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British-American Tobacco Company Limited

REPORT AND ACCOUNTS

FOR THE YEAR TO

31 DECEMBER 1989

COMPANIES HOUSE

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LONDON

CARDIFF

10 JUL 1990 11 JUL 1990

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British-American Tobacco Company Limited

BAT Co Ltd

Contents

Report of the directors

Board of directors	2
Directors' interests	2
Principal activities	3
Changes in the Group	3
Review of the year	3
Employees	4

Report of the auditors	4
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Financial statements

Accounting policies	5
Group profit and loss account	6
Group turnover and profit analyses	7
Balance sheets	8
Group funds statement	9
Notes to the financial statements	10
Associated companies	19
Principal subsidiaries	20

Notice of meeting

Notice is hereby given that the eighty-seventh annual general meeting of British-American Tobacco Company Limited will be held at Westminster House, 7 Millbank, London SW1P 3JE, on Tuesday 29 May 1990 at 11.30 am for the transaction of the following business:

- 1 To receive and consider the accounts for the year ended 31 December 1989 and the reports of the directors and auditors thereon.
- 2 To elect directors.
- 3 To re-elect Coopers & Lybrand Deloitte as auditors.
- 4 To authorise the directors to fix the auditors' remuneration.

By order of the board

N B Cannar, *Secretary*
19 March 1990

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.

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Report of the Directors of BAT Co Ltd

Board of Directors

Chairman

Barry David Bramley

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

(resigned 1 April 1989)

David Kerr Thorpe

(resigned 3 January 1990)

Donald Stuart Watterton

In pursuance of the articles of association Messrs N Davis, D G Heywood and D S Watterton retire from the board at the annual general meeting and will be proposed for re-election.

Directors' Interests

According to the Company's register the interests at 31 December 1989, 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 1989 or date of appointment are shown in brackets.

	B.A.T Industries p.l.c.			
	Ordinary 25p Shares		Share Options	
B D Bramley	68,270	(34,291)	35,740	(55,937)
N G Brookes	7,021	(436)	13,644	(23,051)
R A C Crichton	69,510	(22,125)	2,450	(48,990)
N Davis	21,354	(465)	1,481	(27,751)
R S Hartley	594	(470)	20,524	(20,061)
P J C Hazel	26,271	(31,141)	10,338	(9,875)
D G Heywood	65,737	(22,388)	2,450	(46,527)
D K Thorpe	22,139	(12,672)	19,703	(33,090)
D S Watterton	320	(205)	17,668	(17,205)

The holdings at 19 March 1990 are shown below where they differ from those at 31 December 1989.

B D Bramley	69,495	34,515
N G Brookes	7,103	13,644
R A C Crichton	72,849	nil
R S Hartley	19,181	1,944
P J C Hazel	26,602	10,338
D G Heywood	47,804	1,225
D S Watterton	324	17,668

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

Coopers & Lybrand Deloitte,
128 Queen Victoria St, London EC4P 4JX

Deloitte Haskins & Sells are in the process of merging their practice with Coopers & Lybrand. Their present business name is Coopers & Lybrand Deloitte and they have signed their audit report in that name.

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

Subsequent to a reorganisation by AMATIL Ltd, which at that time was B.A.T Industries p.l.c.'s principal associated company in Australia, the Group acquired, at the beginning of August 1989, a 67.32 per cent interest in the WD & HO Wills tobacco operations in Australia and Papua New Guinea. Results from these new subsidiaries have been consolidated into the Group from the date of acquisition.

There has been an increase from 74.85 per cent to 92.26 per cent in the Group's interest in Société des Tabacs, Cigares et Cigarettes J Bastos de L'Afrique Centrale SA, the tobacco subsidiary in Cameroon, following a rights issue in which the minority shareholders have presently chosen not to participate.

Review of the Year

The Group has had an outstanding year with profits increasing by 29 per cent. Turnover also grew strongly with excellent volume growth in exports more than compensating for marginal declines in some mature domestic markets.

Exports by BAT (UK and Export) showed significant increases to China, South East Asia and the Middle East. This volume increase combined with favourable exchange rates, improved cost control and higher productivity, resulted in a substantial increase in profit. Trading profit elsewhere in Europe was ahead although total volumes and market share were marginally lower. Barclay made further progress in sales and market share.

In Latin America Chiletobacos increased profits significantly in an expanding market. Both Bigott in Venezuela and Nobleza-Piccardo in Argentina faced challenging market and economic conditions. Devaluations in these countries had a significant adverse effect on profits when translated to sterling. Despite similar conditions in Central America, price increases contributed to a slightly higher overall sterling profit.

Most companies in Asia increased profits significantly. 1989 was another record year for BAT Hong Kong with a further substantial increase in exports. Higher exports from Singapore boosted profits and there was a welcome improvement from Malaysian Tobacco. The initial progress of WD & HO Wills in Australia has been good with an increase in its domestic market share.

In Africa there were again overall increases in volume, turnover and trading profit, with important contributions from the companies in Kenya, Nigeria and Zaire and a significant improvement from the Cameroon company.

Associated Companies

Skandinavisk Holding AS

In Denmark Skandinavisk's tobacco trading profit was marginally ahead. The success of Prince in domestic and export markets continued.

ITC Ltd

ITC in India performed well with increases in cigarette volumes, market share and trading profit.

Transfers to Reserves

The profit for the year, after a net charge for extraordinary items of £12 million, was £230 million and the retained profit transferred to Group reserves, after taking into account dividends of £162 million, was £68 million.

Extraordinary Items

Extraordinary items principally comprised a provision in respect of the proposals to close and reorganise production and other ancillary facilities in Europe partly offset by surpluses arising from the sale of the Group's interest in Empresas La Moderna SA de CV in Mexico and an associated company's disposal of property in Singapore.

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 involves 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 communications 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 1,863 employees comprising 91.9 per cent of the present United Kingdom work-force 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.

	1989	1988
United Kingdom	2,052	2,096
Europe	2,322	2,458
Caribbean/Central America	2,289	2,275
South America	8,126	8,088
Australasia	3,320	295
Asia	14,636	15,703
Africa	11,219	11,269
	<u>43,964</u>	<u>42,184</u>

The industrial spread is:

Tobacco	38,618	36,602
Other activities	5,346	5,582
	<u>43,964</u>	<u>42,184</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 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 1989 and of the profit and funds provided and applied of the group for the year then ended and comply with the Companies Act 1985.

Coopers & Lybrand Deloitte,
Chartered Accountants,
London, 19 March 1990

Accounting Policies

1 Group accounts

(a) Group accounts are prepared by consolidating the accounts made up to 31 December of BAT 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.

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 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 Pension costs are charged against profits on a systematic basis with surpluses and deficits arising allocated over the expected remaining service lives of current employees.

11 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.

12 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.

13 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

	1989	1988
Turnover including duty and excise taxes (note 1)	<u>3,001</u>	<u>2,565</u>
Operating income (note 1)	1,537	1,244
Operating charges (note 2)	1,237	1,013
Trading profit	300	231
Net interest (note 5)	55	52
	355	283
Share of associated companies' profit before taxation (page 19)	38	32
Profit on ordinary activities before taxation	393	315
Taxation on ordinary activities (note 6)	119	113
Profit on ordinary activities after taxation	274	202
Attributable to minority shareholders	32	28
Attributable to BAT Co Ltd shareholders	242	174
Extraordinary items (note 7)	(12)	20
Profit for the year (note 8)	230	194
Dividends in respect of current year profits (note 9)	<u>162</u>	<u>145</u>
Retained profit (note 21)	<u>68</u>	<u>49</u>
Retained profit by BAT Co Ltd and subsidiaries	46	39
Associated companies	<u>22</u>	<u>10</u>
	68	49
Earnings per share (note 10)	<u>43.7p</u>	<u>35.0p</u>

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

Group Turnover and Profit Analyses

£ millions

	1989	%	1988	%
Turnover including duty and excise taxes	<u>3,061</u>		<u>2,565</u>	
Geographical analysis				
United Kingdom	225	7	195	7
Europe	611	20	515	20
Caribbean/Central America	128	4	121	5
South America	403	14	648	25
Australasia	375	13	65	3
Asia	884	29	697	27
Africa	375	13	324	13
	<u>3,001</u>	<u>100</u>	<u>2,565</u>	<u>100</u>

The above analysis is based on the area of manufacture.

Industrial analysis

Tobacco	2,914	97	2,495	97
Other activities	87	3	70	3
	<u>3,001</u>	<u>100</u>	<u>2,565</u>	<u>100</u>

Trading profit

	<u>300</u>		<u>231</u>	
Geographical analysis				
United Kingdom	44	15	32	14
Europe	28	9	21	9
Caribbean/Central America	27	9	26	11
South America	48	16	59	25
Australasia	13	4	7	1
Asia	87	29	55	24
Africa	53	18	36	16
	<u>300</u>	<u>100</u>	<u>231</u>	<u>100</u>

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

Industrial analysis

Tobacco	292	97	227	98
Other activities	8	3	4	2
	<u>300</u>	<u>100</u>	<u>231</u>	<u>100</u>

Balance Sheets

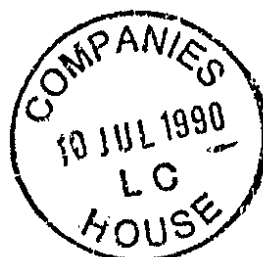
31 December

£ millions

	Group		Company	
	1989	1988	1989	1988
Assets				
Fixed assets				
Tangible fixed assets (note 13)	504	394	17	15
Investments in Group companies (note 15)			375	95
Investments in associated companies (note 16)	82	68	10	10
Other investments and long term loans (note 17)	39	75	23	35
	<u>625</u>	<u>527</u>	<u>435</u>	<u>155</u>
Current assets				
Stocks (note 18)	537	451	1	1
Debtors (note 19)	263	225	111	77
Current investments (note 20)	392	316	144	290
Short term deposits	126	121	7	3
Cash at bank and in hand	44	43	4	3
	<u>1,362</u>	<u>1,156</u>	<u>267</u>	<u>374</u>
Total assets	<u>1,987</u>	<u>1,683</u>	<u>702</u>	<u>529</u>
Liabilities				
Capital and reserves				
Share capital	135	135	135	135
Other reserves	287	261	27	26
Profit and loss account	463	455	92	90
Associated companies	55	41		
Interest of BAT Co Ltd shareholders (note 21)	940	892	254	253
Interest of minority shareholders in subsidiaries	144	99		
	<u>1,084</u>	<u>991</u>	<u>254</u>	<u>253</u>
Provisions for liabilities and charges (note 22)	<u>118</u>	<u>61</u>	<u>30</u>	<u>17</u>
Creditors (note 25)				
Borrowings	151	110	116	34
Other creditors	634	521	302	225
	<u>785</u>	<u>631</u>	<u>418</u>	<u>259</u>
Total funds employed	<u>1,987</u>	<u>1,683</u>	<u>702</u>	<u>529</u>

On behalf of the board
B D Bramley, D S Watterton *Directors*
19 March 1990

[Handwritten signatures]



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		Included in total movements Significant acquisitions		Other acquisitions and disposals	
	1989	1988	Net assets acquired 1989	Consideration given 1989	1989	1988
Funds provided						
Profit attributable to BAT Co Ltd shareholders before extraordinary items	242	174				
Dividends in respect of current year profits	(162)	(145)				
	80	29				
Extraordinary items	(12)	20			14	11
Reserve movements	(20)	(23)	300	(283)	(4)	(8)
Net increase in BAT Co Ltd shareholders' interest for the year	48	26	300	(283)	10	3
Increase/(decrease) in						
Interest of minority shareholders	45	14	45		(3)	7
Provisions for unfunded pensions	(3)	8				
Deferred taxation	8	1	8			
Borrowings - due beyond one year	4	(9)			14	2
	<u>102</u>	<u>40</u>	<u>353</u>	<u>(283)</u>	<u>21</u>	<u>12</u>
Funds applied						
Tangible fixed assets						
Expenditure	193	79	111			7
Disposals and exchange differences	(25)	(1)			(8)	
Depreciation of the year	(48)	(40)				
Net tangible fixed assets	120	38	111		(8)	7
Other fixed assets	(22)	4			(36)	(2)
	<u>98</u>	<u>42</u>	<u>111</u>		<u>(44)</u>	<u>5</u>
Working capital						
Stocks	86	52	73		(3)	5
Debtors	38	34	33		(2)	21
Current investments, deposits and cash	82	(4)	231	(283)	46	(13)
	206	82	337	(283)	41	13
Less: Borrowings - due within one year	37	29	8		(1)	3
Other provisions and creditors	165	55	87		(23)	3
Increase/(decrease) in working capital	4	(2)	242	(283)	65	7
Increase in net assets	102	40	353	(283)	21	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.

Net asset values are shown in respect of the acquisition of a majority shareholding in the WD & HO Wills tobacco operations in Australia and Papua New Guinea from the ultimate holding company. With the exception of a change in accounting policy in respect of deferred taxation, which required an additional provision of £4 million, there were no significant differences between the fair values attributed to the net assets and those recorded in the books of the acquired operations. The net premium on acquisition, £17 million, has been credited directly to reserves as shown in note 21 on page 16.

Notes to the Financial Statements

£ millions

	1989	1988
1 Turnover and operating income		
Turnover including duty and excise taxes	3,001	2,565
Duty and excise taxes	1,519	1,365
	1,482	1,200
Other operating income	55	44
	<u>1,537</u>	<u>1,244</u>
2 Operating charges		
Raw materials and consumables	609	468
Change in stock of finished goods and work in progress	(2)	(21)
Staff costs	228	207
Depreciation	48	40
Other operating charges	354	319
	<u>1,237</u>	<u>1,013</u>
Staff costs comprise:		
Wages and salaries	182	158
Social security costs	24	29
Other pension costs	21	19
Share participation scheme	1	1
	<u>228</u>	<u>207</u>
Other pension costs comprise:		
Funded plans - defined contribution	2	1
- defined benefit	10	11
Unfunded plans - defined benefit	9	7
	<u>21</u>	<u>19</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	2
Other operating charges include:		
Rent of machinery and equipment (operating leases)	1	1
Rent of land and buildings (operating leases)	8	5
Research and development expenses	11	10
Finance charges in respect of finance leases	1	1
Auditors' fees (BAT Co Ltd £182,000 1988 £155,000)	1.20	1.10
3 Directors' remuneration		
As managers,		
Emoluments (including pension contributions)	1.06	0.94
Pensions	0.04	0.04

4 Emoluments of directors and higher paid employees

The emoluments (excluding pension contributions) of directors of BAT Co Ltd, and of employees of BAT Co Ltd in excess of £50,000, all of whose services were principally within the UK, are set out in the following table

Emoluments £	Directors		Employees		Emoluments £	Directors		Employees	
	1989	1988	1989	1988		1989	1988	1989	1988
150,001 - 155,000	1	-	-	-	70,001 - 75,000	1	-	3	-
145,001 - 150,000	1	-	-	-	65,001 - 70,000	-	-	2	2
120,001 - 125,000	-	2	-	-	60,001 - 65,000	-	-	4	-
110,001 - 115,000	1	-	-	-	55,001 - 60,000	-	1	3	2
100,001 - 105,000	2	-	-	-	50,001 - 55,000	-	1	10	10
95,001 - 100,000	1	-	-	-	45,001 - 50,000	-	-	7	3
90,001 - 95,000	1	1	-	-	40,001 - 45,000	-	-	8	14
85,001 - 90,000	-	1	-	-	35,001 - 40,000	1	-	12	9
80,001 - 85,000	-	2	1	-	30,001 - 35,000	-	-	17	22
75,001 - 80,000	-	1	4	-	25,001 - 30,000	-	1	-	-

The Chairman, having received emoluments in his capacity as a director of the ultimate holding company, is excluded from this table.

The emoluments of the highest paid director were £150,526 for the year to 31 December 1989 (1988 £122,524).

	1989	1988
5 Net interest		
Interest received	76	65
Less interest paid	21	13
Net interest	55	52
Interest received comprises income from:		
Fellow subsidiaries	50	31
Trade investments	1	-
Current investments	2	1
(unlisted)	53	32
Short term deposits	23	33
	76	65
Interest paid:		
Short term - bank loans and overdrafts	17	10
- other loans	1	1
of which £3 million (1988 £2 million) on loans repayable by instalments	18	11
Long term - bank loans	-	1
- other loans	1	-
Fellow subsidiaries	2	1
	21	13

6 Taxation on ordinary activities

UK Corporation Tax on profits of the period at 35.00% (1988 35.00%)	54	68
Less double taxation relief	47	61
UK taxation	7	7
Overseas taxation	93	91
Current taxation	100	98
Deferred taxation	3	1
Taxation charge BAT Co Ltd and subsidiaries	103	99
Share of associated companies' taxation	16	14
Total taxation	119	113

The charge for UK taxation has been reduced by £22 million (1988 £23 million) in respect of ACT and £9 million (1988 nil) in respect of group loss relief, both as a result of surrender by the ultimate holding company.

Notes to the Financial Statements

£ million

	1989	1988
7 Extraordinary items		
Extraordinary income		
Sales of and reduction of holding in subsidiary and associated companies		12
Other investments	17	
Disposal of surplus fixed assets		14
	<u>17</u>	<u>26</u>
Extraordinary charges		
Sales of holdings in subsidiary companies	4	3
Provision for rationalisation in Europe	38	
	<u>42</u>	<u>3</u>
Extraordinary (loss)/profit before taxation	(25)	23
Taxation on extraordinary items	1	
Extraordinary (loss)/profit after taxation	(26)	23
Attributable to minority shareholders	(4)	3
Extraordinary items - BAT Co Ltd and subsidiaries	(22)	20
- share of associated companies' extraordinary income	10	
	<u>(12)</u>	<u>20</u>

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 £163 million (1988 £137 million).

	1989	1988
9 Dividends of BAT Co Ltd		
5% Preference stock (3.6% net)	0.16	0.16
6% Preference stock (4.2% net)	0.25	0.25
Ordinary shares		
Interims paid in respect of current year profits	162.00	145.00
	<u>162.41</u>	<u>145.41</u>

10 Earnings per share

Earnings per ordinary share are based on equity earnings of £242 million (1988 £174 million) and the 497 million issued ordinary shares of 25p each.

48.7p 35.0p

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	
	1989	1988	1989	1988
Annual commitments under non-cancellable operating leases comprise:				
Leases which expire				
Within 1 year	3	1	1	
Beyond 1 year and within 5 years	3	1	1	1
Beyond 5 years	2	2		
	<u>8</u>	<u>4</u>	<u>2</u>	<u>1</u>

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

13 Tangible fixed assets

	Freehold land & buildings	Leasehold land & buildings	Plant, machinery & equipment	Assets in course of construction	Total
Group					
Cost:					
1 January 1989	116	34	466	23	639
Differences on exchange	(5)	3	1	(2)	(3)
Subsidiaries acquired	62		78	2	142
Expenditure	3	4	47	28	82
Reallocations	2	1	19	(22)	
Disposals	(3)	(3)	(27)		(33)
Subsidiaries disposed of	(7)		(7)		(14)
31 December 1989	<u>168</u>	<u>39</u>	<u>577</u>	<u>29</u>	<u>813</u>
Depreciation:					
1 January 1989	27	9	219		255
Differences on exchange		1	1		2
Subsidiaries acquired	2		29		31
Charged to Profit and Loss Account	3	2	43		48
Adjustments on disposals	(1)		(20)		(21)
Subsidiaries disposed of	(1)		(5)		(6)
31 December 1989	<u>30</u>	<u>12</u>	<u>267</u>		<u>309</u>
<i>Net values at 31 December 1989</i>	<i>138</i>	<i>27</i>	<i>310</i>	<i>29</i>	<i>504</i>
<i>Net values at 31 December 1988</i>	<i>89</i>	<i>25</i>	<i>247</i>	<i>23</i>	<i>384</i>
Company					
Cost:					
1 January 1989	4	1	23	1	29
Expenditure			6		6
Reallocations			1	(1)	
Disposals			(2)		(2)
31 December 1989	<u>4</u>	<u>1</u>	<u>28</u>	<u>-</u>	<u>33</u>
Depreciation:					
1 January 1989	1		13		14
Charged to Profit and Loss Account			4		4
Adjustments on disposals			(2)		(2)
31 December 1989	<u>1</u>		<u>15</u>		<u>16</u>
<i>Net values at 31 December 1989</i>	<i>3</i>	<i>1</i>	<i>13</i>	<i>-</i>	<i>17</i>
<i>Net values at 31 December 1988</i>	<i>3</i>	<i>1</i>	<i>10</i>	<i>1</i>	<i>15</i>
	Group		Company		
	1989	1988	1989	1988	
Leasehold land and buildings comprise:					
Net value of long leasehold	17	16			
Net value of short leasehold	10	9	1	1	
	<u>27</u>	<u>25</u>	<u>1</u>	<u>1</u>	
Cost of land on which no depreciation is provided	43	23	2	2	
Net values of assets held under finance leases	14	15	-	-	

14 Future capital expenditure

	Group		Company	
	1989	1988	1989	1988
Authorised by the directors of BAI Co Ltd or its subsidiaries but not provided for in these accounts is estimated at	49	27	1	3
of which contracts have been placed for	32	14	-	1

15 Investments in Group companies (see page 20)

	Shareholdings	Loans	Company Total
Cost			
1 January 1989	55	48	103
Acquisitions and advances	287	6	293
Transfers	2	(2)	
Disposals and repayments	(1)	(6)	(7)
31 December 1989	343	46	389
Provision in respect of a permanent diminution in value			
1 January 1989	8		8
Charged in the Profit and Loss Account	6		6
31 December 1989	14		14
Net values at 31 December 1989	329	46	375
Net values at 31 December 1988	47	48	95

16 Investments in associated companies (see page 19)

	Group		Company	
	Shareholdings		Shareholdings	
	(at net tangible asset value)		(at cost)	
1 January 1989	68		10	
Differences on exchange	7			
Retentions	24			
Goodwill on acquisitions by associated companies	(4)			
Transfer of funds in advance of distribution	(13)			
31 December 1989	82		10	
	Group		Company	
	(at net tangible asset value)		(at cost)	
	1989	1988	1989	1988
Shareholdings.				
Listed abroad	31	17	1	1
(Market value Group £65 million 1988 £31 million Company £12 million 1988 £10 million)				
Unlisted	51	51	9	9
	82	68	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 1989	41	9	25	1	9	25
Differences on exchange		1			1	
Acquisitions and advances		4			4	
Reclassification		(7)			(7)	
Disposals and repayments	(34)					
31 December 1989	<u>7</u>	<u>7</u>	<u>25</u>	<u>1</u>	<u>7</u>	<u>25</u>
	1989	1988		1989	1988	
Other investments comprise:						
Listed abroad - equity		34				
Unlisted - equity	7	6		1	1	
Unlisted - other		1				

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 1989 and shows capital and reserves of £25 million and a profit of £2 million.

	Group		Company	
	1989	1988	1989	1988
18 Stocks				
Raw materials and components	370	318	1	1
Consumable stores	36	35		
Finished goods	98	80		
Goods purchased for resale	33	18		
	<u>537</u>	<u>451</u>	<u>1</u>	<u>1</u>

19 Debtors

Trade debtors	160	137		1
Other debtors	68	66	11	7
Prepayments and accrued income	20	20	1	
Receivable from fellow subsidiaries	15	2		1
Receivable from subsidiaries			99	68
	<u>263</u>	<u>225</u>	<u>111</u>	<u>77</u>

During the year a subsidiary company entered into an agreement to sell trade debtors. Had this arrangement not existed at 31 December 1989, it is estimated that debtors would have been £30 million higher.

Notes to the Financial Statements

£ millions

20 Current investments

	Group		Company	
	1989	1988	1989	1988
Listed UK - equity (Market value £4 million)	-	-	-	-
Listed abroad - equity (Market value £3 million 1988 £2 million)	2	1	-	-
Unlisted - equity	1	1	-	-
Unlisted - other	3	6	2	3
Loans to fellow subsidiaries due within one year	6	8	2	3
	<u>386</u>	<u>308</u>	<u>142</u>	<u>287</u>
	<u>392</u>	<u>316</u>	<u>144</u>	<u>290</u>

21 Interest of BAT Co Ltd shareholders

	Share capital	Other reserves	Profit and loss account	Associated companies	Total
Group					
1 January 1989	135	261	455	41	892
Differences on exchange		(13)	(27)	7	(33)
Retained profit		17	46	22	68
Goodwill, patents and trademarks		22	(11)	(4)	13
Transfers				(11)	
31 December 1989	<u>135</u>	<u>287</u>	<u>463</u>	<u>55</u>	<u>940</u>
Company					
1 January 1989	135	28	90		253
Retained profit			1		1
Transfers		(1)	1		
31 December 1989	<u>135</u>	<u>27</u>	<u>92</u>		<u>254</u>

The share capital comprises:

Ordinary shares of 25p each

5% (now 3.5% + tax credit) Cumulative preference stock

6% (now 4.2% + tax credit) Second cumulative preference stock

	Authorised, issued and fully paid
	1989 1988
	124 124
	5 5
	6 6
	<u>135</u> <u>135</u>

22 Provisions for liabilities and charges

	Group				Company			
	Unfunded pensions	Deferred taxation	Other	Total	Unfunded pensions	Deferred taxation	Other	Total
1 January 1989	39	7	15	61	8	1		17
Differences on exchange	(8)	1		(7)				
Subsidiaries acquired		8	10	18				
In respect of the year:								
Ordinary activities	9	3	7	19	3		5	8
Extraordinary items		(4)	38	34			6	6
Utilised during the year	(4)		(3)	(7)	(1)			(1)
31 December 1989	<u>36</u>	<u>15</u>	<u>67</u>	<u>118</u>	<u>10</u>	<u>1</u>	<u>19</u>	<u>30</u>

23 Pensions

The Group operates 87 retirement benefit plans covering in excess of 34,000 employees, approximately 83 per cent of its work-force around the world. The majority of these employees belong to defined benefit type schemes, most of which are funded externally. In some countries, however, as shown in note 22 on page 16, separate provisions are made, covered by assets retained within the companies concerned. The remaining employees belong to defined contribution schemes.

Defined benefit scheme costs are determined following valuations by qualified actuaries, one of whom is an employee of the ultimate holding company, who generally use the aggregate or projected unit credit method. The total market value of assets in externally funded defined benefit schemes, at the date of their most recent actuarial valuations, was £453 million which was not less than accrued liabilities. Their actuarial asset value was £447 million which was not less than the value of projected accrued liabilities based on ultimate rather than current pay. Certain schemes showed deficits on a current funding level basis but these are considered not to be material in the context of the whole Group.

As shown in note 2 on page 10 the total pension cost to the Group, including additions to provisions in respect of unfunded pensions, was £21 million (1988 £19 million). In the main the total cost equates to the regular annual cost.

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 £4 million (1988 £32 million). In addition, jointly with a fellow subsidiary, BAT Co Ltd has guaranteed £488 million (1988 £488 million) of borrowings by B.A.T. Industries p.l.c.

25 Creditors

	Total		Payable within one year		Payable beyond one year	
	1989	1988	1989	1988	1989	1988
Group						
Trade creditors	97	59	96	58	1	1
Sales taxes, duty and excise	186	180	186	180		
Obligations under finance leases	7	9	3	3	4	6
Bills payable	51	20	49	17	2	3
Accrued charges and deferred income	51	37	39	37	12	
Taxation on profits - UK	16	14	16	11		3
- overseas	63	54	54	52	9	2
Other taxation and social security	15	19	15	19		
Due to holding company and fellow subsidiaries	113	103	113	103		
Sundry creditors	35	26	33	25	2	1
Total - secured £1 million (1988 £1 million)	634	521	604	505	30	16
Borrowings (page 18 note 26)	151	110	127	90	24	20
	<u>785</u>	<u>631</u>	<u>731</u>	<u>595</u>	<u>54</u>	<u>36</u>
Obligations under finance leases payable beyond one year comprise:						
Due between 2 and 5 years					2	3
Due between 1 and 2 years					2	3
					<u>4</u>	<u>6</u>
Company						
Taxation on profits - UK	9	11	9	8		3
- overseas	2	1	2	1		
Due to holding company and fellow subsidiaries	106	94	106	94		
Due to subsidiaries	180	116	180	116		
Sundry creditors	5	3	5	3		
Total - unsecured	302	225	302	222		3
Borrowings (page 18 note 26)	116	34	116	34		
	<u>418</u>	<u>259</u>	<u>418</u>	<u>256</u>		<u>3</u>

26 Borrowings

	Bank loans and overdrafts		Group Total borrowings		Company Total borrowings	
	1989	1988	1989	1988	1989	1988
Miscellaneous - long term			8	3		
Miscellaneous - short term			10	6		
Bank loans and overdrafts			92	87		
Loans from holding company			14		14	
Loans from fellow subsidiaries			27	14	21	11
Loans from subsidiaries					81	23
			<u>151</u>	<u>110</u>	<u>116</u>	<u>34</u>
Secured borrowings			<u>22</u>	<u>20</u>	<u>-</u>	<u>-</u>
Repayable as follows:						
Due beyond 5 years						
(all repayable by instalments)		1	6	4		
Due between 2 and 5 years	7	8	13	11		
Due between 1 and 2 years	3	3	5	5		
	10	12	24	20		
Due within 1 year	<u>82</u>	<u>75</u>	<u>127</u>	<u>90</u>	<u>116</u>	<u>34</u>
Total	<u>92</u>	<u>87</u>	<u>151</u>	<u>110</u>	<u>116</u>	<u>34</u>
Total amount due on long term loans which are repayable by instalments	<u>-</u>	<u>5</u>	<u>14</u>	<u>10</u>		

27 Deferred taxation

	Group		Company	
	1989	1988	1989	1988
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	51	41	4	4
Deduct ACF	7	14	2	2
	44	27	2	2
Stock relief in respect of overseas stocks	8	4		
Losses available for set off against future taxable profits	(7)	(5)		
Other timing differences	(16)	(1)	(1)	(1)
	<u>29</u>	<u>25</u>	<u>1</u>	<u>1</u>

There is a provision for deferred taxation of £15 million (1988 £7 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 ACF deduction of £6 million (1988 £14 million) comprising £4 million (1988 £10 million) irrevocably surrendered and £2 million (1988 £4 million) provisionally surrendered by the ultimate holding company.

As indicated in note 11(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
Denmark				
Skandinavisk Holding AS	# 'A' Ordinary	30/6/89	27	33
<i>tobacco, wholesaling, furniture</i>	# 'B' Ordinary		3	33
<i>manufacturing, office supplies</i>	# 'C' Ordinary		13	33
Ghana				
Pioneer Tobacco Co Ltd	# Ordinary	31/12/89	0.02	45
<i>tobacco</i>				
India				
ITC Ltd	+ Ordinary	30/9/89	12	31
<i>tobacco, hotels, board, packaging and printing</i>				
Spain				
Tabacania SA	# Ordinary	30/11/89	14	41
<i>tobacco</i>				
Trinidad & Tobago				
The West Indian Tobacco Co Ltd	# + Ordinary	31/12/89	5	46
<i>tobacco</i>				

Held by BAT Co Ltd + Listed abroad

BAT Co Ltd's percentage beneficial interest is stated as at 31 December 1989.

Profit and Loss Account

	Year to 31 December 1989		Year to 31 December 1988	
	Total	Group's share	Total	Group's share
Turnover	2,337	777	1,856	627
Trading profit	113		94	
Interest paid less received	(2)		(2)	
Profit before taxation	111	38	92	32
Taxation	47	16	41	14
Profit after taxation	64	22	51	18
Extraordinary items		11		
Net profit after extraordinary items		33		18
Dividends (see below)		9		8
Retained profit		24		10
Dividends comprise income from:				
Listed investments		3		3
Unlisted investments		6		5
		9		8

Principal Subsidiaries

The principal subsidiaries in the BAT Co Ltd Group, which are mainly engaged in the tobacco industry unless indicated otherwise, are listed below. The geographical analysis is 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	attributable to BAT		held by BAT	attributable to BAT
United Kingdom			Australasia (continued)		
Ardath Tobacco Co Ltd	100	100	Fiji		
BAT (UK and Export) Ltd	-	100	Fiji Tobacco Co (1972) Ltd	50	83
Europe			New Zealand		
Belgium			WD & HO Wills (New Zealand) Ltd	-	86
BAT Benelux SA	28	100	Papua New Guinea		
Velasques Sigarenfabrieken NV	-	100	WD & HO Wills (PNG) Ltd	-	67
Channel Islands			Solomon Islands		
The Jersey Tobacco Distributors Ltd	-	100	Solomon Islands Tobacco Co Ltd	50	83
Cyprus			Asia		
BAT (Cyprus) Ltd	-	89	Bangladesh		
Finland			Bangladesh Tobacco Co Ltd	-	63
Suomen Tupakka Oy	100	100	Hong Kong		
Malta			British-American Tobacco Co (Hong Kong) Ltd	100	100
MTG Tobacco Company Ltd	100	100	India		
Netherlands			Tribeni Tissues Ltd <i>paper</i>	-	51
BAT Nederland BV	-	100	Indonesia		
Henri Wintermans' Sigarenfabrieken BV	-	100	PT BAT Indonesia	70	70
Switzerland			Malaysia		
BAT (Suisse) SA	77	99	Malaysian Tobacco Co Berhad	-	54
Caribbean/Central America			Pakistan		
Barbados			Pakistan Tobacco Co Ltd	63	63
British-American Tobacco Co (Barbados) Ltd	100	100	Singapore		
Costa Rica			British-American Tobacco Co (Singapore) Ltd	80	80
Republic Tobacco Co	80	80	Sri Lanka		
El Salvador			Ceylon Tobacco Co Ltd	77	84
Cigarrería Morazán SA de CV	75	75	Africa		
Guatemala			Cameroon		
Tabacalera Nacional SA	73	73	Société des Tabacs, Cigares et Cigarettes		
Guyana			J Bastos de L'Afrique Centrale SA	92	92
Demerara Tobacco Co Ltd	70	70	Kenya		
Honduras			BAT Kenya Ltd	-	59
Tabacalera Hondureña SA	80	80	Liberia		
Nicaragua			The Monrovia Tobacco Corporation	95	95
Tabacalera Nicaraguense SA	60	60	Malawi		
Panama			BAT (Malawi) Ltd	75	75
Tabacalera Istmeña SA	100	100	Mauritius		
Surinam			British-American Tobacco (Mauritius) p.l.c. (incorporated in the UK)	-	100
Tobacco Company of Suriname NV	100	100	Nigeria		
South America			* Nigerian Tobacco Co Ltd	59	59
Argentina			Sierra Leone		
Nobleza-Piccardo SAICYF	70	70	Aureol Tobacco Co Ltd	86	86
Chile			South Africa		
Empresas CCT SA <i>the company through which the Group's interests in Chile are held</i>	2	70	Utico Holdings Ltd	63	63
Chiletabacos SA	-	70	Willards Foods (Pty) Ltd <i>foods</i>	-	63
Consortio Agro-Industrial de Malloa SA <i>foods</i>	-	70	Uganda		
Evercrisp Snack Productos de Chile SA <i>foods</i>	-	70	BAT Uganda 1984 Ltd	70	70
Venezuela			Zaire		
CA Cigarrera Bigott Sues	100	100	BAT Zaire SARL	100	100
Australasia			Zambia		
Australia			BAT Zambia Ltd	100	100
WD & HO Wills Holdings Ltd	-	67	Zimbabwe		
WD & HO Wills (Australia) Ltd	-	67	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)