

British-American Tobacco (Holdings) Limited
Registered Number 262254

Directors' Report and Accounts

For the year ended 31 December 1999



British-American Tobacco (Holdings) Limited

Directors' report

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 1999 to the date of this report are as follows:

Martin Faulkner Broughton	Chairman
Ulrich Georg Volker Herter	Managing Director
Paul Nicholas Adams	
Nicholas George Brookes	
Antonio Monteiro de Castro	
Keith Silvester Dunt	
Anthony Cameron Johnston	
Jimmi Rembiszewski	
Earl Eugene Kohnhorst	Resigned 28 February 1999
David George Stevens	
Stuart Philip Chalfen	
Michael Charles Terrell Prideaux	
Hans Christian Bischoff	Appointed 30 September 1999
Charles Richard Green	Appointed 1 January 1999
Dr. John Nolan Jewell	Appointed 1 March 1999
Anthony Jones	Appointed 30 September 1999
William Patrick Ryan	Appointed 30 September 1999

On 31 July 2000 Mr SP Chalfen resigned as director and on the same day Mr NR Withington was appointed in his place.

Directors' interests

The interests of those persons who were Directors at 31 December 1999 in the share capital and share option schemes of British American Tobacco p.l.c., and its subsidiaries are as shown below apart from Messrs MF Broughton, UGV Herter, KS Dunt and WP Ryan which are disclosed in the Directors' Report of British American Tobacco p.l.c.

Mr PN Adams sold his beneficial interest in 2,000 ordinary Australian \$1 shares of W.D. & H.O. Wills Holdings Limited to Mr AC Johnston on 15 February 1999 which, in turn, were sold by Mr Johnston on 2 September 1999.

Mr AM de Castro has a beneficial interest in 21,500 ordinary shares of Souza Cruz S.A. (1 January 1999: 17,500).

In addition, on 31 December 1999, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Trust held a total of 15,581,616 shares in British American Tobacco p.l.c. (1 January 1999: 10,700,826 shares). All employees, including the Directors of the Company are deemed to have a beneficial interest in the shares which are held by the trusts for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share "E" Option Scheme and from 1998 onwards under the British American Tobacco Long Term Incentive Plan.

Details of the share option schemes are included in the Report and Accounts of British American Tobacco p.l.c.

British-American Tobacco (Holdings) Limited

Directors' report

Directors' interests (continued)

British American Tobacco p.l.c. Ordinary 25p shares

	1 January 1999*	31 December 1999
P.N. Adams	6,653	18,147
N.G. Brookes	46,964	86,819
A.M. de Castro	Nil	Nil
C.R. Green	Nil	Nil
J.N. Jewell	Nil	Nil
A.C. Johnston	11,156	20,276
J. Rembiszewski	12,602	5,530
D.G. Stevens	27,790	28,410
S.P. Chalfen	6,967	7,590
M.C.T. Prideaux	18,563	19,183
H.C. Bischoff	Nil	Nil
A. Jones	Nil	Nil

* Or date of appointment, if later.

British American Tobacco p.l.c. Share options

	1 January 1999*	Share Options		31 December 1999
		Granted	Exercised	
P.N. Adams	196,207	58,022	7,894	246,335
N.G. Brookes	243,724	63,653	Nil	307,377
A.M. de Castro	286,878	50,427	Nil	337,305
C.R. Green	86,261	35,362	Nil	121,623
J.N. Jewell	93,986	41,256	Nil	135,242
A.C. Johnston	152,716	47,483	7,894	192,305
J. Rembiszewski	171,026	65,162	4,037 [#]	232,151
D.G. Stevens	141,744	41,292	Nil	183,066
S.P. Chalfen	79,706	Nil	Nil	79,706
M.C.T. Prideaux	135,844	40,835	Nil	176,679
H.C. Bischoff	Nil	57,091	Nil	57,091
A. Jones	Nil	68,291	Nil	68,291

[#] lapsed

*Or date of appointment if later.

British-American Tobacco (Holdings) Limited

Directors' report

Review of the year to 31 December 1999

The loss for the year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of tax amounted to £14,866,000 (1998: £825,381,000 profit).

Dividends

The Directors recommend the payment of a dividend for the year of £870,000,000 (1998 £450,000,000). The loss for the financial year of £884,866,000 will be offset against reserves.

Principal activities

The Company is a holding company of a group of companies, which includes a number of subsidiaries, the principal business activities of which are the marketing and manufacture of tobacco brands.

Tangible fixed assets

The movement of fixed assets is shown on page 14 note 8 to the accounts.

Post balance sheet event

On 12 May 2000 the Company sold its investment in BATMark Limited to the ultimate holding company at its book value of £431.

Employee involvement

The Company supports the concept of employee involvement and follows a process of regular communications with all employees about the business, its plans, issues and progress.

This communication programme is based on business briefings, supported by regular editions of in-house magazines, the issue of information sheets on specific subjects and employee consultation through appropriate channels.

In 1999, 94.7 % of eligible United Kingdom employees participated in the British-American Tobacco (Holdings) Limited profit related pay scheme set up in accordance with the Inland Revenue guidelines.

Millennium

Throughout 1999, the Millennium Programme remained a top business priority. By the final quarter of 1999 remediation activities were complete for over 99% of systems, business continuity plans had been put in place throughout the organisation and detailed arrangements for the transition period around the critical date change were in place.

A Millennium Transition Office monitored the rollover of British American Tobacco group companies worldwide. In the event, all operations returned to business as usual as scheduled shortly after 1 January 2000. The Company remained vigilant for further date changes, for example 29 February 2000, and reports that all businesses performed as usual.

British-American Tobacco (Holdings) Limited

Directors' report

European Monetary Union

The Company, as a matter of policy, actively supports Economic and Monetary Union as a means of delivering increased stability and prosperity. The British American Tobacco Group's European companies including those in the UK have been capable of transacting business in the euro following its introduction in eleven European countries on 1 January 1999. The ability of the Group to conduct business in national currencies will be retained as long as necessary. The decision as to when to adopt the euro as a subsidiary's functional currency will be a local decision for each subsidiary in the European Union, having regard to the speed of transition to the euro in the individual economy.

Each operating subsidiary of the Group has prepared a business impact plan assessing the risks and uncertainties associated with the euro, with all end-market activity in the euro being co-ordinated through a European Regional Support Team. Costs incurred in 1999 on the euro programme had no material effect on the Group's business performance.

Employment of the disabled in the United Kingdom

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

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

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

British-American Tobacco (Holdings) Limited

Directors' report

Directors' responsibilities

The following Statement sets out the responsibilities of the Directors in relation to the financial statements. The report of the auditors, shown on page 7, sets out their responsibilities in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this Statement.

Auditors

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

On behalf of the Board


ASSISTANT Secretary

17th August 2000

Auditors' report to the members of British-American Tobacco (Holdings) Limited

We have audited the financial statements on pages 8 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report, including as described on page 6, for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Directors' remuneration and transactions is not disclosed.

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.

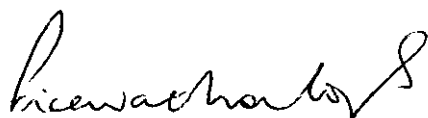
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1999 and of the loss for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



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

17 August 2000

British-American Tobacco (Holdings) Limited

Profit and loss account

For the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Turnover		-	-
Operating income	2	37,079	-
Operating charges	3	(215,446)	(62,905)
Operating loss		(178,367)	(62,905)
Income from shares in subsidiary undertakings	5	155,042	892,042
Investment income from group undertakings		27,193	4,508
Interest payable to group undertakings		(15,458)	(8,264)
(Loss)/profit on ordinary activities before taxation		(11,590)	825,381
Taxation on ordinary activities	6	(3,276)	-
(Loss)/profit for the financial year		(14,866)	825,381
Dividends on equity shares – interim proposed	7	(870,000)	(450,000)
(Decrease)/increase in reserves		(884,866)	375,381

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

There are no recognised gains and losses other than the loss for the year.

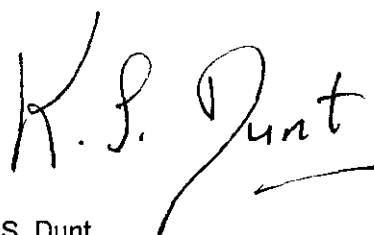
The notes on pages 10 to 18 form part of these accounts.

British-American Tobacco (Holdings) Limited

Balance sheet – 31 December 1999

	Note	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	8	66,576	-
Investments in subsidiary undertakings	9	755,934	1,034,470
Long term loan to group undertaking		170,180	-
		992,690	1,034,470
Current assets			
Debtors			
- amounts falling due within one year	10	2,885,384	2,944,845
Creditors – amounts falling due within one year	11	(3,489,245)	(2,717,297)
Net current (liabilities)/assets		(603,861)	227,548
Total assets less current liabilities		388,829	1,262,018
Creditors – amounts falling due after more than one year	12	(266,551)	(258,204)
Provisions for liabilities and charges	13	(14,990)	(11,660)
		107,288	992,154
Capital and reserves			
Called up share capital	14	84,630	84,630
Share premium	15	744	744
Profit and loss account	15	21,914	906,780
Total equity shareholders' funds	16	107,288	992,154

The financial statements on pages 8 to 18 were approved by the Directors on ^{17th} August 2000 and signed on behalf of the Board.



K.S. Dunt
Director

The notes on pages 10 to 18 form part of these accounts.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

1 Accounting policies

A summary of the principal accounting policies is set out below.

(1) Basis of accounting

The financial statements are prepared in accordance with Accounting Standards applicable in the United Kingdom and under the historical cost convention.

(2) Cash flow statement

The Company is a wholly owned subsidiary of British American Tobacco p.l.c. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

(3) Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the profit and loss account in the year.

(4) Taxation

Taxation is provided on the profits of the period together with deferred taxation. Deferred taxation is provided for on timing differences using the liability method to the extent that it is probable that the liability will crystallise. 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. No account is taken of tax which may be payable on the realisation of investments or in the event of the distribution of profits retained by the subsidiary undertakings.

(5) Accounting for income

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

(6) Pension costs

The costs of providing pensions, calculated by reference to actuarial valuations, are charged against profits on a systematic basis. Where surpluses and deficits arise they are allocated over the expected average remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to pension schemes are treated as assets or liabilities in the balance sheet.

(7) Research and development

Research and development expenditure is charged against profits as incurred.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

1 Accounting policies (continued)

(8) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated on a straight-line basis to write off the cost of tangible fixed assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are:

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

(9) Fixed asset investments

Fixed asset investments are stated at cost less provisions for any impairment in value consistent with the concept of prudence.

(10) Leased assets

Operating leases are charged to the profit and loss account.

2 Operating income

Operating income comprises technical and advisory fees received and commission income.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

3 Operating charges

	1999 £'000	1998 £'000
Operating charges		
Staff costs	50,240	-
Depreciation	4,469	-
Auditors' fees	723	-
Payment to PricewaterhouseCoopers for non-audit services	1,461	-
Other operating charges	158,553	62,905
	215,446	62,905
Staff costs:		
Wages and salaries	40,063	-
Social security costs	5,470	-
Other pension costs	2,694	-
Share participation scheme	2,013	-
	50,240	-

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

	1999 Number	1998 Number
Administration	493	-
IT	52	-
Marketing	101	-
	646	-

4 Directors' emoluments

The aggregate emoluments of the Directors payable by the Company or its subsidiary undertakings in respect of their services to those companies while Directors of the Company were:

	1999	1998
Aggregate emoluments	£8,353,504	£5,297,835
Amounts (excluding shares) receivable under long term incentive schemes	£555,874	£103,249
Compensation for loss of office	-	£857,633
Directors exercising share options during the year	2	5
Directors entitled to receive shares under a long term incentive scheme	4	3
Directors' retirement benefits accruing under:		
Defined benefit schemes	11	11

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

4 Directors' emoluments (continued)

The above figures do not include Messrs MF Broughton, UGV Herter, KS Dunt and WP Ryan because they are paid for their services to the ultimate holding company.

Highest paid Director	1999	1998
Aggregate emoluments	£1,554,017	£860,266
Amounts (excluding shares) receivable under long term incentive schemes	-	£32,815
Defined benefit pension scheme:		
Accrued pension at end of year	£7,809	£28,002
Accrued lump sum at the end of year	£236,206	£2,402,535

5 Income from shares in subsidiary undertakings

	1999 £'000	1998 £'000
British American Tobacco (Investments) Limited	-	270,000
Brown & Williamson Limited	-	205,000
Companhia Continental de Cigarros Limited	100,042	150,042
Louisville Securities Limited	55,000	115,000
Weston Investment Company Limited	-	152,000
	155,042	892,042

6 Taxation on ordinary activities

	1999 £'000	1998 £'000
United Kingdom corporation tax at 30.25% (1998: 31.0%)	-	-
Deferred taxation	3,276	-
	3,276	-

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

7 Dividends

	1999 £'000	1998 £'000
Ordinary		
Interim proposed	870,000	450,000
	870,000	450,000

8 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant, Machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 1 January 1999	-	-	-	-
Expenditure	6,885	7,520	14,028	28,433
Transfers	29,150	28,087	(5,997)	51,240
Disposals	-	(209)	-	(209)
At 31 December 1999	36,035	35,398	8,031	79,464
Depreciation				
At 1 January 1999	-	-	-	-
Profit & loss charge	1,541	2,928	-	4,469
Transfers	-	8,578	-	8,578
Disposals	-	(159)	-	(159)
At 31 December 1999	1,541	11,347	-	12,888
Net book value				
At 31 December 1999	34,494	24,051	8,031	66,576
At 31 December 1998	-	-	-	-

Future capital commitments

	1999 £'000	1998 £'000
Contracts have been placed for	146	-

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

9 Investments in subsidiaries

(1) Shares in subsidiary undertakings – Registered in England

% equity shares held

Unlisted – registered in England

British American Tobacco (Investments) Limited ¹	100
Brown & Williamson Limited ¹	100
Companhia Continental de Cigarros Limited ¹	100
Louisville Securities Limited ¹	100
BATMark Limited ²	100

1 – These are individual holding companies.

2 – This is a trademark holding company.

(2) Shareholdings at cost less provisions

	£'000
1 January 1999	1,034,470
Acquisitions	2
Disposals	(278,540)
Other movements	2
31 December 1999	755,934

On 27 July 1999 the Company sold its investment in Weston Investment Company Limited to British American Tobacco (1998) Limited at its book value of £278,540,000.

(3) Post balance sheet event

On 12 May 2000, the Company sold its investment in BATMark Limited to the ultimate holding company at its book value of £431.

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

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

10 Debtors: amounts falling due within one year

	1999 £'000	1998 £'000
Other debtors	1,451	-
Prepayments and accrued income	30,585	-
Amounts owed by subsidiary undertakings	2,694,268	2,032,845
Dividends receivable from subsidiary undertakings	155,042	912,000
Overseas tax	4,038	-
	2,885,384	2,944,845

11 Creditors: amounts falling due within one year

	1999 £'000	1998 £'000
Amounts owed to group undertaking	2,590,008	2,267,297
Accrued charges and deferred income	29,237	-
Dividend payable	870,000	450,000
	3,489,245	2,717,297

12 Creditors: amounts falling due after more than one year

	1999 £'000	1998 £'000
Loan from group undertaking	266,551	258,204

The loan is US \$ denominated and repayable in 2003, with interest calculated at LIBOR plus 0.625% floating rate.

13 Provisions for liabilities and charges

	1 January 1999 £'000	Amounts provided £'000	Amounts utilised £'000	31 December 1999 £'000
Relocation to Globe House	11,660	-	(5,260)	6,400
Deferred tax	-	3,276	-	3,276
Other provisions	-	5,314	-	5,314
	11,660	8,590	(5,260)	14,990

Other Provisions are in respect of executive incentive payments and redundancy costs.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

14 Share capital

Ordinary shares of £1 each	1999	1998
Authorised - value	£84,631,000	£84,631,000
- number	84,631,000	84,631,000
<hr/>		
Allotted, called up and fully paid		
- value	£84,630,000	£84,630,000
- number	84,630,000	84,630,000

15 Reserves

	Share premium £'000	Profit and loss account £'000	Total £'000
1 January 1999	744	906,780	907,524
Loss for the financial year	-	(14,866)	(14,866)
Dividends	-	(870,000)	(870,000)
31 December 1999	744	21,914	22,658

16 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
(Loss)/profit attributable to shareholders for the year	(14,866)	825,381
Dividend proposed	(870,000)	(450,000)
Net transfer (from) / to shareholders' funds	(884,866)	375,381
Opening shareholders' funds	992,154	616,773
Closing shareholders' funds	107,288	992,154

17 Related parties

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

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1999

18 Contingent liabilities

In the U.S.A., as at 1 July 2000, the Company is named, in addition to the leading U.S. cigarette manufacturers, as a defendant in a total of five cases. In addition to the claim by an individual claimant, there are four claims to recover healthcare expenditure relating to diseases alleged to be caused by smoking. Outside the United States, the Company has also been named, in Israel, as a defendant in two cases.

The Directors (i) do not consider it appropriate to make any provision in respect of any pending litigation of the Company and (ii) do not believe that the ultimate outcome of all litigation of the Company will significantly impair the Company's financial condition.

19 Parent undertakings

The Company's ultimate parent undertaking is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. Its immediate parent undertaking is B.A.T Industries p.l.c. Group accounts are prepared only at the British American Tobacco p.l.c. level.

20 Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from:

The Company Secretary
Globe House
4 Temple Place
London
WC2R 2PG