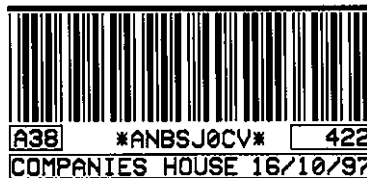


B.A.T PORTUGAL LIMITED

**REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1996**  
Registered no. 3043387



**B.A.T Portugal Limited****Report of the directors  
for the year ended 31 December 1996**

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

**Principal activities**

The principal activity of the Company is the sale of tobacco products by the branch in Portugal.

**Review of business and future developments**

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

**Fixed assets**

The movements in fixed assets are shown on page 9.

**Dividends**

The directors do not recommend the payment of a dividend. The loss for the financial year of £2,308,000 will be transferred to reserves.

**Directors**

J Rembiszewski            (Chairman)  
P L Clarke  
K J Hardman  
R H Galgut

**Directors' interests in the shares of the company**

The interests of those persons who were directors at 31 December 1996 in the share capital and share option schemes of B.A.T Industries p.l.c. and its subsidiaries are shown in the table below, except for those holdings of Mr. J Rembiszewski whose interests are shown in the Directors' Report of British-American Tobacco (Holdings) Limited, of which this Company is a wholly owned subsidiary.

**B.A.T Portugal Limited****Report of the directors  
for the year ended 31 December 1996****B.A.T Industries p.l.c.**

	<u>Ordinary 25p Shares</u>			<u>Share Options</u>		
	<u>Opening</u>	<u>Closing</u>		<u>Opening</u>	<u>Acquired</u>	<u>Exercised</u>
P L Clarke	7,332	8,100	17,673	11,840	Nil	29,513
K J Hardman	3,767	6,170	17,739	12,760	1,742	28,757
R H Galgut	3,013	3,565	7,736	11,915	4,316	15,335

Details of the share option schemes are included in the Report and Accounts of B.A.T Industries p.l.c.

**Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period which 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 appropriate accounting policies and then apply them consistently subject to any material departures being disclosed and explained;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless they consider that to be inappropriate.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

Director:

*P. L. Clarke*  
P. L. CLARKE

Dated:

06 OCT 1997

**B.A.T Portugal Limited****Auditors' Report to the Shareholders of B.A.T Portugal Limited**

We have audited the financial statements on pages 5 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

**Respective responsibilities of directors and auditors**

As described on page 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

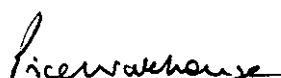
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the affairs of the Company as at 31 December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

**B.A.T Portugal Limited****Profit and loss account  
for the year ended 31 December 1996**

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>9 month</u> <u>period ended</u> <u>1995</u> <u>£000</u>
<b>Turnover (including duty and excise taxes)</b>			
Continuing operations	2	7,843	2,204
		=====	=====
Operating income	3	1,714	664
Operating charges	4	(3,919)	(1,317)
		-----	-----
<b>Operating loss - continuing operations</b>		<b>(2,205)</b>	<b>(653)</b>
Interest receivable and similar income	5	-	7
Interest payable	6	103	-
		-----	-----
<b>Loss on ordinary activities before taxation</b>		<b>(2,308)</b>	<b>(646)</b>
		-----	-----
<b>Retained loss for the period</b>		<b>(2,308)</b>	<b>(646)</b>
		=====	=====
<b>Statement of total recognised gains and losses</b>			
Retained loss for the period		(2,308)	(646)
Difference on exchange arising on the retranslation of retained loss at closing rates of exchange		207	(12)
Difference arising on exchange arising on the retranslation of opening net assets.		83	-
		-----	-----
<b>Total recognised loss for the period</b>		<b>(2,018)</b>	<b>(658)</b>
		=====	=====

The notes on pages 7 to 11 form part of these financial statements.

**B.A.T Portugal Limited****Balance Sheet - 31 December 1996**

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>	<u>1995</u> <u>£000</u>
<b>Fixed assets</b>					
Tangible fixed assets	7		127		174
<b>Current assets</b>					
Stocks	8	184		134	
Debtors	9	593		454	
		-----		-----	
		777		588	
<b>Creditors: amounts falling due within one year</b>	10	3,578		1,418	
		-----		-----	
<b>Net current liabilities</b>			(2,801)		(830)
			-----		-----
<b>Total assets less current liabilities</b>			(2,674)		(656)
			=====		=====
<b>Capital and reserves</b>					
Called up share capital	11		-		-
Capital reserve	12		2		2
Profit and loss account	13		(2,676)		(658)
			-----		-----
<b>Total shareholders' funds</b>	12		(2,674)		(656)
			=====		=====
<b>Equity interests</b>			(2,674)		(656)
			-----		-----
<b>Total shareholders' funds</b>	12		(2,674)		(656)
			=====		=====

The financial statements on pages 5 to 11 were approved by the Directors on **06 OCT 1997** and are signed on their behalf by:

Director:

*P. L. Clarke*  
P. L. CLARKE

The notes on pages 7 to 11 form part of these financial statements.

**B.A.T Portugal Limited****Notes to the financial statements  
for the year ended 31 December 1996****1 Accounting policies**

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

**1.1 Basis of accounting**

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

**1.2 Translation of assets and liabilities**

Turnover and profits expressed in currencies other than sterling are translated to sterling at average rates of exchange. Assets and liabilities are translated at closing rates of exchange. The difference between retained profits of overseas net assets translated at average and closing rates of exchange are dealt with in the statement of total recognised gains and losses, as are differences arising on the translation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year. Other exchange differences, including those on remittances are dealt with in the profit and loss account.

**1.3 Accounting for income**

Income is accounted for on a receivable basis.

**1.4 Depreciation on tangible fixed assets**

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

The rates of depreciation used are:

Plant and machinery	10-33%
---------------------	--------

**1.5 Stocks and work in progress**

Stocks and work in progress are valued at the lower of cost and net realisable value.

**2 Turnover**

Turnover is derived from the sale of tobacco products in Portugal.

**B.A.T Portugal Limited****Notes to the financial statements  
for the year ended 31 December 1996**

		<u>9 month period</u> <u>ended</u>
<b>3 Operating income</b>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Turnover including duty & excise taxes	7,843	2,204
Duty and excise taxes	(6,129)	(1,540)
	<u>1,714</u>	<u>664</u>

		<u>9 month period</u> <u>ended</u>
<b>4 Operating charges</b>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Raw materials and consumables	1,741	611
Staff costs	380	169
Depreciation	32	7
Auditors fees	10	0
Other operating charges	1,830	662
Change in stock of finished goods	(74)	(132)
	<u>3,919</u>	<u>1,317</u>
<b>Staff costs include:</b>		
Wages and salaries	310	144
Social security costs	70	25
	<u>380</u>	<u>169</u>

None of the directors received any remuneration in respect of their services to the company during the financial year (1995: £nil).

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

	<u>1996</u>	<u>1995</u>
Management	6	5
Staff	6	3
Labour force	8	6
	<u>20</u>	<u>14</u>



**B.A.T Portugal Limited****Notes to the financial statements  
for the year ended 31 December 1996**

	<u>1996</u> <u>£000</u>	<u>9 month period</u> <u>ended</u> <u>1995</u> <u>£000</u>
<b>5 Interest Received</b>		
Bank interest	-	7
	=====	=====
	<u>1996</u> <u>£000</u>	<u>9 month period</u> <u>ended</u> <u>1995</u> <u>£000</u>
<b>6 Interest Paid</b>		
Bank interest	103	-
	=====	=====
<b>7 Fixed assets</b>		
<b>Tangible fixed assets</b>	<b><u>Fixtures &amp;</u> <u>Fittings</u></b>	
<b>Cost</b>	<b>£000</b>	
At 31 December 1995	181	
Difference on exchange arising on the retranslation at the closing rates of exchange	(24)	
Additions	5	
	-----	
At 31 December 1996	162	
	=====	
<b>Depreciation</b>		
At 31 December 1995	7	
Difference on exchange arising on the retranslation at the closing rates of exchange	(1)	
Charge for the period	29	
	-----	
At 31 December 1996	35	
	=====	
<b>Net book value</b>		
At 31 December 1996	127	
	=====	
At 31 December 1995	174	
	=====	

**B.A.T Portugal Limited****Notes to the financial statements  
for the year ended 31 December 1996****8 Stocks**

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Goods purchased for resale	184	134

**9 Debtors**

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
<b>Amounts falling due within one year</b>		
Trade debtors	593	448
Other debtors	-	6
	593	454

**10 Creditors: amounts falling due within one year**

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Bank loans and overdrafts	2,263	7
Trade creditors	166	289
Amounts owed to group undertakings	582	628
Sales tax duty and excise	516	327
Taxes and social security	-	11
Other creditors	51	156
	3,578	1,418

**11 Share capital****Ordinary Shares of £1 each**

	<u>1996</u>	<u>1995</u>
Authorised - value	£100	£100
number	100	100
Allotted, called up and fully paid value	£100	£100
number	100	100

**B.A.T Portugal Limited****Notes to the financial statements  
for the year ended 31 December 1996**

<b>12 Reconciliation of movements in shareholders' funds</b>	<b><u>1996</u> <u>£000</u></b>	<b><u>1995</u> <u>£000</u></b>
Opening shareholders' funds	(656)	-
Capital reserves	-	2
Loss attributable to shareholders for the period	(2,308)	(646)
Difference on exchange	290	(12)
	-----	-----
Closing shareholders' funds	<u>(2,674)</u>	<u>(656)</u>

	<b><u>1996</u> <u>£000</u></b>	<b><u>9 month</u> <u>period ended</u> <u>1995</u> <u>£000</u></b>
<b>13 Profit and Loss Account</b>		
Retained losses at 1 January	(658)	-
Retained loss for the period	(2,308)	(646)
Difference on Exchange	290	(12)
	-----	-----
Retained losses at 31 December	<u>(2,676)</u>	<u>(658)</u>

**14 Parent company support**

The parent company has indicated its willingness to continue to provide support to allow the Company to continue at its current level of operations during 1997.

**15 Parent undertaking**

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

**16 Copies of the report and accounts**

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

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