

B.A.T Services Limited
Registered Number 221104

Directors' Report and Accounts

For the year ended 31 December 1998



B.A.T Services 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:

Paul Nicholas Adams	Chairman
Brian Christopher Barrow	
David John Etchells	
Philip Michael Cook	

Directors' interests

The interests of the Directors at 31 December 1998 in the share capital and share option schemes of B.A.T Industries p.l.c. and British American Tobacco p.l.c., are as shown below.

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

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

Table 1

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

	1 January 1998	7 September 1998
P.N. Adams	9,781	13,305
B.C. Barrow	6,976	6,855
D.J. Etchells	3,169	3,652
P.M. Cook	1,105	1,520

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Directors' report (continued)

Directors' interests (continued)

Table 2

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

	1 January 1998	Granted	Exercised	7 September 1998
P.N. Adams	118,912	9,670	42,689 *	85,893
B.C. Barrow	26,352	4,570	-	30,922
D.J. Etchells	12,955	4,160	-	17,115
P.M. Cook	3,669	3,970	-	7,639

* Contract for 949 options cancelled.

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

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

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

Table 3

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

	7 September 1998	31 December 1998
P.N. Adams	6,651	6,653
B.C. Barrow	3,426	7,342
D.J. Etchells	1,825	860
P.M. Cook	760	760

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Directors' report (continued)

Directors' interests (continued)

Table 4

British American Tobacco p.l.c. Share options

	7 September 1998	Granted	Exercised	31 December 1998
P.N. Adams	132,873	63,334	-	196,207
B.C. Barrow	47,832	18,395	-	66,227
D.J. Etchells	26,475	16,740	-	43,215
P.M. Cook	11,816	10,633	-	22,449

In addition, on 31 December 1998, the B.A.T Industries Employee Share Ownership Trust held 6,309,394 shares in British American Tobacco p.l.c. (7 September 1998: 2,560,124 shares). The British American Tobacco Group Employee Trust also held 4,391,432 shares in British American Tobacco p.l.c. (7 September 1998: Nil). All employees, including the Directors of the Company, are deemed to have had a beneficial interest in the shares which are held by these trusts for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share "E" Option Scheme and from 1998 onwards under the British American Tobacco Share Option Scheme.

Details of the share option schemes are included in the Report and Accounts of British American Tobacco p.l.c.

Review of the year to 31 December 1998

Satisfactory progress has been made in developing the Company's business in Taiwan, and the Directors expect that there will be improvements in financial performance in the future. The profit for the financial year of £28,000 (1997 £72,000) will be transferred to reserves.

Dividends

The Directors do not recommend the payment of a dividend (1997: £Nil).

Principal activities

The principal activity of the Company is to operate a branch in Taiwan to promote products in that country.

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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 interim report 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.

B.A.T Services 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 29 days proportion of 365 days.

B.A.T Services 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 PricewaterhouseCoopers as auditors.

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

On behalf of the Board



Secretary

Dated 178 OCT 1999

Auditors' report to the members of B.A.T Services Limited

We have audited the financial statements on pages 9 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report, including as described on page 7, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding 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.



18/10/99

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

B.A.T Services Limited

Profit and loss account For the year ended 31 December 1998

	<i>Note</i>	1998 £'000	1997 £'000
Turnover		1,736	2,123
Operating income	2	1,736	2,123
Operating charges	3	(1,687)	(2,015)
Operating profit		49	108
Interest receivable and similar income	5	3	-
Profit on ordinary activities before taxation		52	108
Taxation on ordinary activities	6	(24)	(36)
Profit for the financial year		28	72
Dividends on equity shares		-	-
Increase in realised reserves		28	72
Statement of total recognised gains and losses			
Profit for the year		28	72
Difference arising on the retranslation of the retained profit from average to closing rates of exchange		2	-
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year		1	(20)
Total recognised gain		31	52

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

The notes on pages 11 to 15 form part of these accounts

B.A.T Services Limited

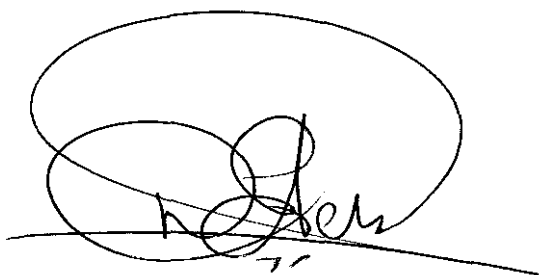
Balance Sheet – 31 December 1998

	<i>Note</i>	1998 £'000	1997 £'000
Current assets			
Debtors			
- amounts falling due within one year	7	421	207
Cash and short term deposits		126	416
		547	623
Creditors - amounts falling due within one year	8	(264)	(371)
Net current assets		283	252
Creditors - amounts falling due after more than one year	9	(93)	(93)
Total assets less current liabilities		190	159
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account		190	159
Total equity shareholders' funds	11	190	159

The financial statements on pages 9 to 15 were approved by the Directors on
are signed on their behalf by:

and

18 OCT 1999



Director

The notes on pages 11 to 15 form part of these accounts

B.A.T Services Limited

Notes to the accounts – 31 December 1998

1 Accounting policies

A summary of the principal accounting policies is set out below.

(1) Basis of accounting

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

(2) Cash flow statement

The Company is a wholly owned subsidiary of British American Tobacco p.l.c. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

(3) Translation of assets and liabilities

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

Assets and liabilities expressed in currencies other than sterling are translated to sterling at rates of exchange ruling at the end of the financial year. 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.

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Notes to the accounts – 31 December 1998

1 Accounting policies (continued)

(6) 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.

2 Operating income

	1998 £'000	1997 £'000
Other operating income	1,736	2,123

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
Other operating leases	329	407
Staff costs	758	941
Auditors' fees	4	5
Payment to PricewaterhouseCoopers for non-audit services	1	6
Other operating charges	595	656
	1,687	2,015
Staff costs:		
Wages and salaries	706	881
Social security costs	38	60
Other pension costs	14	-
Share participation scheme	-	-
	758	941

B.A.T Services Limited

Notes to the accounts – 31 December 1998

3 Operating charges (continued)

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

Notes	1998 Building £'000
Expiring within one year	232
1 – 5 years	35
Beyond 5 years	-
	267

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	3	-

6 Taxation on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31.0% (1997: 31.5%)	24	34
Less: Double taxation relief	(24)	(34)
	-	-
Deferred taxation	-	-
Overseas taxation	24	36
	24	36

B.A.T Services Limited

Notes to the accounts – 31 December 1998

7 Debtors: amounts falling due within one year

	1998	1997
	£'000	£'000
Trade debtors	297	179
Prepayments and accrued income	124	28
	421	207

8 Creditors: amounts falling due within one year

	1998	1997
	£'000	£'000
Trade creditors	119	169
Taxation and social security	11	-
Other creditors	134	202
	264	371

9 Creditors: amounts falling due after more than one year

	1998	1997
	£'000	£'000
Long term loan from parent undertaking	93	93
	93	93

10 Share capital

	Ordinary shares of £1 each	
	1998	1997
Authorised - value	£1,000	£1,000
- number	1,000	1,000
Allotted, called up and fully paid		
- value	£100	£100
- number	100	100

B.A.T Services Limited

Notes to the accounts – 31 December 1998

11 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds	159	107
Profit attributable to shareholders for the year	28	72
Difference on exchange	3	(20)
Closing shareholders' funds	190	159

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 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 (U.K. and Export) Limited. Group accounts are prepared only at the British American Tobacco p.l.c. level.

15 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