

British American Tobacco (1998) Limited

Registered Number 03422701

Directors' report and financial statements

For the year ended 31 December 2011

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British American Tobacco (1998) Limited

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Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2011

Principal activities

The Company's principal activity is the holding of investments in companies operating in the tobacco industry as members of the British American Tobacco p l c Group (the "Group")

Review of the year ended 31 December 2011

The profit for the financial year attributable to British American Tobacco (1998) Limited shareholders after deduction of all charges and the provision of taxation amounted to £6,430,934,000 (2010 £2,824,195,000)

The Directors expect the Company's activities to continue on a similar basis in the foreseeable future

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed under the Business Review section in the Annual Report of British American Tobacco p l c and do not form part of this report

Principal risks and uncertainties

The principal risks and uncertainties of the Company, including financial risk management, are integrated with the principal risks of the Group and are monitored by audit committees to provide a framework for identifying, evaluating and managing risks faced by the Group. Accordingly, the key Group risk factors that may be relevant to the Company are disclosed in the Annual Report of British American Tobacco p l c and do not form part of this report

Dividends

During the year the Company paid dividends amounting to £6,400,000,000 (2010 £2,800,000,000)

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2011 to the date of this report are as follows

	Date appointed	Date resigned
Michael Charles Terrell Prideaux		29 June 2012
John Benedict Stevens		
Nicandro Durante		1 March 2011
Rudi Kindts		9 February 2011
Neil Robert Withington		
John Patrick Daly	1 March 2011	
Giovanni Giordano	13 October 2011	

Directors' report

Directors' indemnities

Throughout the period 1 January 2011 to the date of this report, an indemnity has been in force under which Messrs J B Stevens, J P Daly and N Durante as Directors of the Company, are, to the extent permitted by law, indemnified by British American Tobacco p l c , the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which they may have incurred 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 Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

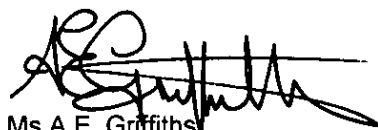
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' declaration in relation to relevant audit information

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that

- (a) to the best of his knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) he has taken all steps that a Director might reasonably be expected to have taken in order to make himself aware of relevant audit information and to establish that the Company's auditors are aware of that information

By Order of the Board



Ms A E Griffiths
Assistant Secretary

26th July 2012

Independent auditors' 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 2011 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

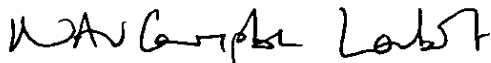
British American Tobacco (1998) Limited

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Nicholas Campbell Lambert

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Embankment Place

London

30 July 2012

Profit and loss account for the year ended 31 December 2011

Continuing operations	Note	2011 £'000	2010 £'000
Operating income/(charges)	2	10	(106,504)
Operating profit/(loss)		10	(106,504)
Income from shares in Group undertakings		6,500,000	3,000,000
Profit on ordinary activities before interest and taxation		6,500,010	2,893,496
Interest payable and similar charges	3	(69,076)	(69,301)
Profit on ordinary activities before taxation		6,430,934	2,824,195
Taxation on profit on ordinary activities	4	-	-
Profit for the financial year	9	6,430,934	2,824,195

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

There are no recognised gains or losses other than the profit for the financial year

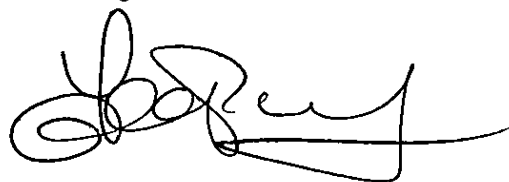
The accompanying notes are an integral part of the financial statements

British American Tobacco (1998) Limited

Balance sheet at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	5	3,611,466	3,611,466
		3,611,466	3,611,466
Current assets			
Debtors amounts falling due within one year	6a	5,767,032	7,909,057
amounts falling due after one year	6b	3,079,302	280,116
Cash at bank and in hand		10	10
Creditors amounts falling due within one year	7a	(3,753,285)	(7,144,385)
Net current assets		5,093,059	1,044,798
Total assets less current liabilities		8,704,525	4,656,264
Creditors: amounts falling due after more than one year	7b	(4,945,531)	(928,204)
Net assets		3,758,994	3,728,060
Capital and reserves			
Called up share capital	8	12	12
Share premium account	9	3,617,281	3,617,281
Profit and loss account	9	141,701	110,767
Total shareholders funds	10	3,758,994	3,728,060

The financial statements on pages 6 to 13 were approved by the Directors on 26th July 2012 and signed on behalf of the Board



J P Daly
Director

Registered number
03422701

The accompanying notes are an integral part of the financial statements

Notes to the financial statements for the year ended 31 December 2011

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

The Company is included in the consolidated financial statements of British American Tobacco p l c which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

The principal accounting policies have been applied consistently throughout the year and a summary is set out below

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 has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (Revised 1996) 'Cash flow statements'

Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary 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.

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 where there is an expectation that all or a portion of the amount due will not be recovered.

Taxation

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

The current income taxation charge is calculated on the basis of taxation laws enacted or substantially enacted at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted.

Notes to the financial statements for the year ended 31 December 2011

1 Accounting policies (continued)

Taxation

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on an undiscounted basis.

Fixed asset investments

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

Dividends

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.

2 Operating (income)/charges

	2011 £'000	2010 £'000
Exchange (gains)/losses	(10)	192
Other operating charges	-	106,312
	(10)	106,504

In 2010, other operating charges of £106,312,000 relate to provisions made for doubtful recovery of loans where there is an expectation that all or a portion of the amount due will not be recovered.

Auditors' fees of £2,500 were borne by a fellow Group undertaking (2010: £3,957).

There were no employees (2010: none) and no staff costs during the year (2010: £nil).

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2010: £nil).

3 Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable to Group undertakings	69,076	69,301

Notes to the financial statements for the year ended 31 December 2011

4 Taxation on profit on ordinary activities

(a) Summary of taxation on profit on ordinary activities

	2011 £'000	2010 £'000
Current taxation:		
UK corporation taxation on profit of the year		
Comprising		
- adjustments in respect of prior years	-	-
- double taxation relief	-	-
Total current taxation note 4(b)	-	-

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 28.0% to 26.5% with effect from 1 April 2011. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 26.5%.

The current taxation charge differs from the standard 26.5% (2010: 28.0%) rate of corporation taxation in the UK. The major causes of this difference are listed below.

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	6,430,934	2,824,195
Corporation taxation at 26.5% (2010: 28.0%) on profit on ordinary activities	1,704,198	790,775
Factors affecting the taxation rate:		
Permanent differences	17,392	67,437
Group loss relief surrendered/(claimed) at less than full consideration	910	(18,212)
Corporate income taxation relief on intra-group dividends	(1,722,500)	(840,000)
Total current taxation charge note 4(a)	-	-

An amount of £65,629,000 (2010: £134,535,000) (taxation amount of £17,392,000 (2010: £37,700,000)) included in permanent differences above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

5 Investments

(1) Shares in Group undertakings

<u>Unlisted – registered in England and Wales</u>	<u>% equity shares held</u>
British American Tobacco (2009) Limited 3,588,465,662 ordinary shares of £1.00 each	100
BAT Law Limited 8,000,000 ordinary shares of £1.00 each	100
Nicoventures Limited 15,000,002 ordinary shares of £1.00 each	100

Notes to the financial statements for the year ended 31 December 2011

5 Investments (continued)

(2) Shareholdings at cost less provisions

	Shareholdings at cost less provisions
	£'000
Cost	
1 January 2011	3,611,466
31 December 2011	3,611,466
Impairment provisions	
1 January 2011	-
31 December 2011	-
Net book value	
1 January 2011	3,611,466
31 December 2011	3,611,466

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

6 Debtors

(a) Amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due from Group undertakings	5,767,032	7,909,057

Included within amounts due from Group undertakings are loans totaling £170,105,000 (2010 £7,529,014,000) which are unsecured, interest free and are repayable within one year. All other amounts due from Group undertakings are unsecured, interest free and repayable on demand.

(b) Amounts falling due after one year

	2011 £'000	2010 £'000
Amounts due from Group undertakings	3,079,302	280,116

All amounts due from Group undertakings are unsecured, interest free and repayable after more than one year.

Notes to the financial statements for the year ended 31 December 2011

7 Creditors

(a) Amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due to Group undertakings	3,753,285	7,144,385

Included within amounts due to Group undertakings is an amount of £nil (2010 £211,685,000) which is unsecured, interest bearing at rates based on LIBOR and repayable on demand. Amounts of £nil (2010 £1,841,194,000) are unsecured, interest free and repayable within one year. Amounts of £923,092,000 (2010 £2,250,319,000) are unsecured, interest bearing at rates between 1.38% and 2.61% and repayable within one year. All other amounts are unsecured, interest free and repayable on demand.

(b) Amounts falling due after more than one year

	2011 £'000	2010 £'000
Amounts due to Group undertakings	4,945,531	928,204

Included within amounts due to Group undertakings is an amount of £1,841,194,000 (2010 £nil) which is unsecured, interest free and repayable after more than one year. Amounts of £3,104,337,000 (2010 £646,777,000) are unsecured and interest bearing at rates between 2.39% and 8.36% and repayable after more than one year. Other amounts due to Group undertakings are unsecured, interest free and due after one year.

(c) Maturity of financial liabilities

	2011 £'000	2010 £'000
Within one year	3,753,285	7,144,385
Between 1 and 2 years	162,496	647,472
Between 2 and 5 years	392,713	280,622
Beyond 5 years	4,390,322	110
	8,698,816	8,072,589

8 Called up share capital

Ordinary shares of £1 each	2011	2010
Allotted, called up and fully paid		
- value	£11,904	£11,904
- number	11,904	11,904

Notes to the financial statements for the year ended 31 December 2011

9 Reserves

	Share premium account £'000	Profit and loss account £'000
1 January 2011	3,617,281	110,767
Profit for the financial year	-	6,430,934
Dividends - interim paid	-	(6,400,000)
31 December 2011	3,617,281	141,701

10 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	6,430,934	2,824,195
Dividends - interim paid	(6,400,000)	(2,800,000)
Net movement in shareholders' funds	30,934	24,195
Opening shareholders' funds	3,728,060	3,703,865
Closing shareholders' funds	3,758,994	3,728,060

11 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with other subsidiary undertakings of the Group

12 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco plc being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is British American Tobacco plc. Group financial statements are prepared only at the British American Tobacco plc level and may be obtained from

The Company Secretary
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