

South Western Nominees Limited
Registered Number 341500

Directors' Report and Accounts

For the year ended 31 December 1998



South Western Nominees 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:

David Philip Allvey	Resigned 7 September 1998
Martin Faulkner Broughton	Chairman (resigned 11 September 1998)
Peter Lampard Clarke	Chairman (appointed 11 September 1998, resigned 31 May 1999)
Philip Michael Cook	Chairman (appointed 31 May 1999)
Kenneth John Hardman	Appointed 11 September 1998
Ulrich Georg Volker Herter	Resigned 11 September 1998
David Cameron Potter	Appointed 11 September 1998

Directors' interests

The interests of the Directors at 31 December 1998 in the share capital of British American Tobacco p.l.c. are as shown below.

The two tables below show the interests of those persons who were Directors at 31 December 1998 in the share capital of British American Tobacco p.l.c. on 11 September 1998 (upon their appointment to the Board of Directors) and at 31 December 1998.

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

	11 September 1998	31 December 1998
PL Clarke	6,556	6,556
KJ Hardman	4,489	5,231
DC Potter	20,644	20,644

Share options

	11 September 1998	Granted	Exercised	31 December 1998
PL Clarke	7,043	2,317	Nil	9,360
KJ Hardman	48,202	23,318	Nil	71,520
DC Potter	91,299	32,818	Nil	124,117

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. (11 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. (11 September 1998: Nil). All employees, including the Directors of the Company, are deemed to have 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.

South Western Nominees 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 the shareholders of South Western Nominees Limited after deduction of all charges and the provision of tax amounted to £51,442,000 (1997: £230,334,000).

Dividends

On 15 June 1998 the Company transferred at book value its entire shareholding in Farmers Group Inc. to its parent undertaking (B.A.T Industries p.l.c.) for a consideration of £3,145,817,000 by way of a dividend in specie.

In addition the Directors have declared a further interim dividend for 1998 of £51,513,000 (1997: £874,400,000).

Principal activities

The Company was an investment holding company until 15 June 1998, (see comments on investments below). Since that date the Company's principal asset is a non interest bearing current account with its parent undertaking.

Investments

Formerly the Company acted as an investment holding company for various businesses in North America:

In Canada, the Company had a substantial shareholding in Imasco Limited which was an associate operating principally in the tobacco and financial services industries. This investment was sold to the parent undertaking on 27 February 1998, at book value, for £108,631,000.

In the United States of America, the Company owned the entire issued share capital of Farmers Group Inc., a company operating in the financial services sector. This investment was transferred to the parent undertaking on 15 June 1998, for £3,145,817,000 by way of a dividend in specie.

South Western Nominees 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.

South Western Nominees 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 6, 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.

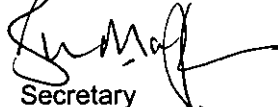
The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

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 Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 following which they resigned and the Directors appointed the new firm PricewaterhouseCoopers as auditors.

On behalf of the Board


Secretary
Dated 22nd July 1999

BJS MATHEWS

Auditors' report to the members of South Western Nominees Limited

We have audited the financial statements on pages 7 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report, including as described on page 5, 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 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 1998 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

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

South Western Nominees Limited

Profit and loss account

For the year ended 31 December

	Note	1998 £'000	1997 £'000
Discontinued operations			
Income from shares in group undertakings		54,149	206,751
Income from shares in associate		-	37,691
Operating charges	2	-	(1)
Profit on ordinary activities before taxation		54,149	244,441
Taxation on ordinary activities	3	(2,707)	(14,107)
Profit on ordinary activities after taxation		51,442	230,334
Proposed ordinary dividend		(51,513)	(874,400)
Decrease in reserves		(71)	(644,066)

Statement of total recognised gains and losses

For the year ended 31 December

	Note		
Loss for the year (as above)		(71)	(644,066)
In-specie dividend paid		(3,145,817)	-
Total recognised losses related to the year	7	(3,145,888)	(644,066)

The notes on pages 9 to 12 form part of these financial statements.

South Western Nominees Limited

Balance sheet – 31 December

	Note	1998 £'000	1997 £'000
Fixed assets			
Investment in subsidiary undertaking	4	-	3,145,817
Investment in associate	5	-	108,631
Current assets			
Debtors – amounts owed by parent undertaking		549,946	443,644
Creditors – amounts falling due within one year			
Other creditors		-	(1)
Net current assets		549,946	443,643
Total assets less current liabilities		549,946	3,698,091
<hr/>			
Capital and reserves			
Share capital	6	549,946	552,203
Capital reserve	7	-	3,145,817
Profit and loss account	7	-	71
Total equity shareholders' funds	8	549,946	3,698,091

The financial statements on pages 7 to 12 were approved by the Directors and are signed on behalf of the board.



D C POTTER
Director

22nd July 1999

The notes on pages 9 to 12 form part of these financial statements.

South Western Nominees 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

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 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.

South Western Nominees Limited

Notes to the accounts – 31 December 1998

2 Operating charges

There was no charge for audit fees during the year (1997: £1,135).

None of the Directors received any remuneration in respect of their services to the Company during the year (1997 £nil).

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

3 Taxation on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31.0% (1997: 31.5%)	25,054	114,924
Less: Double taxation relief	(25,054)	(114,924)
	-	-
Overseas taxation	2,707	14,107
	2,707	14,107

4 Investment in subsidiary undertaking

Shareholding at cost

	£'000
1 January 1998	3,145,817
Disposals	(3,145,817)
31 December 1998	-

At 1 January the Company directly held the entire issued share capital of Farmers Group Inc a company incorporated in the United States.

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.

In pursuance of this agreement on 15 June 1998 the Company transferred at book value its entire shareholding in Farmers Group Inc to the parent undertaking for a consideration of £3,145,817,000 by way of a dividend in specie.

South Western Nominees Limited

Notes to the accounts – 31 December 1998

5 Investment in associate

	£'000
1 January 1998	108,631
Disposals	(108,631)
31 December 1998	-

At 1 January 1998 the Company directly held 31 % of the equity share capital of Imasco Limited a company incorporated in Canada and listed on the Montreal, Toronto and Vancouver Stock Exchanges.

On 27 February 1998 the Company sold at book value its entire shareholding of 71,842,054 ordinary shares in Imasco Limited to the parent undertaking for a consideration of £108,631,000.

6 Share capital

Ordinary shares of £1 each	1998	1997
Authorised- value	£100	£100
- number	100	100
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

Ordinary shares of US\$1 each	1998	1997
Authorised- value	US\$1,000,000,000	US\$1,000,000,000
- number	1,000,000,000	1,000,000,000
Allotted, called up and fully paid		
- 1 January 1998 - value	US\$915,000,000	£552,203,000
- Revaluation	-	(£2,257,000)
- 31 December 1998 - value	US\$915,000,000	£549,946,000
- number	915,000,000	915,000,000

South Western Nominees Limited

Notes to the accounts – 31 December 1998

7 Reserves

	Capital reserve £'000	Profit and loss account £'000	Total £'000
1 January 1998	3,145,817	71	3,145,888
Transfer from profit and loss account		(71)	(71)
In-specie dividend paid	(3,145,817)		(3,145,817)
31 December 1998	-	-	-

8 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds	3,698,091	4,324,729
In-specie distribution	(3,145,817)	-
Revaluation of US\$ ordinary shares	(2,257)	17,428
Profit attributable to shareholders for the year	51,442	230,334
Dividend proposed	(51,513)	(874,400)
Closing shareholders' funds	549,946	3,698,091

9 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.

10 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.

11 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