

British American Tobacco (1998) Limited
Registered Number 3422701

Directors' Report and Accounts

For the year ended 31 December 2005



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 2005.

Principal activities

The Company holds investments in subsidiary companies, which in turn act as finance and holding companies in the BAT Group.

Review of the year to 31 December 2005

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 £2,447,342,000 (2004 restated: £1,832,209,000).

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 £1.6 billion, the debt obligations for which consideration were novated to the parent company together with the debt obligations for a £2 billion 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 at a total premium of £3,617 million to its parent company. On 3 October 2005 the Company acquired British American Tobacco Brands (Switzerland) Limited from a fellow BAT Group subsidiary at book value.

Change in accounting policy

The Company has adopted FRS 21 'Events after the balance sheet date' in these financial statements. As a result, dividends payable that are unapproved at the year end are not recognised as a liability. Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend. The comparative figures for 2004 have been restated to reflect the impact of these changes.

The effect of the change in accounting policy to adopt FRS 21 was to recognise the proposed dividend for the year ended 31 December 2004 of £1,248,000,000 in the current year and the proposed dividend of £1,711,000,000 for the year ended 31 December 2003 in 2004. Also, dividend income previously recognised in the year ended 31 December 2004 of £1,446,000,000 has been recognised in the current year and dividend income previously recognised in the year ended 31 December 2003 of £2,030,000,000 has been recognised in 2004.

Consequently, shareholders' funds at 1 January 2004 have decreased by £319,000,000 and at 31 December 2004 have been decreased by £198,000,000.

Had the Company not amended its accounting policy, the profit for the current financial year would have decreased from £2,447,342,000 to £1,001,342,000, with the retained profit for the year changing from £179,342,000 to a loss of £18,658,000 and shareholders' funds at 31 December 2005 unchanged.

In addition, the Company has adopted FRS 25 'Financial Instruments' Disclosure and Presentation'. There is no impact on shareholders' funds arising from the adoption of FRS 25.

British American Tobacco (1998) Limited

Directors' report

Dividends

During the year the Company paid dividends amounting to £2,268,000,000. (2004 restated: £1,711,000,000). The profit for the financial year after dividends of £179,342,000 will be transferred to reserves (2004 restated: £121,209,000).

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:

	Appointed	Resigned
Paul Nicholas Adams		30 November 2005
Antonio Monteiro de Castro		
Michael Charles Terrell Prideaux	10 January 2005	
Paul Ashley Rayner		
Rudi Kindts	5 January 2006	

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 disclosed in the Report and Accounts of British American Tobacco p.l.c. with the exception of Mr M.C.T. Prideaux whose interests are shown below.

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

	1 January 2005*	31 December 2005
M.C.T. Prideaux	156,396	58,215

* Or date of appointment if later

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
M.C.T. Prideaux	44,515	41,736

* Or date of appointment if later

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
M.C.T. Prideaux	138,227	42,189	14,891	28,906	136,619

* Or date of appointment if later

British American Tobacco (1998) Limited

Directors' report

Directors' interests (continued)

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.

Directors' indemnities

As at the date of this report, an indemnity is in force under which Messrs. P.A. Rayner and A. Monteiro de Castro, as Directors of the Company, are, to the extent permitted by law, indemnified in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company or as a result of things done by them as Directors on behalf of the Company.

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 7, 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.

British American Tobacco (1998) Limited

Directors' report

Statement of Directors' responsibilities (continued)

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.

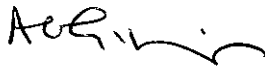
General Meetings

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

27 June 2006

Independent auditor's report to the members of British American Tobacco (1998) Limited

We have audited the financial statements of British American Tobacco (1998) Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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 profit for the year then ended; and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

27 June 2006

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 2005

		2005	2004
	Note	£'000	Restated £'000
Operating credits/(charges)	2	95	(64)
Operating profit/(loss)		95	(64)
Income from shares in subsidiary undertakings		2,621,852	2,030,000
Investment income from group undertakings		4,260	1,884
Interest payable to group undertakings		(178,865)	(199,611)
Profit on ordinary activities before taxation		2,447,342	1,832,209
Taxation on ordinary activities	3	-	-
Profit for the financial year		2,447,342	1,832,209
Dividends – paid on equity shares		(2,268,000)	(1,711,000)
Increase in reserves		179,342	121,209

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

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.

The profit and loss account for the comparative year has been restated following the introduction of FRS 21 as described in Note 1(8) to the financial statements.

Statement of total recognised gains and losses for the year ended 31 December 2005

	2005	2004
	£'000	Restated £'000
Profit for the financial year	2,447,342	1,832,209
Total recognised gains relating to the year	2,447,342	1,832,209
Change in accounting policy – FRS 21	(1,446,000)	
Total gains and losses recognised since last annual report	1,001,342	

Notes are shown on pages 10 to 16.

British American Tobacco (1998) Limited

Balance sheet – 31 December 2005

	Note	2005 £'000	2004 Restated £'000
Fixed assets			
Investments in subsidiary undertakings	4	3,431,842	1,860,550
Current assets			
Debtors: amounts falling due within one year	5	9,187,957	6,695,929
Cash at bank and in hand		10	10
		9,187,967	6,695,939
Creditors: amounts falling due within one year	6	(8,970,747)	(8,704,052)
Net current assets/(liabilities)		217,220	(2,008,113)
Total assets less current liabilities		3,649,062	(147,563)
Capital and reserves			
Called up share capital	7	12	10
Share premium	8	3,617,281	-
Profit and loss account	8	31,769	(147,573)
Total equity shareholders' funds	9	3,649,062	(147,563)

The financial statements on pages 8 to 16 were approved by the Directors on 27 June 2006 and signed on behalf of the Board.



M.C.T. Prideaux
Director

Notes are shown on pages 10 to 16.

British American Tobacco (1998) 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) 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 2005

Accounting policies (continued)

(8) Change in accounting policy

The Company has adopted FRS 21 'Events after the balance sheet date' in these financial statements. As a result, dividends payable that are unapproved at the year end are not recognised as a liability. Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend. The comparative figures for 2004 have been restated to reflect the impact of these changes.

The effect of the change in accounting policy to adopt FRS 21 was to recognise the proposed dividend for the year ended 31 December 2004 of £1,248,000,000 in the current year and the proposed dividend of £1,711,000,000 for the year ended 31 December 2003 in 2004. Also, dividend income previously recognised in the year ended 31 December 2004 of £1,446,000,000 has been recognised in the current year and dividend income previously recognised in the year ended 31 December 2003 of £2,030,000,000 has been recognised in 2004.

Consequently, shareholders' funds at 1 January 2004 have decreased by £319,000,000 and at 31 December 2004 have been decreased by £198,000,000.

Had the Company not amended its accounting policy, the profit for the current financial year would have decreased from £2,447,342,000 to £1,001,342,000, with the retained profit for the year changing from £179,342,000 to a loss of £18,658,000 and shareholders' funds at 31 December 2005 unchanged.

In addition, the Company has adopted FRS 25 'Financial Instruments' Disclosure and Presentation'. There is no impact on shareholders' funds arising from the adoption of FRS 25.

2 Operating charges

	2005 £'000	2004 £'000
Other operating (credits)/charges	(95)	64

Auditors' fees were borne by a fellow group undertaking (2004: £1,800).

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

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

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2005

3 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2005 £'000	2004 £'000
UK Corporation Tax		
Comprising		
- current tax at 30.00% (2004: 30.00%)	-	-
Total current taxation <i>note 3(b)</i>	-	-

(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:

	2005 £'000	2004 Restated £'000
Profit before taxation	2,447,342	1,832,209
Corporation Tax at 30.00% (2004: 30.00%) on profit on ordinary activities	734,203	549,663
Factors affecting the tax rate:		
Permanent differences	59,192	40,470
Corporate income tax relief on intra-group dividends	(744,900)	(609,000)
Corporate tax on gross up of dividends	244	-
Timing differences	(48,739)	-
Group loss relief surrendered at nil consideration	-	18,867
Total current taxation charge <i>note 3(a)</i>	-	-

An amount of £197,308,000 (2004: £134,900,000) (tax amount of £59,192,000 (2004: £40,470,000)) included in permanent differences above represents tax adjustments following the introduction of UK to UK transfer pricing.

4 Investments in subsidiary undertakings

(1) Shares in subsidiaries

	% equity shares held
<u>Unlisted – registered in England</u>	
B.A.T Industries p.l.c. Ordinary shares of 25p each	100%
Weston Investment Company Limited Ordinary shares of £1 each	100%
Tobacco Insurance Company Limited Ordinary shares of £1 each	100%
<u>Unlisted – registered in Jersey, Channel Islands</u>	
BAT (CI) Holdings Limited Ordinary shares of €1 each	100%

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2005

4 Investments in subsidiary undertakings (continued)

(1) Shares in subsidiaries (continued)

	% equity shares held
<u>Unlisted – registered in Luxembourg</u>	
British American Tobacco Brands (Switzerland) Limited	100%
Registered shares CHF 1,000.00	

(2) Shareholdings at cost less provisions

	£'000
1 January 2005	1,860,550
Additions during the year	1,571,292
31 December 2005	3,431,842

During the year, the Company acquired BAT (CI) Holdings Limited from a fellow group undertaking at a cost of £1,571,190,000 and also acquired British American Tobacco Brands (Switzerland) Limited from a fellow group undertaking at a cost of £101,946.

- (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

	2005 £'000	2004 Restated £'000
Amounts due from group undertakings	9,187,957	6,695,929

Included in the amount due from group undertakings is a loan amounting to £148,000,000 due from B.A.T. China Limited, which is unsecured, with no fixed repayment terms, but which attracts interest between 0.5% and 1.0% above the Hong Kong Inter-bank Offered Rate.

6 Creditors: amounts falling due within one year

	2005 £'000	2004 Restated £'000
Amounts due to group undertakings	8,968,733	8,692,824
Accrued charges and deferred income	2,014	11,228
	8,970,747	8,704,052

Amounts due to group undertakings are unsecured and repayable on demand. Included in this amount are loans amounting to £1,397,124,000 that bear interest at short fixed term rates between 3.4% and 6.1%.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2005

7 Called up share capital

Ordinary shares of 1p each	2005	2004
Authorised - value	-	£10,000
- number	-	1,000,000
Allotted, called up and fully paid		
- value	-	£10,000
- number	-	1,000,000
Ordinary shares of £1 each		
Authorised - value	£12,000	-
- number	12,000	-
Allotted, called up and fully paid		
-value	£11,904	-
-number	11,904	-
	£11,904	-

During the year the Company consolidated its share capital into 10,000 ordinary shares of £1 each, and increased its authorised share capital to £12,000 by the creation of 2,000 additional ordinary shares of £1 each. During the year 1,904 shares were issued to its parent company at a total premium of £3,617,281,000.

8 Reserves

	Share Premium Account	Profit and loss account	Total
	£'000	£'000	£'000
1 January 2005	-	50,427	50,427
Change in accounting policy (Note 1 (8))	-	(198,000)	(198,000)
1 January 2005 as restated	-	(147,573)	(147,573)
Profit for the financial year	-	2,447,342	2,447,342
Dividends paid	-	(2,268,000)	(2,268,000)
Premium on ordinary shares issued (Note 7)	3,617,281	-	3,617,281
31 December 2005	3,617,281	31,769	3,649,050

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2005

9 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Profit for the year as previously reported		1,248,209
Change in accounting policy (Note 1(8))		584,000
Profit for the year	2,447,342	1,832,209
Dividend Paid	(2,268,000)	(1,711,000)
Net transfer to shareholders' funds	179,342	121,209
Opening shareholders' funds as previously reported	50,437	50,228
Change in accounting policy (Note 1(8))	(198,000)	(319,000)
Opening shareholders' funds as restated	(147,563)	(268,772)
Issue of additional share capital (Note 7)	3,617,283	-
Closing shareholders' funds	3,649,062	(147,563)

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.

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 2005 these assets amounted to £18,249,317 (2004: £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.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2005

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