

MENLO INVESTMENTS LIMITED

**Report and Financial Statements
For the year ended 31 December 2003**

REGISTERED NUMBER: 3479178



MENLO INVESTMENTS LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2003

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Review of business

The principal activity of the Company is to act as an investment company. No significant change in this activity is envisaged in the foreseeable future.

Results and Dividends

During the year the Company made a profit after taxation of £2,143,764 (2002: £1,614,364). The directors do not recommend the payment of a dividend (2002: £nil).

Directors

The directors of the Company, who served during the year, together with their dates of appointment and resignation, where appropriate, are as shown below:

Barcosec Limited

Barometers Limited

P Emney (appointed 31 January 2003, resigned 30 March 2004)

D Hackett (appointed 7 October 2003)

MC Van Der Heijden (appointed 11 June 2003)

A Janisch (appointed 11 June 2003)

BJ Hurrell (resigned 11 June 2003)

LJ Kenworthy (resigned 18 March 2003)

P R Robinson (resigned 3 October 2003)

E J Kendall was appointed as a director on 26 February 2004.

Directors' Interests in Shares

(as defined by section 325 the Companies Act 1985)

At year end the directors of the Company, except Barcosec Limited and Barometers Limited, are also directors of Barclays Directors Limited and their interests are disclosed in the accounts of that company.

Barcosec Limited and Barometers Limited have no beneficial interest in the shares of the Company, its holding company or any fellow subsidiary.

MENLO INVESTMENTS LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 December 2003

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on pages 3 to 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the Auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which 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.

The directors consider that in preparing the financial statements on pages 5 to 10,

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors

On 14 October 1998 an Elective Resolution was passed by the shareholders of the Company pursuant to Section 386 of the Companies Act 1985 to dispense with the obligation to appoint Auditors annually. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

BY ORDER OF THE BOARD



D Hackett
Director

54 Lombard Street
London EC3P 3AH

28 May 2004

MENLO INVESTMENTS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MENLO INVESTMENTS LIMITED

We have audited the financial statements on pages 5 to 10, which comprise the profit and loss account, the balance sheet, and the related notes, which have been prepared under the historical cost convention, and the accounting policies set out on page 7.

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 on page 2.

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 in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

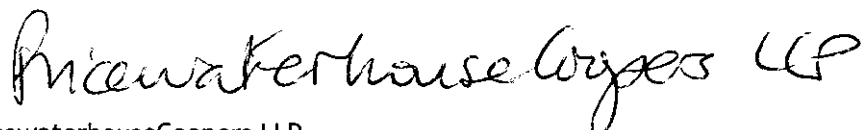
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

MENLO INVESTMENTS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MENLO INVESTMENTS LIMITED (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
Date: 28 May 2004

MENLO INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Administrative expenses		(3,075)	(2,501)
Operating loss		<u>(3,075)</u>	<u>(2,501)</u>
Income from shares in subsidiary undertakings		14,494,200	14,494,200
Interest receivable from group undertakings		18,177,045	18,069,876
Interest payable and similar charges	4	(35,817,450)	(35,759,030)
Loss on ordinary activities before tax	5	<u>(3,149,280)</u>	<u>(3,197,455)</u>
Tax credit on loss on ordinary activities	6	5,293,044	4,811,819
Profit on ordinary activities after taxation		<u>2,143,764</u>	<u>1,614,364</u>
Retained profit brought forward		3,491,480	1,877,116
Retained profit carried forward		<u>5,635,244</u>	<u>3,491,480</u>

All recognised gains and losses are included in the profit and loss account. Operating loss is derived from continuing activities. There is no difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis. The notes on pages 7 to 10 form an integral part of these financial statements.

MENLO INVESTMENTS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003 £	2002 £
FIXED ASSETS	7	364,775,931	364,524,424
CURRENT ASSETS			
DEBTORS: Amounts falling due within one year	8	16,786,987	14,706,736
DEBTORS: Amounts falling due after more than one year	9	304,500,000	304,500,000
CREDITORS: amounts falling due within one year	10	(1,377,672)	(1,189,678)
NET CURRENT ASSETS		319,909,315	318,017,058
TOTAL ASSETS LESS CURRENT LIABILITIES		684,685,246	682,541,482
CREDITORS: Amounts falling due after more than one year	11	(669,000,000)	(669,000,000)
NET ASSETS		15,685,246	13,541,482
CAPITAL AND RESERVES			
Called up share capital	12	10,050,002	10,050,002
Profit and loss account		5,635,244	3,491,480
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	15,685,246	13,541,482

A reconciliation of movement in shareholders' funds is given in note 13.

The notes on pages 7 to 10 form an integral part of these financial statements.

The financial statements on pages 5 to 10 were approved by the Board of Directors on 28 May 2004.



D Hackett
Director

MENLO INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards of the Accounting Standards Board and pronouncements of the Urgent Issues Task Force.

Investments

Equity shares are stated at cost less any provision for impairment. Investment securities are intended for use on a continuing basis by the Company and have been identified as such.

Consolidated financial statements

The financial statements contain information about Menlo Investments Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it is included by full consolidation in the consolidated financial statements of its parent, Barclays Bank PLC, a company registered in England and Wales.

2. CASH FLOW STATEMENT

The Company's ultimate holding company has adopted the provisions of Financial Reporting Standard 1 ("FRS 1") revised 1996, Cash Flow Statements. Accordingly the Company, which is a wholly owned subsidiary of Barclays Bank PLC, has elected to utilise the exemption provided in FRS 1 not to produce a cash flow statement.

3. DIRECTORS' EMOLUMENTS

The Directors did not receive any emoluments in respect of their services to the company during the year (2002: £nil).

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Interest payable to subsidiary undertakings	21,323,250	21,264,830
Interest payable under sale and put option agreement (see note 7)	14,494,200	14,494,200
	<u>35,817,450</u>	<u>35,759,030</u>

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £	2002 £
Profit on ordinary activities before taxation is stated after charging: -		
Auditors' remuneration	3,000	2,500
	<u>3,000</u>	<u>2,500</u>

There were no employees employed by the Company during 2003 or 2002.

MENLO INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2003 £	2002 £
UK Corporation Tax: current year	5,293,044	5,307,497
UK Corporation Tax: prior year	-	(495,678)
Tax credit on ordinary activities	<u>5,293,044</u>	<u>4,811,819</u>

The tax credit is based on a standard UK corporation tax rate of 30%. The effective tax rate is lower than the standard tax rate as a result of non-taxable items. These differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	3,149,280	3,197,455
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	944,784	959,237
Effects of:		
Adjustments in respect of prior periods	-	(495,678)
Non-taxable UK dividend income	4,348,260	4,348,260
Current tax credit for the period	<u>5,293,044</u>	<u>4,811,819</u>

7. FIXED ASSETS

	£
Cost at 1 January 2003	364,524,424
Additions	251,507
Cost at 31 December 2003	<u>364,775,931</u>

Fixed asset investments represent the ordinary and preference shares of the Company's subsidiaries Romintco Investments BV ('Romintco') and Gallaher (C.I.) Limited.

On 19 December 2000, the Company sold the Romintco Preference Shares to a third party investor for value 22 December 2000. On the same date, the Company entered into a put option agreement with the third party investor over the Preference Shares. Since it is anticipated that the third party investor will exercise the put option in due course, the Preference Shares have not been derecognised and continue to be shown as an investment while recognising the amount payable under the put option as a creditor (see notes 10 & 11).

MENLO INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. INVESTMENT IN FIXED ASSETS (continued)

The terms of the put option allow the third party investor to sell the Preference Shares to the Company at any time up to 19 December 2005 and in certain circumstances after 19 December 2005 until 19 December 2007. The strike price of the put option is £304,500,000 plus accrued but unpaid dividends.

On 18 December 2003, the Company purchased all the ordinary shares of Gallaher (C.I.) Limited for £251,507.

In the opinion of the directors, the value of the Company's investments in its subsidiary undertakings is not less than the amount stated in the balance sheet.

8. DEBTORS: Amounts falling due within one year

	2003 £	2002 £
Amounts owed by group undertakings	11,010,803	9,411,317
Group relief receivable	5,293,044	4,812,279
Amounts owed by subsidiary undertakings	483,140	483,140
	<u>16,786,987</u>	<u>14,706,736</u>

9. DEBTORS: Amounts falling due after more than one year

	2003 £	2002 £
Amounts owed by group undertakings	<u>304,500,000</u>	<u>304,500,000</u>

Barclays Bank PLC assumed joint and several liability for the payment obligations of the Company under the put option agreement with the third party investor and the Company. The Company has agreed to counter indemnify Barclays Bank PLC for such obligations.

In December 2000, the Company placed £304,500,000 into a deposit account which is charged to Barclays in support of the counter indemnity obligations.

10. CREDITORS: Amounts falling due within one year

	2003 £	2002 £
Amounts due to subsidiary undertakings	701,038	701,038
Amounts due under sale and put option agreement	483,140	483,140
Amounts owed to group undertakings	193,494	5,500
	<u>1,377,672</u>	<u>1,189,678</u>

MENLO INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. CREDITORS: Amounts falling due after more than one year

	2003 £	2002 £
Amounts due under sale and put option agreement	304,500,000	304,500,000
Amounts due to subsidiary undertakings	364,500,000	364,500,000
	<u>669,000,000</u>	<u>669,000,000</u>

12. CALLED UP SHARE CAPITAL

	2003 £	2002 £
Authorised: 28,000,000 ordinary shares of £1 each	28,000,000	28,000,000
Allotted and fully paid: 10,050,002 ordinary shares of £1 each	<u>10,050,002</u>	<u>10,050,002</u>

13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Profit for the financial year	2,143,764	1,614,364
Opening shareholders' funds	13,541,482	11,927,118
Closing shareholders' funds	<u>15,685,246</u>	<u>13,541,482</u>

14. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under the provisions of Financial Reporting Standard 8 ("FRS 8"), Related Party Disclosures not to disclose transactions with other group companies since the Company is a wholly owned subsidiary of Barclays Bank PLC, the consolidated financial statements of which are publicly available. There have been no transactions with related parties requiring disclosure in either 2003 or 2002.

15. ULTIMATE HOLDING COMPANY

The parent undertaking of the smallest group that presents group accounts is Barclays Bank PLC. The ultimate holding company and the parent company of the largest group that presents group accounts is Barclays PLC. Both companies are incorporated in Great Britain and registered in England and Wales. Barclays PLC's and Barclays Bank PLC's statutory accounts are available from the Group Corporate Secretariat, 54 Lombard Street, London EC3P 3AH.