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**BRITISH AMERICAN TOBACCO AND ROTHMANS INTERNATIONAL  
IN £13BN MERGER**

British American Tobacco, Richemont and Rembrandt have reached agreement on the terms of a proposed merger of British American Tobacco and Rothmans International. The enlarged group will retain British American Tobacco's name.

**Benefits**

- \* The merger brings together the second and fourth largest international cigarette companies in the world, with combined volume in 1997 of over 900 billion cigarettes and a worldwide market share of over 16 per cent.
- \* High degree of complementarity in both geographical spread and brand portfolios
- \* Enlarged group to have leading positions in Latin America, Africa, Asia and Australasia and improved presence in Western Europe
- \* Strengthens British American Tobacco's presence in premium segment, in line with stated strategy, and increases proportion of sales volume derived from international brands, which will improve overall margins
- \* Significant cost savings amounting to not less than £250 million per annum in the third full year
- \* Expected to enhance underlying earnings per share, excluding amortisation of goodwill, for the year ending December 2000. Improves pro forma interest cover

**Terms**

- \* Richemont and Rembrandt together to hold 35 per cent. of enlarged group, on a fully diluted basis, valuing the holding at £4.6 billion
- \* The holding to be 25 per cent. in ordinary shares and 10 per cent. in convertible redeemable participating preference shares. Standstill agreement to limit Richemont and Rembrandt's aggregate voting interest to 25 per cent.
- \* Bill Ryan, currently Chief Executive of Rothmans, to join British American Tobacco's board as Deputy Managing Director; Johann Rupert and Jan du Plessis to join as Non-Executive Directors
- \* Merger conditional on regulatory consents and shareholder approvals. Timetable targets completion in second quarter of 1999

Commenting on the announcement, Martin Broughton, Chairman of British American Tobacco said: "This merger represents a major step forward in the achievement of our vision to become the world's leading international tobacco company. It will enable us to play to our proven strengths in managing a portfolio of brands, while shifting resources to the premium international brands sector which enjoys higher margins."

Johann Rupert, Chief Executive of Richemont and Chairman of Rembrandt, said: "The long term interests of the Rothmans Group are best served by being part of a larger tobacco business which will have enhanced market positions and greater scale of operations. Through their shareholding in the enlarged British American Tobacco, Richemont and Rembrandt will retain an investment in the global tobacco industry and will be able to benefit from the future growth and synergies arising from the combination of British American Tobacco and Rothmans.

"Martin and I have spent a lot of time discussing the enlarged British American Tobacco group's future strategy, and I am fully supportive of the Board's plans to develop the enlarged group through a mix of organic growth, investment in new markets and selective acquisitions."

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The brokers to British American Tobacco are Cazenove & Co. and Credit Suisse First Boston de Zoete & Bevan Limited.

There will be briefings for analysts at 09.30am and press at 11.00am today, at Globe House, Temple Place, London WC2. Analysts and investors unable to attend the meeting will be able to dial in by telephone to listen to the conference in full on Tel: 001 212 547 0205 and the pass code is BAT. There will also be a playback of the presentation available for 48 hours on Tel: 001 402 220 9835.

This summary should be read in conjunction with the full text of the announcement set out below.

## **BRITISH AMERICAN TOBACCO AND ROTHMANS INTERNATIONAL IN £13BN MERGER**

British American Tobacco, Richemont and Rembrandt have reached agreement on the terms of a proposed merger of British American Tobacco and Rothmans International. Under the terms of the agreement, British American Tobacco will issue ordinary shares and convertible redeemable participating preference shares to a company jointly owned by Richemont and Rembrandt. On a fully diluted basis, the new shares will account for 35 per cent. of the enlarged British American Tobacco group, 25 per cent. in ordinary shares and 10 per cent. in convertible preference shares. Richemont and Rembrandt have agreed to restrict their voting rights to 25 per cent.

Based on British American Tobacco's share price of 541 pence per share at the close of business on 8th January, 1999, and before taking account of the value attributable to the fact that the convertible preference shares can be redeemed for cash at a premium in due course, the new shares have a value of £4.6 billion.

The proposed merger is subject to relevant regulatory consents and shareholder approvals.

### **Benefits of the Merger**

British American Tobacco and Rothmans are, respectively, the second and fourth largest international cigarette companies in the world. Together, the two groups sold over 900 billion cigarettes in 1997 and accounted for a worldwide market share of over 16 per cent.

The merger brings together two companies which have similar cultures and complementary brand portfolios and geographical spreads. It represents a major step forward in British American Tobacco's vision of becoming the world's leading international tobacco company. It is also consistent with Rothmans' desire to be a major player in the international tobacco business.

Key operational benefits of the merger include:

### **Enhanced Market Positions**

The enlarged group will be strongly represented in all continents and especially in the faster growing emerging markets. It will also have stronger positions in a number of important mature markets such as Western Europe. For example, through Rothmans the enlarged group will have access to the UK market, while British American Tobacco will provide improved access for Rothmans' brands in Japan. Both British American Tobacco and Rothmans believe that the opportunity exists to increase profitability in mature tobacco markets.

### **Improved Premium Brand Portfolio**

The injection of Rothmans' strong international brand portfolio will increase the proportion of British American Tobacco's sales derived from premium and international brand segments to around one third of the total. As a result, British American Tobacco's margins will improve. The major international brands of the enlarged group will include State Express 555, Rothmans, Lucky Strike, Peter Stuyvesant, Kent, Dunhill, Benson & Hedges and Players. The merger will also unify the ownership of Pall Mall, one of the fastest growing international brands in the world.

The merger will improve the portfolio in the regional and local brand segments, which continue to be critical in many important markets.

The enlarged group will continue to focus investment on those brands which offer the greatest potential for profitable growth.

### **Cost Savings**

Annual cost savings of not less than £250 million are expected to be achieved in the third full year following the merger. One-off cash costs in achieving these savings are expected to amount to approximately £400 million to be charged in the years in which the commitments are made.

The two groups have similar but overlapping operational structures. The greatest savings are expected in sales and distribution. In manufacturing, British American Tobacco and Rothmans have both achieved significant improvements in productivity in recent years and the merger will create substantial further opportunities. Savings will also be made in the restructuring of headquarters, including regional offices, and in more efficient brand management and procurement.

### **Impact on British American Tobacco**

British American Tobacco expects the merger to enhance underlying earnings per share, before amortisation of goodwill, in the year ending December 2000. Pro forma interest cover is also expected to be improved, reflecting a lower level of borrowings in Rothmans relative to British American Tobacco. The merger will be acquisition accounted for under UK GAAP. Goodwill is estimated at £5 billion based on a share price of 541 pence and will be amortised over 20 years.

### **Impact on Richemont and Rembrandt**

The boards of Richemont and Rembrandt believe their shareholders' interests are best served by participating in a larger tobacco business which will have enhanced market positions and a greater scale of operations. Through their shareholding in the enlarged British American Tobacco, both Richemont and Rembrandt will retain an investment in the global tobacco industry for the long term and will be able to benefit from the future growth and synergies arising from the combination of British American Tobacco and Rothmans. In light of the intended dividend policy of the enlarged British American Tobacco, Richemont and Rembrandt will also benefit from the strong cash flow of the combined group.

Richemont and Rembrandt's 35 per cent. interest in the enlarged British American Tobacco will be held through their joint holding company in which Richemont has a two thirds and Rembrandt a one third interest.

Richemont will, from completion, cease to consolidate its interest in Rothmans and will equity account for its effective 23.3 per cent. interest in the enlarged British American Tobacco. For accounting purposes, the transaction will give rise to a substantial exceptional gain. It is expected that, in the first year, the effects of the merger will be broadly earnings neutral at the attributable profit level before goodwill amortisation and the one-off costs of achieving synergies and that thereafter it will be earnings enhancing, reflecting the benefit of cost savings and other synergies.

Rembrandt, which currently equity accounts its one third interest in Rothmans, will continue to equity account for its one third interest in the joint holding company. It is expected that the effects of the merger will be broadly earnings neutral in the first year, before the one-off costs of achieving synergies, and earnings enhancing in subsequent years.

### **Board of British American Tobacco**

All the current directors of British American Tobacco will remain on the Board of the enlarged group in their current roles. Bill Ryan, Chief Executive of Rothmans since 1991, will join the Board as Deputy Managing Director and will join the group's Management Board. At the same time he will leave the Richemont Board. Johann Rupert, who is Chief Executive of Richemont and Chairman of Rembrandt, and Jan du Plessis, Finance Director of Richemont, will also join the Board as Non-Executive Directors. The Board will therefore be as follows:

#### **Executive**

Martin Broughton	Chairman
Ulrich Herter	Managing Director
Bill Ryan	Deputy Managing Director
Keith Dunt	Finance Director

#### **Non-Executive**

The Rt Hon Kenneth Clarke QC MP	Deputy Chairman
Admiral William Owens	
Rupert Pennant-Rea	
Jan du Plessis	
Johann Rupert	
Wong Kok Siew	

As previously announced, Dr Harald Einsmann will join the Board as a Non-Executive Director on 1st April, 1999.

Johann Rupert will join the nominations and remuneration committees of the Board and Jan du Plessis will join the audit committee.

### **Transaction Agreement**

British American Tobacco, Richemont and Rembrandt have signed a Transaction Agreement, under the terms of which the consideration for Rothmans will be satisfied by the issue by British American Tobacco of 604,336,627 ordinary shares and 241,734,651 convertible redeemable participating preference shares ("convertible preference shares"). On a fully diluted basis, the new shares will account for 35 per cent. of the enlarged British American Tobacco.

The Transaction Agreement is conditional, inter alia, on approval by British American Tobacco and Rembrandt shareholders and appropriate regulatory approvals. The timetable targets completion in the second quarter of 1999.

### **Convertible Preference Shares**

The terms of the transaction have been agreed on the basis of a merger of the two businesses and the consideration has been structured to provide Richemont and Rembrandt an appropriate economic interest in the enlarged group, while limiting their voting interest to 25 per cent. and providing them with the option to realise cash in due course.

The terms of the convertible preference shares are summarised in Appendix II. The principal features are as follows:

- they will automatically convert into ordinary shares on a one for one basis on any sale to a third party. They are not transferable as preference shares. They can also convert on the same basis at any time to restore Richemont and Rembrandt's voting interest to 25 per cent. if their holding falls or is diluted below that level
- up to half of the issue is redeemable in cash at Richemont and Rembrandt's option on the first anniversary of closing at a price of 575 pence per share
- the balance is compulsorily redeemable in cash on the fifth anniversary of closing at a price of 675 pence per share, unless previously converted into ordinary shares
- in the event that the convertible preference shares cannot be redeemed in cash, the holders can elect that the redemption be satisfied in further ordinary shares to a value of 675 pence per convertible preference share
- they will have equivalent rights to the dividend on the ordinary shares

### **Standstill Agreement**

Immediately following the merger and prior to conversion of any of the convertible preference shares, Richemont and Rembrandt will own 27.8 per cent. of the enlarged issued ordinary share capital of British American Tobacco. Richemont and Rembrandt have indicated to British American Tobacco that they intend to be long term, supportive investors in the enlarged group. Under the terms of a Standstill Agreement, Richemont and Rembrandt have agreed to a number of rights and restrictions in respect of the shares they will own in British American Tobacco, the principal ones being as follows:

- Richemont and Rembrandt will not exercise votes in respect of more than 25 per cent. of British American Tobacco's issued shares at any general meeting
- Richemont and Rembrandt will not acquire any further shares in British American Tobacco, other than in certain limited circumstances such as pursuant to rights or capitalisation issues
- Richemont and Rembrandt will consult with British American Tobacco in relation to any disposals of shares over particular levels

The Standstill Agreement has no fixed term, but ceases to apply if Richemont and Rembrandt's shareholding falls below 15 per cent. of the fully diluted share capital, if an offer for British

American Tobacco made by a third party which has been accepted by a majority of all the other ordinary shareholders becomes wholly unconditional or if British American Tobacco is unable to redeem the convertible preference shares in full in cash on the final due date.

### **Current Trading of British American Tobacco**

Following the report for the nine months to September 1998, operational results have continued satisfactorily against the background of the increasingly difficult trading environment noted at that time.

Conditions in Asia remain very difficult. There have been some improvements in Eastern Europe and in Russia in particular, where volumes are almost back to their pre-crisis levels although, as anticipated, margins have suffered.

Firm management action is being taken to reduce further British American Tobacco's cost base. In addition to the factory closures in Hong Kong and Tashkent reported earlier in the year, British American Tobacco has recently announced its plans to close its plant in Spain and the primary manufacturing department in its Brussels facility. It has also announced the closure of its plants in Malawi and Singapore and factories at Tepic and La Libertad in Mexico have been closed. The charge to cover these rationalisations will be around £60 million for 1998, much of which will fall in the final quarter.

Finally, since the third quarter's results were announced, an agreement has been reached with Attorneys General in 46 U.S. States to settle the outstanding Medicaid recovery suits. In addition to the British American Tobacco group's initial up-front payment of US\$430 million, there are further costs, principally as a result of plaintiffs' legal fees associated with the settlement, to be charged in 1998, which could raise the total charge to around US\$750 million.

Current expectations for the year to 31st December, 1998 are that operating profit, after the inclusion of the £60 million charge but excluding the U.S. settlement related costs and a sales tax recovery in Brazil, will be slightly ahead of 1997 at constant rates of exchange.

### **Dividends and Dividend Policy**

In the light of this transaction, agreement has been reached on the level of dividends to be paid or declared by British American Tobacco and Rothmans to cover the period up to Rothmans' financial year end of 31st March, 1999.

To compensate for the mismatch in year ends, the Board of British American Tobacco has declared a special interim dividend of 4.0 pence per share for payment on 1st July, 1999. The cost of this special interim dividend amounts to £63 million. In addition, the Board expects to propose a final dividend for the year to 31st December, 1998 of 16.0 pence per share, also for payment on 1st July, 1999. Valid transfers received by the registrar of British American Tobacco up to 6th April, 1999 will be in time to rank for payment of both the special interim and the final dividends. Neither dividend will be paid as a foreign income dividend. When deciding on the level of interim dividend to be paid to shareholders following publication of British American Tobacco's results to 30th June, 1999, the Board will take into account the special interim dividend to be paid on 1st July, 1999.

As a consequence of these arrangements, Richemont and Rembrandt will not qualify for the special interim dividend nor the final dividend in respect of 1998.



Prior to closing, Rothmans will pay a further dividend to Richeumont and Rembrandt amounting, in total, to £150 million in respect of its financial year to 31st March, 1999.

Following closing, British American Tobacco expects to continue its policy of paying out at least 50 per cent. of long-term sustainable earnings (excluding the impact of amortisation of goodwill).

#### **Employees of British American Tobacco and Rothmans**

The employment terms and conditions, including pension rights, of employees of both British American Tobacco and Rothmans will be fully safeguarded.

#### **Regulatory Approvals**

Discussions are required with relevant competition and other regulatory authorities, with a view to seeking their approval for the merger and to ensure compliance with local regulations.

#### **Listings**

The enlarged group will retain British American Tobacco's existing stock market listings.

#### **British American Tobacco and Rembrandt Extraordinary General Meetings**

In view of its size, the merger will be conditional upon approval of British American Tobacco and Rembrandt shareholders. Circulars, containing notices convening Extraordinary General Meetings of British American Tobacco and Rembrandt and giving further information on the merger, will be sent to British American Tobacco and Rembrandt shareholders in due course.

## APPENDIX I

### Information on British American Tobacco, Rothmans, Richemont and Rembrandt

#### **British American Tobacco**

British American Tobacco p.l.c. ("British American Tobacco") is the world's second largest international tobacco group. The group manufactures, markets and sells cigarettes and other tobacco products and has operations in more countries than any other cigarette group. It manufactures in some 50 factories and sells over 240 brands of cigarette in approximately 180 markets around the world. Major international brands include State Express 555, Lucky Strike, Kent, Benson & Hedges, Players and Pall Mall. The brand portfolio includes a wide range of cigarettes, including both American blend and Virginia cigarettes and a number of other tobacco products including cigars and roll-your-own tobacco.

In the financial year ended 31st December, 1997, British American Tobacco achieved pro forma gross revenue of £17,834 million and operating profit before exceptional items of £1,591 million. Its sales volume in this period amounted to 712 billion cigarettes. As at 31st December, 1997, British American Tobacco had, on a pro forma basis, negative shareholders' funds of £97 million. The results for the nine months to 30th September, 1998, at current rates, show gross revenue of £12,600 million and operating profits after exceptional items of £1,180 million.

#### **Rothmans**

Rothmans International BV ("Rothmans") is the world's fourth largest international tobacco group. It is engaged in the manufacture, distribution and sale of tobacco products, including cigarettes, roll-your-own tobacco, pipe tobacco and cigars. Rothmans has a strong portfolio of international brands including Rothmans, Dunhill, Peter Stuyvesant, Winfield and Pall Mall. Rothmans is strongly represented in Western Europe, Africa, Australasia and a number of South-East Asian markets. Its products are manufactured in over 30 factories and sold in over 160 countries and territories.

In the financial year ended 31st March, 1998, Rothmans achieved net sales revenue, excluding duty, excise and sales taxes, of £3,172 million and an operating profit of £821 million. Its sales volume in this period amounted to 217 billion cigarettes and equivalents. As at 31st March, 1998 Rothmans had shareholders' funds (including goodwill) of £1,294 million. The results for the six months to 30th September, 1998 show net sales revenue of £1,487 million and operating profit of £381 million.

Rothmans is a subsidiary of Compagnie Financière Richemont AG ("Richemont"), a Swiss public company, which owns two-thirds of its share capital. The remaining one-third is held by Rembrandt Group Limited ("Rembrandt"), a public company incorporated in the Republic of South Africa.

#### **Richemont and Rembrandt**

In addition to its two-thirds interest in Rothmans, Richemont has extensive interests in the luxury goods industry through its wholly owned subsidiary Vendôme Luxury Group, which owns a number of well known international brands including Cartier, Alfred Dunhill and Montblanc, as well as several prestigious Swiss watch brands. It also owns a 15 per cent.

investment in Canal+ SA of France, Europe's leading pay television operator, and a 49 per cent. interest in Hanover Direct Inc, a leading direct marketing company in the United States. At the close of business on 8th January, 1999, Richemont's market capitalisation was £5.1 billion using a share price of Swiss Francs 2,230 and an exchange rate of 2.29 Swiss Francs per Pound.

In addition to its one third interest in Rothmans, Rembrandt has investments in a wide range of other businesses, including wines and spirits, mining, financial services and mobile communications. At the close of business on 8th January, 1999, Rembrandt's market capitalisation was £2.2 billion using a share price of 39.80 Rands and an exchange rate of 9.52 Rands per Pound.

Both Richemont and Rembrandt are effectively controlled by the Rupert family.

## APPENDIX II

### Convertible Redeemable Participating Preference Share Rights

#### **Income**

The convertible preference shares will rank uniformly with the ordinary shares for all distributions of profit. Dividend dates for the convertible preference shares and the ordinary shares will match.

#### **Capital**

On a return of capital on a winding-up or otherwise (with certain limited exceptions) the assets will be applied in priority to a payment to the holders of any other class of shares in paying the holder(s) of convertible preference shares the sum of £5.75 until the first anniversary of their issue and thereafter £6.75. Thereafter, after the holders of ordinary shares have received a sum equal to the nominal capital paid up on their shares, the holder(s) of convertible preference shares are entitled to participate pari passu in the surplus assets.

#### **Voting**

Holder(s) of convertible preference shares will only be entitled to vote in limited circumstances. In such circumstances each holder will have one vote on a show of hands, and on a poll, will have one vote for each convertible preference share held.

#### **Redemption**

- (a) On the first anniversary of the date of issue of the convertible preference shares, the holder(s) may require British American Tobacco to redeem up to 50 per cent. of the total number of shares issued, less the total number of convertible preference shares disposed of prior to such date. The redemption price will be £5.75 per share. The holder(s) must give British American Tobacco 6 months notice of a desire to redeem up to half of the convertible preference shares eligible for redemption and 3 months notice of a desire to redeem the other half.
- (b) On the fifth anniversary of the date of issue of the convertible preference shares, British American Tobacco must redeem all of such shares to the extent that it is lawfully able to do so. To the extent that British American Tobacco is unable to effect redemption on such date, the holder(s) of the convertible preference shares can elect to convert such shares into ordinary shares as described in paragraph (d) under Conversion below. In the absence of such election, British American Tobacco will be under a continuing obligation to redeem the shares. The redemption price will be £6.75 per share.

#### **Conversion**

- (a) Upon a disposal (other than to a person more than 50 per cent. owned or controlled, directly or indirectly, by Richemont or by Rembrandt or by both of them acting together (a "Permitted Transferee") of convertible preference

shares, British American Tobacco will automatically convert such shares into ordinary shares on a one for one basis.

- (b) Upon any holder of convertible preference shares ceasing to be a Permitted Transferee, British American Tobacco will automatically convert such shares into ordinary shares on a one for one basis.
- (c) The holder(s) of convertible preference shares may at any time require British American Tobacco to convert such shares into ordinary shares on a one for one basis, provided that such conversion will not result in such holder(s) (together with persons acting in concert with any of them) having an aggregate holding of ordinary shares of more than 25 per cent. of the entire issued ordinary share capital of British American Tobacco.
- (d) To the extent that British American Tobacco is unable to redeem any or all of the convertible preference shares on the fifth anniversary of their issue, the holder(s) of the convertible preference shares can, at any time, require British American Tobacco to convert such shares into ordinary shares having an aggregate market value of £6.75 per share.

#### **Other Provisions**

- (a) The full rights will contain a number of provisions designed to protect the rights of the holder(s) of convertible preference shares, including, inter alia:
  - (i) appropriate adjustments to the conversion rate following any consolidation or sub-division of the shares or upon any further issue of shares or grant of options;
  - (ii) a restriction on British American Tobacco effecting certain capitalisation issues, certain issues of new shares, passing any resolution varying or abrogating the rights attaching to the ordinary shares, reducing its share capital or authorising the purchase of its own shares;
- (b) The convertible preference shares are non-transferable, save for a transfer to a Permitted Transferee. In all other cases the convertible preference shares will automatically convert into ordinary shares on disposal. No listing will be sought for the convertible preference shares.

### **APPENDIX III**

Lazard Brothers, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting for British American Tobacco p.l.c. and no one else in connection with the merger and will not be responsible to anyone other than British American Tobacco for providing the protections afforded to customers of Lazard Brothers, nor for providing advice in relation to the merger.

Goldman Sachs, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting for British American Tobacco p.l.c. and no one else in connection with the merger and will not be responsible to anyone other than British American Tobacco for providing the protections afforded to customers of Goldman Sachs, nor for providing advice in relation to the merger.

Warburg Dillon Read, a division of UBS AG, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting for Compagnie Financière Richemont AG and no one else in connection with the merger and will not be responsible to anyone other than Compagnie Financière Richemont AG for providing the protections afforded to customers of Warburg Dillon Read, nor for providing advice in relation to the merger.

SG Hambros Corporate Finance Advisory ("SG Hambros"), a division of Société Générale which is regulated by The Securities and Futures Authority Limited for the conduct of investment business in the UK, is acting for Rembrandt Group Limited and no one else in connection with the merger and will not be responsible to anyone other than Rembrandt Group Limited for providing the protections afforded to customers of SG Hambros, nor for providing advice in relation to the merger.

**END**