

British American Tobacco (Serbia) Limited

Registered Number 2725113

Directors' Report and Accounts

For the year ended 31 December 2005



British American Tobacco (Serbia) Limited

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British American Tobacco (Serbia) Limited

Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2005.

Principal activities

The Company acts as the holding company for the Group's tobacco operations in Serbia.

Review of the year to 31 December 2005

During the year the Company received no income and incurred no expenditure and therefore made neither a profit nor a loss (2004: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2005 to the date of this report are as follows:

Robert James Casey
Kenneth John Hardman
John Youngson Moffat
John Victor Richardson
Ridirectors Limited

Directors' interests

The interests of those persons who were Directors at 31 December 2005 in the share capital and share option and award schemes of British American Tobacco p.l.c. and its subsidiaries, according to the register maintained under Section 325 of the Companies Act 1985, are shown below, with the exception of Messrs. R.J. Casey and K.J. Hardman whose interests are declared in the Report and Accounts of Weston Investment Company Limited.

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

	1 January 2005	31 December 2005
J.Y. Moffat	57,957	12,386
J.V. Richardson	12,619	37,600

In addition to the shares shown above, during the year the Directors held the following interests in the ordinary shares of British American Tobacco p.l.c. which are held in trust pursuant to the British American Tobacco Deferred Share Bonus Scheme:

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

	1 January 2005	31 December 2005
J.Y. Moffat ⁽¹⁾	16,422	15,836
J.V. Richardson	13,793	13,601

(1) Of the 16,422 Deferred Shares held by Mr. Moffat as at 1 January 2005, a total of 4,861 Deferred Shares were granted on a cash-settled share-based payment basis. These require the British American Tobacco Group to pay the intrinsic value of such share-based payments to the director at the time of transfer.

British American Tobacco (Serbia) Limited

Directors' report

Directors' interests (continued)

Details of the Deferred Share Bonus Scheme are included in the Report and Accounts of British American Tobacco p.l.c.

British American Tobacco p.l.c. Share Option and Award Schemes

	1 January 2005	Granted	Lapsed	Exercised	31 December 2005
J.Y. Moffat	51,251	12,222	5,983	11,614	45,876
J.V. Richardson	68,526	10,581	4,388	32,699	42,020

In addition to those interests disclosed above, on 31 December 2005, the British American Tobacco Group Employee Trust held a total of 22,751,064 ordinary shares in British American Tobacco p.l.c. (1 January 2005: 26,669,248 ordinary shares). All employees, including Directors of the Company, are deemed to have a beneficial interest in the shares that are held by the trust for the purpose of satisfying options granted under the British American Tobacco Share Option Scheme or awards of ordinary shares made under the British American Tobacco Long Term Incentive Plan and the British American Tobacco Deferred Share Bonus Scheme.

Further, during the year ended 31 December 2005, all employees, including Directors of the Company, were deemed to have had a beneficial interest in the shares that were held in trust by the B.A.T Industries Employee Share Ownership Plan ('BATESOP') for the purpose of satisfying options granted under the B.A.T Industries Employee Share 'E' Option Scheme (the 'E Option Scheme'). Following the last exercises of options under the E Option Scheme during the year, BATESOP was wound up as an employee share ownership trust on 16 December 2005. There was therefore no holding of ordinary shares in BATESOP as at 31 December 2005 (1 January 2005: 59,158).

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

Statement of Directors' responsibilities

The following Statement sets out the responsibilities of the Directors in relation to the financial statements. The report of the independent auditors, shown on page 6, sets out their responsibilities in relation to the financial statements.

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 as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures being disclosed and explained; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

British American Tobacco (Serbia) Limited

Directors' report

Statement of Directors' responsibilities (continued)

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy 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 taking reasonable steps to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

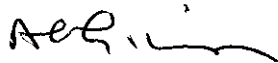
The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

Auditors

An elective resolution was passed on 2 November 2004, in accordance with Section 379A of the Companies Act 1985 (as amended), to dispense with the appointment of auditors annually (pursuant to Section 386 of the Act). Accordingly, PricewaterhouseCoopers LLP will continue as auditors to the Company.

On behalf of the Board



For and on behalf of Risecretaries Limited
Secretary

6 June 2006

Report of the independent auditors to the members of British American Tobacco (Serbia) Limited

We have audited the financial statements of British American Tobacco (Serbia) Limited for the year ended 31 December 2005 which comprise the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. 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 Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its result for the year then ended; and have been properly prepared in accordance with the Companies Act 1985.



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

6 June 2006

British American Tobacco (Serbia) Limited

Balance sheet – 31 December 2005

	<i>Note</i>	2005 £'000	2004 £'000
Fixed assets			
Investment in subsidiary undertaking	5	60,007	53,806
Current assets			
Debtors - amounts falling due within one year	6	42	42
Creditors - amounts falling due within one year	7	(1,000)	(1,000)
Net current liabilities		(958)	(958)
Total assets less current liabilities		59,049	52,848
Capital and reserves			
Called up share capital	8	-	-
Other reserves	9	59,049	52,848
Profit and loss account		-	-
Total equity shareholders' funds	10	59,049	52,848

During the year the Company did not trade and received no income and incurred no expenditure. Consequently, during the year, the Company made neither a profit nor a loss (2004: £nil).

The financial statements on pages 7 to 10 were approved by the Directors on 6 June 2006 and signed on behalf of the Board.



For and on behalf of Ridirectors Limited
Director

Notes are shown on pages 8 to 10.

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2005

1 Accounting policies

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

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Principles.

(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 (Revised) from publishing a cash flow statement.

(3) Foreign Currencies

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) Fixed asset investments

Fixed asset investments are stated at cost less any impairment in value.

2 Auditors' remuneration

Auditors' fees were borne by a fellow group undertaking.

3 Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2004: £nil).

4 Employees and staff

There were no employees and no staff costs during the year (2004: £nil).

5 Investment in subsidiary undertaking

(1) Shares in subsidiaries

Unlisted - registered in Serbia

Ordinary shares of YD 1,000 each

Duvanska Industrija "Vranje" A.D.

78.815%

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2005

5 Investment in subsidiary undertaking (continued)

(2) Investment at cost less provisions

	£'000
1 January 2005	53,806
Additions - note 9	6,201
31 December 2005	60,007

- (3) The Directors are of the opinion that the investment in the subsidiary undertaking has a value not less than the amount at which it is shown in the balance sheet.

6 Debtors: amounts falling due within one year

	2005 £'000	2004 £'000
Amounts due from group undertakings	42	42

7 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Amounts due to group undertakings	816	816
Other creditors	184	184
	1,000	1,000

Amounts due to Group undertakings are unsecured, interest free and repayable on demand.

8 Called up share capital

Ordinary shares of £1 each	2005	2004
Authorised - value	£100	£100
- number	100	100
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2005

9 Other reserves

On 1 October 2004, the Company received a capital contribution of £52,848,000 from its shareholder, British American Tobacco (Hamburg International) GmbH. On the same date, the capital contribution was used to repay loans totalling £52,848,000 that the Company had received from another British American Tobacco Group subsidiary.

On 24 February 2005, the Company received a further capital contribution of £6,201,000 from its shareholder, British American Tobacco (Hamburg International) GmbH. On the same date, the capital contribution was used to increase its investment in its Serbian subsidiary undertaking.

10 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Capital contribution	6,201	52,848
Net transfer to shareholders' funds	6,201	52,848
Opening shareholders' funds	52,848	-
Closing shareholders' funds	59,049	52,848

11 Related parties

As a wholly-owned subsidiary, the Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

12 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 (Hamburg International) GmbH. Group accounts are prepared only at the British American Tobacco p.l.c. level.

13 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