

**B.A.T (U.K. and Export) Limited**  
**Registered Number 239762**

**Directors' Report and Accounts**

**For the Year ended 31 December 2001**



# B.A.T (U.K. and Export) Limited

## Directors' Report

### Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2001 to the date of this report are as follows:

Ulrich Georg Volker Herter		Resigned 31 December 2001
John Nolan Jewell		Resigned 31 January 2002
Keith Thomas Owen		Resigned 31 January 2002
Graham Albert Read		Resigned 31 January 2002
Ian Roderick Snowden		Resigned 31 January 2002
Stuart Melville Sutherland		Resigned 31 January 2002
Brian Christopher Barrow	Appointed 31 January 2002	
Richard Mark Lowther	Appointed 31 January 2002	
Paul Ashley Rayner	Appointed 31 January 2002	
Peter Henry Taylor	Appointed 31 January 2002	
Simon John Roderick Smith	Appointed 31 January 2002	Resigned 26 April 2002
Kenneth William Davies	Appointed 12 April 2002	
John Youngson Moffat	Appointed 12 April 2002	Resigned 26 April 2002
Charl Erasmus Steyn	Appointed 20 June 2002	

### Directors' Interests

The interests of those persons who were Directors at 31 December 2001 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 as shown below with the exception of Dr J N Jewell and Mr U G V Herter whose interests are disclosed in the directors' report of British-American Tobacco (Holdings) Limited and the remuneration report of British American Tobacco p.l.c. respectively.

Ordinary shares of 25p		
	1 January 2001	31 December 2001
K T Owen	7,426	8,582
G A Read	10,031	11,187
I R Snowden	21,834	20,192
S M Sutherland	1,647	1,647

In addition to the shares shown above, 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:

Ordinary Shares of 25p		
	1 January 2001	31 December 2001
K T Owen	19,313	25,514
G A Read	26,278	33,954
I R Snowden	19,079	25,058
S M Sutherland	11,924	15,769

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

# B.A.T (U.K. and Export) Limited

## Directors' Report

### Directors' Interests (continued)

#### British American Tobacco p.l.c. Share options

	1 January 2001	Granted	Exercised	31 December 2001
K T Owen	120,652	18,601	61,775	77,478
G A Read	79,354	23,028	-	102,382
I R Snowden	79,191	17,936	12,994	84,133
S M Sutherland	33,089	7,691	-	40,780

In addition, on 31 December 2001, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Trust held a total of 32,171,834 ordinary shares in British American Tobacco p.l.c. (1 January 2001: 30,647,059 ordinary shares). All employees, including the Directors of the Company, are deemed to have had a beneficial interest in the shares which 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.

### Review of the Year to 31 December 2001

The profit for the year attributable to B.A.T (U.K. and Export) Limited shareholders after deduction of all charges and the provision of tax amounted to £67,637,000 (2000 restated: £143,874,000 ).

### Accounting policies

During 2001 the Company adopted a new accounting standard FRS19 on Deferred Tax. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of the change in accounting policy was to decrease tax on profit on ordinary activities by £15,691,000 (2000: £23,007,000).

In addition to the above Accounting Standard FRS17 on Retirement Benefits was issued in December 2000 which represents a radical change in accounting for pension costs and other post retirement benefits. Full application of FRS17 is not mandatory until accounting periods ending on or after 22 June 2003. Therefore, during 2001, the Company has continued to account for pension costs in accordance with SSAP24 Accounting for Pension Costs and the information shown in note 19 has been prepared in accordance with SSAP24 and FRS17. As the Company has not yet fully adopted FRS17 the information provided reflects its initial transitional disclosure requirements.

### Dividends

The Directors recommend the payment of a dividend for the year of £120,000,000 (2000: Nil) giving rise to a retained loss for the financial year of £52,363,000 (2000 restated: retained profit of £143,874,000) which is transferred to reserves.

# **B.A.T (U.K. and Export) Limited**

## **Directors' Report**

### **Principal Activities**

The principal activity of the Company is the manufacture and marketing of tobacco products throughout the world. The Company also operates supply businesses for the purchase of raw materials for certain other companies within the British American Tobacco p.l.c. Group outside the United Kingdom.

### **Tangible Fixed Assets**

The movement of tangible fixed assets is shown on page 15 in note 10 to the accounts.

### **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 in-house magazines, the issue of information sheets on specific subjects and employee consultation through appropriate channels.

### **European Monetary Union**

The Company, as a matter of policy, actively supports Economic and Monetary Union as a means of delivering increased stability and prosperity. The British American Tobacco Group's European companies are successfully transacting business in the euro following its introduction in twelve European countries on 1 January 2002 and those in the United Kingdom are capable of doing so.

### **Employment of the Disabled in the United Kingdom**

The Company'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 to be a suitable candidate for employment, modification of facilities and the provision of special equipment and facilities are considered favourably. If employees become disabled during the course of their employment with the Company 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 compassionately as possible.

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

# **B.A.T (U.K. and Export) Limited**

## **Directors' Report**

### **Creditor Payment Policy**

The Company 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:

- settle 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.

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

### **Directors' Responsibilities**

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 and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- Select suitable 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 it is 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 they 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.

# **B.A.T (U.K. and Export) Limited**

## **Directors' Report**

### **Auditors**

The Directors have been advised that PricewaterhouseCoopers are willing to continue as auditors of the Company and a resolution for their reappointment and on their remuneration will be put to the Annual General Meeting.

On behalf of the Board

A handwritten signature in black ink, consisting of a stylized 'S' followed by a long horizontal line.

Secretary  
17 July 2002

## **Auditors' report to the members of B.A.T (U.K. and Export) Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

### **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Directors' remuneration and transactions is not disclosed.

### **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 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 as at 31 December 2001 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

17 July 2002

# B.A.T (U.K. and Export) Limited

## Profit and Loss Account For the Year Ended 31 December 2001

	Note	2001 £'000	2000 £'000 Restated
<b>Turnover</b>	<b>2</b>	<b>779,446</b>	<b>732,921</b>
Operating income	2	781,365	733,516
Operating charges	3	(684,647)	(640,198)
Costs of business reorganisation	4	(11,098)	(22,092)
<b>Operating profit</b>		<b>85,620</b>	<b>71,226</b>
Compensation for termination of duty free brand distribution rights	5	-	86,313
<b>Profit on ordinary activities before interest</b>		<b>85,620</b>	<b>157,539</b>
Income from shares in group undertakings		1,700	1,025
Other interest receivable and similar income	6	782	1,321
Interest payable and similar charges	7	(28,488)	(38,938)
<b>Profit on ordinary activities before taxation</b>		<b>59,614</b>	<b>120,947</b>
Tax credit on profit on ordinary activities	8	8,023	22,927
<b>Profit for the financial year</b>		<b>67,637</b>	<b>143,874</b>
Dividends on equity shares	9	(120,000)	-
<b>Retained (loss) profit for the year</b>	<b>18</b>	<b>(52,363)</b>	<b>143,874</b>

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

There are no recognised gains and losses other than the profit for the year. As shown in the reconciliation of the movement in shareholders' funds in Note 18, the cumulative effect of the accounting policy change was £13,269,000 as at 1st January 2001.

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

The notes on pages 10 to 21 form part of these accounts.

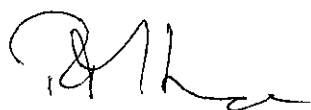


# B.A.T (U.K. and Export) Limited

## Balance Sheet – 31 December 2001

	Note	2001 £'000	2000 £'000 Restated
<b>Fixed assets</b>			
Tangible assets	10	231,899	252,002
Investments in subsidiary undertakings	11	157,272	157,272
		<b>389,171</b>	<b>409,274</b>
<b>Current assets</b>			
Stocks	12	178,684	244,335
Debtors			
- amounts falling due within one year	13	296,440	918,055
Cash and short term deposits		16,086	8,142
		<b>491,210</b>	<b>1,170,532</b>
<b>Creditors – amounts falling due within one year</b>	14	<b>(710,404)</b>	<b>(1,338,149)</b>
<b>Net current liabilities</b>		<b>(219,194)</b>	<b>(167,617)</b>
<b>Total assets less current liabilities</b>		<b>169,977</b>	<b>241,657</b>
<b>Provisions for liabilities and charges</b>	15	<b>(63,719)</b>	<b>(83,036)</b>
<b>Net assets</b>		<b>106,258</b>	<b>158,621</b>
<b>Capital and reserves</b>			
Called up share capital	16	1,000	1,000
Profit and loss account	17	105,258	157,621
<b>Equity shareholders' funds</b>	18	<b>106,258</b>	<b>158,621</b>

The financial statements on pages 8 to 21 were approved by the Directors on 17 July 2002 and are signed on their behalf by:

  
Director

The notes on pages 10 to 21 form part of these accounts.

# **B.A.T (U.K. and Export) Limited**

## **Notes to the accounts – 31 December 2001**

### **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 United Kingdom Accounting Standards. The company is exempt under s228 of the Companies Act 1985 from the requirements to prepare consolidated financial statements as it is consolidated in the financial statements of its ultimate parent company, British American Tobacco p.l.c.

#### **(2) Cash flow statement**

The Company is a wholly owned subsidiary undertaking 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) Taxation**

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

The Company has adopted FRS19 Deferred Tax for 2001. Deferred taxation is provided for in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computations. In adopting FRS19 the Company has chosen not to discount deferred tax assets and liabilities. No account is taken of tax which may be payable on the realisation of investments or in the event of the distribution of profits retained by the subsidiary undertakings.

#### **(5) Accounting for income**

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

#### **(6) Pension 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 continues to account for Pension costs in accordance with SSAP24 Accounting for Pension Costs. The initial transitional disclosures required by FRS17 Retirement Benefits for 2001 are set out in note 19.

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

### 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:

	%
Freehold buildings	2.5-3.3
Plant and machinery	7
Process control and computer equipment	20
Other equipment and fittings	10-20
Motor vehicles	25
Leasehold assets – long leases	2.5
– short leases	Over period of the lease

#### (8) Stocks

Stocks are valued at the lower of cost and net realisable value. The method used in calculating cost, which includes raw materials, direct labour and overheads where appropriate, is average cost.

#### (9) Investments valuation

Investments are shown at cost less provisions for any impairment in value.

#### (10) Turnover

Turnover comprises sales at the invoice value to external customers and other group companies.

#### (11) Leases

Assets held under finance leases are included under tangible fixed assets at their capital value and depreciated over their estimated useful lives. Leasing payments consist of capital and finance charge elements and the finance element is charged to the profit and loss account. Future lease obligations are included in other creditors. Operating lease rentals are charged to the profit and loss account during the period in which they are incurred.

### 2 Operating income

	2001 £'000	2000 £'000
Gross Turnover	779,446	732,921
Other operating income	1,919	595
	781,365	733,516

In the opinion of the Directors a geographical analysis of turnover would be prejudicial to the interests of the Company.

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

### 3 Operating charges

	2001 £'000	2000 £'000
Operating charges:		
Raw materials and consumables	396,021	249,792
Other external charges	209,324	330,172
Hire of plant and machinery	123	190
Other operating leases	8,278	3,717
Staff costs (see below)	70,568	69,639
Auditors' fees	114	79
Payment to PricewaterhouseCoopers for non-audit services	85	39
Exchange gain	(3,774)	(6,976)
	680,739	646,652
Decrease/(increase) in stock of finished goods and work in progress	3,908	(6,454)
	684,647	640,198

Staff costs:		
Wages and salaries	70,732	63,651
Social security costs	4,873	4,698
Other pension credit	(6,280)	(2,072)
Share participation scheme	1,243	3,362
	70,568	69,639

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

	2001	2000
Production	1,392	1,382
Marketing	449	528
	1,841	1,910

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2000: £ nil).

The majority of audit fees have been borne by a fellow group undertaking.

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

	2001 Land and Buildings £'000	2001 Other £'000	2000 Land and Buildings £'000	2000 Other £'000
Expiring within one year	1,885	518	191	3
2 – 5 years	379	51	723	29
Beyond 5 years	4,363	-	3,969	-
	6,627	569	4,883	32

Building leases beyond 5 years are subject to rent reviews.

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

### 4 Costs of business reorganisation

Following the completion of the global merger of British American Tobacco and Rothmans International in June 1999, a reorganisation was undertaken of the merged Group's manufacturing capacity, supply chain processes and operations support services in the UK. The associated costs incurred by the Company are shown below.

	2001 £'000	2000 £'000
Business reorganisation costs:		
Impairment provision for fixed assets	3,208	1,483
Termination payments to employees	2,300	2,442
Other	5,590	18,167
	<hr/> 11,098	<hr/> 22,092

### 5 Compensation for termination of duty free brand distribution rights

In 2000, the Company received compensation for the termination of duty free brand distribution rights.

	2001 £'000	2000 £'000
Compensation for termination of duty free brand distribution rights	-	86,313
	<hr/>	<hr/>

### 6 Other interest receivable and similar income

	2000 £'000	2000 £'000
Bank interest	782	1,264
Interest receivable from Group undertakings	-	57
	<hr/> 782	<hr/> 1,321

### 7 Interest payable and similar charges

	2001 £'000	2000 £'000
Interest payable on overdrafts and bank loans	256	258
Interest payable to Group undertakings	28,232	38,680
	<hr/> 28,488	<hr/> 38,938

Interest is being paid on loans wholly repayable within 5 years.

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

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### Taxation

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

	2001 £'000	2000 £'000 Restated
United Kingdom corporation tax at 30.00% (2000: 30.00%)	-	1,825
Less: Double taxation relief	-	(2,755)
	-	(930)
Overseas taxation	2,626	2,755
Adjustments in respect of previous periods	(4,732)	-
	(2,106)	1,825
Deferred taxation	(5,917)	(24,752)
Tax credit	(8,023)	(22,927)

#### (2) Factors affecting the tax charge for the year

The current tax charge for the year differs from the standard 30% rate of Corporation tax in the UK. The major causes of this difference are listed below:

	2001 £'000	2000 £'000
Profit on ordinary activities before tax	59,614	120,947
Corporation tax at 30% (2000: 30%) on profit on ordinary activities	17,884	36,284
Permanent differences	9,851	1,697
Capital allowances lower/(higher) than depreciation	7,942	12,610
Other timing differences	(4,274)	(5,784)
Overseas withholding tax	2,626	2,755
Group loss relief utilised at less than full consideration	(31,403)	(45,737)
Adjustments in respect of previous periods	(4,732)	-
Total current taxation (credit)/charge	(2,106)	1,825

#### (3) Change in accounting policy

The comparative figures have been restated to reflect the impact of adopting FRS19. The effect of the change in accounting policy is to decrease the tax charge as follows:

	2001 £'000	2000 £'000
Decrease in tax charge	(15,691)	(23,007)

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

### 9 Dividends

	2001 £'000	2000 £'000
Ordinary:		
Interim dividends paid and proposed	120,000	-

### 10 Tangible fixed assets

	Freehold land and buildings £'000	Short Leasehold Buildings £'000	Machinery Plant and Equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2001	57,895	3,468	399,002	10,557	470,922
Reallocations	26,798	3,794	(26,176)	(4,416)	-
Expenditure	69	1,900	11,126	7,224	20,319
Disposals	(10,919)	-	(36,151)	-	(47,070)
At 31 December 2001	73,843	9,162	347,801	13,365	444,171
<b>Depreciation</b>					
At 1 January 2001	15,306	2,107	201,507	-	218,920
Charge for the year	1,164	105	25,771	-	27,040
Reallocations	11,745	930	(12,675)	-	-
Disposals	(5,959)	-	(27,729)	-	(33,688)
At 31 December 2001	22,256	3,142	186,874	-	212,272
<b>Net book value</b>					
At 31 December 2001	51,587	6,020	160,927	13,365	231,899
At 31 December 2000	42,589	1,361	197,495	10,557	252,002
<b>Capital commitments</b>					
				2001 £'000	2000 £'000
Contracts have been placed for				3,245	2,331

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

### 11 Investments in subsidiaries

The principal subsidiary undertakings directly held by the Company at 31 December 2001 which are all 100% owned, incorporated in Great Britain with class of shares held of £1 Ordinary Shares and are all engaged in tobacco operations are:

Rothmans of Pall Mall (International) Ltd and its subsidiary Golden American Ltd  
Tobacco Exporters International Ltd  
B.A.T. Services Ltd

The Company has taken advantage of the exemption under s231(5) of the Companies Act 1985 by providing information only in relation to material subsidiary undertakings.

The net book value of investments throughout the year was as follows:

	<b>Subsidiary undertakings</b>	<b>Other unlisted investments</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£000</b>
Cost	158,549	924	159,473
Less: Provision for impairment in value	(1,277)	(924)	(2,201)
<b>Net carrying value</b>	<b>157,272</b>	<b>-</b>	<b>157,272</b>

The Directors are of the opinion that the investments have a value of not less than the amount at which they are stated in the balance sheet.

### 12 Stocks

	<b>2001</b>	<b>2000</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials	156,902	211,666
Payments on account	2,066	5,366
Work in progress	5,975	5,937
Finished goods	5,797	9,743
Goods purchased for resale	3,084	6,271
Consumable stores	4,860	5,352
	<b>178,684</b>	<b>244,335</b>

### 13 Debtors

	<b>2001</b>	<b>2000</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>		
Trade debtors	90,142	113,091
Amounts owed by fellow subsidiaries	181,870	740,121
Other debtors	7,619	57,440
Prepayments and accrued income	8,450	7,403
Taxation on UK profits	8,359	-
	<b>296,440</b>	<b>918,055</b>



# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

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

	2001 £'000	2000 £'000
Bank loans and overdrafts	-	19,737
Trade creditors	69,749	106,954
Loans from group undertakings	296,098	804,282
Amounts owed to fellow subsidiaries	270,206	367,737
Sundry creditors	14,351	36,548
Taxation on UK profits	-	2,891
Dividend payable	60,000	-
	<b>710,404</b>	<b>1,338,149</b>

### 15 Provisions for liabilities and charges

	Pensions £'000	Re-organisation £'000	Deferred Tax £'000	Other £'000	Total £'000
1 January 2001 as previously reported	40,596	17,569	27,370	10,770	96,305
Restatement for FRS19 Deferred Tax	-	-	(13,269)	-	(13,269)
Revised balance 1 January 2001	40,596	17,569	14,101	10,770	83,036
Amount provided/(released)	(8,890)	11,980	(5,917)	8,383	5,556
Amount utilised	(246)	(22,144)	-	(2,483)	(24,873)
31 December 2001	<b>31,460</b>	<b>7,405</b>	<b>8,184</b>	<b>16,670</b>	<b>63,719</b>

Other provisions mainly comprise liabilities arising from long term marketing and production contractual obligations.

Deferred Taxation comprises:	2001 £'000	2000 £'000 Restated
Excess of capital allowances over depreciation	(432)	14,009
Capital gains	19,066	12,337
Losses	-	(8,625)
Other timing differences	(10,450)	(3,620)
	<b>8,184</b>	<b>14,101</b>

# B.A.T (U.K. and Export) Limited

## Notes to the accounts – 31 December 2001

### 16 Share capital

Ordinary shares of £1 each	2001	2000
Authorised - value	£1,000,000	£1,000,000
- number	1,000,000	1,000,000
Allotted, called up and fully paid		
- value	£1,000,000	£1,000,000
- number	1,000,000	1,000,000

### 17 Reserves

	Profit and loss account £'000
1 January 2001 as previously reported	144,352
Accounting policy change	13,269
1 January 2001 restated	157,621
Retained loss for the year	(52,363)
31 December 2001	105,258

### 18 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
		Restated
Opening shareholders' funds	145,352	24,485
Accounting policy change	13,269	(9,738)
Opening shareholders' funds restated	158,621	14,747
Profit attributable to shareholders for the year	67,637	143,874
Dividends paid and proposed	(120,000)	-
Net transfer to shareholders' funds	(52,363)	143,874
Closing shareholders' funds	106,258	158,621

# **B.A.T (U.K. and Export) Limited**

## **Notes to the accounts – 31 December 2001**

### **19 Pensions**

During the year, the Company was a participating employer in the two main British American Tobacco group funded defined benefit schemes for UK employees, the BAT Pension Scheme and Rothmans International UK Pension Fund. In November 2001, it was announced that, following detailed discussions, the Trustees of the Rothmans International UK Pension Fund and the BAT Pension Scheme had agreed to merge the two schemes into a single scheme (the British American Tobacco UK Pension Fund) with effect from 31 December 2001. Details of the latest actuarial valuations for the schemes, and the funding position of the merged scheme, are 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. For both schemes the percentage is based upon a review as at 31 March 2001 of the formal valuations as at 31 March 1999. For funding purposes, employer contributions to the BAT Pension Scheme ceased on 1 June 2001. Participating employers did not contribute to the Rothmans International UK Pension Fund in 2001. Differences between the percentages applied for accounting purposes and the contribution rate used for funding purposes are taken to a provision account.

At 31 December 2001 the Company had pension provisions totalling £31,460,000 (2000: £40,596,000) including provisions in respect of unfunded arrangements.

The total pension credit to the Company, including provisions in respect of unfunded pensions, was £6,280,000 (2000: credit of £2,072,000).

#### **FRS17 Retirement Benefits**

Accounting Standard FRS17 on Retirement Benefits was issued in December 2000 which represents a radical change in accounting for pension costs and other post retirement benefits. Full application of FRS17 is not mandatory until accounting periods ending on or after 22 June 2003. Therefore, during 2001 the Company has continued to account for retirement benefits in accordance with SSAP24, 'Accounting for Pension Costs', and the information shown above has been prepared in accordance with this standard. As the Company has not yet fully adopted FRS17 the information provided below reflects its initial 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 in is the British American Tobacco UK Pension Fund. An actuarial valuation was undertaken at 31 December 2001 and a surplus of £154.1 million was identified. The surplus is being utilised by an employer contribution holiday. Employees are not required to contribute to the scheme. 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.

## B.A.T (U.K. and Export) Limited

### Notes to the accounts – 31 December 2001

#### Pensions (continued)

Under FRS17, the principal retirement benefits balance that would need to be reflected in the balance sheet of the Company would be liabilities in respect of unfunded arrangements. At 31 December 2001 these amounted to £3,470,000 using the following assumptions: rate of increase in salaries 4.5% per annum, rate of increase in pensions in payment and deferred pensions 2.5% per annum, discount rate 5.8% per annum and general inflation 2.5% per annum. After allowing for the related deferred tax asset of £1,041,000, the net liability would have been £2,429,000.

If FRS17 had been applied to the balance sheet at 31 December 2001 the impact would have been:

		£'000
Net pension liability as above		(2,429)
Amounts currently recognised in:		
Provisions for liabilities and charges	- pensions	(31,460)
	- deferred tax	9,438
		(22,022)
Effect on shareholders' funds		19,593

## 20 Related parties

Transactions with related parties have been aggregated by nature of transaction.

	2001 £'000	2000 £'000
<b>Transactions with associates of the British American Tobacco p.l.c. Group</b>		
Sales of tobacco products and raw materials	22,060	1,338
Purchases of tobacco products and raw materials	(31,870)	(30,396)
Other Charges	(10,509)	-
Amounts due to the Company as at 31 December in respect of the above transactions	5,602	660
Amounts payable by the Company as at 31 December in respect of the above transactions	(147)	(210)

The associates referred to are:

ITC Limited  
 Skandinavisk Tobakskompagni AS  
 VST Industries Ltd  
 British American Racing (Holdings) Limited  
 UIC  
 National Tobacco and Matches Company  
 Ciberion Ltd

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.