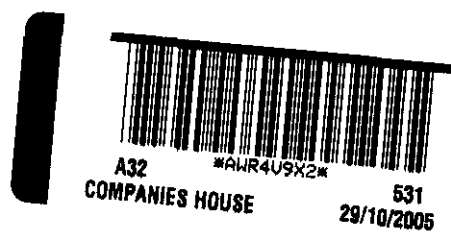


British American Tobacco (1998) Limited
Registered Number 3422701

Directors' Report and Accounts

For the year ended 31 December 2004



British American Tobacco (1998) Limited

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British American Tobacco (1998) Limited

Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2004.

Principal activities

The Company is a holding company of a group of companies, which includes a number of subsidiaries, the principal business activities of which are the marketing and manufacture of tobacco brands.

Review of the year to 31 December 2004

The profit for the year attributable to British American Tobacco (1998) Limited shareholders after deduction of all charges and the provision of tax amounted to £1,248,209,000 (2003: £1,716,114,000 profit).

Dividends

The Directors recommend the payment of a dividend for the year of £1,248,000,000 (2003: £1,711,000,000). The profit for the financial year after dividends of £209,000 will be transferred to reserves (2003: £5,114,000).

Post balance sheet events

On 4 May 2005 the company consolidated its share capital into 10,000 ordinary shares of £1 each. On 18 May 2005, the Company increased its nominal share capital to £12,000 by the creation of 2,000 additional ordinary shares of £1 each. Also on 18 May 2005 the Company acquired BAT (CI) Holdings Limited from a fellow BAT Group subsidiary for £1.6bn, the debt obligations for which consideration were novated to the parent company together with the debt obligations for a £2bn loan from B.A.T. International Finance p.l.c., due to mature in 2007. In consideration for the assumption of these debt obligations, the Company allotted 1,904 ordinary shares of £1 each to its parent company.

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2004 to the date of this report are as follows:

	Appointed	Resigned
Paul Nicholas Adams		
Martin Faulkner Broughton		30 June 2004
Antonio Monteiro de Castro	29 June 2004	
Michael Charles Terrell Prideaux	10 January 2005	
Paul Ashley Rayner		

Directors' interests

The interests of those persons who were Directors at 31 December 2004 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 disclosed in the Report and Accounts of British American Tobacco p.l.c.

British American Tobacco (1998) Limited

Directors' report (continued)

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 5, 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.

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.

General Meetings

Elective resolutions have been passed in accordance with Section 379A of the Companies Act 1985 (as amended) to dispense with the laying of accounts before the Company in General Meeting (pursuant to Section 252 of the Act) and to dispense with the holding of the Annual General Meeting (pursuant to Section 366A of the Act).

Auditors

An elective resolution has been passed, 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.

On behalf of the Board



A.C. Girling

Assistant Secretary

26 October 2005

Report of the independent auditors to the members of British American Tobacco (1998) Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 transactions is not disclosed.

We read the Directors' 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 audit 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 at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

26 October 2005

PricewaterhouseCoopers LLP

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

British American Tobacco (1998) Limited

Profit and loss account for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Operating charges	2	(64)	(142,720)
Operating loss		(64)	(142,720)
Income from shares in subsidiary undertakings		1,446,000	2,030,407
Investment income from group undertakings		1,884	1,863
Interest payable to group undertakings		(199,611)	(174,644)
Profit on ordinary activities before taxation		1,248,209	1,714,906
Taxation on ordinary activities	3	-	1,208
Profit for the financial year		1,248,209	1,716,114
Dividends – interim proposed on equity shares		(1,248,000)	(1,711,000)
Increase in reserves		209	5,114

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

There are no recognised gains and losses other than the profit for the year.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Notes are shown on pages 8 to 12.

British American Tobacco (1998) Limited

Balance sheet – 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Investments in subsidiary undertakings	4	1,860,550	1,860,550
Current assets			
Debtors - amounts falling due within one year	5	8,141,929	8,841,815
Cash at bank and in hand		10	10
		8,141,939	8,841,825
Creditors - amounts falling due within one year	6	(9,952,052)	(10,652,147)
Net current liabilities		(1,810,113)	(1,810,322)
Total assets less current liabilities		50,437	50,228
Capital and reserves			
Called up share capital	7	10	10
Profit and loss account	8	50,427	50,218
Total equity shareholders' funds	9	50,437	50,228

The financial statements on pages 6 to 12 were approved by the Directors on 26 October 2005 and signed on behalf of the Board.



A. Monteiro de Castro

Director

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2004

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 the Companies Act 1985 and applicable UK accounting standards.

(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) Accounting for income

Income is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts, including where delays are anticipated in the receipt of monies from overseas.

(5) Taxation

Taxation provided is that chargeable on the profits of the period, together with deferred taxation.

Deferred taxation is provided in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. However, as allowed by FRS19, the Group has chosen not to discount deferred tax assets and liabilities.

(6) Fixed asset investments

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

(7) Financial instruments

The Company utilises cross-currency swaps as part of its exchange rate management. These cross-currency swaps are revalued at the balance sheet date and used to adjust the book values of the related foreign currency borrowings.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2004

2 Operating charges

	2004 £'000	2003 £'000
Technical and advisory fees	-	142,640
Other operating charges	64	80
	64	142,720

Auditors' fees were £1,800 (2003: Fees were borne by a fellow Group undertaking).

There were no employees and no staff costs during the year (2003: £nil).

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2003: £nil).

3 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2004 £'000	2003 £'000
UK Corporation Tax		(1,208)
Comprising		
- current tax at 30.00% (2003: 30.00%)	-	-
- adjustments in respect of previous periods		(1,208)
Total current taxation note 3(b)	-	(1,208)

(b) Factors affecting the tax charge

The current taxation charge differs from the standard 30.00 per cent rate of Corporation Tax in the UK. The major causes of this difference are listed below:

	2004 £'000	2003 £'000
Profit before taxation	1,248,209	1,714,906
Corporation Tax at 30.00% (2003: 30.00%) on profit on ordinary activities	374,463	514,472
Factors affecting the tax rate:		
Permanent differences	40,470	2,739
Corporate income tax relief on intra-group dividends	(433,800)	(609,122)
Adjustments in respect of previous periods	-	(1,208)
Group loss relief surrendered at nil consideration	18,867	92,271
Total current taxation charge/(credit) note 3(a)	-	(1,208)

An amount of £134,900,000 (tax amount of £40,470,000) included in permanent differences above represents tax adjustments following the introduction of UK to UK transfer pricing from 1st April 2004.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2004

4 Investments in subsidiary undertakings

(1) Shares in subsidiaries

Unlisted – registered in England

% equity shares held

B.A.T Industries p.l.c.	100%
Ordinary shares of 25p each	
Weston Investment Company Limited	100%
Ordinary shares of £1 each	
Tobacco Insurance Company Limited	100%
Ordinary shares of £1 each	

(2) Shareholdings at cost less provisions

	£'000
1 January and 31 December 2004	1,860,550

- (3) The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the balance sheet.

5 Debtors: amounts falling due within one year

	2004 £'000	2003 £'000
Amounts due from group undertakings	6,695,929	6,810,607
Dividends receivable	1,446,000	2,030,000
Other debtors	-	1,208
	8,141,929	8,841,815

Included in the amount due from group undertakings is a loan of £114m due from B.A.T. China Limited, which is unsecured, with no fixed repayment terms, but which attracts interest at 0.5% above the Hong Kong Inter-bank Offered Rate.

6 Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Amounts due to group undertakings	8,692,824	8,930,277
Accrued charges and deferred income	11,228	10,870
Dividend payable	1,248,000	1,711,000
	9,952,052	10,652,147

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2004

7 Called up share capital

Ordinary shares of 1p each	2004	2003
Authorised - value	£10,000	£10,000
- number	1,000,000	1,000,000
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Allotted, called up and fully paid		
- value	£10,000	£10,000
- number	1,000,000	1,000,000
<hr/>		

8 Reserves

	Profit and loss account £'000
1 January 2004	50,218
Profit for the financial year	209
31 December 2004	50,427
<hr/>	

9 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Profit for the year	1,248,209	1,716,114
Dividend interim - proposed	(1,248,000)	(1,711,000)
Net transfer to shareholders' funds	209	5,114
Opening shareholders' funds	50,228	45,114
Closing shareholders' funds	50,437	50,228
<hr/>		

10 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.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2004

11 Unremittable assets

On 19 December 2001 the Company acquired from another Group company for no consideration certain assets in Brazil which are regarded as unremittable and as a consequence are excluded from these financial statements. At 31 December 2004 these assets amounted to £15,950,576.

12 Contingent liabilities and financial commitments

The Company has been central to the restructuring of the UK registered companies within the British American Tobacco Group and has given deeds of indemnity to the liquidator of each and every one of those companies within that group that is to be liquidated, indemnifying those companies in respect of liquidators fees and any outstanding liabilities.

13 Parent undertakings

The Company's immediate and ultimate parent undertaking is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. Group accounts are prepared only at the British American Tobacco p.l.c. level.

14 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