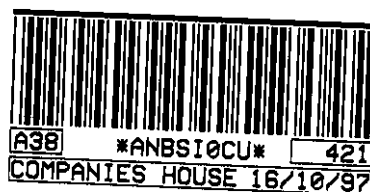


BRITISH-AMERICAN TOBACCO (HOLDINGS) LIMITED
(Formerly Staines Investments Limited)

(COMPANY REGISTRATION NO 262254)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1996



Report of the directors of British-American Tobacco (Holdings) Limited
for the year ended 31 December 1996

The directors present their report and the audited financial statements for the year ended 31 December 1996.

Board of Directors

Ulrich Georg Volker Herter	(Managing Director)
Paul Nicholas Adams	(Appointed 1 January 1996)
David Philip Allvey	(Resigned 1 January 1996)
Nicholas George Brookes	(Appointed 1 January 1996)
Antonio Monteiro de Castro	(Appointed 1 January 1996)
Stuart Philip Chalfen	(Resigned 1 January 1996)
Keith Silvester Dunt	(Appointed 1 January 1996)
Kenneth Etherington	(Resigned 1 January 1996)
Edouard Elias Ettedgui	(Appointed 1 January 1996; resigned 30 June 1996)
Anthony Cameron Johnston	(Appointed 1 January 1996)
Earl Eugene Kohnhorst	(Appointed 1 January 1996)
Michael Julian McGraw	(Appointed 1 January 1996)
Andrew Alexander Napier	(Appointed 1 May 1996)
Jimmi Rembiszewski	(Appointed 1 January 1996)
Bernd Schweitzer	(Appointed 1 January 1996)
David George Stevens	(Appointed 1 January 1996)

Directors' Interests

The interests of those persons, who were directors at 31 December 1996, in the share capital and share option schemes of B.A.T Industries p.l.c. and its subsidiaries are shown in the table on page 3, apart from those of Mr. U.G.V. Herter which are disclosed in the Directors' Report of B.A.T Industries p.l.c. Details of the share option schemes are included in the Report and Accounts of B.A.T Industries p.l.c.

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

Mr. A.M. de Castro has a beneficial interest in 12,500 ordinary shares of Souza Cruz S.A. (1 Jan 1996: 11,700).

Report of the directors of British-American Tobacco (Holdings) Limited
for the year ended 31 December 1996

Directors' Interests...contd./.

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

	<u>Ordinary 25p Shares</u>		<u>Opening</u>	<u>Share Options</u>		<u>Closing</u>
	<u>Opening</u>	<u>Closing</u>		<u>Granted</u>	<u>Exercised</u>	
P N Adams	4,445	7,248	71,203	23,460	Nil	94,663
N G Brookes	26,852	42,453	42,356	31,650	1,742	72,264
A M de Castro	Nil	Nil	15,620	47,700	Nil	63,320
K S Dunt	15,958	18,995	45,677	22,620	2,090	66,207
A C Johnston	19,520	20,515	21,223	18,940	Nil	40,163
E E Kohnhorst	4,918	15,112	19,170	24,740	Nil	43,910
M J McGraw	2,430	12,471	15,920	21,510	Nil	37,430
A A Napier	Nil	892	Nil	9,999	Nil	9,999
J Rembiszewski	2,701	4,758	77,383	29,850	Nil	107,233
B Schweitzer	232	232	Nil	2,699	Nil	2,699
D G Stevens	48,337	55,217	50,850	18,420	5,226	64,044

The opening interests are shown as at 1 January 1996, or date of appointment where this is later, and the closing interests are shown as at 31 December 1996.

In addition, on 31 December 1996 and as at the date of this report, all UK employees of the B.A.T Industries p.l.c group, including executive directors, had a beneficial interest in 4,445,808 shares in B.A.T Industries p.l.c (1 January 1996: 2,063,205), held by the B.A.T Industries Employee Share Ownership Trust ("ESOT"). The ESOT was established for the purpose of satisfying the exercise of options granted from 1994 onwards under the B.A.T. Industries "E" option scheme.

Principal activities

The principal business activities of the Company and its subsidiaries are the marketing and manufacture of tobacco brands worldwide.

Report of the directors of British-American Tobacco (Holdings) Limited
for the year ended 31 December 1996

Review of the year and future developments

On 1 January 1996 the Company purchased from the ultimate holding company the following investments:

- a) The entire issued share capital of Cia Continental de Cigarros Limited comprising 100,000 ordinary £1 shares and 700,000 8% cumulative preference shares for a consideration of £219,565,700 and £700,000 respectively. Cia Continental de Cigarros Limited is a company incorporated in the UK, whose subsidiary undertakings and associates operate in the tobacco industries in Brazil.
- b) 95% of the issued share capital of Weston Investment Company Limited comprising 19 ordinary £1 shares for a consideration of £278,537,000. Weston Investment Company Limited is a company incorporated in the UK, whose subsidiary undertakings operate in the German, Ukraine, Polish and Czech tobacco industries.
- c) The entire issued share capital of Brown & Williamson Limited comprising 9 ordinary £1 shares for a consideration of £439,795,000. Brown & Williamson Limited is a company incorporated in the UK, whose subsidiary undertakings operate in the German, Ukraine, Polish and Czech tobacco industries.
- d) The entire issued share capital of BATUS (Holdings) Inc. comprising 915,001 ordinary shares of US\$1,000 each for a consideration of £427,392,000 and US\$915,000,000. BATUS (Holdings) Inc. is a company incorporated in the USA, whose subsidiary undertakings operate in the US tobacco industry.
- e) The entire issued share capital of 1 ordinary £1 share in Louisville Securities Limited for a consideration of £1. Louisville Securities Limited is a company incorporated in the UK, whose subsidiary undertakings operate in the US tobacco industry.

Also on the same date the company sold its investment of 915,001 ordinary shares of US\$1,000 each in BATUS (Holdings) Inc., to Louisville Securities Limited for a consideration of £427,392,000 and US\$915,000,000.

Both the level of business and the year-end financial position of the Company and its subsidiaries were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Dividends

The directors recommend the payment of a dividend for the year of £780,000,000. They propose to transfer £633,148,000 to reserves.

Internal Financial Control

The board of directors has overall responsibility for the internal financial control system of the Company and its subsidiary undertakings. A comprehensive framework of policies and procedures has been established by the Company and these are regularly reviewed and updated. The Company operates an Audit Committee chaired by a director of the ultimate holding company and operates a network of regional and local audit committees most of which are chaired by individuals who are not executives of the relevant operations. Both internal and external auditors are in attendance at, and report to, these audit committees.

**Report of the directors of British-American Tobacco (Holdings) Limited
for the year ended 31 December 1996**

Creditor Payment Policy

The Company aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction, in any case within the supplier's own standard payment period, and also aims to pay all of its suppliers within a reasonable period of their invoices being received.

It is the Company's policy for 1997 concerning the payment of its trade creditors to follow the Confederation of British Industry's Prompt Payment Code for all suppliers. This Code has been applied by the Company since 1 January 1996. Information about the Code may be obtained from the CBI, Centrepont, 103 New Oxford Street, London WC1A 1DN.

Statement of Directors' responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements. The report by the auditors shown on page 6 sets out their responsibilities in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiaries 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:

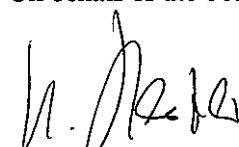
- select appropriate accounting policies and apply them consistently, subject to any material departures being disclosed and explained;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements 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 its subsidiaries and to 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 its subsidiaries 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.

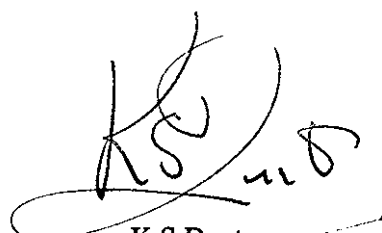
The directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

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

On behalf of the board



U G V Herter
Director:



K S Dunt
Director:

28 February 1997

Auditors' Report to the Shareholders of British-American Tobacco (Holdings) Limited

We have audited the financial statements on pages 7 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on pages 5 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 affairs of the Company as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

28 February 1997

Price Waterhouse
Chartered Accountants
and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY.

British-American Tobacco (Holdings) Limited
**Profit and loss account
for the year ended 31 December 1996**

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Operating charges	2	38,488	1
Operating loss - continuing operations		38,488	1
Income from shares in subsidiary undertakings	3	1,445,660	410,938
Interest received from subsidiary undertaking	5	5,976	11
Profit on ordinary activities before taxation		1,413,148	410,948
Tax on profit on ordinary activities	6	-	939
Profit on ordinary activities after taxation		1,413,148	410,009
Dividend - paid		25,000	2,812
- proposed		755,000	407,000
Retained profit for the year		633,148	197
Statement of retained profits			
Retained profits at 1 January		60,847	60,650
Retained profit for the year		633,148	197
Retained profits at 31 December		693,995	60,847

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

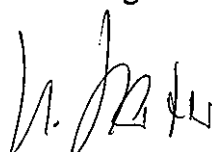
The notes on pages 9 to 14 form part of these financial statements.

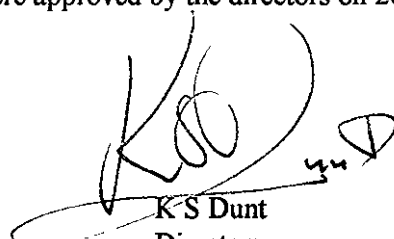
British-American Tobacco (Holdings) Limited

Balance Sheet - 31 December 1996

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Fixed assets					
Investments	7		1,034,470		85,373
Current assets					
Debtors	8	2,401,151		60,105	
Creditors: amounts falling due within one year	9	2,656,996		1	
		-----		-----	
Net current (liabilities)/assets			(255,845)		60,104
			-----		-----
Total assets less current liabilities			778,625		145,477
			=====		=====
Capital and reserves					
Share capital	10		84,630		84,630
Share premium			744		744
Profit and loss account			693,251		60,103
			-----		-----
Total shareholders' funds	11		778,625		145,477
			=====		=====
Equity interests			778,625		145,477
			-----		-----
Total shareholders' funds	11		778,625		145,477
			=====		=====

The financial statements on pages 7 to 14 were approved by the directors on 28 February 1997 and are signed on their behalf by:


U G V Herter
Director:


K S Dunt
Director:

The notes on pages 9 to 14 form part of these financial statements.

British-American Tobacco (Holdings) Limited**Notes to the financial statements
for the year ended 31 December 1996****1 Accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and preceding year, is set out below. A cash flow statement is not submitted, as the Company, being a wholly owned subsidiary undertaking of a parent undertaking established under UK law, includes cash flow information in the financial statements of the parent undertaking.

1.1 Basis of accounting

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

1.2 Group financial statements

Group financial statements are not submitted as the Company is a wholly owned subsidiary of a company incorporated in Great Britain.

1.3 Translation of assets and liabilities

Assets and liabilities denominated in foreign currency are translated at rates of exchange ruling at the end of the financial year. Transactions expressed in currencies other than sterling are translated into sterling at actual rates. Exchange differences on remittances are reflected in trading profit.

1.4 Investments valuation

Investments are shown at cost less provision for any diminution in value.

1.5 Taxation

No account is taken of taxation which may be payable on the realisation of investments, or in the event of the distribution of profits retained by the subsidiary undertakings.

1.6 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.

1.7 Accounting for income

Income is accounted for on a receivable basis. Provision is made where delays are anticipated in the receipt of monies from overseas companies.

British-American Tobacco (Holdings) Limited

Notes to the financial statements for the year ended 31 December 1996

2 Operating charges

Includes audit fees of £720 (1995 - £846).

There were no employees, and no staff costs during the year (1995 - Nil).

3 Income from shares in subsidiary undertakings

	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>

Dividends received from:

British-American Tobacco Company Limited	1,171,000	410,938
Brown & Williamson Limited	28,300	-
Companhia Continental de Cigarros Limited	128,000	-
Louisville Securities Limited	100,500	-
Weston Investment Company Limited	17,860	-
	<u>1,445,660</u>	<u>410,938</u>

4 Directors' emoluments

In 1995 none of the directors received any remuneration during the year in respect of their services to the Company or its subsidiary undertakings.

In 1996, 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 are:

	<u>1996</u>	<u>1995</u>
	<u>£</u>	<u>£</u>
For services - as directors	Nil	Nil
- as managers (including pension fund contributions)	<u>6,389,549</u>	<u>-</u>

The emoluments (excluding pension contributions) of the directors of the Company whose services were principally performed within the UK are set out in the following table:

<u>£</u>	<u>1996</u>	<u>1995</u>	<u>£</u>	<u>1996</u>	<u>1995</u>
745,001-750,000	1	-	255,001-260,000	1	-
555,001-560,000	1	-	230,001-235,000	1	-
485,001-490,000	1	-	215,001-220,000	1	-
355,001-360,000	1	-	140,001-145,000	1	-
285,001-290,000	1	-			
260,001-265,000	1	-			

British-American Tobacco (Holdings) Limited**Notes to the financial statements
for the year ended 31 December 1996****4 Directors' emoluments...contd./.**

Emoluments of the managing director £558,890

Emoluments of the highest paid director £748,832

Three directors are not shown in the bandings on the basis that they mainly discharge their duties outside the United Kingdom.

5 Interest received	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>
Interest received from subsidiary undertaking	<u>5,976</u>	<u>11</u>

6 Taxation	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>
United Kingdom corporation tax at 33.00% (1995 : 33.00%)	-	1
Tax on franked investment income	-	938
	<u>-----</u>	<u>-----</u>
	<u>-</u>	<u>939</u>

British-American Tobacco (Holdings) Limited
**Notes to the financial statements
for the year ended 31 December 1996**
7 Investments
Investments in subsidiaries
**% Nominal Value Held
Directly**
7.1 Unlisted - United Kingdom

BATMark Limited	Ordinary Shares of £1 each 100
British-American Tobacco Company Limited	Ordinary Shares of £0.25 each 100
Brown & Williamson Limited	Ordinary Shares of £1 each 100
Companhia Continental de Cigarros Limited	Ordinary Shares of £1 each Preference Shares of £1 each 100
Louisville Securities Limited	Ordinary Shares of £1 each 100
Weston Investment Company Limited	Ordinary Shares of £1 each 95

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
7.2 Shareholdings at cost:		
BATMark Limited	-	-
British-American Tobacco Company Limited	95,873	85,373
Brown & Williamson Limited	439,795	-
Companhia Continental de Cigarros Limited	220,265	-
Louisville Securities Limited	-	-
Weston Investment Company Limited	278,537	-
	<u>1,034,470</u>	<u>85,373</u>

7.3 The directors are of the opinion that the investments have an aggregate value of not less than the amount at which they are stated in the balance sheet.

8 Debtors

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Amounts falling due within one year		
Amounts owed by group undertaking	203	191
Amounts owed by parent undertaking	-	58,977
Amounts owed by subsidiary undertakings	1,416,288	-
Dividends receivable from subsidiary undertakings	984,660	937
	<u>2,401,151</u>	<u>60,105</u>

British-American Tobacco (Holdings) Limited

Notes to the financial statements
for the year ended 31 December 1996

9 Creditors: amounts falling due within one year

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Amounts payable to group undertaking	1,901,995	-
Dividend proposed	755,000	-
Accrued charges	1	1
	<u>2,656,996</u>	<u>1</u>

10 Share capital

Ordinary Shares of £1 each

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Authorised - value	<u>£84,631</u>	<u>£84,631</u>
number	<u>84,631</u>	<u>84,631</u>
Allotted, called up and fully paid value	<u>£84,630</u>	<u>£84,630</u>
number	<u>84,630</u>	<u>84,630</u>

11 Reconciliation of movements in shareholders' funds

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Opening shareholders' funds	145,477	145,280
Profit attributable to shareholders for the year	1,413,148	410,009
Dividend for the year	(780,000)	(409,812)
Closing shareholders' funds	<u>778,625</u>	<u>145,477</u>

British-American Tobacco (Holdings) Limited**Notes to the financial statements
for the year ended 31 December 1996****12 Contingent Liabilities**

As at 28 February 1997, the Company, together with leading US cigarette companies, has been named as a defendant in six cases brought in different jurisdictions in the USA to recover health care expenditure relating to diseases alleged to be caused by smoking. The Company has filed, or is intending to file, motions for dismissal of the cases for want of jurisdiction. None of these cases is scheduled for trial in 1997.

Whilst it is not possible to predict the commencement of new cases nor the outcome of the current cases, all such actions are being and will be defended vigorously and are, in any event, likely to be the subject of extended appeals, whichever party may prevail at trial. It is not believed that the ultimate outcome of all such litigation will have a materially adverse effect on the financial condition of the Company.

13 Parent undertaking

The Company's parent undertaking is B.A.T Industries p.l.c., being incorporated in the United Kingdom and registered in England and Wales. Group accounts are prepared by B.A.T Industries p.l.c.

14 Copies of the report and accounts

Copies of the report and accounts of B.A.T Industries p.l.c. may be obtained from:

The Company Secretary
Windsor House
50, Victoria Street
London SW1H 0NL