

British American Tobacco (1998) Limited
Registered Number 3422701

Directors' Report and Accounts

For the year ended 31 December 2003



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 2003.

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 2003

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 £1,716,114,000 (2002: £1,606,977,000).

Dividends

The Directors recommend the payment of a dividend for the year of £1,711,000,000 (2002: £1,600,000,000). The profit for the financial year after dividends of £5,114,000 will be transferred to reserves (2002: £6,977,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2003 to the date of this report are as follows:

| | Appointed | Resigned |
|----------------------------|--------------|--------------|
| Paul Nicholas Adams | | |
| Martin Faulkner Broughton | Chairman | 30 June 2004 |
| Antonio Monteiro de Castro | 29 June 2004 | |
| Paul Ashley Rayner | | |

Directors' interests

The interests of those persons who were Directors at 31 December 2003 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.

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;

British American Tobacco (1998) Limited

Directors' report

Statement of Directors' responsibilities (continued)

- 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.

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



Secretary

2nd August 2004

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.

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 affairs of the Company as at 31 December 2003 and of its profit 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

2004

British American Tobacco (1998) Limited

Profit and loss account for the year ended 31 December 2003

| | Note | 2003 £'000 | 2002 £'000 |
|--|------|------------------|------------------|
| Operating income | 2 | - | 154 |
| Operating charges | 3 | (142,720) | (129,072) |
| Operating loss | | (142,720) | (128,918) |
| Income from shares in subsidiary undertakings | | 2,030,407 | 1,907,502 |
| Investment income from group undertakings | | 1,863 | 201 |
| Interest payable to group undertakings | | (174,644) | (171,808) |
| Profit on ordinary activities before taxation | | 1,714,906 | 1,606,977 |
| Taxation on ordinary activities | 4 | 1,208 | - |
| Profit for the financial year | | 1,716,114 | 1,606,977 |
| Dividends – interim proposed on equity shares | | (1,711,000) | (1,600,000) |
| Increase in reserves | | 5,114 | 6,977 |

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 2003

| | Note | 2003 £'000 | 2002 £'000 |
|--|------|---------------|---------------|
| Fixed assets | | | |
| Investments in subsidiary undertakings | 5 | 1,860,550 | 1,835,550 |
| Current assets | | | |
| Debtors - amounts falling due within one year | 6 | 8,841,815 | 8,828,922 |
| Cash at bank and in hand | | 10 | 10 |
| | | 8,841,825 | 8,828,932 |
| Creditors - amounts falling due within one year | 7 | (10,652,147) | (10,619,368) |
| Net current liabilities | | 1,810,322 | (1,790,436) |
| Total assets less current liabilities | | 50,228 | 45,114 |
| Capital and reserves | | | |
| Called up share capital | 8 | 10 | 10 |
| Profit and loss account | 9 | 50,218 | 45,104 |
| Total equity shareholders' funds | 10 | 50,228 | 45,114 |

The financial statements on pages 6 to 12 were approved by the Directors on 2nd August 2004 and signed on behalf of the Board.

Director


PA RAYNER

Notes are shown on pages 8 to 12.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2003

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 accounted for on a receivable basis and provision is made 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, in adopting 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 2003

2 Operating income

| | 2003 £'000 | 2002 £'000 |
|--------------------------------------|---------------|---------------|
| Guarantee fees | - | 62 |
| Employees' Benevolent Fund provision | - | 92 |
| | - | 154 |

Operating income comprised guarantee fees receivable and profit on the transfer of EBF provision to a subsidiary company.

3 Operating charges

| | 2003 £'000 | 2002 £'000 |
|-----------------------------|---------------|---------------|
| Technical and advisory fees | 142,640 | 128,567 |
| Other operating charges | 80 | 505 |
| | 142,720 | 129,072 |

Auditors' fees have been borne by a fellow Group undertaking (2002: £nil).

There were no employees and no staff costs during the year (2002: £nil).

None of the Directors received any remuneration in respect of their services during the year (2002: £nil).

4 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| UK Corporation Tax | (1,208) | - |
| Comprising | | |
| - current tax at 30.00% (2002: 30.00%) | - | - |
| - adjustments in respect of previous periods | (1,208) | - |
| Total current taxation <i>note 4(b)</i> | (1,208) | - |

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2003

4 Taxation on ordinary activities (continued)

(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:

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| | 1,714,906 | 1,606,977 |
| Corporation Tax at 30.00% (2002: 30.00%) on profit on ordinary activities | 514,472 | 482,093 |
| Factors affecting the tax rate: | | |
| Permanent differences | 2,379 | 151 |
| Corporate income tax relief on intra-group dividends | (609,122) | (572,251) |
| Adjustments in respect of previous periods | (1,208) | - |
| Group loss relief surrendered at less than full consideration | 92,271 | 90,007 |
| Total current taxation charge <i>note 4(a)</i> | (1,208) | - |

5 Investments in subsidiary undertakings

(1) Shares in subsidiaries

| <u>Unlisted – registered in England</u> | % equity shares held |
|---|----------------------|
| B.A.T Industries p.l.c. Ordinary shares of 1p each | 100% |
| Weston Investment Company Limited Ordinary shares of £1 each | 100% |
| Tobacco Insurance Company Limited Ordinary shares of £1 each | 100% |

(2) Shareholdings at cost less provisions

| | £'000 |
|------------------|-----------|
| 1 January 2003 | 1,835,550 |
| Additions | 25,000 |
| 31 December 2003 | 1,860,550 |

During the year the investment in Tobacco Insurance Company Limited was increased by the purchase of an additional 25 million Ordinary Shares of £1 each.

(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.

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2003

6 Debtors: amounts falling due within one year

| | 2003 £'000 | 2002 £'000 |
|-------------------------------------|------------------|------------------|
| Amounts due from group undertakings | 6,810,607 | 6,921,922 |
| Dividends receivable | 2,030,000 | 1,907,000 |
| Prior year tax credit | 1,208 | - |
| | 8,841,815 | 8,828,922 |

7 Creditors: amounts falling due within one year

| | 2003 £'000 | 2002 £'000 |
|-------------------------------------|-------------------|-------------------|
| Amounts due to group undertakings | 8,930,277 | 9,014,657 |
| Accrued charges and deferred income | 10,870 | 4,711 |
| Dividend payable | 1,711,000 | 1,600,000 |
| | 10,652,147 | 10,619,368 |

8 Called up share capital

| Ordinary shares of 1p each | 2003 | 2002 |
|------------------------------------|------------------|-----------|
| Authorised - value | £10,000 | £10,000 |
| - number | 1,000,000 | 1,000,000 |
| Allotted, called up and fully paid | | |
| - value | £10,000 | £10,000 |
| - number | 1,000,000 | 1,000,000 |

9 Reserves

| | Profit and loss account £'000 |
|-------------------------------|--|
| 1 January 2003 | 45,104 |
| Profit for the financial year | 1,716,114 |
| Dividend Interim proposed | (1,711,000) |
| 31 December 2003 | 50,218 |

British American Tobacco (1998) Limited

Notes to the accounts – 31 December 2003

10 Reconciliation of movements in shareholders' funds

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| Profit attributable to shareholders for the year | 1,716,114 | 1,606,977 |
| Dividend Interim proposed | (1,711,000) | (1,600,000) |
| Net transfer to shareholders' funds | 5,114 | 6,977 |
| Opening shareholders' funds | 45,114 | 38,137 |
| Closing shareholders' funds | 50,228 | 45,114 |

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 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