highest paid Director	2002	2001
Aggregate emoluments	£1,740,797	£1,775,798
Amounts (excluding shares) receivable under long term incentive schemes	£519,531	£339,844
Defined benefit pension scheme:		
Accrued pension at the end of the year	£49,039	£19,113
Accrued lump sum at the end of the year	£2,851,008	£666,485

5 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2002 £'000	2001 £'000
UK Corporation Tax comprising	-	-
- current tax at 30.00% (2001: 30.00%)	-	-
Overseas tax	199	-
Total current taxation note 5(b)	199	-
Deferred taxation	2,522	(11,460)
Adjustment for under provision in prior years:		
- Deferred taxation - adjustments in respect of prior periods	-	4,075
- FRS19 adjustments	-	6,546
Tax charge/(credit)	2,721	(839)

(b) Factors affecting the tax charge

The current taxation charge differs from the standard 30.00 per cent rate of Corporation Tax in the UK. The major causes of this difference are listed below:

	2002 £'000	2001 £'000
(Loss)/profit on ordinary activities before tax	(5,537)	180,880
Corporation Tax at 30.00% (2001: 30.00%) on (loss)/profit on ordinary activities	(1,661)	54,264
Factors affecting the tax rate:		
Group loss relief surrendered at less than full consideration to fellow subsidiary	8,447	16,457
Permanent differences	32,437	2,588
Timing differences	-	(4,292)
Overseas withholding taxes	199	-
Corporate income tax relief on intra-group dividends	(39,223)	(69,017)
Total current taxation charge note 5(a)	199	-

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

6 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Assets held for resale £'000	Total £'000
Cost					
At 1 January 2002	40,467	59,909	20,176	11,740	132,292
Additions	782	9,494	10,241	-	20,517
Reallocation	-	12,583	(12,583)	-	-
Disposals	-	(1,524)	(2,690)	(2,942)	(7,156)
At 31 December 2002	41,249	80,462	15,144	8,798	145,653
Depreciation					
At 1 January 2002	6,192	24,897	-	-	31,089
Charge for the year	2,396	11,167	-	-	13,563
Disposals	-	(1,204)	-	-	(1,204)
At 31 December 2002	8,588	34,860	-	-	43,448
Net book value					
At 31 December 2002	32,661	45,602	15,144	8,798	102,205
At 31 December 2001	34,275	35,012	20,176	11,740	101,203
Future capital commitments					
				2002 £'000	2001 £'000
Contracts have been placed for				959	844

7 Investments in subsidiary undertakings

(1) Shares in subsidiaries

Unlisted – registered in England

% equity shares held

British American Tobacco (Investments) Limited	100
Companhia Continental de Cigarros Limited ¹	100
Louisville Securities Limited	100
British American Enterprises Limited	100
British American Tobacco Guinea (Investments) Limited	100
South Western Nominees Limited	100

1 – In members voluntary liquidation with effect from 10 December 2002.

The Company has taken advantage of the exemption under s231(5) of the Companies Act 1985 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the figures shown in the financial statements.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

7 Investments in subsidiary undertakings (continued)

(2) Shareholdings at cost less provisions

	£'000
1 January 2002	1,452,449
Revaluation	(60,335)
Disposals	(507,617)
Provisions	(219,466)
31 December 2002	665,031

- (3) During the year the Company's investments in Brown and Williamson Limited and Alsterufer Investments Limited were struck off and liquidated respectfully. The strike-off of Brown and Williamson Limited gave rise to a loss on wind up of £439,795,000. The distribution on the wind up of Alsterufer Investments Limited was £718,489,000 and resulted in a profit on liquidation of £650,667,000.
- (4) The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the balance sheet.

8 Debtors: amounts falling due within one year

	2002 £'000	2001 £'000
Dividends receivable	128,834	230,056
Amounts due from Group undertakings	2,067,528	3,132,375
Other debtors	494	575
Prepayments and accrued income	63,380	79,049
Deferred taxation (note 12)	14,106	6,997
	2,274,342	3,449,052

9 Creditors: amounts falling due within one year

	2002 £'000	2001 £'000
Amounts due to group undertakings	2,077,187	2,184,070
Accrued charges and deferred income	48,325	99,564
Taxation and social security	856	856
Dividend payable	50,000	114,000
	2,176,368	2,398,490

Borrowings have been issued in US dollars and swapped into sterling and have been accounted for accordingly.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

10 Creditors: amounts falling due after more than one year

	2002 £'000	2001 £'000
Loans from group undertakings	577,469	2,383,870

Repayable in 2006 with interest calculated at LIBOR plus 0.5% floating rate, the loan has been issued in US dollars and swapped into sterling and accounted for accordingly.

11 Provisions for liabilities and charges

	Share option scheme £'000	Pensions £'000	Total £'000
1 January 2002	-	16,042	16,042
Provided in respect of the year	85,598	3,535	89,133
Transfer from fellow subsidiary	-	37,633	37,633
Utilised during the year	-	(1,111)	(1,111)
31 December 2002	85,598	56,099	141,697

12 Deferred taxation

	2002 £'000	2001 £'000
Excess of depreciation over capital allowances	4,475	6,997
Other timing differences	9,631	-
Deferred tax asset	14,106	6,997

13 Called up share capital

Ordinary shares of £1 each	2002	2001
Authorised - value	£84,631,000	£84,631,000
- number	84,631,000	84,631,000
Allotted, called up and fully paid		
- value	£84,630,000	£84,630,000
- number	84,630,000	84,630,000

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

14 Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
1 January 2002	744	118,928	119,672
Loss for the financial year	-	(8,258)	(8,258)
Dividends - interim proposed	-	(50,000)	(50,000)
31 December 2002	744	60,670	61,414

15 Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
(Loss)/profit attributable to shareholders for the year	(8,258)	181,719
Dividend - interim proposed	(50,000)	(114,000)
Net transfer (from)/to shareholders' funds	(58,258)	67,719
Opening shareholders' funds	204,302	136,583
Closing shareholders' funds	146,044	204,302

16 Pensions

During the year the Company was a participating employer in various British American Tobacco group funded defined benefit schemes for UK employees. The main UK group scheme is the British American Tobacco UK Pension Fund. Details of the latest actuarial valuation for the scheme, and the funding position of the scheme, is contained in the Report and Accounts of British American Tobacco p.l.c.

The pension charge for the UK schemes is assessed across all participating employers as a percentage of pensionable salary based on the advice of a professionally qualified actuary. The percentage is based upon the formal valuations as at 31 March 2002. Differences between the percentages applied for accounting purposes and the contribution rate used for funding purposes are taken to a provision account. During the year B.A.T (U.K. and Export) Limited, a fellow subsidiary, transferred into the Company its pension provisions, and hence the combined pension provision relating to the British American Tobacco UK Pension Fund is now held in the Company. B.A.T (U.K. and Export) Limited also transferred, during the year, the provision and all related obligations associated with an unfunded pension arrangement to the Company

At 31 December 2002 the Company had pension provisions totalling £46,569,000 (2001: £16,042,000) including provisions in respect of unfunded arrangements.

The total pension cost to the Company, including provisions in respect of unfunded pensions, was £2,098,000 (2001: £6,094,000).

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

16 Pensions (continued)

FRS17 Retirement Benefits

During 2002, the Company has continued to account for retirement benefit costs in accordance with SSAP 24 Account for Pension Costs and the information shown above has been prepared in accordance with this standard. The Company has not yet full adopted FRS 17 but the information provided below reflects its transitional disclosure requirements

Under FRS17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer British American Tobacco group funded defined benefit schemes in which it participates. Therefore, under FRS17 the Company would not recognise any share of any surplus or deficit in respect of these schemes and would reverse any provisions in respect of timing differences on pension contributions. The main multi-employer scheme in which the Company participates is the British American Tobacco UK Pension Fund. The last actuarial valuation of the British American Tobacco UK Pension Fund has been updated to 31 December 2002 by qualified independent actuaries and a deficit of £121 million (2001: £154 million surplus) was identified. A suitable funding plan has been prepared by the scheme actuaries and agreed by the trustees who have submitted the proposal to the principal employer for their consideration. Employees are not required to contribute. FRS17 is also more prescriptive than SSAP 24 in the assumptions to be used for actuarial valuations which impact upon the provisions for unfunded benefits. Under FRS17, the retirement benefits balance that would need to be reflected in the balance sheet of the Company would be liabilities in respect of the unfunded arrangements. At 31 December 2002 these amounted to £24,825,000 (2001: £19,090,000) using the following average assumptions:

	2002 £'000	2001 £'000
Rate of increase in salaries	4.4%	4.6%
Rate of increase in pensions in payment and deferred pensions	2.4%	2.6%
Discount rate	5.5%	5.8%
General inflation	2.4%	2.6%

The liabilities of the schemes were estimated to be as follows:

	2002 £'000	2001 £'000
Present value of scheme liabilities	(24,825)	(19,090)
Net deficit in scheme	(24,825)	(19,090)
Related deferred tax assets	7,447	5,727
Net pension liabilities	(17,378)	(13,363)

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

16 Pensions (continued)

FRS17 Retirement Benefits (continued)

The movement in the net recognisable deficit in 2002 was as follows:

	£'000
Net recognisable deficit as at 1 January 2002	(19,090)
Current service cost	(1,400)
Transfers	(3,512)
Interest on scheme liabilities	(1,407)
Company contributions	1,058
Actuarial losses	(474)
Net recognisable deficit as at 31 December 2002	(24,825)

If FRS 17 had been applied, the following amounts would have been included in the profit and loss account and statement of total recognised gains and losses for 2002:

	£'000
Profit and loss account	
Operating profit	
– current service cost	(1,400)
– Total operating charge	(1,400)
Other finance income	
– interest on scheme liabilities	(1,407)
– Net return	(1,407)

	£'000
Statement of total recognised gains and losses	
Experience gains on scheme liabilities	(377)
Changes in assumptions underlying present value of scheme liabilities	(97)
Net actuarial loss before related deferred tax	(474)

Details of experience gains and losses for the year to 31 December 2002:

	£'000	%
Experience gains on scheme liabilities	(377)	
– percentage of present value of scheme liabilities		2
Net actuarial loss	(474)	
– percentage of present value of scheme liabilities		2

If the effect of FRS17 were recognised in the financial statements, the net effect on profit before tax would be as follows:

	£'000
FRS17 total operating charge <i>above</i>	(1,400)
FRS17 net finance return <i>above</i>	(1,407)
	(2,807)
Amounts currently recognised for defined benefit schemes:	(3,535)
– unfunded	(3,535)
Increase in profit before tax	728

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 2002

16 Pensions (continued)

FRS17 Retirement Benefits (continued)

If FRS17 had been applied to the balance sheet at 31 December 2002 the impact would have been:

	£'000
Net pension liability as above	(17,378)
Amounts currently recognised in:	
Provisions for liabilities and charges	
- pensions	(46,569)
- deferred tax	14,106
	(32,463)
Increase in shareholders' funds	15,085

17 Related parties

The Company has taken advantage of the exemption under paragraph 3(c) of the Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

18 Contingent liabilities

In the U.S.A., as at 6 October 2003, the Company has been served, in addition to other leading U.S. cigarette manufacturers, as a defendant in two smoking and health cases. One is a medical recoupment action to recover healthcare expenditure relating to diseases alleged to be caused by smoking. The other is an individual action.

The Company is not involved in any active smoking and health cases outside the U.S.

The Directors (i) do not consider it appropriate to make any provision in respect of any pending litigation of the Company and (ii) do not believe that the ultimate outcome of all litigation of the Company will significantly impair the Company's financial position.

19 Parent undertakings

The Company's ultimate parent undertaking is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. Its immediate parent undertaking is B.A.T Industries p.l.c. Group accounts are prepared only at the British American Tobacco p.l.c. level.

20 Copies of the Report and Accounts

Copies of the Report and Accounts of British American Tobacco p.l.c. may be obtained from:

The Company Secretary
Globe House
4 Temple Place
London
WC2R 2PG