

British American Tobacco (South America) Limited
Registered Number 2495427

Directors' Report and Accounts

For the year ended 31 December 2006

TUESDAY



"LXLX5U87"

LD4

30/10/2007

113

COMPANIES HOUSE

British American Tobacco (South America) Limited

Contents

Directors' report	3
Report of the independent auditors to the members of British American Tobacco (South America) Limited	6
Profit and loss account for the year ended 31 December 2006	7
Statement of total recognised gains and losses for the year ended 31 December 2006	7
Balance Sheet – 31 December 2006	8
Notes to the accounts – 31 December 2006	9

British American Tobacco (South America) Limited

Directors' report

The Directors present their report together with the audited accounts for the year ended 31 December 2006

Principal activities

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

Business review of the year to 31 December 2006

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 £1,496,000 (2005 £2,039,000)

Key performance indicators

The Directors of British American Tobacco p l c , the ultimate parent company, manage the operations of the Group on a regional basis. For this reason, and 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 and Strategic Review section in the Annual Review 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 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 Review of British American Tobacco p l c and do not form part of this report.

Dividends

The Directors do not recommend the payment of a dividend for the year (2005 £nil). The retained loss for the financial year of £1,496,000 (2005 £2,039,000) 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 2006 until the date of this report are as follows:

Antonio Monteiro de Castro	(Chairman)
Robert James Casey	
Alan Fraser Porter	(resigned 1 November 2006)
Nicola Snook	(appointed 1 November 2006)
Charl Erasmus Steyn	

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

Payment of creditors is carried out by a fellow Group undertaking

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

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 6, 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 (South America) Limited

Directors' report

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

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

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

On behalf of the Board



M G C Anderson
Secretary

29 October 2007

Report of the independent auditors 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 2006 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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.

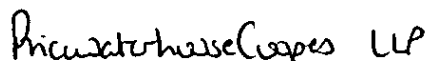
Basis of audit opinion

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 2006 and of its loss for the year then ended, the financial statements have been properly prepared in accordance with the Companies Act 1985, and the information given in the Directors' Report is consistent with the financial statements.



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

29 October 2007

British American Tobacco (South America) Limited

Profit and loss account for the year ended 31 December 2006

	<i>Note</i>	2006 £'000	2005 £'000
Turnover (net of duty and excise taxes)	2	32,681	32,305
Other operating income	3	621	590
Operating charges	4	(34,196)	(35,623)
Operating loss		(894)	(2,728)
Investment income from group undertakings		-	1,148
Other interest receivable and similar income		202	130
Loss on ordinary activities before taxation		(692)	(1,450)
Taxation on ordinary activities	5	(804)	(589)
Loss for the financial year		(1,496)	(2,039)

Statement of total recognised gains and losses for the year ended 31 December 2006

		2006 £'000	2005 £'000
Loss for the financial year		(1,496)	(2,039)
Difference arising on the retranslation to sterling of the retained loss from the average to closing rates of exchange	13	114	(64)
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	(1,354)	3,922
Total recognised (losses)/gains relating to the year		(2,736)	1,819

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

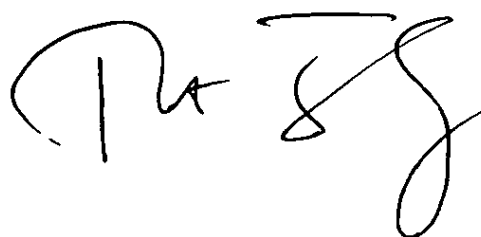
Notes are shown on pages 9 to 15

British American Tobacco (South America) Limited

Balance Sheet – 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	6	2,263	2,548
Current assets			
Stocks – finished goods held for resale		4,140	1,473
Debtors – amounts falling due within one year	7	6,252	4,014
Debtors – amounts falling due after more than one year	8	3,790	5,517
Cash at bank and in hand		8,146	9,150
		22,328	20,154
Creditors – amounts falling due within one year	9	(38,994)	(34,280)
Net current liabilities		(16,666)	(14,126)
Total assets less current liabilities		(14,403)	(11,578)
Provisions for liabilities and charges	10	(5,984)	(6,073)
Net liabilities		(20,387)	(17,651)
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	(20,387)	(17,651)
Total equity shareholders' deficit	13	(20,387)	(17,651)

The financial statements on pages 7 to 15 were approved by the Directors on 29 October 2007 and signed on behalf of the Board



R J Casey
Director

Notes are shown on pages 9 to 15

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2006

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 2006

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:

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, Paraguay and Colombia.

	2006 £'000	2005 £'000
Turnover including duty and excise taxes	50,449	49,414
Duty and excise taxes	(17,768)	(17,109)
Net turnover	32,681	32,305

3 Other operating income

Other operating income mainly comprises supplier discounts, release of provisions and profits on the disposal of fixed assets.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2006

4 Operating charges

	2006 £'000	2005 £'000
Staff costs	6,705	7,420
Depreciation	800	879
Cost of goods for resale	10,783	10,884
Auditors' remuneration – audit services	37	32
Other operating charges	15,871	16,408
	34,196	35,623
Staff costs		
Wages and salaries	6,030	6,743
Social security costs	675	677
	6,705	7,420

The average weekly number of persons employed by the Company during the year was 318 (2005 341)

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2005 £nil)

5 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2006 £'000	2005 £'000
UK Corporation Tax		
Comprising		
- current tax at 30.00% (2005 30.00%)	-	-
Overseas Tax comprising		
- current tax on income	804	589
Total current taxation (note 5b)	804	589

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2006

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.

	2006 £'000	2005 £'000
Loss on activities before taxation	(692)	(1,450)
Corporation Tax at 30.00% (2005 30.00%) on loss on ordinary activities	(208)	(435)
Factors affecting the tax rate:		
Permanent differences	(605)	(1,047)
Timing differences	233	-
Overseas tax	804	589
Group loss relief surrendered for nil consideration	580	1,482
Total current taxation charge (note 5a)	804	589

An amount of £2,290,451 (tax amount £687,135) (2005 £(3,271,597) (tax amount of £(981,479))) included in permanent differences above represents tax adjustments in respect of UK to UK transfer pricing.

6 Tangible fixed assets

	Plant, machinery and equipment £'000
Cost	
At 1 January 2006	9,104
Additions	782
Disposals	(372)
Differences on exchange	(722)
At 31 December 2006	8,792
Depreciation	
At 1 January 2006	6,556
Charge for the year	800
Disposals	(361)
Differences on exchange	(466)
At 31 December 2006	6,529
Net book value	
At 31 December 2006	2,263
At 31 December 2005	2,548

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2006

7 Debtors: amounts falling due within one year

	2006 £'000	2005 £'000
Trade debtors	3,102	4,014
Amounts owed by group companies	20	-
Prepayments and accrued income	3,130	-
	6,252	4,014

8 Debtors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Other debtors	3,790	5,517

9 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Trade creditors	3,701	5,705
Amounts due to group undertakings	34,813	28,193
Taxation and social security	480	382
	38,994	34,280

10 Provisions for liabilities and charges

	Other Provisions £'000
1 January 2006	6,073
Provided in respect of the year	1,175
Utilised during the year	(668)
Exchange differences	(596)
31 December 2006	5,984

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

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2006

11 Called up share capital

Ordinary shares of £1 each	2006	2005
Authorised – value	£100	£100
– number	100	100
<hr/>		
Allotted, called up and fully paid		
– value	£2	£2
– number	2	2

12 Reserves

	Profit and loss account £'000
1 January 2006	(17,651)
Loss for the financial year	(1,496)
Exchange differences	(1,240)
31 December 2006	(20,387)

13 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Loss for the year	(1,496)	(2,039)
(Loss)/gain on exchange	(1,240)	3,858
Net transfer (from)/to shareholders' deficit	(2,736)	1,819
Opening shareholders' deficit	(17,651)	(19,470)
Closing shareholders' deficit	(20,387)	(17,651)

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 plc 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 2006

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 on its Columbian branch for the late filing of certain tax returns regarding cigarette consumption. The case is still pending.

There are currently two regulatory actions, brought by individual plaintiffs, proceeding against the Company in Columbia. Both actions are aimed at protecting the collective rights and interests of consumers of tobacco products.

The Directors (i) do not consider it appropriate to make any provision in respect of any pending litigation of the Company and (ii) do not believe that the ultimate outcome of all litigation of the Company 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