

British American Tobacco (Philippines) Limited
Registered Number 3599281

Directors' Report and Accounts

**For the period from incorporation, 16 July 1998
to 31 December 1999**



British American Tobacco (Philippines) Limited

Directors' report

Board of Directors

The names of the persons who served as Directors of the Company during the period from incorporation, 16 July 1998 to the date of this report are as follows:

Anthony Cameron Johnston	Chairman	Appointed 26 August 1999
Paul Nicholas Adams		Resigned 26 August 1999
Brian Christopher Barrow		
Philip Michael Cook		
David John Etchells		
Michael Lee Hendershot		Appointed 26 August 1999
David Neil Fred Salter		Appointed 26 August 1999

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 with the exception of Mr A.C. Johnston whose interests are disclosed in the Directors' report and accounts of British-American Tobacco (Holdings) Limited.

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 16 July 1998 to the restructuring of that company on 7 September 1998.

Table 1

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

	16 July 1998	7 September 1998
B.C. Barrow	6,855	6,855
D.J. Etchells	3,652	3,652
P.M. Cook	1,520	1,520

Table 2

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

	16 July 1998	Granted	Exercised	7 September 1998
B.C. Barrow	30,922	-	-	30,922
D.J. Etchells	17,115	-	-	17,115
P.M. Cook	7,639	-	-	7,639

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 1999.

British American Tobacco (Philippines) Limited

Directors' report

Directors' interests (continued)

Table 3

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

	7 September 1998*	31 December 1999
B.C. Barrow	3,426	9,158
P.M. Cook	760	1,380
D.J. Etchells	1,825	1,480
M.L.Hendershot	700	983
D.N.F.Salter	904	904

Table 4

British American Tobacco p.l.c. Share options

	7 September 1998*	Granted	Exercised	31 December 1999
B.C. Barrow	47,832	33,565	-	81,397
P.M. Cook	11,816	20,785	-	32,601
D.J. Etchells	26,475	-	-	43,215
M.L.Hendershot	31,786	-	-	31,786
D.N.F.Salter	4,200	2,133	-	6,333

*Or date of appointment, if later.

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. (7 September 1998: 2,560,124 shares). 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 for options granted under the British American Tobacco Share Option Scheme or awards 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.

Review of the period to 31 December 1999

The loss for the period attributable to the shareholders of British American Tobacco (Philippines) Limited after deduction of all charges and the provision of tax amounted to £3,605,000.

British American Tobacco (Philippines) Limited

Directors' report

Dividends

The Directors do not recommend the payment of a dividend. The retained loss of £3,605,000 will be offset against reserves.

Principal activities

The Company was incorporated on 16 July 1998 to act as a tobacco import company.

Tangible fixed assets

The movement of tangible fixed assets is shown on page 11 note 5 to the accounts.

Millennium

Throughout 1998 and 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.

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 1998 and 1999 on the euro programme had no material effect on the Group's business performance.

British American Tobacco (Philippines) Limited

Directors' report

Directors' responsibilities

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 and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable 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 being disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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 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 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 the statement.

Auditors

The Directors appointed PricewaterhouseCoopers to fill the casual vacancy following the company's incorporation.

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



Secretary

- 6 SEP 2000

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

We have audited the financial statements on pages 7 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of Directors and auditors

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



6 September 2000

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

British American Tobacco (Philippines) Limited

Profit and loss account

For the period from incorporation, 16 July 1998 to 31 December 1999

	Note	1999 £'000
Turnover		174
Operating income	2	179
Operating charges	3	(3,784)
Operating loss		(3,605)
Loss on ordinary activities before taxation		(3,605)
Taxation on ordinary activities	4	-
Loss for the financial period		(3,605)

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

Statement of total recognised gains and losses

For the period from incorporation, 16 July 1998 to
31 December 1999

	£'000
Loss for the period	(3,605)
Difference arising on the retranslation of the retained losses from average to closing rates of exchange	37
Total recognised losses relating to the period	(3,568)

The notes on pages 9 to 13 form part of these accounts.

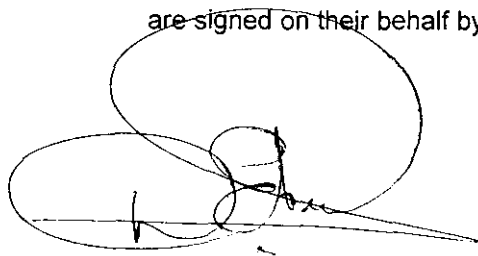
British American Tobacco (Philippines) Limited

Balance sheet – 31 December 1999

	Note	1999 £'000
Fixed assets		
Tangible assets	5	258
Current assets		
Stocks	6	356
Debtors	7	770
Cash and short term deposits		258
		1,384
Creditors - amounts falling due within one year	8	(5,210)
Net current assets		(3,826)
Total assets less current liabilities		(3,568)
Net liabilities		(3,568)
Capital and reserves		
Called up share capital	9	-
Profit and loss account	10	(3,568)
Total equity shareholders' funds	11	(3,568)

The financial statements on pages 7 to 13 were approved by the Directors on _____ and
are signed on their behalf by:

6 SEP 2000



Director

The notes on pages 9 to 13 form part of these accounts.

British American Tobacco (Philippines) 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 at the date of the transaction. Profits and losses of the branches with operating 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 arising on the re-translation to sterling (using rates of exchange ruling at the end of the financial year) of overseas net assets at the beginning of the period are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates compared with rates ruling at the year end. Other exchange differences are reflected in the profit and loss account.

(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) Turnover

Turnover represents net sales to external customers.

British American Tobacco (Philippines) Limited

Notes to the accounts – 31 December 1999

1 Accounting policies (continued)

7) 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:

	%
Computer and office equipment	33.33
Furniture and fixtures	50
Motor vehicles	20

(8) 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.

(9) Leased assets

Operating leases are charged to the profit and loss account

2 Operating income

	1999 £'000
Net turnover	174
Other operating income	5
	179

3 Operating charges

	1999 £'000
Write-off of current assets	226
Depreciation	103
Staff costs	417
Other operating charges	3,403
Less: increase in stock of finished goods and work in progress	(365)
	3,784
Staff costs:	
Wages and salaries	397
Social security costs	2
Other pension costs	18
	417

British American Tobacco (Philippines) Limited

Notes to the accounts – 31 December 1999

3 Operating charges (continued)

The audit fee is borne by a fellow group undertaking.

None of the Directors received any remuneration in respect of their services to the Company.

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

Management	7
Staff	19
	26

4 Taxation on ordinary activities

The company has incurred a loss for tax purposes which has been surrendered to a fellow subsidiary for no consideration.

5 Tangible fixed assets

	Computer and office equipment £'000	Motor vehicles £'000	Furniture and fixtures £'000	Total £'000
Cost				
Additions	148	185	28	361
At 31 December 1999	148	185	28	361
Depreciation				
Profit & loss charge	59	33	11	103
At 31 December 1999	59	33	11	103
Net book value				
At 31 December 1999	89	152	17	258

6 Stocks

	1999 £'000
Finished goods held for resale	356

British American Tobacco (Philippines) Limited

Notes to the accounts – 31 December 1999

7 Debtors

	1999 £'000
Trade debtors	770

8 Creditors: amounts falling due within one year

	1999 £'000
Trade creditors	71
Amounts owed to fellow subsidiaries	833
Amounts payable to parent undertakings	2,373
Accrued charges and deferred income	1,933
	5,210

9 Share capital

Ordinary shares of £1 each	1999
Authorised - value	£100
- number	100
Allotted, called up and fully paid	
- value	£100
- number	100

10 Reserves

	Profit and loss account £'000
Loss for the period	(3,605)
Exchange differences	37
31 December 1999	(3,568)

British American Tobacco (Philippines) Limited

Notes to the accounts – 31 December 1999

11 Reconciliation of movements in shareholders' funds

	1999 £'000
Loss attributable to shareholders for the period	(3,605)
Other movements	37
Net transfer to shareholders' funds	(3,568)
Closing shareholders' funds	(3,568)

12 Pensions

The Company contributes to a funded defined benefit scheme. The particulars of the actuarial valuation of the scheme are disclosed in the financial statements of British American Tobacco (Investments) Limited.

13 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.

14 Contingent liabilities

The Company has been named as a defendant in the Reyes case in the Philippines. The action is an individual product liability action and has been progressing slowly. It is unlikely that the Company will suffer a financial liability in this case. The Company will defend the claim vigorously.

15 Parent undertaking

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 British American Tobacco (Investments) Limited. Group accounts are prepared only at the British American Tobacco p.l.c. level.

16 Parent support

The immediate parent company has indicated its willingness to continue to provide support to allow the Company to continue at its current level of operations during 2000.

17 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