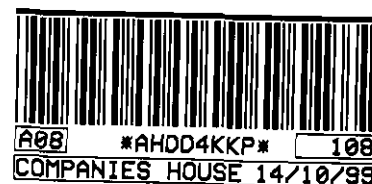


**British American Tobacco (Investments) Limited**  
(Formerly known as British-American Tobacco Company Limited)  
Registered Number 74974

**Directors' Report and Accounts**

**For the Year ended 31 December 1998**



# **British American Tobacco (Investments) 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:

Ulrich Georg Volker Herter	Chairman
Dr. John Nolan Jewell	Appointed 1 March 1999
Paul Nicholas Adams	Resigned 25 February 1999
Keith Silvester Dunt	Resigned 25 February 1999
Anthony Cameron Johnston	Resigned 25 February 1999
Dr. Erwin Kausch	Appointed 1 February 1999
Earl Eugene Kohnhorst	Resigned 25 February 1999
Alexander Graeme Munro	Appointed 1 February 1999
Keith Thomas Owen	Appointed 1 February 1999
Jimmi Rembiszewski	Resigned 25 February 1999
Ian Roderick Snowden	Appointed 1 February 1999
David George Stevens	Resigned 25 February 1999

In accordance with the Articles of Association, Dr E Kausch, Dr J N Jewell and Messrs, A G Munro, K T Owen and I R Snowden will retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment.

### **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 (Investments) Limited shareholders after deduction of all charges and the provision of tax amounted to £263,774 thousand (1997: £499,801 thousand).

### **Dividends**

The Directors recommend the payment of a dividend for the year of £270,000 thousand (1997: £515,000 thousand). The result for the financial year of £(6,226 thousand) 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.

# **British American Tobacco (Investments) Limited**

## **Directors' report (continued)**

### **Fixed Assets**

The movement of fixed assets is shown on page 15 note 9 to the accounts.

### **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 1998, 96% 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**

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.

# **British American Tobacco (Investments) Limited**

## **Directors' report (continued)**

### **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.

### **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 (Investments) Limited**

## **Directors' report** (continued)

### **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.

In respect of all of its suppliers, it is the Company's policy to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment
- abide by the terms of payment.

The proportion which the amount owed to trade creditors at 31 December 1998 bears to the amounts invoiced by suppliers during the year then ended equated to a 33 days proportion of 365 days.

### **Research and Development**

The Company's activities are concentrated on the development of new products, new processes, quality improvement of existing products and cost reduction programmes in the tobacco industry.

Research is also undertaken into various aspects of the science and behavioural science related to smoking, including continued significant funding of independent studies.

### **Directors' Interests**

The interests of those persons who were Directors at 31 December 1998 in the share capital and share option schemes of British American Tobacco p.l.c. and its subsidiaries, are disclosed in the Directors Report of British-American Tobacco (Holdings) Limited, apart from Mr U.G.V Herter and Mr K.S. Dunt which are disclosed in the Directors' Report of British American Tobacco p.l.c..

# British American Tobacco (Investments) Limited

## Directors' report (continued)

### 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.

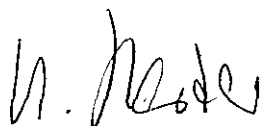
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### 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 Pricewaterhouse Coopers 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



U.G.V Herter  
Director

Dated 28/4/99

## **Auditors' Report to the Members of British American Tobacco (Investments) Limited**

We have audited the financial statements on pages 8 to 22 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 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.

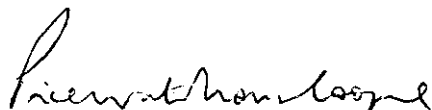
### **Basis of Opinion**

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 result 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

28/4/1999

# British American Tobacco (Investments) Limited

## Profit and Loss Account For the Year Ended 31 December 1998

	Note	1998 £'000	1997 £'000
<b>Turnover</b>		-	-
Operating income	2	145,080	172,318
Operating charges	3	(236,007)	(226,040)
<b>Operating loss</b>		<b>(90,927)</b>	<b>(53,722)</b>
Income from shares in group undertakings		328,579	521,258
Income from participating interests		27,334	18,974
Interest receivable and similar income	5	14,576	23,314
Interest payable and other similar charges	6	(5,605)	(4,672)
<b>Profit on ordinary activities before taxation</b>		<b>273,957</b>	<b>506,149</b>
Tax on profit on ordinary activities	7	(10,183)	(6,348)
<b>Profit for the financial year</b>		<b>263,774</b>	<b>499,801</b>
Dividends on equity shares	8	(270,000)	(515,000)
<b>Decrease in realised reserves</b>		<b>(6,226)</b>	<b>(15,199)</b>

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 financial year.

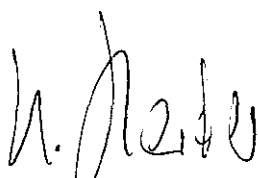
The notes on pages 10 to 22 form part of these accounts

# British American Tobacco (Investments) Limited

## Balance Sheet – 31 December 1998

	Note	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Tangible assets	9	35,501	49,111
Investments in subsidiary undertakings	10	455,998	415,991
Investments in associated undertakings	11	1,597	2,606
Long term loans to minority shareholders		126	214
		<b>493,222</b>	<b>467,922</b>
<b>Current assets</b>			
Debtors	12		
- falling due within one year		687,929	771,499
- falling due after more than one year		36,843	43,755
Investments	13	75,212	185,241
Cash and short term deposits		607	-
		<b>800,591</b>	<b>1,000,495</b>
<b>Creditors - amounts falling due within one year</b>	<b>14</b>	<b>(1,130,887)</b>	<b>(1,296,208)</b>
<b>Net current liabilities</b>		<b>(330,296)</b>	<b>(295,713)</b>
<b>Total assets less current liabilities</b>		<b>162,926</b>	<b>172,209</b>
<b>Creditors - amounts falling due after more than one year</b>	<b>15</b>	<b>(5,218)</b>	<b>(5,893)</b>
<b>Provisions for liabilities and charges</b>	<b>16</b>	<b>(15,497)</b>	<b>(17,551)</b>
		<b>142,211</b>	<b>148,765</b>
<b>Capital and reserves</b>			
Called up share capital	17	134,747	134,747
Profit and loss account	18	7,464	14,018
<b>Total shareholders' funds</b>	<b>19</b>	<b>142,211</b>	<b>148,765</b>

The financial statements on pages 8 to 22 were approved by the Directors on 23/4/99 and are signed on their behalf by:



U.G.V. Herter  
Director



A.G. Munro  
Director

The notes on pages 10 to 22 form part of these accounts

# **British American Tobacco (Investments) 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**

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) Advanced corporation tax**

To the extent that Advanced Corporation Tax (ACT) on dividends previously paid cannot be offset against Corporation Tax or deferred corporation taxation provided, it is written off. Amounts so written off are carried forward for tax purposes and may be offset against taxation of subsequent periods.

#### **(6) 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.

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 1 Accounting policies (continued)

#### (7) Depreciation on tangible fixed assets

Depreciation on tangible fixed assets is calculated so as to amortise their cost over their useful lives by equal annual instalments. 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

#### (8) Research and Development

Research and development expenditure is charged against profits as incurred.

#### (9) Investments valuation

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

#### (10) Listed investments

The Stock Exchange value of listed investments at the year end is computed at middle market prices.

#### (11) Pension costs

These are charged against profits on a systematic basis. Where surpluses and deficits arise on the defined benefit schemes these are allocated over the expected remaining service lives of current employees.

#### (12) Leases

Operating lease rentals are charged to the Profit and Loss account during the period in which they are incurred.

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 2 Operating income

	1998 £'000	1997 £'000
Gross income	145,080	175,487
Other operating income	-	(3,169)
	<b>145,080</b>	<b>172,318</b>

Operating income comprises technical and advisory fees received and commission income. In the opinion of the Directors a geographical analysis of the operating income, profit before tax and net assets would be prejudicial to the interests of the Company.

### 3 Operating charges

	1998 £'000	1997 £'000
Operating charges		
Hire of plant and machinery	76	74
Research & development expenditure	7,101	6,589
Other operating leases	3,974	4,182
Staff costs	42,843	43,425
Auditors' fees	364	395
Payment to PricewaterhouseCoopers for non-audit services	565	809
Other operating charges	181,084	170,566
	<b>236,007</b>	<b>226,040</b>
Staff costs:		
Wages and salaries	34,699	35,684
Social security costs	3,245	3,151
Other pension costs	3,928	3,564
Share participation scheme	971	1,026
	<b>42,843</b>	<b>43,425</b>

The Company has annual commitments in respect of operating leases as follows:

Notes	1998 Building £'000	1998 Other £'000	1997 Building £'000	1997 Other £'000
Expiring within one year	-	5	130	-
1 – 5 years	1,434	7	1,434	7
Beyond 5 years	2,540	64	2,618	67
	<b>3,974</b>	<b>76</b>	<b>4,182</b>	<b>74</b>

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 3 Operating charges (continued)

Building leases beyond 5 years are subject to rent reviews.

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

	1998 Number	1997 Number
Administration	680	671
Marketing	82	71
	<b>762</b>	<b>742</b>

### 4 Directors' emoluments

None of the Directors received any remuneration in respect of their services as a Director of the Company during the period.

### 5 Interest receivable and similar income

	1998 £'000	1997 £'000
Bank interest	4	4
Other interest receivable	3,472	4,215
Interest receivable from Group undertakings	11,100	19,095
	<b>14,576</b>	<b>23,314</b>

### 6 Interest payable and other similar charges

	1998 £'000	1997 £'000
Interest payable on overdrafts and bank loans	519	517
Interest payable to Group undertakings	5,086	4,155
	<b>5,605</b>	<b>4,672</b>

Interest is being paid on loans wholly repayable within 5 years.

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 7 Taxation

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31.0% (1997: 31.5%)	50,211	39,109
Less: Double taxation relief	(48,812)	(38,652)
	<u>1,399</u>	<u>457</u>
Deferred taxation	333	4
Overseas taxation	6,287	5,973
	<u>8,019</u>	<u>6,434</u>
Adjustment in respect of prior years:		
UK taxation	3,529	(86)
Deferred taxation	(1,365)	-
	<u>10,183</u>	<u>6,348</u>

The UK Corporation tax has been reduced by £4,845 thousand (1997: £11,457 thousand) in respect of group loss relief, surrendered to the Company from a fellow subsidiary and Advance Corporation Tax surrendered to the Company from the ultimate parent undertaking.

### 8 Dividends

	1998 £'000	1997 £'000
Ordinary		
Interim proposed:	<u>270,000</u>	<u>515,000</u>

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 9 Tangible fixed assets

	Freehold Land and Buildings £'000	Short Leasehold Buildings £'000	Plant and Machinery £'000	Fixtures and Fittings £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>						
At 1 January 1998	5,501	5,376	19,523	32,910	15,030	78,340
Reallocations	-	3	106	7,944	(8,053)	-
Expenditure	13	-	890	4,645	5,173	10,721
Disposals	-	(3,653)	(4,075)	(22,181)	-	(29,909)
At 31 December 1998	5,514	1,726	16,444	23,318	12,150	59,152
<b>Depreciation</b>						
At 1 January 1998	1,021	1,378	10,819	16,011	-	29,229
Profit & loss charge	106	377	1,204	9,113	-	10,800
Disposals	-	(1,045)	(2,305)	(13,028)	-	(16,378)
At 31 December 1998	1,127	710	9,718	12,096	-	23,651
<b>Net book value</b>						
At 31 December 1998	4,387	1,016	6,726	11,222	12,150	35,501
At 31 December 1997	4,480	3,998	8,704	16,899	15,030	49,111

### Future capital commitments

	1998 £'000	1997 £'000
Contracts have been placed for	989	2,947

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 10 Investments in subsidiaries

#### (1) Shares in group undertakings % nominal value held directly

##### Listed overseas

<b>Singapore</b>	Ordinary shares of S\$0.21 each
British-American Tobacco Company (Singapore) Limited	80%
Stock exchange valuation £91,037,000 at 31/12/98 (1997 £129,637,000)	
<b>Zimbabwe</b>	Ordinary shares of 50c
British American Tobacco Zimbabwe Ltd	85%
Stock exchange valuation £889,000 at 31/12/98 (1997 £5,334,000)	
<b>Chile</b>	Ordinary shares of no par value
Compania Chilena de Tabacos SA	2.61%
Stock exchange valuation £4,633,000 at 31/12/98 (1997 £4,405,000)	
<b>Nigeria</b>	Ordinary shares of 50K units
Nigerian Tobacco Co Plc	59.86%
Stock exchange valuation £4,068,000 at 31/12/98 (1997 £2,412,000)	
<b>Pakistan</b>	Ordinary shares of Rs 10 each
Pakistan Tobacco Co Ltd	63.41%
Stock exchange valuation £2,938,000 at 31/12/98 (1997 £7,716,000)	
<b>South Africa</b>	Ordinary shares of SAR 1 each
British American Tobacco Holdings (South Africa) Limited	63.62%
Stock exchange valuation £17,339,000 at 31/12/98 (1997 £22,120,000)	
<b>Argentina</b>	Ordinary shares of Peso 1.00 each
Nobleza-Piccardo SAICyF	70%
Stock exchange valuation £64,101,000 at 31/12/98 (1997 £85,546,000)	
<b>Ghana</b>	Ordinary shares of C\$50 each
Pioneer Tobacco Co. Ltd	55%
Stock exchange valuation £3,354,000 at 31/12/98 (1997 £3,224,000)	
<b>Indonesia</b>	Ordinary shares of Rp 1,000 each
PT BAT Indonesia Tbk	70%
Stock exchange valuation £17,610,000 at 31/12/98 (1997 £45,238,000)	
<b>Sri Lanka</b>	Ordinary shares of Rs 10/- each
Ceylon Tobacco Co. Ltd	77.80%
Stock exchange valuation £30,406,000 at 31/12/98 (1997 £36,267,000)	

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 10 Investments in subsidiaries (continued).

(1) Shares in group undertakings (continued).	% nominal value held directly
Unlisted – Registered in England	Ordinary shares of £1 each
BAT (UK & Export) Ltd	100.00%
BAT Cambodia (Investments) Ltd	100.00%
BAT Uzbekistan (Investments) Ltd	100.00%
Chelwood Trading & Investment Co Ltd	100.00%
East African Tobacco Co (UK) Ltd	99.00%
Myddleton Investment Co Ltd	100.00%
Westanley Trading & Investment Co Ltd	100.00%
Westminster Tobacco Co Ltd	100.00%
Unlisted – Registered in Isle of Man	Ordinary shares of £1 each
Abbey Investment Co Ltd	100.00%
The Raleigh Investment Co Ltd ++	95.80%
Tobacco Investments Ltd	100.00%
Tobacco Manufacturers (India) Ltd	100.00%
Unlisted – Registered in Russia	Ordinary shares of 100 Roubles each
International Tobacco Marketing Services	89.30%
Unlisted – Registered in Russia	Ordinary shares of 50 Roubles each
British American Tobacco STF	99.98%
Unlisted – Registered in Russia	Ordinary shares of 45 Roubles each
British American Tobacco Yava #	88.61%
Unlisted – Registered in Spain	Ordinary shares of 1000 Pesetas each
BAT Espana SA	99.88%
Unlisted – Registered in Hong Kong	Ordinary shares of HK\$ 10 each
British-American Tobacco Co (Hong Kong) Ltd	100.00%
Unlisted – Registered in Chile	Ordinary shares of no par value
Inversiones Casablanca SA	100.00%
Unlisted – Registered in Guatemala	Ordinary shares of Q10 each
Tabacalera Nacional SA	94.72%

++ Also has preference shares – held 93.98% by the Company.

# Also has preference shares – held 100% by the 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) Shareholdings at cost

	1998 £'000	1997 £'000
Opening balance	415,991	401,519
Movement	40,007	14,472
Closing balance	455,998	415,991

- (3) 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 (Investments) Limited

## Notes to the accounts – 31 December 1998

### 11 Investment in associated undertakings

(1) Shares in group undertakings	% nominal value held directly
Unlisted – Registered in Denmark Skandinavisk Tobakskompagni A/S	Ordinary shares of Dkr 1 each 26.6%

### 12 Debtors

	1998 £'000	1997 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	23,756	22,781
Amounts owed by fellow subsidiaries	635,730	731,610
Other debtors	1,587	1,639
Prepayments and accrued income	26,856	15,469
	<b>687,929</b>	<b>771,499</b>
<hr/>		
	1998 £'000	1997 £'000
<b>Amounts falling due after more than one year</b>		
Prepayments and accrued income	36,843	43,755

### 13 Investments

	1998 £'000	1997 £'000
Amounts owed by fellow subsidiaries	75,212	185,241

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 14 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans and overdrafts	-	228
Amounts owed to fellow subsidiaries	789,500	741,600
Borrowings	26,687	828
Sundry creditors	37,268	32,471
Taxation on UK profits	6,754	5,341
Taxation and social security	466	330
Accrued charges and deferred income	212	410
Dividend payable	270,000	515,000
	<b>1,130,887</b>	<b>1,296,208</b>

### 15 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Sundry creditors	5,218	5,893

### 16 Provisions for liabilities and charges

	1 January 1998 £'000	Amount provided £'000	Amounts utilised £'000	31 December 1998 £'000
Deferred tax (note 21)	-	(1,032)	-	(1,032)
Pensions	10,474	912	(1,140)	10,246
Other provisions	7,077	1,184	(1,978)	6,283
	<b>17,551</b>	<b>1,064</b>	<b>(3,118)</b>	<b>15,497</b>

### 17 Share capital

	Ordinary shares of 25p each	
	1998	1997
Authorised - value	£135,000,000	£135,000,000
- number	540,000,000	540,000,000
Allotted, called up and fully paid		
- value	£134,747,265	£134,747,265
- number	538,989,062	538,989,062

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 18 Reserves

	Profit and loss account £'000	Total £'000
1 January 1998	14,018	14,018
Retained profit	(6,226)	(6,226)
Other movements	(328)	(328)
31 December 1998	7,464	7,464

### 19 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds	148,765	163,988
Profit attributable to shareholders for the year	263,774	499,801
Other movements	(328)	(24)
Dividend proposed	(270,000)	(515,000)
Net transfer from shareholders' funds	(6,554)	(15,223)
Closing shareholders' funds	142,211	148,765

### 20 Dividends received and receivable from subsidiaries

During the year, the Company received dividends amounting to £328,579 thousand (1997 £521,258 thousand), and dividends receivable amounted to £269,396 thousand (1997 £480,891 thousand).

### 21 Deferred taxation

	Provided		Unprovided	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Excess of capital allowances over depreciation	-	-	(370)	915
Other timing differences	(1,032)	-	(1,028)	(1,065)
	(1,032)	-	(1,398)	(150)

# British American Tobacco (Investments) Limited

## Notes to the accounts – 31 December 1998

### 22 Pensions

The Company operates a number of defined benefit pension arrangements, the liabilities of which are actuarially assessed using either the attained age method or projected unit method. The schemes are formally valued every three years and interim reviews undertaken. The latest actuarial valuation of the Company's main scheme was completed as at 31 March 1998.

The assumptions which have the most significant effects on the results of the valuation are those relating to the return on investments and the rates of increase in salaries and pensions. Typical assumptions for the schemes are that investment returns will be 9.5%, salary increases 7% to 7.5% and pension increases of 5%.

The actuarial value of assets in the funded defined benefit schemes was £503.4m at the respective dates of the last actuarial valuations which was not less than the total value of projected accrued liabilities. The actuarial asset value of the schemes was sufficient to cover between 90% and 137% of projected accrued liabilities.

Any deficits or surpluses are being addressed by increased company contributions, reduced company contributions or enhancement of scheme benefits.

The Employees Benevolent Fund is funded internally through a book provision in the Company's accounts and is assessed on an annual basis using the standard actuarial assumptions outlined above. The Overseas Pensions Fund shows a deficit on a current funding level basis of £5.73m (1997 : £3.25m).

The total market value of assets in the funded defined benefit schemes, at the dates of their most recent actuarial valuations, was £650m (1997 : £536m).

The total pension cost to the Company, including provisions in respect of unfunded pensions was £3.9m (1997 : £6.7m).

### 23 Related parties

Transactions with related parties have been aggregated by nature of transaction.

	£'000
<b>Transactions with associates</b>	
Other charges	15,991
Amounts payable by the Company as at 31 December 1998 in respect of the above transactions	5,092

The associates referred to are: ITC Ltd, VST Industries Ltd, Skandinavisk Tobakskompagni A/S, Central Cigarette Co. Ltd, British American Racing (Holdings) Ltd.

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 (Investments) Limited**

## **Notes to the accounts – 31 December 1998**

### **24 Contingent liabilities**

In the U.S.A., as at 24 February, 1999, the Company has been named, in addition to the leading U.S. cigarette manufacturers, as a defendant in a total of 110 cases, in addition to 29 claims by individual claimants, there are 56 claims to recover healthcare expenditure relating to diseases alleged to be caused by smoking. Twenty four purported class actions have been filed which have named the Company as a defendant. The Company has also been named as a defendant in two cases filed against the U.S. industry by asbestos defendants claiming contribution from tobacco manufacturers.

Outside the United States, the Company is named as a defendant in Israel, Nigeria and Chile.

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 position.

### **25 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 British-American Tobacco (Holdings) Limited. Group accounts are prepared by British American Tobacco p.l.c.. Group accounts are prepared only at the British American Tobacco p.l.c. level.

### **26 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