

British-American Tobacco (Holdings) Limited
Registered Number 262254

Directors' Report and Accounts

For the year ended 31 December 1998



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 1998 to the date of this report are as follows:

Martin Faulkner Broughton	Chairman (Appointed 8 September 1998)
Ulrich Georg Volker Herter	Managing Director
Paul Nicholas Adams	
Nicholas George Brookes	
Antonio Monteiro de Castro	
Keith Silvester Dunt	
Anthony Cameron Johnston	
Earl Eugene Kohnhorst	Resigned 28 February 1999
Michael Julian McGraw	Resigned 8 September 1998
Jimmi Rembiszewski	
Dr Bernd Schweitzer	Resigned 31 December 1998
David George Stevens	
Stuart Philip Chalfen	Appointed 8 September 1998
Michael Charles Terrell Prideaux	Appointed 8 September 1998
Charles Richard Green	Appointed 1 January 1999
Dr. John Nolan Jewell	Appointed 1 March 1999

Directors' interests

The interests of the Directors at 31 December 1998 in the share capital and share option schemes of B.A.T Industries p.l.c. and British American Tobacco p.l.c., are as shown below. Messrs MF Broughton, UGV Herter and KS Dunt are Directors of British American Tobacco p.l.c. and their interests are shown in the Annual Report and Accounts of that company.

Mr PN Adams has a beneficial interest in 2,000 ordinary Australian \$1 shares of W.D. & H.O. Wills Holdings Limited, which has remained unchanged throughout the year.

Mr AM de Castro has a beneficial interest in 17,500 ordinary shares of Souza Cruz S.A. (1 January 1998: 14,800).

Tables 1 and 2 show the interests of the Directors in the share capital and share option schemes of B.A.T Industries p.l.c. during the period from 1 January 1998 to the restructuring of that company on 7 September 1998.

British-American Tobacco (Holdings) Limited

Directors' report (continued)

Directors' interests (continued)

Table 1

B.A.T Industries p.l.c. Ordinary 25p shares

	1 January 1998	7 September 1998
P.N. Adams	9,781	13,305
N.G. Brookes	76,591	101,877
A.M. de Castro	Nil	Nil
A.C. Johnston	21,501	22,312
E.E. Kohnhorst	49,467	72,311
J. Rembiszewski	1,761	11,119
B. Schweitzer	1,970	1,817
D.G. Stevens	59,265	60,580

Table 2

B.A.T Industries p.l.c. Share options

	1 January 1998	Share Options		7 September 1998
		Granted	Exercised	
P.N. Adams	118,912	9,670	42,689	85,893
N.G. Brookes	97,200	14,080	2,540	108,740
A.M. de Castro	100,520	18,890	-	119,410
A.C. Johnston	57,873	7,350	-	65,223
E.E. Kohnhorst	65,580	10,820	-	76,400
J. Rembiszewski	127,783	11,220	73,400	65,603
B. Schweitzer	29,629	11,210	-	40,839
D.G. Stevens	78,000	6,960	25,320	59,640

In addition, on 7 September 1998, the B.A.T Industries Employee Share Ownership Trust held 5,120,249 shares in B.A.T Industries p.l.c. (1 January 1998: 7,246,691 shares). All employees, including the Directors of the Company, are deemed to have had a beneficial interest in these shares, which are held for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share 'E' Option Scheme.

Further information on the conversion of shares and options over shares resulting from the restructuring of the Group is given in the Annual Report and Accounts of British American Tobacco p.l.c.

Tables 3 and 4 show the interests of the Directors in the shares and share options of British American Tobacco p.l.c. on 7 September 1998 following the restructuring of B.A.T Industries p.l.c., and on 31 December 1998.

British-American Tobacco (Holdings) Limited

Directors' report (continued)

Directors' interests (continued)

Table 3

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

	7 September 1998*	31 December 1998
P.N. Adams	6,651	6,653
N.G. Brookes	38,612	46,964
A.M. de Castro	Nil	Nil
A.C. Johnston	11,156	11,156
E.E. Kohnhorst	45,082	45,152
J. Rembiszewski	5,559	12,602
B. Schweitzer	908	908
D.G. Stevens	30,290	30,290
S.P. Chalfen	3,858	6,967
M.C.T. Prideaux	16,577	18,563

* Or date of appointment, if later.

Table 4

British American Tobacco p.l.c. Share options

	7 September 1998*	Share Options		31 December 1998
		Granted	Exercised	
P.N. Adams	132,873	63,334	-	196,207
N.G. Brookes	168,213	75,511	-	243,724
A.M. de Castro	184,723	102,155	-	286,878
A.C. Johnston	100,897	51,819	-	152,716
E.E. Kohnhorst	118,187	58,031	-	176,218
J. Rembiszewski	101,485	76,584	7,043	171,026
B. Schweitzer	63,175	-	-	63,175
D.G. Stevens	92,258	49,516	-	141,744
S.P. Chalfen	79,706	-	-	79,706
M.C.T. Prideaux	86,328	49,516	-	135,844

*Or date of appointment if later.

In addition, on 31 December 1998, the B.A.T Industries Employee Share Ownership Trust held 6,309,394 shares in British American Tobacco p.l.c. (7 September 1998: 2,560,124 shares). The British American Tobacco Group Employee Trust also held 4,391,432 shares in British American Tobacco p.l.c. (7 September 1998: Nil). All employees, including the Directors of the Company, are deemed to have had a beneficial interest in the shares which are held by these 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 Share Option Scheme.

British-American Tobacco (Holdings) Limited

Directors' report (continued)

Review of the year to 31 December 1998

On 22 December 1997, B.A.T Industries p.l.c., the ultimate holding company, entered into a merger agreement for its principal financial services subsidiaries to be merged with those of Zurich Insurance Company. The remaining businesses were to be retained within a new parent company, British American Tobacco p.l.c. On 7 September 1998, B.A.T Industries p.l.c. completed this transaction as described in the financial statements of British American Tobacco p.l.c.

The profit for the year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of tax amounted to £825,381,000 (1997: £652,148,000).

Dividends

The Directors recommend the payment of a dividend for the year of £450,000,000 (1997: £814,000,000). The profit for the financial year of £375,381,000 will be transferred to 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.

Investments

There were no movements during the year.

British-American Tobacco (Holdings) Limited

Directors' report (continued)

Millennium

The British American Tobacco Group of companies has long taken the issue of the Millennium date change seriously, recognising its potential impact on business continuity. As early as 1996, a series of working parties was set up to address the implications and to identify and implement agreed solutions.

The Group has reviewed the impact of the Year 2000 on its systems and business environment. Specifically, the Group has:

- taken remedial action in respect of all critical systems
- reviewed any specific impact the year 2000 issue may have on the Group's accounting systems
- worked with its major external trading partners and service providers to assess and minimise risks to continuity of business
- started to draw up business continuity plans for the period around the year end.

As a result of these initiatives, an agreed action plan is in place which the Directors of the Company believe provides maximum protection against disruption, although this is an area where absolute guarantees are not possible. The Group conducts regular progress reviews on this issue, taking actions as appropriate.

The latest estimate for expenditure to tackle the Millennium issue across the Group worldwide is disclosed in the accounts of British American Tobacco p.l.c., the ultimate parent company.

European Monetary Union

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

Each Group operating subsidiary has a business impact plan in preparation 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 1998 on the Euro Programme had no material effect on the Group's business performance and the Group is still finalising estimates of costs expected for 1999 and 2000.

British-American Tobacco (Holdings) Limited

Directors' report (continued)

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 5, 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, subject to any material departures disclosed and explained in the financial statements
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed
- 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 Company's previous auditors Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998 following which they resigned and the Directors appointed the new firm PricewaterhouseCoopers as auditors.

Resolutions will be proposed at the annual general meeting for their reappointment and to authorise the Directors to determine their remuneration.

On behalf of the Board

KS Dunt

Director

Dated

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

We have audited the financial statements on pages 9 to 17 which have been prepared under the historical cost convention and the accounting policies set out on page 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 7, the financial statements. Our responsibilities, as independent auditors, are established 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 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 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 at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



13 May 1999

PricewaterhouseCoopers

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

British-American Tobacco (Holdings) Limited

Profit and loss account For the year ended 31 December 1998

	<i>Note</i>	1998 £'000	1997 £'000
Operating charges	2	(62,905)	(80,207)
Operating loss		(62,905)	(80,207)
Income from shares in subsidiary undertakings	4	892,042	724,042
Investment income from group undertakings		4,508	8,313
Interest payable to group undertakings		(8,264)	-
Profit on ordinary activities before taxation		825,381	652,148
Taxation on ordinary activities	5	-	-
Profit for the financial year		825,381	652,148
Dividends	6	(450,000)	(814,000)
Increase/(decrease) in reserves		375,381	(161,852)

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

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

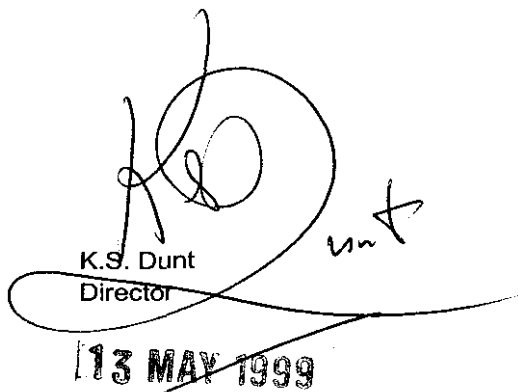
The notes on pages 11 to 17 form part of these accounts.

British-American Tobacco (Holdings) Limited

Balance sheet – 31 December 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Investments in subsidiary undertakings	7	1,034,470	1,034,470
Current assets			
Debtors	8	2,944,845	1,366,427
- amounts falling due within one year			
Creditors - amounts falling due within one year	9	(2,717,297)	(1,763,524)
Net current assets / (liabilities)		227,548	(397,097)
Total assets less current liabilities		1,262,018	637,373
Creditors - amounts falling due after more than one year	10	(258,204)	-
Provisions for liabilities and charges	11	(11,660)	(20,600)
		992,154	616,773
Capital and reserves			
Called up share capital	12	84,630	84,630
Share premium	13	744	744
Profit and loss account	13	906,780	531,399
Total equity shareholders' funds	14	992,154	616,773

The financial statements on pages 9 to 17 were approved by the Directors and signed on behalf of the Board.


 K.S. Dunt
 Director
 13 MAY 1999

The notes on pages 11 to 17 form part of these accounts.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1998

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) Translation of assets and liabilities

Profits expressed in currencies other than sterling are translated to sterling at average rates of exchange.

Assets and liabilities 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 reflected in trading profit.

(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. Provisions are made where delays are anticipated in the receipt of monies from overseas.

(6) Investments valuation

Investments are shown at cost less provisions for any permanent diminution in value consistent with the concept of prudence.

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1998

2 Operating charges

The audit fees are incurred by the ultimate parent undertaking.

There were no employees, and no staff costs during the year (1997 - £Nil).

3 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:

	1998	1997
Aggregate emoluments	£5,297,835	£5,332,196
Amounts (excluding shares) receivable under long term incentive schemes	£103,249	£125,380
Company pension contributions to money purchase schemes	-	£1,797
Compensation for loss of office	£857,633	£162,501
Directors exercising share options during the year	5	5
Directors entitled to receive shares under a long term incentive scheme	3	3
Directors retirement benefits accruing under:		
(1) Defined benefit schemes	11	11
(2) Both defined benefit and money purchase schemes	0	1

The above figures do not include Messrs UGV Herter and KS Dunt after 8 September 1998 from which date they are paid for their services to the ultimate holding company, British American Tobacco p.l.c. Mr MF Broughton who was appointed on 8 September 1998 is also excluded as he too is paid for his services to British American Tobacco p.l.c.

Highest paid Director	1998	1997
Aggregate emoluments	£860,266	£901,139
Amounts (excluding shares) receivable under long term incentive schemes	£32,815	£39,825
Defined benefit pension scheme:		
Accrued pension at end of year	£28,002	£25,552
Accrued lump sum at the end of year	£2,402,535	£2,097,302

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1998

4 Income from shares in subsidiary undertakings

	1998	1997
	£'000	£'000
British American Tobacco (Investments) Limited	270,000	515,000
Brown & Williamson Limited	205,000	30,000
Companhia Continental de Cigarros Limited	150,042	140,042
Louisville Securities Limited	115,000	20,000
Weston Investment Company Limited	152,000	19,000
	892,042	724,042

5 Taxation on ordinary activities

No provision has been made for Corporation Tax as no liability is expected to arise.

6 Dividends

	1998	1997
	£'000	£'000
Ordinary		
Interim paid	-	600,000
Final proposed	450,000	214,000
	450,000	814,000

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1998

7 Investments in subsidiary undertakings

(1) Unlisted – United Kingdom	% equity shares held
British American Tobacco (Investments) Limited ¹	Ordinary shares of £0.25 each 100
Brown & Williamson Limited ¹	Ordinary shares of £1 each 100
Companhia Continental de Cigarros Limited ¹	Ordinary shares of £1 each Preference shares of £1 each 100
Louisville Securities Limited ¹	Ordinary shares of £1 each 100
Weston Investment Company Limited ¹	Ordinary shares of £1 each 95
BATMark Limited ²	Ordinary shares of £1 each 100

1 – These are individual holding companies.

2 – This is a trademark holding company.

The Company has taken advantage of the exemption under s231(5) of the Companies Act 1985 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figure shown in the financial statements.

- (2) 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.

8 Debtors: amounts falling due within one year

	1998 £'000	1997 £'000
Amounts owed by subsidiary undertakings	2,032,845	642,427
Dividends receivable from subsidiary undertakings	912,000	724,000
	2,944,845	1,366,427

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1998

9 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Amounts owed to group undertaking	2,267,297	1,549,523
Sundry creditors	-	1
Dividend payable	450,000	214,000
	2,717,297	1,763,524

10 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Loans from group undertaking	258,204	-
	258,204	-

The loan is repayable at par 5 years from the loan date, with interest calculated as LIBOR plus 0.625% floating rate.

11 Provisions for liabilities and charges

	1 January 1998 £'000	Amount written back £'000	31 December 1998 £'000
Relocation to Globe House	20,600	(8,940)	11,660

British-American Tobacco (Holdings) Limited

Notes to the accounts – 31 December 1998

12 Share capital

Ordinary shares of £1 each	1998	1997
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

13 Reserves

	Share premium £'000	Profit and loss account £'000	Total £'000
1 January 1998	744	531,399	532,143
Retained profit	-	375,381	375,381
31 December 1998	744	906,780	907,524

14 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit attributable to shareholders for the year	825,381	652,148
Dividend proposed	(450,000)	(814,000)
Net transfer from shareholders' funds	375,381	(161,852)
Opening shareholders' funds	616,773	778,625
Closing shareholders' funds	992,154	616,773

In the U.S.A., as at the 15 April, 1999, the Company has been named, in addition to the leading U.S. cigarette manufacturers, as a defendant in a total of fourteen cases. In addition to three claims by individual claimants, there are seven claims to recover healthcare expenditure relating to diseases alleged to be caused by smoking. Four purported class actions have been filed which have named the Company as a defendant.