Exhibit 1731-1998-R-CONF

Deloitte & Touche

RJR-Macdonald Inc.

Non-consolidated Financial Statements

December 31, 1998

Deloitte Touche
Tohmatsu
International

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AUDITORS' REPORT

To the Shareholder of
RJR-Macdonald Inc.

We have audited the non-consolidated balance sheet of RJR-Macdonald Inc. as at December 31, 1998 and the non-consolidated statements of earnings and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, except that they are prepared on a non-consolidated basis, as explained in Note 1.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
January 11, 1999

RJR-Macdonald Inc.
Non-consolidated Balance Sheet
December 31, 1998
(in thousands of dollars)

	1998	1997
ASSETS		
Current		
Cash and short-term investments	$ 15,128	$ -
Accounts receivable	28,803	35,662
Due from related parties (Note 3)	6,650	30,224
Inventories (Note 4)	165,191	152,424
Prepaid expenses	532	409
	216,304	218,719
Deferred pension costs (Note 5)	45,579	28,478
Property, plant and equipment (Note 6)	81,486	83,902
Investments in subsidiary companies (Note 1)	460,718	453,982
	$ 804,087	$ 785,081
LIABILITIES		
Current		
Bank indebtedness	$ -	$ 658
Accounts payable and accrued liabilities	25,781	34,341
Excise taxes	8,506	9,662
Income taxes	21,454	15,393
	55,741	60,054
Long-term debt (Note 7)	9,034	14,864
Post employment benefits other than pensions (Note 8)	30,947	26,048
Deferred income taxes	29,395	23,560
	125,117	124,526
Commitments and contingencies (Notes 9 and 10)		
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	145	64,498
Retained earnings	678,825	596,057
	678,970	660,555
	$ 804,087	$ 785,081

APPROVED ON BEHALF OF THE BOARD

Stan Demin ....Director

..........Director

RJR-Macdonald Inc.
Non-consolidated Statement of Earnings and Retained Earnings
Year ended December 31, 1998
(in thousands of dollars)

	1998	1997
Net Sales (Note 12)	$ 428,189	$ 442,521
Operating costs	278,275	314,512
Earnings from operations	149,914	128,009
Interest expense	1,526	662
Other expense (Note 13)	1,244	26,268
Earnings before provision for income taxes	147,144	101,079
Provision for income taxes		
Current	58,541	49,850
Deferred	5,835	(2,350)
	64,376	47,500
Net earnings	82,768	53,579
Retained earnings, beginning of year	596,057	542,478
Retained earnings, end of year	$ 678,825	$ 596,057

RJR-Macdonald Inc.
Non-consolidated Statement of Cash Flows
Year ended December 31, 1998
(in thousands of dollars)

	1998	1997
OPERATING ACTIVITIES		
Net earnings	$ 82,768	$ 53,579
Items not involving cash		
Depreciation and amortization	8,844	9,148
Net gain on sale of property, plant and equipment	(740)	(53)
Write down of property, plant and equipment	-	9,056
Deferred income taxes	5,835	(2,350)
Increase in deferred pension costs	(17,101)	(7,641)
Increase in post employment benefits other than pensions	4,899	3,938
	84,505	65,677
Increase in non-cash operating working capital items	13,888	1,422
Cash provided by operating activities	98,393	67,099
FINANCING ACTIVITIES		
Return of share capital	(64,353)	(71,198)
Net (retirement) issue of long-term debt	(5,830)	14,864
Cash used in financing activities	(70,183)	(56,334)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9,561)	(4,500)
Proceeds from sale of property, plant and equipment	3,873	1,324
Increase in investments in subsidiary companies	(6,736)	(4,943)
Cash used in investing activities	(12,424)	(8,119)
Increase in cash and cash equivalents	15,786	2,646
Cash and cash equivalents, beginning of year	(658)	(3,304)
Cash and cash equivalents, end of year	$ 15,128	$ (658)
Cash and cash equivalents is comprised of:		
Cash and short-term investments	$ 15,128	$ -
Bank indebtedness	-	(658)
	$ 15,128	$ (658)

1. BASIS OF PRESENTATION

RJR-Macdonald Inc. ("the Company") is incorporated under the Canada Business Corporations Act and is a wholly-owned subsidiary of RJR Tobacco International Holding B.V.

The financial statements of the Company are in accordance with generally accepted accounting principles except that they are prepared on a non-consolidated basis. The Company uses the cost method of accounting for its investments in subsidiary companies in Mauritius, The Netherlands and Turkey, as the shareholder of the Company has access to all pertinent information concerning the resources and results of operations of the Company and its subsidiaries.

As these financial statements have not been prepared for general purposes, some users may require further information.

The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Inventories

The leaf tobacco inventory is stated at the lower of average cost by grade and replacement cost. Finished goods inventories are carried at the lower of cost on the first-in, first-out method and net realizable value. All other inventories are carried at the lower of cost on the first-in, first-out method and replacement cost.

b) Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated or amortized on the straight-line basis over their estimated useful lives or over the terms of the respective leases as follows:

Buildings	40 years
Machinery and equipment	3 - 30 years
Leasehold improvements	Term of lease

c) Pension costs and obligations

Pension costs are determined using the projected benefit method prorated for services rendered. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses, and the difference between the actuarial present value of accrued pension benefits and the value of pension fund assets determined at January 1, 1986, are being amortized over the expected average remaining service life of the employee group on a straight-line basis. The pension plan assets are valued on a five year moving average market basis.

(in thousands of dollars)

d) Post employment benefits other than pensions

The Company provides retired employees and certain former employees with health care, dental and life insurance benefits. These costs are actuarially determined using the projected benefit method prorated for services rendered. The transitional balance on implementation is being amortized over the estimated average remaining service life of the employee group on a straight-line basis.

3. RELATED PARTY TRANSACTIONS

The Company in its normal course of business had various transactions recorded at exchange amounts with its subsidiaries and corporations commonly controlled by the Company's ultimate parent, RJR Nabisco Inc., as follows:

	1998	1997
Subsidiaries		
Sales of tobacco products	$ 14,906	$ 42,373
Purchases of equipment	3	-
Commonly controlled corporations		
Sales of tobacco products	71,023	77,438
Purchases of tobacco products	25,436	20,088
Sales of equipment	504	664
Purchases of equipment	2,157	151

As at December 31, the amounts due from related parties consist of the following:

	1998	1997
Due from subsidiaries	$ -	$ -
Due from commonly controlled corporations	6,650	30,224
	$ 6,650	$ 30,224

4. INVENTORIES

Inventories consist of the following:

	1998	1997
Finished goods	$ 34,230	$ 36,588
Leaf tobacco	125,756	109,803
Raw materials and supplies	5,205	6,033
	$ 165,191	$ 152,424

(in thousands of dollars)

5. PENSION PLAN

The actuarial present value of the accrued pension benefits attributed to services rendered up to December 31, 1998 was $ 212,929 (1997 – $196,102). The market value of assets in the plan at December 31, 1998 was $ 218,784 (1997 - $200,904).

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	1998			1997
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	$ 742	$ -	$ 742	$ 742
Buildings	34,344	14,033	20,311	20,833
Machinery and equipment	129,181	70,283	58,898	60,023
Leasehold improvements	1,415	848	567	638
Construction in progress	968	-	968	1,666
	$ 166,650	$ 85,164	$ 81,486	$ 83,902

7. LONG-TERM DEBT

The Company has a revolving credit facility which provides that the Company can access prime rate loans, U.S. base rate loans, Libor loans, Tibor loans and banker's acceptances. This facility is in the amount of $250,000 in total, of which $150,000 has a three year term and $100,000 has a two year term. Borrowings against this facility are unsecured, require the maintenance of certain covenants and bear interest at market rates.

8. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The actuarial present value of the post employment benefits other than pensions attributed to services rendered to December 31, 1998 was $ 47,155 (1997 - $41,809), which was unfunded.

9. COMMITMENTS

The Company has operating lease commitments for buildings, equipment and vehicles. Approximate minimum future payments on leases in effect at December 31, 1998 are as follows:

1999	$ 3,898
2000	3,075
2001	2,784
2002	2,145
2003	2,110
Thereafter	6,328
	$ 20,340

10. CONTINGENCIES

In January 1995, a purported class action was filed in the Ontario Court of Justice against the Company and two other Canadian cigarette manufacturers. The lawsuit seeks certification on behalf of a class of persons which includes all smokers (both alive and dead) in Ontario who allegedly became addicted to the nicotine in cigarettes or who had such alleged addiction heightened or maintained through the use of cigarettes. The plaintiffs are claiming damages of one million dollars for each of the four named plaintiffs, punitive damages, funding of nicotine addiction rehabilitation centres and other costs. The defendant tobacco companies have obtained all the medical records of the plaintiffs and will cross-examine the plaintiffs in 1999. The scheduling of the certification motion is in abeyance at least until the plaintiffs' cross-examinations have been scheduled. No provision has been recorded for this claim as the Company will vigorously defend itself against this claim and believes that there are good grounds to defeat this action.

In September 1998, a purported class action was filed in the Quebec Superior Court against the Company and two other Canadian cigarette manufacturers. The lawsuit seeks certification on behalf of a class of persons which includes all smokers in Quebec who allegedly became addicted to the nicotine in cigarettes and have had their health compromised as a result. The plaintiffs are seeking unspecified damages in addition to five thousand dollars in exemplary damages to each member of the class consisting of approximately 2.3 million possible claimants. No provision has been recorded for this claim as the Company will vigorously defend itself against this claim and believes that there are good grounds to defeat this action.

In November 1998, the Conseil Québecois sur le tabac et la santé instituted a purported class action in the Quebec Superior Court against the Company and two other Canadian cigarette manufacturers. The lawsuit seeks certification on behalf of a class of persons in Quebec who have been found to be suffering diseases allegedly linked to tobacco use: lung cancer, emphysema and cancer of the throat and larynx. The plaintiffs are seeking damages to each member of the class provisionally estimated at one hundred thousand dollars as well as exemplary damages and a reserve for future damages. This claim is at a very preliminary stage and the Company's knowledge of the underlying facts is limited. Therefore the Company cannot evaluate the likelihood of success at this time. No provision has been recorded for this claim and the Company will vigorously defend itself against this claim.

In November 1998, the government of British Columbia brought an action in the Supreme Court of British Columbia against the Company, two other Canadian cigarette manufacturers, and their parent and affiliated companies pursuant to the provisions of section 13 of the *Tobacco Damages and Health Care Costs Recovery Act*, S.B.C. 1997, c. 41 (the Act) and amendments to recover the cost of health care benefits that have been incurred or will be incurred by the government resulting from alleged tobacco related wrongs. The suit does not specify damages. The Company and other defendants of this suit, in addition to using traditional defenses in this action, have filed countersuits against the Attorney General of British Columbia in the Supreme Court of British Columbia. No provision has been recorded for this action as the Company will vigorously defend itself and believes that there are good grounds to defeat this action.

(in thousands of dollars)

11. SHARE CAPITAL

The Company's authorized capital consists of an unlimited number of shares of one class without nominal or par value. The number of issued shares as of December 31, 1998 was 159,591 (1997 – 159,591).

During 1998, the Company returned capital of $64,353 (1997 - $71,198) to its parent company.

12. NET SALES

Net sales exclude excise and sales taxes which amounted to $ 275,795 (1997 - $260,240).

13. OTHER EXPENSE

The Company recorded provisions for loss on restructuring resulting from announced plans to reduce the employee work force as well as to write down non-strategic investments and assets related to the rationalization of manufacturing facilities.

	1998	1997
Provision for loss on restructuring	$ 3,337	$ 27,885
Other	(2,093)	(1,617)
	$ 1,244	$ 26,268

14. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The following disclosure is included in accordance with CICA Accounting Guideline AcG-10 and Auditing Guideline AuG-23:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect a company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.