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# British-American Tobacco Company Limited

REPORT AND ACCOUNTS  
FOR THE YEAR TO  
31 DECEMBER 1988



# British-American Tobacco Company Limited

BAT Co Ltd

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## Notice of meeting

Notice is hereby given that the eighty-sixth annual general meeting of British-American Tobacco Company Limited will be held at Westminster House, 7 Millbank, London SW1P 3JE, on Tuesday 23 May 1989 at 11.30 am for the transaction of the following business:

### Note:

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

- 1 To receive and consider the accounts for the year ended 31 December 1988 and the reports of the directors and auditors thereon.
- 2 To elect directors.
- 3 To re-elect the auditors.
- 4 To authorise the directors to fix the auditors' remuneration.

By order of the board

N B Cannar, *Secretary*  
20 March 1989

# Report of the Directors of BAT Co Ltd

## Board of Directors

### Chairman

Barry David Bramley  
(appointed 1 April 1988)  
Eric Alfred Albert Bruell  
(resigned 31 March 1988)

### Deputy Chairman

David George Heywood

### Other Directors

Nicholas George Brookes  
(appointed 20 February 1989)  
Ronald Alexander Charles Crichton  
Norman Davis  
Richard Stuart Hartley  
Peter John Curwen Hazel  
Anthony Cameron Johnston  
David Kerr Thorpe  
(appointed 1 April 1988)  
Donald Stuart Watterton  
(appointed 1 April 1988)

In pursuance of the articles of association Messrs R S Hartley, P J C Hazel and A C Johnston retire from the board at the annual general meeting and will be proposed for re-election.

Mr N G Brookes, who has been appointed to the board since the last annual general meeting, also retires and will be proposed for re-election.

Messrs J R Crosby and W J Dickson resigned from the Board on 14 March and 31 March 1988 respectively.

## Directors' Interests

According to the Company's register the interests at 31 December 1988, of the persons who at that date were directors, in the share and loan capital and share option schemes of B.A.T Industries p.l.c. and its subsidiaries, all of which are beneficial, are shown below. The holdings at 1 January 1988 or date of appointment are shown in brackets.

	B.A.T Industries p.l.c.			
	Ordinary 25p Shares		Share Options	
B D Bramley	34,291	(34,086)	55,937	(35,095)
R A C Crichton	22,125	(21,543)	48,990	(48,990)
N Davis	465	(254)	27,751	(27,751)
R S Hartley	470	(255)	20,061	(20,061)
P J C Hazel	31,141	(30,392)	9,875	(9,299)
D G Heywood	22,388	(21,796)	46,527	(46,239)
A C Johnston	415	(203)	15,485	(13,960)
D K Thorpe	12,672	(12,467)	33,890	(17,100)
D S Watterton	205	(Nil)	17,205	(Nil)

The directors' holdings were unchanged at 20 March 1989, except as shown below:

D G Heywood	21,088	46,527
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Details of the share option schemes are included in the Report and Accounts of B.A.T Industries p.l.c.

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

Secretary and registered office  
N B Cannar, Westminster House,  
7 Millbank, London SW1P 3JE

## Registrar

Lloyds Bank Plc, Registrar's Department,  
Goring-by-Sea, Worthing,  
West Sussex BN12 6DA

## Auditors

Deloitte Haskins & Sells,  
128 Queen Victoria St, London EC4P 4JX

Deloitte Haskins & Sells have indicated their willingness to continue in office.

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### Principal Activities

The Group manufactures tobacco products, and has substantial investments in overseas companies engaged in tobacco, food, paper, printing and packaging, hotel and other industrial activities.

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

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

### Changes in the Group

The Group has acquired the 51.00% interest in Tribeni Tissues Ltd previously held by The Wiggins Teape Group Ltd, a fellow subsidiary of B.A.T Industries. Tribeni Tissues Ltd is located in India and is engaged in the paper industry.

There has been an increase from 65.99% to 70.37% in the Group's interest in Empresas CCT SA, the overseas holding company through which the Group's interests in Chilean subsidiaries operating in the tobacco and foods industries are held.

Following a re-organisation of leaf processing facilities in Zimbabwe the Group has acquired a 70.09% interest in Tobacco Processors Zimbabwe (Pvt) Ltd.

The Group's interest in Malaysian Tobacco Co Berhad reduced to 54.70% during the year following the sale of shares in accordance with local shareholding requirements.

Other disposals comprise the sale of an associated company in Singapore and, in Cameroon, the sale of a subsidiary company for which negotiations were concluded early in 1989.

### Review of the Year

The Group had another very good year, increasing profits in local currency by 18 per cent overall although this reduces to 3 per cent on translation to sterling. Sales volume increased with excellent growth in exports to the Far East considerably outweighing minor reductions in sales in some of the more mature domestic markets.

The retained profit transferred to Group reserves, after taking into account dividends of £145 million, was £49 million. This includes extraordinary items of £20 million arising from the sale of shares in Malaysian Tobacco and the disposal of surplus assets in Singapore partly offset by a provision for the disposal of a business in Cameroon.

Exports by BAT (UK and Export) showed encouraging growth in the Far East, especially to China, although there was less buoyancy in the Middle East and the Duty Free business. However, the strength of sterling during the year and higher marketing costs resulted in virtually unchanged profits. Elsewhere in Europe, Barclay and Lucky Strike continued to make progress but overall heavy marketing investment caused profits to decline.

The Group's companies in Latin America generally did well. In Venezuela, Bigott had another outstanding year. Chiletabacos maintained its dominant market position with increased volume and profit rose significantly. In Argentina, Nobleza-Piccardo increased market share and profit in dollar terms despite adverse economic conditions and downtrading. In the difficult political and economic climate in Central America domestic market volume declined but overall profits improved.

In Asia, BAT Hong Kong had another splendid year through substantially increased exports to China. The companies in Pakistan and Singapore recorded noteworthy performances but in a highly competitive market, Malaysian Tobacco's market share and profit continued to fall.

In Africa, there were overall increases in volume, turnover and trading profit, with significant contributions to trading profit from Kenya, Nigeria, Uganda and Zaire, although results from Cameroon were disappointing.

### Associated Companies

#### Skandinavisk Holding AS

Increased exports by Skandinavisk of its leading brand, Prince Denmark, to all major markets, particularly West Germany, more than offset a decline in the Danish domestic market. Price increases, lower costs and higher net interest received resulted in improved profits.

#### ITC Ltd

Although the total domestic cigarette market was adversely affected by the change in excise structure in 1987, ITC increased market share and improved margins in 1988. In contrast to 1987, the company also benefited from much lower exceptional excise provisions.

# Report of the Directors of BAT Co Ltd *continued*

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

If a disabled applicant proves a suitable candidate for employment, modification of facilities and the provision of special equipment and aids is considered favourably. If employees become disabled during the course of their employment with the Group and as a result are unable to perform their normal jobs, every effort is made to offer suitable alternative employment to them, to provide assistance with re-training and to deal with their cases as compassionately as possible.

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

## **Employee Involvement**

The Company maintains its high level of commitment to voluntary systems of employee involvement. Activities reported on last year have continued during the period under review.

There is a regular communication programme which is based on face to face meetings within the immediate working group. It is supported by Company newspapers and magazines, use of appropriate audio/visual material, the issue of information sheets on specific subjects and consultation at each location through appropriate committees.

A total of 1,838 employees comprising 90% of the present United Kingdom workforce are shareholders in B.A.T Industries p.l.c.

## **Employees**

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

	1988	1987
United Kingdom	2,096	2,176
Europe	2,458	2,558
Caribbean/Central America	2,275	2,313
South America	8,088	7,869
Asia/Australasia	15,998	14,447
Africa	11,269	10,747
	<u>42,184</u>	<u>40,110</u>
The industrial spread is:		
Tobacco	36,602	36,689
Other activities	5,582	3,421
	<u>42,184</u>	<u>40,110</u>

## **Research and Development Activities**

Research and development is undertaken to support the main operating components of the business - the growing and blending of tobacco leaf, and the design, production and marketing of cigarette products.

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

## **Holding Company**

B.A.T Industries p.l.c., incorporated in the United Kingdom, owns the whole of the equity share capital of BAT Co Ltd and is its ultimate holding company.

## **Company Status**

BAT Co Ltd is not a close company for the purpose of company taxation.

# Report of the Auditors

To the members of British-American Tobacco Company Limited

We have audited the financial statements on pages 5 to 20 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1988 and of the profit and funds provided and applied of the group for the year then ended and comply with the Companies Act 1985.

Deloitte Haskins & Sells,  
Chartered Accountants,  
London, 20 March 1989

# Accounting Policies

## 1 Group accounts

(a) Group accounts are prepared by consolidating the accounts made up to 31 December of B.A.T. Co Ltd and its subsidiaries. The one significant exception is Nigerian Tobacco Co Ltd, whose accounts are made up to 30 September, and in the opinion of the directors it is presently impracticable to alter this date.

(b) The results of subsidiaries acquired during the year are included from the date of acquisition of a controlling interest at which date, for the purposes of consolidation, the purchase consideration is allocated between the underlying net assets acquired, other than goodwill, on the basis of their fair value.

(c) The results of subsidiaries which are sold outside the B.A.T. Industries group are included up to the date of disposal. The profit or loss on sale is calculated by reference to the net asset value at the date of disposal.

2 Associated companies comprise investments in companies, which are not subsidiaries, where a significant influence can be exercised and the Group's interest in the equity capital is long term and exceeds 20%.

The Group's share of the profits of these companies is included in the profit and loss account and the investments are shown in the Group's balance sheet at the Group's share of the net tangible assets of the companies less provisions consistent with the concept of prudence. The Group's share of the profits and assets is based on the latest information published by the companies.

The Company's balance sheet includes its investment in associated companies at cost.

3 Other investments are stated at cost except that investments in companies which cease to be associated companies are stated at the Group's share of the net tangible assets at the date of change in status.

4 Stocks are valued on consistent bases, in the main at average cost including overheads (where appropriate), or net realisable value, whichever is the lower.

5 Intangible assets - Trademarks, patents and goodwill, including that arising in connection with the acquisition of subsidiaries and associated companies, are eliminated during the year of purchase against reserves and shown in the reserve movements in note 21 on page 16.

6 Tangible fixed assets include assets held under finance leases which are capitalised at their fair value with a corresponding amount treated as a liability.

7 Depreciation on tangible fixed assets is calculated to amortise their cost over their useful lives by equal annual instalments, having regard to their location and the industry in which they are employed. No

depreciation is provided on freehold land except where its cost cannot be separately identified in which case the aggregate cost of the land and buildings is depreciated at the rate applicable to the buildings.

The rates of depreciation used are generally within the following ranges:

Freehold buildings	2.5% - 4%
Leasehold buildings - long leases	2.5% - 4%
- short leases	over the period of the lease
Plant and machinery	7% - 10%
Other equipment and fittings	10% - 20%
Motor vehicles	20% - 25%

8 Turnover comprises net sales to external customers and includes value added, sales and excise taxes.

9 Research and development revenue expenditure is charged against profits as incurred.

10 Taxation provided is that chargeable on the profits of the period together with deferred taxation calculated as indicated below:

(a) To the extent that Advance Corporation Tax (ACT) on dividends paid and proposed cannot be offset against Corporation Tax or deferred taxation provided, it is written off. Amounts so written off are carried forward for tax purposes and may be offset against taxation of subsequent periods.

(b) 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 subsidiaries, associated companies or other investments.

(c) Deferred taxation is provided for on timing differences using the liability method except where it can be demonstrated with reasonable probability that the tax deferral will continue for the foreseeable future. Timing differences arise on items of income and expenditure which are recognised for tax purposes in different periods from those in which they are recognised in the profit and loss account.

11 Foreign currencies - All assets, liabilities, turnover and profits expressed in currencies other than sterling are translated to sterling at rates of exchange ruling at the end of the financial year. Exchange differences on remittances are taken to trading profit.

12 Differences on exchange are dealt with as follows:  
(a) Those arising on the retranslation to sterling (using rates of exchange ruling at the end of the year) of overseas net assets at the beginning of the year, after taking into account related foreign currency borrowings, are taken direct to reserves as shown in note 21 on page 16.

(b) Other exchange differences are reflected in trading profit.

# Group Profit and Loss Account

For the year ended 31 December

£ millions

	1988	1987
Turnover including duty and excise taxes (note 1)	<u>2,565</u>	<u>2,333</u>
Operating income (note 1)	1,226	1,117
Operating charges (note 2)	<u>995</u>	<u>893</u>
Trading profit	231	224
Net interest (note 5)	<u>52</u>	<u>40</u>
	283	264
Share of associated companies' profit before taxation (page 19)	<u>32</u>	<u>25</u>
Profit on ordinary activities before taxation	315	289
Taxation on ordinary activities (note 6)	<u>113</u>	<u>100</u>
Profit on ordinary activities after taxation	202	189
Attributable to minority shareholders	<u>28</u>	<u>23</u>
Attributable to BAT Co Ltd shareholders	174	166
Extraordinary items (note 7)	<u>20</u>	<u>—</u>
Profit for the year (note 8)	194	166
Dividends in respect of current year profits (note 9)	<u>145</u>	<u>122</u>
Retained profit (note 21)	<u>49</u>	<u>44</u>
Retained profit by BAT Co Ltd and subsidiaries	39	37
Associated companies	<u>10</u>	<u>7</u>
	49	44
Earnings per share (note 10)	<u>35.0p</u>	<u>33.4p</u>

Notes are shown on pages 5, 7 and 10 to 18.

# Group Turnover and Profit Analyses

£ millions

	1988	%	1987	%
<b>Turnover including duty and excise taxes</b>	<u>2,565</u>		<u>2,333</u>	
<b>Geographical analysis</b>				
United Kingdom	195	7	189	8
Europe	515	20	553	24
Caribbean/Central America	121	5	113	5
South America	648	25	494	21
Asia/Australasia	762	30	675	29
Africa	324	13	309	13
	<u>2,565</u>	<u>100</u>	<u>2,333</u>	<u>100</u>

The above analysis is based on the area of manufacture.

<b>Industrial analysis</b>				
Tobacco	2,495	97	2,277	98
Other activities	<u>70</u>	<u>3</u>	<u>56</u>	<u>2</u>
	<u>2,565</u>	<u>100</u>	<u>2,333</u>	<u>100</u>

<b>Trading profit</b>	<u>231</u>		<u>224</u>	
<b>Geographical analysis</b>				
United Kingdom	32	14	36	16
Europe	21	9	25	11
Caribbean/Central America	26	11	22	10
South America	59	25	54	24
Asia/Australasia	57	25	53	24
Africa	36	16	34	15
	<u>231</u>	<u>100</u>	<u>224</u>	<u>100</u>

Royalty income less related expenditure is included in the geographical area in which the licensor is located.

<b>Industrial analysis</b>				
Tobacco	227	98	222	99
Other activities	<u>4</u>	<u>2</u>	<u>2</u>	<u>1</u>
	<u>231</u>	<u>100</u>	<u>224</u>	<u>100</u>



# Balance Sheets

31 December

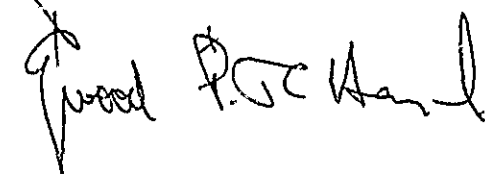
£ millions

	Group		Company	
	1988	1987	1988	1987
<b>Assets</b>				
<b>Fixed assets</b>				
Tangible fixed assets (note 13)	384	346	15	14
Investments in Group companies (note 15)			95	96
Investments in associated companies (note 16)	68	72	10	10
Other investments and long term loans (note 17)	75	67	35	32
	<u>527</u>	<u>485</u>	<u>155</u>	<u>152</u>
<b>Current assets</b>				
Stocks (note 18)	451	399	1	1
Debtors (note 19)	225	191	77	74
Current investments (note 20)	316	299	290	295
Short term deposits	121	129	3	
Cash at bank and in hand	43	56	3	3
	<u>1,156</u>	<u>1,074</u>	<u>374</u>	<u>373</u>
<b>Total assets</b>	<u>1,683</u>	<u>1,559</u>	<u>529</u>	<u>525</u>
<b>Liabilities</b>				
<b>Capital and reserves</b>				
Share capital	135	135	135	135
Other reserves	261	247	28	27
Profit and loss account	455	441	90	99
Associated companies	41	43		
Interest of BAT Co Ltd shareholders (note 21)	892	860	253	261
Interest of minority shareholders in subsidiaries	99	85		
	<u>991</u>	<u>951</u>	<u>253</u>	<u>261</u>
<b>Provisions for liabilities and charges (note 22)</b>	<u>61</u>	<u>44</u>	<u>17</u>	<u>14</u>
<b>Creditors (note 25)</b>				
Borrowings	110	90	34	50
Other creditors	521	474	225	200
	<u>631</u>	<u>564</u>	<u>259</u>	<u>250</u>
<b>Total funds employed</b>	<u>1,683</u>	<u>1,559</u>	<u>529</u>	<u>525</u>

On behalf of the board

B D Bramley, D S Watterton *Directors*

20 March 1989



Notes are shown on pages 5, 7 and 10 to 18.

# Group Funds Statement

Funds provided and applied for the year ended 31 December

£ millions

	Total movements		Acquisitions and disposals included in total movements 1988 (1987 nil)
	1988	1987	
<b>Funds provided</b>			
Profit attributable to BAT Co Ltd shareholders before extraordinary items	174	166	
Dividends in respect of current year profits	(145)	(122)	
	29	44	
Extraordinary items	20		11
Reserve movements	(23)	(90)	(8)
Net increase/(decrease) in BAT Co Ltd shareholders' interest for the year	26	(46)	3
Increase/(decrease) in			
Interest of minority shareholders	14	(22)	7
Provisions for unfunded pensions	8	(8)	
Deferred taxation	1		
Borrowings - due beyond one year	(9)	(15)	2
	40	(91)	12
<b>Funds applied</b>			
Tangible fixed assets			
Expenditure	79	57	7
Disposals and exchange differences	(1)	(69)	
Depreciation of the year	(40)	(37)	
Net tangible fixed assets	38	(49)	7
Other fixed assets	4	(3)	(2)
	42	(52)	5
<b>Working capital</b>			
Stocks	52	(87)	5
Debtors	34	(7)	21
Current investments, deposits and cash	(4)	39	(13)
	82	(55)	13
Less: Borrowings - due within one year	29	(24)	3
Other provisions and creditors	55	8	3
(Decrease)/increase in working capital	(2)	(39)	7
Increase/(decrease) in net assets	40	(91)	12

The directors consider it inappropriate to prepare this statement on a cash flow basis because of the restrictions in many parts of the world on the transfer of assets, including cash, between individual companies in the Group.

## Notes to the Financial Statements

£ millions

	1988	1987
<b>1 Turnover and operating income</b>		
Turnover including duty and excise taxes	2,565	2,333
Duty and excise taxes	<u>1,365</u>	<u>1,240</u>
	1,200	1,093
Other operating income	<u>26</u>	<u>24</u>
	<u>1,226</u>	<u>1,117</u>

<b>2 Operating charges</b>		
Raw materials and consumables	468	401
Change in stock of finished goods and work in progress	(21)	4
Staff costs	203	190
Depreciation	40	37
Other operating charges	<u>305</u>	<u>261</u>
	<u>995</u>	<u>893</u>

Staff costs comprise:		
Wages and salaries	158	147
Social security costs	29	24
Other pension costs	15	18
Share participation scheme	<u>1</u>	<u>1</u>
	<u>203</u>	<u>190</u>

Information in respect of the number of persons employed by the Group is given on page 4.

Depreciation includes:

Depreciation in respect of assets held under finance leases	2	3
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Other operating charges include:

Rent of machinery and equipment (operating leases)	1	1
Rent of land and buildings (operating leases)	5	5
Research and development expenses	10	9
Provisions for unfunded pensions	7	4
Finance charges in respect of finance leases	1	1
Auditors' fees (BAT Co Ltd £155,000 1987 £145,000)	1.10	1.03

**3 Directors' remuneration**

As managers:

Emoluments (including pension contributions)	0.94	0.81
Pensions	0.04	0.06

£ millions

#### 4 Emoluments of directors

The table shows the numbers of directors of BAT Co Ltd whose emoluments, excluding pension contributions, are within the following ranges:

Emoluments £	1988	1987	Emoluments £	1988	1987
130,001 - 135,000	-	1	70,001 - 75,000	-	1
120,001 - 125,000	2	-	65,001 - 70,000	-	2
95,001 - 100,000	-	2	55,001 - 60,000	1	-
90,001 - 95,000	1	-	50,001 - 55,000	1	-
85,001 - 90,000	1	-	40,001 - 45,000	-	1
80,001 - 85,000	2	1	25,001 - 30,000	1	-
75,001 - 80,000	1	-			

Messrs B D Bramley and E A A Bruell, both having received emoluments in their capacity as directors of the ultimate holding company, are excluded from this table.

The emoluments of the highest paid director were £122,524 for the year to 31 December 1988 (1987 £130,407).

	1988	1987
<b>5 Net interest</b>		
Interest received	65	52
Less interest paid	13	12
Net interest	52	40
Interest received comprises income from:		
Fellow subsidiaries	31	28
Trade investments		1
Current investments	1	1
(unlisted)	32	30
Short term deposits	33	22
	65	52
Interest paid:		
Short term - bank loans and overdrafts	10	8
- other loans	1	1
of which £2 million (1987 £2 million) on loans repayable by instalments	11	9
Long term - bank loans	1	2
Fellow subsidiaries	1	1
	13	12

#### 6 Taxation on ordinary activities

UK Corporation Tax on profits of the period at 35.00% (1987 35.00%)	68	51
Less double taxation relief	61	46
UK taxation	7	5
Overseas taxation	91	84
Current taxation	98	89
Deferred taxation	1	1
Taxation charge BAT Co Ltd and subsidiaries	99	90
Share of associated companies' taxation	14	10
Total taxation	113	100

As a result of ACT surrendered by the ultimate holding company, the charge for UK taxation has been reduced by £23 million (1987 £22 million).

# Notes to the Financial Statements

£ millions

	1988
<b>7 Extraordinary items (1987 nil)</b>	
Extraordinary income	
Reduction in shareholding in a subsidiary company	9
Disposal of an associated company	3
Disposal of surplus fixed assets	14
	<u>26</u>
Extraordinary charge	
Provision for disposal of a subsidiary company	3
	<u>23</u>
Extraordinary profit (nil taxation)	3
Attributable to minority shareholders	3
	<u>20</u>
Extraordinary items	

## 8 Profit for the year

As permitted by section 228(7) of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in these financial statements. The profit for the year dealt with in the accounts of the Company was £137 million (1987 £124 million).

	1988	1987
<b>9 Dividends of BAT Co Ltd</b>		
5% Preference stock (3.5% net)	·16	·16
6% Preference stock (4.2% net)	·25	·25
Ordinary shares		
Interims paid in respect of current year profits	145·00	122·00
	<u>145·41</u>	<u>122·41</u>

## 10 Earnings per share

Earnings per ordinary share are based on equity earnings of £174 million (1987 £166 million) and the 497 million issued ordinary shares of 25p each.

35·0p    33·4p

## 11 Restrictions on transfer of assets

There are restrictions in many parts of the world on the transfer of assets, including cash, between individual companies in the Group.

## 12 Operating leases

	Land and buildings		Other	
	1988	1987	1988	1987
Annual commitments under non-cancellable operating leases comprise:				
Leases which expire				
Within 1 year	1	1		
Beyond 1 year and within 5 years	1	1	1	1
Beyond 5 years	2	2		
	<u>4</u>	<u>4</u>	<u>1</u>	<u>1</u>

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

£ millions

## 13 Tangible fixed assets

Group	Freehold land & buildings	Leasehold land & buildings	Plant, machinery & equipment	Assets in course of construction	Total
Cost:					
1 January 1988	104	35	423	11	573
Differences on exchange	6	(2)	(2)	(1)	1
Subsidiaries acquired	3		9	1	13
Expenditure	3	1	41	27	72
Reallocations	3		12	(15)	
Disposals	(3)		(17)		(20)
31 December 1988	<u>116</u>	<u>34</u>	<u>466</u>	<u>23</u>	<u>639</u>
Depreciation:					
1 January 1988	25	10	192		227
Differences on exchange		(2)	(3)		(5)
Subsidiaries acquired			6		6
Charged to Profit and Loss Account	2	1	37		40
Adjustments on disposals			(13)		(13)
31 December 1988	<u>27</u>	<u>9</u>	<u>219</u>		<u>255</u>
<i>Net values at 31 December 1988</i>	<i>89</i>	<i>25</i>	<i>247</i>	<i>23</i>	<i>384</i>
<i>Net values at 31 December 1987</i>	<i>79</i>	<i>25</i>	<i>231</i>	<i>11</i>	<i>346</i>
Company					
Cost:					
1 January 1988	4		22	1	27
Expenditure		1	3		4
Disposals			(2)		(2)
31 December 1988	<u>4</u>	<u>1</u>	<u>23</u>	<u>1</u>	<u>29</u>
Depreciation:					
1 January 1988	1		12		13
Charged to Profit and Loss Account			2		2
Adjustments on disposals			(1)		(1)
31 December 1988	<u>1</u>		<u>13</u>		<u>14</u>
<i>Net values at 31 December 1988</i>	<i>3</i>	<i>1</i>	<i>10</i>	<i>1</i>	<i>15</i>
<i>Net values at 31 December 1987</i>	<i>3</i>	<i>--</i>	<i>10</i>	<i>1</i>	<i>14</i>
	Group		Company		
	1988	1987	1988	1987	
Leasehold land and buildings comprise:					
Net value of long leasehold	16	16			
Net value of short leasehold	<u>9</u>	<u>9</u>	<u>1</u>		
	<u>25</u>	<u>25</u>	<u>1</u>		
Cost of land on which no depreciation is provided	23	23	2		2
Net values of assets held under finance leases	15	17	--		--

## Notes to the Financial Statements

£ millions

## 14 Future capital expenditure

	Group		Company	
	1988	1987	1988	1987
Authorised by the directors of BAT Co Ltd or its subsidiaries but not provided for in these accounts is estimated at	27	31	3	1
of which contracts have been placed for	14	16	1	-

## 15 Investments in Group companies (see page 20)

	Shareholdings	Loans	Company Total
Cost:			
1 January 1988	49	51	100
Acquisitions and advances	6	3	9
Repayments		(6)	(6)
31 December 1988	55	48	103
Provision in respect of a permanent diminution in value:			
1 January 1988	4		4
Charged to Profit and Loss Account	4		4
31 December 1988	8		8
Net values at 31 December 1988	47	48	95
Net values at 31 December 1987	45	51	96

## 16 Investments in associated companies (see page 19)

	Group Shareholdings (at net tangible asset value)		Company Shareholdings (at cost)	
1 January 1988	72		10	
Differences on exchange	(7)			
Retentions	10			
Goodwill on acquisitions by associated companies	(6)			
Disposal of an associated company	(1)			
31 December 1988	68		10	
	Group (at net tangible asset value)		Company (at cost)	
	1988	1987	1988	1987
Shareholdings:				
Listed abroad	17	17	1	1
(Market value Group £31 million 1987 £39 million Company £10 million 1987 £17 million)				
Unlisted	51	55	9	9
	68	72	10	10

£ millions

# 17 Other investments and long term loans

	Group			Company		
	Other investments	Long term loans	Holding company	Other investments	Long term loans	Holding company
1 January 1988	36	6	25	1	6	25
Differences on exchange	1					
Acquisitions and advances	4	3			3	
31 December 1988	41	9	25	1	9	25
	1988	1987		1988	1987	
Other investments comprise:						
Listed abroad - equity	34	34				
Unlisted - equity	6	1		1	1	
Unlisted - other	1	1				

Included as listed abroad is an investment in Empresas La Moderna SA de CV, a company incorporated and registered in Mexico, its principal country of operation. The company has an issued share capital of 129,600,000 ordinary shares of no par value and debentures of 8,000 million pesos comprising 80 million units of debenture stock at 100 pesos per unit, repayment commencing in 1990. The Group's interest in the ordinary shares is 45% but following the loss of its ability to exercise significant influence with effect from 30 June 1986 it is not appropriate to treat this investment as an associated company. The Group has no interest in the debenture stock. The latest available audited information is for the year to 30 September 1988 and shows reserves of £115 million and a loss for the year of £1 million. Following the suspension of dealings in the shares of Empresas La Moderna SA de CV on the Mexican Stock Exchange during April 1988, a market value at 31 December 1988 is not available. The market value at 31 December 1987 was £16 million.

Included in unlisted is an equity investment in Haseldonckx Logistics NV, a company incorporated and registered in Belgium, its principal country of operation. The Group's interest in the ordinary share capital is 20.69%. The existence of a majority shareholder, Wiggins Teape Ltd, a fellow subsidiary, who hold the remaining 79.31%, precludes its treatment as an associated company. The latest available audited information is for the year to 31 December 1988 and shows capital and reserves of £22 million and a profit of £1 million.

	Group		Company	
	1988	1987	1988	1987
18 Stocks				
Raw materials and components	318	288	1	1
Consumable stores	35	30		
Finished goods	80	67		
Goods purchased for resale	18	14		
	451	399	1	1

# 19 Debtors

Trade debtors	137	130	1	1
Other debtors	66	47	7	7
Prepayments and accrued income	20	14		
Receivable from subsidiaries			68	66
Receivable from fellow subsidiaries	2		1	
	225	191	77	74



## Notes to the Financial Statements

£ millions

## 20 Current investments

	Group		Company	
	1988	1987	1988	1987
Listed abroad – equity (Market value £2 million)	1			
Unlisted – equity	1	1		
Unlisted – other	6	6	3	3
	8	7	3	3
Loans to fellow subsidiaries due within one year	308	292	287	292
	316	299	290	295

## 21 Interest of BAT Co Ltd shareholders

	Share capital	Other reserves	Profit and loss account	Associated companies	Total
<b>Group</b>					
1 January 1988	135	247	441	43	866
Differences on exchange		6	(15)	(6)	(15)
Retained profit			39	10	49
Goodwill, patents and trademarks		(2)		(6)	(8)
Transfers		10	(10)		
31 December 1988	135	261	455	41	892
<b>Company</b>					
1 January 1988	135	27	99		261
Net loss for the year after dividends			(8)		(8)
Transfers		1	(1)		
31 December 1988	135	28	90		253

Authorised, issued and fully paid  
1988 1987

The share capital comprises:

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

## 22 Provisions for liabilities and charges

	Group				Company			
	Unfunded pensions	Deferred taxation	Other provisions	Total	Unfunded pensions	Deferred taxation	Other provisions	Total
1 January 1988	31	6	7	44	8	1	5	14
Differences on exchange	4			4				
Provided in respect of the year	7	1	9	17			3	3
Utilised during year	(3)		(1)	(4)				
31 December 1988	39	7	15	61	8	1	8	17

The amount provided in the year in other provisions of £9 million includes £3 million charged as extraordinary items.

**23 Pensions**

Group companies provide for pension commitments in accordance with the best accepted local practice. For the majority of companies the pension liability is funded externally and the appropriate contributions are paid over to trustees.

The provisions for unfunded pensions of £39 million (1987 £31 million) in note 22 arise not only where a pension liability is recognised but also where it is considered necessary to meet future pension liabilities exceeding those which have been funded externally. These provisions are covered by assets retained within the companies. Where no such separate provisions are made, pension payments are charged against the profit for the year.

**24 Contingent liabilities**

There are contingent liabilities in respect of litigation, overseas taxes, guarantees and social benefits in various countries.

BAT Co Ltd has guaranteed borrowings by subsidiaries and fellow subsidiaries of £32 million (1987 £41 million). In addition, jointly with a fellow subsidiary, BAT Co Ltd has guaranteed £403 million (1987 £488 million) of borrowings by B.A.T Industries p.l.c.

**25 Creditors**

	Total		Payable within one year		Payable beyond one year	
	1988	1987	1988	1987	1988	1987
<b>Group</b>						
Trade creditors	59	57	58	56	1	1
Sales taxes, duty and excise	180	169	180	168		1
Obligations under finance leases	9	12	3	4		8
Bills payable	20	13	17	8	3	5
Accrued charges and deferred income	37	26	37	25		1
Taxation on profits – UK	14	8	11	6	3	2
– overseas	54	61	52	56	2	5
Other taxation and social security	19	16	19	15		1
Amounts due to holding company and fellow subsidiaries	103	86	103	86		
Sundry creditors	26	26	25	25	1	1
Total of which £1 million (1987 nil) is secured	521	474	505	449	16	25
Borrowings (page 18 note 26)	110	90	90	61	20	29
	<u>631</u>	<u>564</u>	<u>595</u>	<u>510</u>	<u>36</u>	<u>54</u>
<b>Obligations under finance leases payable beyond one year, comprise:</b>						
Due between 2 and 5 years					3	5
Due between 1 and 2 years					3	3
					<u>6</u>	<u>8</u>
<b>Company</b>						
Taxation on profits – UK	11	5	8	3		
– overseas	1	2	1	2	3	2
Amounts due to holding company and fellow subsidiaries	94	79	94	79		
Amounts due to subsidiaries	116	110	116	110		
Sundry creditors	3	4	3	4		
Total (all unsecured)	225	200	222	198	3	2
Borrowings (page 18 note 26)	34	50	34	47		3
	<u>259</u>	<u>250</u>	<u>256</u>	<u>245</u>	<u>3</u>	<u>5</u>

## Notes to the Financial Statements

£ millions

## 26 Borrowings

	Bank loans and overdrafts		Group Total borrowings		Company Total borrowings	
	1988	1987	1988	1987	1988	1987
Miscellaneous – long term			3	3		
Miscellaneous – short term			6	4		
Bank loans and overdrafts			87	72		
Loans from fellow subsidiaries			14	11	11	10
Loans from subsidiaries					23	40
			<u>110</u>	<u>90</u>	<u>34</u>	<u>50</u>
Secured borrowings			<u>20</u>	<u>17</u>	<u>–</u>	<u>–</u>
Repayable as follows:						
Due beyond 5 years						
Loans repayable by instalments	1	2	4	5		
Other loans		3		3		
	<u>1</u>	<u>5</u>	<u>4</u>	<u>8</u>		
Due between 2 and 5 years	8	11	11	12		
Due between 1 and 2 years	3	7	5	9		3
	<u>12</u>	<u>23</u>	<u>20</u>	<u>29</u>		<u>3</u>
Due within 1 year	75	49	90	61	34	47
Total	<u>87</u>	<u>72</u>	<u>110</u>	<u>90</u>	<u>34</u>	<u>50</u>
Total amount due on long term loans which are repayable by instalments	<u>5</u>	<u>9</u>	<u>10</u>	<u>13</u>		

## 27 Deferred taxation

	Group		Company	
	1988	1987	1988	1987
Had provision been made for deferred taxation in respect of all timing differences, the liability would have been as follows:				
Excess of capital allowances over depreciation	41	45	4	3
Deduct ACT	<u>14</u>	<u>15</u>	<u>2</u>	<u>2</u>
	27	30	2	1
Stock relief in respect of overseas stocks	4	8		
Losses available for set off against future taxable profits	(5)	(5)		
Other timing differences	<u>(1)</u>	<u>1</u>	<u>(1)</u>	<u>–</u>
	<u>25</u>	<u>34</u>	<u>1</u>	<u>1</u>

There is a provision for deferred taxation of £7 million (1987 £6 million) in note 22 as it is considered that a liability may arise in the foreseeable future as a result of the reversal of timing differences in respect of accelerated depreciation. This provision is after an ACT deduction of £14 million (1987 £15 million) comprising £10 million (1987 £12 million) irrevocably surrendered and £4 million (1987 £3 million) provisionally surrendered by the ultimate holding company.

As indicated in note 10(b) on page 5 the above figures do not take into account tax which may be payable on the realisation of investments or in the event of the distribution of profits retained by subsidiaries, associated companies or other investments.

# Associated Companies

## Principal Investments

£ millions

		Latest available information	Total issued capital	BAT Co Ltd's % beneficial interest
<b>Denmark</b>				
Skandinavisk Holding AS tobacco, wholesaling, furniture manufacturing, office supplies, agricultural machinery	# 'A' Ordinary	30/6/88	23	33
	# 'B' Ordinary		3	33
	# 'C' Ordinary		11	33
<b>India</b>				
ITC Ltd tobacco, hotels, board, packaging and printing	+ Ordinary	30/6/88	12	31
<b>Spain</b>				
Tabacania SA tobacco	# Ordinary	31/12/88	12	41
<b>Trinidad &amp; Tobago</b>				
The West Indian Tobacco Co Ltd tobacco	# + Ordinary	31/12/88	5	46

# Held by BAT Co Ltd

+ Listed abroad

BAT Co Ltd's percentage beneficial interest in share capital is stated as at 31 December 1988.

## Profit and Loss Account

	Year to 31 December 1988		Year to 31 December 1987	
	Total	Group's share	Total	Group's share
Turnover	1,856	627	1,820	603
Trading profit	94		72	
Interest paid less received	(2)		(2)	
Profit before taxation	92	32	70	25
Taxation	41	14	29	10
Profit after taxation	51	18	41	15
Dividends (see below)		8		8
Retained profit		10		7
Dividends comprise income from:				
Listed investments		3		3
Unlisted investments		5		5
		8		8

# Principal Subsidiaries

The principal subsidiaries in the BAT Co Ltd Group are listed below. The geographical and industrial analyses are based on the main area of operation. The country of incorporation is the same as the main country of operation except where identified.

	% shares			% shares	
	held by BAT	attrib- utable to BAT		held by BAT	attrib- utable to BAT
<b>TOBACCO</b>					
<b>United Kingdom</b>					
Ardath Tobacco Co Ltd	100	100	<b>TOBACCO</b>		
BAT (UK and Export) Ltd	-	100	<b>Asia/Australasia (continued)</b>		
BAT Services Ltd	-	100	<b>Malaysia</b>		
Malaysian Tobacco Co Berhad - 54					
<b>New Zealand</b>					
WD & HO Wills (New Zealand) Ltd - 86					
<b>Pakistan</b>					
Pakistan Tobacco Co Ltd 63 63					
<b>Singapore</b>					
British-American Tobacco Co (Singapore) Ltd 80 80					
<b>Sri Lanka</b>					
Ceylon Tobacco Co Ltd 77 84					
<b>Africa</b>					
<b>Cameroon</b>					
Société des Tabacs, Cigares et Cigarettes J Bastos de L'Afrique Centrale SA 74 74					
<b>Kenya</b>					
BAT Kenya Ltd - 59					
<b>Liberia</b>					
The Monrovia Tobacco Corporation 95 95					
<b>Malawi</b>					
BAT (Malawi) Ltd 75 75					
<b>Mauritius</b>					
British-American Tobacco (Mauritius) p.l.c. (incorporated in the UK) - 100					
<b>Nigeria</b>					
*Nigerian Tobacco Co Ltd 59 59					
<b>Sierra Leone</b>					
Aureol Tobacco Co Ltd 86 86					
<b>South Africa</b>					
Ulico Holdings Ltd 63 63					
<b>Uganda</b>					
BAT Uganda 1984 Ltd 70 70					
<b>Zaire</b>					
BAT Zaire SARL 100 100					
<b>Zambia</b>					
BAT Zambia Ltd 100 100					
<b>Zimbabwe</b>					
BAT Zimbabwe Ltd 85 85					
Export Leaf Tobacco Co of Africa (Pvt) Ltd 100 100					
Tobacco Processors Zimbabwe (Pvt) Ltd - 70					
*accounts made up to 30 September (note 1(a) page 5)					
<b>FOODS</b>					
<b>Chile</b>					
+ Consorcio Agro-Industrial de Malloa SA - 70					
+ Evercrisp Snack Productos de Chile SA - 70					
<b>South Africa</b>					
Willards Foods (Pty) Ltd - 63					
<b>PAPER</b>					
<b>India</b>					
Tribeni Tissues Ltd - 51					
<b>OVERSEAS HOLDING COMPANY</b>					
<b>Chile</b>					
Empresas CCT SA 2 70					
- the company through which the Group's interests in the Chilean subsidiaries marked + are held.					
<b>Asia/Australasia</b>					
<b>Bangladesh</b>					
Bangladesh Tobacco Co Ltd - 63					
<b>Hong Kong</b>					
British-American Tobacco Co (Hong Kong) Ltd 100 100					
<b>Indonesia</b>					
PT BAT Indonesia 70 70					