

**British-American Tobacco (Holdings) Limited**  
**Registered Number 262254**

**Directors' Report and Accounts**

**For the year ended 31 December 2004**



# **British-American Tobacco (Holdings) Limited**

## **Contents**

<i>Directors' report</i> .....	3
Report of the independent auditors to the members of British-American Tobacco (Holdings) Limited.....	7
Profit and loss account for the year ended 31 December 2004 .....	8
Statement of total recognised gains and losses for the year ended 31 December 2004.....	8
Balance sheet – 31 December 2004.....	9
Notes to the accounts – 31 December 2004 .....	10

# British-American Tobacco (Holdings) Limited

## Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2004.

### 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 products.

### Review of the year to 31 December 2004

The profit for the year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of tax amounted to £548,896,000 (2003: restated profit of £138,763,000).

### Dividends

The Directors recommend the payment of an interim dividend for the year of £548,000,000 (2003: £90,000,000). The profit for the financial year after dividends of £896,000 will be transferred to reserves (2003: restated profit of £48,763,000 transferred).

### Change in accounting policy

From 1 January 2004, the Company has amended its accounting for employee share schemes and Employee Share Ownership Trusts (ESOTs) in accordance with UITF Abstract 17 (revised 2003). As a result, the cost of awards made under the share schemes is now calculated with reference to the fair value of the shares at the date of the award rather than the costs of the shares purchased by the Company. The comparative figures for 2003 have been restated to reflect the impact of these changes. Consequently, shareholders' funds at 1 January 2003 and 31 December 2003 have been increased by £17,412,000 and £5,881,000 respectively.

### Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2004 to the date of this report are as follows:

	Appointed	Resigned
Paul Nicholas Adams		14 May 2004
Martin Faulkner Broughton		14 May 2004
Antonio Monteiro de Castro		
Anthony Jones		14 May 2004
Rudi Kindts	19 May 2004	
Jacques Malan Kruger		14 May 2004
Michael Charles Terrell Prideaux		14 May 2004
Tessa Rae Raeburn		14 May 2004
Paul Ashley Rayner		
Jimmi Rembiszewski		14 May 2004
John Benedict Stevens		14 May 2004
Peter Henry Taylor		
Neil Withington		

# British-American Tobacco (Holdings) Limited

## Directors' report

### Directors' interests

The interests of those persons who were Directors at 31 December 2004 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 P.A. Rayner and A. Monteiro de Castro, whose interests 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 2004*	31 December 2004
R. Kindts	9,406	22,936
P.H. Taylor	39,955	84,339
N.R. Withington	50,756	33,832

\* or date of appointment if later

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 2004	31 December 2004
R. Kindts	14,664	14,795
P.H. Taylor	19,418	26,080
N.R. Withington	44,192	45,016

\* 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 Option and Award Schemes

	1 January 2004	Granted	Lapsed	Exercised	31 December 2004
R. Kindts	64,844	14,601	3,217	26,429	49,799
P.H. Taylor	167,882	33,587	4,179	62,456	134,834
N.R. Withington	250,148	43,308	9,922	139,257	144,277

\* or date of appointment if later

# **British-American Tobacco (Holdings) Limited**

## **Directors' report**

In addition to those interests disclosed above, on 31 December 2004, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Plan held a total of 26,728,406 ordinary shares in British American Tobacco p.l.c. (1 January 2004: 31,945,642 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.

### **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 2004 bears to the amounts invoiced by suppliers during the year then ended equated to a 32 days proportion of 365 days (2003: 34 days).

\* Details of the Better Payment Practice Code are available on the website <http://www.payontime.co.uk>.

# **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 7, 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 UK 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.

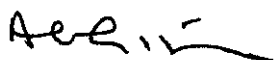
### **General meeting**

Elective resolutions have been passed in accordance with Section 379A of the Companies Act 1985 (as amended) to dispense with the laying of accounts before the Company in General Meeting (pursuant to Section 252 of the Act) and to dispense with the holding of the Annual General Meeting (pursuant to Section 366A of the Act).

### **Auditors**

An elective resolution has been passed, in accordance with Section 379A of the Companies Act 1985 (as amended), to dispense with the appointment of auditors annually (pursuant to Section 386 of the Act). Accordingly, PricewaterhouseCoopers LLP will continue as auditors.

On behalf of the Board



A.C. Girling

Assistant Secretary

27 October 2005

# **British-American Tobacco (Holdings) Limited**

## **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.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **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 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

*27 October* 2005

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
1 Embankment Place  
London  
WC2N 6RH

# British-American Tobacco (Holdings) Limited

## Profit and loss account for the year ended 31 December 2004

		2004	2003
	Note	£'000	Restated £'000
Operating income	2	118,935	255,976
Operating charges	3	(205,275)	(237,349)
<b>Operating (loss)/profit</b>		<b>(86,340)</b>	<b>18,627</b>
Income from shares in subsidiary undertakings		639,000	132,669
Investment income from group undertakings		12,914	14,871
Interest payable to group undertakings		(16,466)	(14,084)
<b>Profit on ordinary activities before taxation</b>		<b>549,108</b>	<b>152,083</b>
Taxation on ordinary activities	5	(212)	(13,320)
<b>Profit for the financial year</b>		<b>548,896</b>	<b>138,763</b>
Dividends - interim proposed on equity shares		(548,000)	(90,000)
<b>Increase in reserves</b>		<b>896</b>	<b>48,763</b>

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

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

The profit and loss account for the comparative year has been restated to increase operating charges by £11,531,000 following the introduction of UITF Abstract 17 (revised 2003) as described in note 1(10) and note 3 to the financial statements.

## Statement of total recognised gains and losses for the year ended 31 December 2004

	2004	2003
	£'000	£'000
Profit for the financial year	548,896	138,763
<b>Total recognised gains in the year</b>	<b>548,896</b>	<b>138,763</b>
Prior period adjustment (see note 1(10))	(11,531)	
<b>Total gains recognised since last financial statements</b>	<b>537,365</b>	

Notes are shown on pages 10 to 21.

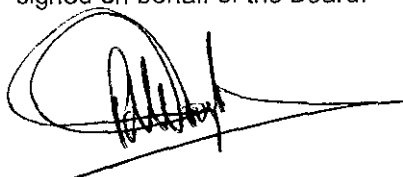


# British-American Tobacco (Holdings) Limited

## Balance sheet – 31 December 2004

		2004	2003
	<i>Note</i>	£'000	Restated £'000
<b>Fixed assets</b>			
Tangible assets	6	75,279	89,333
Investments in subsidiary undertakings	7	573,260	607,817
		<b>648,539</b>	<b>697,150</b>
<b>Current assets</b>			
Debtors - amounts falling due within one year	8	2,741,867	2,246,944
Creditors – amounts falling due within one year	9	(2,358,846)	(1,846,658)
<b>Net current assets</b>		<b>383,021</b>	<b>400,286</b>
<b>Total assets less current liabilities</b>		<b>1,031,560</b>	<b>1,097,436</b>
Creditors – amounts falling due after more than one year	10	(700,349)	(751,131)
Provisions for liabilities and charges	11	(118,096)	(134,086)
<b>Net assets</b>		<b>213,115</b>	<b>212,219</b>
<b>Capital and reserves</b>			
Called up share capital	12	84,630	84,630
Share premium	13	744	744
Profit and loss account	13	127,741	126,845
<b>Total equity shareholders' funds</b>	14	<b>213,115</b>	<b>212,219</b>

The financial statements on pages 8 to 21 were approved by the Directors on 27 October 2005 and signed on behalf of the Board.



P.H. Taylor  
Director

Notes are shown on pages 10 to 21.

# British-American Tobacco (Holdings) Limited

## Notes to the accounts – 31 December 2004

### 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 included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts, including 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 2004 are set out on in note 15.

#### (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, as allowed by FRS19, the Group has chosen not to discount deferred tax assets and liabilities.

# British-American Tobacco (Holdings) Limited

## Notes to the accounts – 31 December 2004

### 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
Motor vehicles	25
Process control and computer equipment	20
Other equipment and fittings	10-20
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) Employee share schemes

The Company accounts for employee share schemes and Employee Share Ownership Trusts in accordance with UITF Abstract 17 (revised 2003). The cost of awards is calculated with reference to the fair value of the shares at the date of the award. The previous policy was to calculate the cost of awards with reference to the costs of the shares purchased by the Company. The comparative figures for 2003 have been restated to reflect the impact of this change. Consequently, shareholders' funds at 1 January 2003 and 31 December 2003 have been increased by £17,412,000 and £5,881,000 respectively.

#### (11) 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.

---

# British-American Tobacco (Holdings) Limited

## Notes to the accounts - 31 December 2004

### 3 Operating charges

	2004 £'000	2003 £'000 Restated
Operating leases – buildings	13,325	10,555
Staff costs	105,663	116,332
Depreciation	23,543	17,409
Auditors' fees	247	965
Other operating charges	62,497	92,088
	<b>205,275</b>	<b>237,349</b>

	2004 £'000	2003 £'000 Restated
Staff costs:		
Wages and salaries	71,163	71,897
Social security costs	9,835	8,071
Other pension costs	14,594	15,513
Share award expense	9,260	19,885
Share participation scheme	811	966
	<b>105,663</b>	<b>116,332</b>

Comparative information for wages and salaries has been restated to separately identify the costs of share awards made to employees of the company and also to include an additional charge of £11,531,000 in relation to share award expense arising following the adoption of UITF Abstract 17 (revised 2003) as described in note 1(10) to the financial statements.

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

	2004 Number	2003 Number
Administration	159	171
IT	53	53
Marketing	52	61
Overseas	257	244
	<b>521</b>	<b>529</b>

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

	2004 Building £'000	2003 Building £'000
Expiring within one year	-	-
2 – 5 years	-	-
Beyond 5 years	10,494	10,427
	<b>10,494</b>	<b>10,427</b>

# British-American Tobacco (Holdings) Limited

## Notes to the accounts - 31 December 2004

### 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:

	2004	2003
Aggregate emoluments	£2,841,685	£11,332,507
Amounts (excluding shares) receivable under long term incentive schemes	-	-
Compensation for loss of office	-	£3,295,532
	Number	Number
Directors exercising share options during the year	3	6
Directors entitled to receive shares under a long term incentive scheme	4	13
Directors retirement benefits accruing under a defined benefit scheme	3	13

The above figures do not include Messrs P.A. Rayner and A. Monteiro de Castro 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	2004	2003
Aggregate emoluments	£578,626	£2,094,331
Amounts (excluding shares) receivable under long term incentive schemes	-	-
Defined benefit pension scheme:		
Accrued pension at the end of the year	£67,440	£284,439
Accrued lump sum at the end of the year	£40,056	£642,327

### 5 Taxation on ordinary activities

#### (a) Summary of tax on ordinary activities

	2004 £'000	2003 £'000
UK Corporation Tax comprising	-	(856)
- current tax at 30.00% (2003: 30.00%)	-	-
- prior year adjustment for over provision of tax	-	(856)
Overseas tax	212	70
Total current taxation note 5(b)	212	(786)
Deferred taxation	-	14,106
Tax charge	212	13,320

# British-American Tobacco (Holdings) Limited

## Notes to the accounts - 31 December 2004

### 5 Taxation on ordinary activities (continued)

#### (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:

	2004 £'000	2003 £'000 Restated
Profit on ordinary activities before taxation	549,108	152,083
Corporation Tax at 30.00% (2003: 30.00%) on profit/(loss) on ordinary activities	164,732	45,625
<b>Factors affecting the tax rate:</b>		
Group loss relief (claimed from)/surrendered to fellow subsidiary at less than full consideration	28,516	(17,885)
Permanent differences	(1,548)	12,061
Overseas withholding taxes	212	70
Prior year adjustment for over provision of tax	-	(856)
Corporate income tax relief on intra-group dividends	(191,700)	(39,801)
Total current taxation charge/(credit) note 5(a)	212	(786)

An amount of £377,756 (tax amount of £113,327) included in permanent differences above represents tax adjustments following the introduction of UK to UK transfer pricing from 1st April 2004. The current tax charge reconciliation for the comparative year has been restated to recognise the reduction to profit on ordinary activities before taxation of £11,531,000 arising from the adoption of UITF Abstract 17 (revised 2003) as described in note 1(10) and note 3 to the financial statements. The restatement has consequently increased permanent differences to £12,061,000 from £8,602,000 meaning that the total current taxation credit of £786,000 has not changed compared to that previously reported.

### 6 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>				
At 1 January 2004	41,352	88,753	18,404	148,509
Additions	316	10,971	7,007	18,294
Reallocation	-	4,168	(4,168)	-
Disposals	-	(10,107)	(7,343)	(17,450)
At 31 December 2004	41,668	93,785	13,900	149,353
<b>Depreciation</b>				
At 1 January 2004	10,996	48,180	-	59,176
Charge for the year	2,441	21,102	-	23,543
Disposals	-	(8,645)	-	(8,645)
At 31 December 2004	13,437	60,637	-	74,074
<b>Net book value</b>				
At 31 December 2004	28,231	33,148	13,900	75,279
At 31 December 2003	30,356	40,573	18,404	89,333

The company had no capital commitments at 31 December 2004 (2003: £677,000).

# British-American Tobacco (Holdings) Limited

## Notes to the accounts - 31 December 2004

### 7 Investments in subsidiary undertakings

#### (1) Shares in subsidiaries

##### Unlisted – registered in England

##### % equity shares held

British American Tobacco (Investments) Limited	100
Louisville Securities Limited	100
British American Enterprises Limited	100
British American Tobacco Guinea (Investments) Limited	99

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.

#### (2) Shareholdings at cost less provisions

	£'000
1 January 2004	607,817
Exchange translation difference	(34,557)
31 December 2004	573,260

- (3) 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

	2004 £'000	2003 £'000
Dividends receivable	639,000	132,669
Amounts due from group undertakings	2,056,317	2,059,063
Other debtors	412	385
Prepayments and accrued income	46,138	54,827
	2,741,867	2,246,944

### 9 Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Amounts due to group undertakings	1,763,080	1,701,675
Accrued charges and deferred income	47,766	54,983
Dividend payable	548,000	90,000
	2,358,846	1,846,658

Some 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 2004

### 10 Creditors: amounts falling due after more than one year

	2004 £'000	2003 £'000
Loans from group undertakings	700,349	751,131

The US dollar borrowing of \$915m is repayable in 2006 with interest calculated at USD 6 month LIBOR plus 0.75%. The US dollar borrowing of \$429.6m is repayable in 2008 with interest calculated at USD 6 month LIBOR plus 0.625%.

### 11 Provisions for liabilities and charges

	Share option scheme £'000	Pensions £'000	Total £'000
1 January 2004 – as previously reported	69,806	70,161	139,967
Change in accounting policy (Note 1)	(5,881)	-	(5,881)
1 January 2004 – Restated	63,925	70,161	134,086
Provided in respect of the year	11,234	26,029	37,263
Utilised during the year	(19,821)	(33,278)	(53,099)
Other movements	-	(154)	(154)
31 December 2004	55,338	62,758	118,096

The provision for the share option scheme represents the cost of providing share awards to employees of the BAT group. From 1 January 2004, the Company has amended its accounting for employee share schemes and Employee Share Ownership Trusts (ESOTs) in accordance with UITF Abstract 17 (revised 2003). As a result, the cost of awards made under the share schemes is now calculated with reference to the fair value of the shares at the date of the award rather than the costs of the shares purchased by the Company. The comparative figures for 2003 have been restated to reflect the impact of these changes.

### 12 Called up share capital

Ordinary shares of £1 each	2004	2003
Authorised - value	£84,630,700	£84,630,700
- number	84,630,700	84,630,700
Allotted, called up and fully paid		
- value	£84,630,122	£84,630,122
- number	84,630,122	84,630,122



# British-American Tobacco (Holdings) Limited

## Notes to the accounts – 31 December 2004

### 13 Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
1 January 2004 – as previously reported	744	120,964	121,708
Change in accounting policy (Note 1)	-	5,881	5,881
1 January 2004 – Restated	744	126,845	127,589
Profit for the financial year	-	548,896	548,896
Dividends - interim proposed	-	(548,000)	(548,000)
31 December 2004	744	127,741	128,485

### 14 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000 Restated
Profit for the year – as previously reported	548,896	150,294
Change in accounting policy (Note 1)	-	(11,531)
Profit for the year – Restated	548,896	138,763
Dividend - interim proposed	(548,000)	(90,000)
Net transfer to/(from) shareholders' funds	896	48,763
Opening shareholders' funds – as previously reported	206,338	146,044
Change in accounting policy (Note 1)	5,881	17,412
Opening shareholders' funds – Restated	212,219	163,456
Closing shareholders' funds	213,115	212,219

### 15 Pensions

During the year the Company was a participating employer in two 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 and subsequent annual reviews. Differences between the percentages applied for accounting purposes and the contribution paid to the funds are taken to a provision account. The provision is also credited with applicable interest.

At 31 December 2004 the Company had pension provisions totalling £62,758,000 (2003: £70,161,000) including provisions in respect of unfunded arrangements.

The total pension cost to the Company, including provisions in respect of unfunded pensions, was £14,594,000 (2003: £15,513,000).

# British-American Tobacco (Holdings) Limited

## Notes to the accounts – 31 December 2004

### 15 Pensions (continued)

#### FRS17 Retirement Benefits

During 2003, the Company has continued to account for retirement benefit costs in accordance with SSAP 24 Accounting for Pension Costs and the information shown above has been prepared in accordance with this standard. The Company has not yet fully 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 March 2004 by qualified independent actuaries and a deficit of £226 million (2003: £145 million) was identified. Future contribution rates will be agreed after consultation with the trustees and actuaries of the externally funded defined benefit scheme, taking into account regulatory requirements. 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 2004 these amounted to £32,697,000 (2003: £27,416,000) using the following average assumptions:

	2004	2003	2002
Rate of increase in salaries	4.8%	4.8%	4.4%
Rate of increase in deferred and pensions in payment	2.8%	2.8%	2.4%
Discount rate	5.3%	5.4%	5.5%
General inflation	2.8%	2.8%	2.4%

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

	2004 £'000	2003 £'000
Present value of scheme liabilities	(32,697)	(27,416)
Net deficit in scheme and pension liabilities	(32,697)	(27,416)

# British-American Tobacco (Holdings) Limited

## Notes to the accounts – 31 December 2004

### 15 Pensions (continued)

#### FRS17 Retirement Benefits (continued)

The movement in the net recognisable deficit in 2004 was as follows:

	2004	2003
	£'000	£'000
Net recognisable deficit as at 1 January	(27,416)	(24,825)
Current service cost	(1,839)	(1,900)
Transfers	(212)	(129)
Interest on scheme liabilities	(1,492)	(1,367)
Company contributions	1,589	1,529
Actuarial losses	(3,327)	(724)
Net recognisable deficit as at 31 December	(32,697)	(27,416)

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 2004:

	2004	2003
	£'000	£'000
<b>Profit and loss account</b>		
Operating profit		
– current service cost	(1,839)	(1,900)
– Total operating charge	(1,839)	(1,900)
Other finance income		
– interest on scheme liabilities	(1,492)	(1,367)
– Net return	(1,492)	(1,367)

	2004	2003
	£'000	£'000
<b>Statement of total recognised gains and losses</b>		
Experience gains/(losses) on scheme liabilities	(2,459)	780
Changes in assumptions underlying present value of scheme	(868)	(1,504)
Net actuarial loss before related deferred tax	(3,327)	(724)

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

	2004		2003		2002	
	£'000	%	£'000	%	£'000	%
Experience gains on scheme liabilities	(2,459)		780		(377)	
– percentage of present value of scheme liabilities		8		3		2
Net actuarial loss	(3,327)		(724)		(474)	
– percentage of present value of scheme liabilities		10		3		2

# British-American Tobacco (Holdings) Limited

## Notes to the accounts – 31 December 2004

### 15 Pensions (continued)

#### FRS17 Retirement Benefits (continued)

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

	2004	2003
	£'000	£'000
FRS17 total operating charge above	(1,839)	(1,900)
FRS17 net finance return above	(1,492)	(1,367)
	(3,331)	(3,267)
Amounts currently recognised for defined benefit schemes:		
– unfunded	(8,620)	(2,363)
Increase/(decrease) in profit before tax	5,289	(904)

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

	2004	2003
	£'000	£'000
Net pension liability as above	(32,697)	(27,416)
Amounts currently recognised in:		
Provisions for liabilities and charges – pensions	(62,758)	(70,161)
Increase in shareholders' funds	30,061	42,745

### 16 Related parties

Transactions with related parties have been aggregated by nature of transaction and were as follows:

	2004	2003
	£'000	£'000
<b>Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group</b>		
Sales of tobacco products and raw materials	-	2
Other charges	(17,943)	(18,200)
Other income	618	607

The associates referred to are:

British American Racing Limited  
Reynolds American Inc.

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

# **British-American Tobacco (Holdings) Limited**

## **Notes to the accounts – 31 December 2004**

### **17 Contingent liabilities**

As at 21 October 2005, the Company is not involved in any active smoking and health cases.

### **18 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.

### **19 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