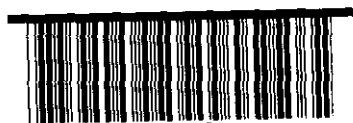


British American Tobacco (South America) Limited
Registered Number 2495427

Directors' Report and Accounts

For the year ended 31 December 2005



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British American Tobacco (South America) Limited

Contents

Directors' report.....	3
Independent auditor's report to the members of British American Tobacco (South America) Limited.....	7
Profit and loss account for the year ended 31 December 2005	8
Statement of total recognised gains and losses for the year ended 31 December 2005	8
Balance Sheet – 31 December 2005	9
Notes to the accounts – 31 December 2005	10

British American Tobacco (South America) Limited

Directors' report

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

Principal activities

The principal activity of the Company is the marketing and sale of tobacco products by its branches in Ecuador, Colombia and Uruguay.

Review of the year to 31 December 2005

The loss for the year attributable to British American Tobacco (South America) Limited shareholders after deduction of all charges and the provision of tax amounted to £2,039,000 (2004: £6,253,000).

Dividends

The Directors do not recommend the payment of a dividend for the year (2004: £nil). The retained loss for the financial year of £2,039,000 (2004: £6,253,000) will be added to accumulated losses.

Board of Directors

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

Antonio Monteiro de Castro (Chairman)
Robert James Casey
Alan Fraser Porter
Charl Erasmus Steyn

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 Mr A. Monteiro de Castro whose interests are disclosed in the Report and Accounts of British American Tobacco p.l.c.

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

	1 January 2005	31 December 2005
R.J. Casey	10,769	10,950
A.F. Porter	9,604	3,169
C.E. Steyn	5,977	14,405

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 (South America) Limited

Directors' report

Directors' interests (continued)

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

	1 January 2005	31 December 2005
R.J. Casey	21,096	17,661
A.F. Porter ⁽¹⁾	13,450	12,833
C.E. Steyn	14,365	13,114

(1) Of the 13,450 Deferred Shares held by Mr Porter as at 1 January 2005, a total of 3,932 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 date of transfer.

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
R.J. Casey	104,288	12,801	8,027	15,580	93,482
A.F. Porter ⁽²⁾	37,780	11,082	-	8,192	40,670
C.E. Steyn	44,667	11,111	4,862	9,438	41,478

(2) Of the 37,780 share options/awards held by Mr Porter as at 1 January 2005, a total of 8,192 were granted on a cash-settled share-based payment basis. These were exercised during 2005.

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 Mr A. Monteiro de Castro, as a Director of the Company, is, to the extent permitted by law, indemnified in respect of all costs, charges, expenses or liabilities which he may incur in or about the execution of his duties to the Company or as a result of things done by him as a Director on behalf of the Company.

British American Tobacco (South America) Limited

Directors' report

Tangible fixed assets

The movement of fixed assets is shown in note 6 to the accounts.

Employees

The Company supports the concept of employee involvement and follows a process of regular communications with all employees about the business, its plans, issues and progress.

This communication programme is based on business briefings, supported by regular editions of in-house magazines, the issue of information sheets on specific subjects and employee consultation through appropriate channels.

Creditor payment policy

The Company follows the Better Payment Practice Code* and therefore for both the current and the next financial year aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction, in any case within the supplier's own standard payment period, and also aims to pay all of its suppliers within a reasonable period of their invoices being received.

In respect of all of its suppliers, it is the Company's policy to:

- agree the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment;
- abide by the terms of payment.
- avoid any delays when legitimately questioning invoices.

The proportion which the amount owed to trade creditors at 31 December 2005 bears to the amounts invoiced by suppliers during the year then ended equated to a 33 days proportion of 365 days (2004: 32 days).

* Details about the Better Payment Practice Code are available on the web site <http://www.payontime.co.uk>.

British American Tobacco (South America) Limited

Directors' report

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.

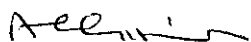
The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

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



ANNE AIRLING.
Assistant Secretary

25 October 2006

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

We have audited the financial statements of British American Tobacco (South America) 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 loss 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

25 October 2006

British American Tobacco (South America) Limited

Profit and loss account for the year ended 31 December 2005

	<i>Note</i>	2005 £'000	2004 £'000
Turnover (net of duty and excise taxes)	2	32,305	27,347
Other operating income	3	590	609
Operating charges	4	(35,623)	(31,203)
Operating loss		(2,728)	(3,247)
Investment income from group undertakings		1,148	1,727
Other interest receivable and similar income		130	75
Loss on ordinary activities before taxation		(1,450)	(1,445)
Taxation on ordinary activities	5	(589)	(4,808)
Loss for the financial year		(2,039)	(6,253)

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

		2005 £'000	2004 £'000
Loss for the financial year		(2,039)	(6,253)
Difference arising on the retranslation to sterling of the retained loss from the average to closing rates of exchange.	13	(64)	(51)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net liabilities at the beginning of the year and the retranslation of long term financing.	13	3,922	(1,607)
Total recognised gains/(losses) relating to the year		1,819	(7,911)

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

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

Notes are shown on pages 10 to 16.

British American Tobacco (South America) Limited

Balance Sheet – 31 December 2005

	<i>Note</i>	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	6	2,548	1,920
Current assets			
Stocks – finished goods held for resale		1,473	1,741
Debtors – amounts falling due within one year	7	4,014	38,465
Debtors – amounts falling due after more than one year	8	5,517	-
Cash at bank and in hand		9,150	5,544
		20,154	45,750
Creditors – amounts falling due within one year	9	(34,280)	(63,392)
Net current liabilities		(14,126)	(17,642)
Total assets less current liabilities		(11,578)	(15,722)
Provisions for liabilities and charges	10	(6,073)	(3,748)
Net liabilities		(17,651)	(19,470)
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	(17,651)	(19,470)
Total equity shareholders' deficit	13	(17,651)	(19,470)

The financial statements on pages 8 to 16 were approved by the Directors on 25 October 2006 and signed on behalf of the Board.



Director
CHARL E. STEYN

Notes are shown on pages 10 to 16.

British American Tobacco (South America) 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 at the date of the transaction. Profits and losses of the branches with operating currencies other than sterling are translated to sterling at average rates of exchange. Assets and liabilities expressed in currencies other than sterling are translated to sterling at rates of exchange ruling at the end of the financial year. Exchange differences arising on the re-translation to sterling (using rates of exchange ruling at the end of the financial year) of overseas net assets at the beginning of the period are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates compared with rates ruling at the year end. Exchange differences arising on the retranslation of long term monetary assets and liabilities between the Company and its branches, which are translated at the exchange rate ruling at the end of the year, are also taken to reserves. Other exchange differences are reflected in the profit and loss account.

(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) Turnover

Turnover represents net sales to external customers.

(6) 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.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2005

1 Accounting policies (continued)

(7) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated on a straight-line basis to write off the cost of tangible fixed assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are:

Freehold buildings	2.5%
Plant and machinery	7%
Other equipment and fittings	10-20%
Short leasehold land and buildings	Over the period of the lease

(8) Stocks

Stocks are valued at the lower of cost and net realisable value. The method used in calculating cost, which includes raw materials, direct labour and overheads where appropriate, is average cost.

2 Turnover

Turnover is derived from the sale of tobacco products in Uruguay, Ecuador and Colombia.

	2005 £'000	2004 £'000
Turnover including duty and excise taxes	49,414	42,217
Duty and excise taxes	(17,109)	(14,870)
Net turnover	32,305	27,347

3 Other operating income

Other operating income mainly comprises profits on the disposal of fixed assets.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2005

4 Operating charges

	2005 £'000	2004 £'000
Staff costs	7,420	5,871
Depreciation	879	1,362
Cost of goods for resale	10,884	10,103
Auditors' remuneration – audit services	32	45
Marketing and advertising expenses	8,261	5,894
Other operating charges	8,147	7,928
	35,623	31,203
Staff costs:		
Wages and salaries	6,743	5,088
Social security costs	677	783
	7,420	5,871

The average weekly number of persons employed by the Company during the year was:

	2005 Number	2004 Number
Administration	66	66
Marketing	275	261
Production	-	-
	341	327

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

5 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%)	-	-
Overseas Tax comprising		
- current tax on income	589	955
Total current taxation (<i>note 5b</i>)	589	955
Deferred Taxation	-	3,853
Total taxation charge	589	4,808

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2005

5 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:

	2005 £'000	2004 £'000
Loss on activities before taxation	(1,450)	(1,445)
Corporation Tax at 30.00% (2004: 30.00%) on loss on ordinary activities	(435)	(434)
Factors affecting the tax rate:		
Permanent differences	(1,047)	(915)
Overseas tax	589	955
Group loss relief surrendered for nil consideration	1,482	1,349
Total current taxation charge (note 5a)	589	955

An amount of £(3,271,597) (tax amount £(981,479)) (2004: £3,658,829 (tax amount of £1,097,649)) included in permanent differences above represents tax adjustments following the introduction of UK to UK transfer pricing from 1st April 2004.

6 Tangible fixed assets

	Plant, machinery and equipment £'000
Cost	
At 1 January 2005	7,584
Additions	1,230
Disposals	(595)
Differences on exchange	885
At 31 December 2005	9,104
Depreciation	
At 1 January 2005	5,664
Charge for the year	879
Disposals	(562)
Differences on exchange	575
At 31 December 2005	6,556
Net book value	
At 31 December 2005	2,548
At 31 December 2004	1,920

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2005

7 Debtors: amounts falling due within one year

	2005 £'000	2004 £'000
Trade debtors	4,014	7,098
Amounts owed by group companies	-	31,293
Prepayments and accrued income	-	74
	4,014	38,465

8 Debtors: amounts falling due after more than one year

	2005 £'000	2004 £'000
Other debtors	5,517	-

9 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Trade creditors	5,705	3,551
Amounts due to group undertakings	28,193	59,363
Taxation and social security	382	478
	34,280	63,392

10 Provisions for liabilities and charges

	Other provisions £'000
1 January 2005	3,748
Provided in respect of the year	2,050
Utilised during the year	(363)
Exchange differences	638
31 December 2005	6,073

Other provisions mainly relate to the recoverability of Colombian value added tax.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2005

11 Called up share capital

Ordinary shares of £1 each	2005	2004
Authorised – value	£100	£100
– number	100	100
<hr/>		
Allotted, called up and fully paid		
– value	£2	£2
– number	2	2

12 Reserves

	Profit & loss account £'000
1 January 2005	(19,470)
Loss for the financial year	(2,039)
Exchange differences	3,858
31 December 2005	(17,651)

13 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Loss for the year	(2,039)	(6,253)
Gain/(Loss) on exchange	3,858	(1,658)
Net transfer to/(from) shareholders' funds	1,819	(7,911)
Opening shareholders' funds	(19,470)	(11,559)
Closing shareholders' funds	(17,651)	(19,470)

14 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.

15 Parent support

The immediate parent company has indicated its willingness to continue to provide support to allow the Company to continue at its current level of operations for the foreseeable future.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2005

16 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 (Investments) Limited. Group accounts are prepared only at the British American Tobacco p.l.c. level.

17 Contingent liabilities

On 23 August 2004, the Company filed a petition for the annulment of penalties of £1.25 million levied for the late filing of certain tax returns regarding cigarette consumption. The case is still pending.

The Directors (i) do not consider it appropriate to make any provision in respect of the penalties and (ii) do not believe that the ultimate outcome will significantly impair the Company's financial position.

18 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