

British American Tobacco (South America) Limited
Registered Number 2495427

Directors' Report and Accounts

For the year ended 31 December 2001



British American Tobacco (South America) Limited

Directors' report

Principal activities

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

Review of the year to 31 December 2001

The loss for the year attributable to the shareholders of British American Tobacco (South America) Limited after deduction of all charges and the provision of tax amounted to £3,668,000 (2000: £9,595,000).

Accounting policies

The company has adopted FRS 19 Deferred Tax in the financial statements. The effect of the adoption of the standard was to decrease the tax charge in the current year by £3,596,000. There was no effect on the prior year's figures.

Dividends

The Directors do not recommend the payment of a dividend (2000: £nil). The retained loss for the financial year of £3,668,000 (2000 loss: £9,595,000) will be offset against reserves.

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2001 to the date of this report are as follows:

	Appointed	Resigned
Antonio Monteiro de Castro		
Robert James Casey	16 April 2002	
Michael Lee Hendershot		29 March 2002
Aileen Elizabeth McDonald	7 February 2001	27 August 2002
Mark Anthony Oliver	7 February 2001	31 July 2002
Alan Fraser Porter	29 August 2002	
Christopher David Powell	16 April 2002	
Donald Neil Fred Salter		16 April 2002
Charl Erasmus Steyn	16 April 2002	

Directors' interests

The interests of those persons who were Directors at 31 December 2001 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 M de Castro whose interests are disclosed in the Directors' Report and Accounts of British-American Tobacco (Holdings) Limited.

British American Tobacco (South America) Limited

Directors' report

Directors' interests (continued)

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

	1 January 2001*	31 December 2001
M L Hendershot	1,420	1,657
A E McDonald	6,765	11,071
M A Oliver	1,737	2,893
D N F Salter	4,819	3,416

* Or date of appointment if later.

In addition to the shares shown above, during the year the Directors were granted 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 as at 31 December 2001:

	Ordinary shares of 25p 1 January 2001*	Ordinary shares of 25p 31 December 2001
M L Hendershot	26,272	35,143
A E McDonald	15,952	21,267
M A Oliver	13,087	16,983
D N F Salter	-	-

* 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 options

	1 January 2001*	Granted	Exercised	31 December 2001
M L Hendershot	81,047	26,613	-	107,660
A E McDonald	52,695	15,943	21,091	47,547
M A Oliver	27,720	7,793	-	35,513
D N F Salter	5,305	395	1,335	4,365

* Or date of appointment if later.

In addition, on 31 December 2001, the British American Tobacco Group Employee Trust and the B.A.T Industries Employee Share Ownership Plan held a total of 32,171,834 ordinary shares in British American Tobacco p.l.c. (1 January 2001: 30,647,059 ordinary shares). All employees, including the Directors of the Company, are deemed to have a beneficial interest in the shares that are held by the trusts for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share "E" Option Scheme and from 1998 onwards for options granted under the British American Tobacco Share Option Scheme or awards of ordinary shares made under the British American Tobacco Long Term Incentive Scheme and the British American Tobacco Deferred Share Bonus Scheme.

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.

British American Tobacco (South America) Limited

Directors' report

Fixed assets

The movement of fixed assets is shown on page 12 note 7 to the accounts.

European Monetary Union

The Company, as a matter of policy, actively supports Economic and Monetary Union as a means of delivering increased stability and prosperity. The British American Tobacco Group's European companies are successfully transacting business in the euro following its introduction in twelve European countries on 1 January 2002 and those in the UK are capable of doing so.

Employee involvement

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.

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 then apply them consistently, subject to any material departures being disclosed and explained;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed;
- 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 they consider to be appropriate for the purpose of enabling them to give their audit report.

British American Tobacco (South America) Limited

Directors' report

Statement of Directors' responsibilities (continued)

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in the statement.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, a resolution to appoint its successor, PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the annual general meeting

On behalf of the Board



Secretary

24th January 2003

Report of the independent auditors to the members of British American Tobacco (South America) Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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 opinion has been prepared for and only for the company's members 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 in to 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 the Directors' remuneration and transactions is not disclosed.

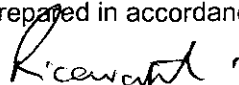
Basis of opinion

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 2001 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

24th January 2003

British American Tobacco (South America) Limited

Profit and loss account for the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Turnover	2	53,715	54,612
Operating income	3	58,166	56,797
Operating charges	4	(65,457)	(66,830)
Operating loss		(7,291)	(10,033)
Interest receivable and similar income – bank interest		679	743
Loss on ordinary activities before taxation		(6,612)	(9,290)
Taxation on ordinary activities	6	2,944	(305)
Decrease in reserves		(3,668)	(9,595)

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 decrease in realised reserves for the year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2001

		2001 £'000	2000 £'000
Loss for the financial year		(3,668)	(9,595)
Difference arising on the retranslation of the retained losses from average to closing rates of exchange	13	(445)	(237)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net liabilities at the beginning of the year	13	(939)	2,232
Total recognised losses		(5,052)	(7,600)

Notes are shown on pages 9 to 15.

British American Tobacco (South America) Limited

Balance sheet – 31 December 2001

	Note	2001 £'000	2000 £'000
Fixed assets			
Tangible fixed assets	7	5,407	6,194
Current assets			
Stocks	8	3,865	4,014
Debtors – amounts falling due within one year	9	17,731	11,729
Cash and short term deposits		28,558	28,242
		50,154	43,985
Creditors – amounts falling due within one year	10	(72,234)	(64,683)
Net current liabilities		(22,080)	(20,698)
Total assets less current liabilities		(16,673)	(14,504)
Provisions for liabilities and charges	11	(4,614)	(1,731)
Net liabilities		(21,287)	(16,235)
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account	13	(21,287)	(16,235)
Total equity shareholders' funds	15	(21,287)	(16,235)

The financial statements on pages 7 to 15 were approved by the Directors on 24 January 2003 and are signed on their behalf by:



Director

Notes are shown on pages 9 to 15.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2001

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 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. Other exchange differences are reflected in the profit and loss account.

(4) Taxation

Taxation is provided on the profits of the period together with deferred taxation. The Company has adopted Financial Reporting Standard 19 Deferred Tax for 2001. 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. In adopting FRS 19, the Company has chosen not to discount deferred tax assets and liabilities

(5) 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.

(6) Turnover

Turnover represents net sales to external customers.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2001

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:

	%
Land and buildings	2.5
Office & computer equipment	20
Motor vehicles	25
Fixtures and fittings	10 – 20

(8) Stocks

Stocks represent goods purchased for resale and are stated at the lower of cost and net realisable value.

2 Turnover

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

3 Operating income

	2001 £'000	2000 £'000
Turnover including duty and excise taxes	82,247	82,548
Duty and excise taxes	(28,532)	(27,936)
	53,715	54,612
Other operating income	4,451	2,185
	58,166	56,797

In the opinion of the Directors, a geographical analysis of turnover would be prejudicial to the interests of the Company.

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2001

4 Operating charges

	2001 £'000	2000 £'000
Auditor's fees	62	51
Amounts paid to audit firms for non audit services:		
PricewaterhouseCoopers	-	230
Depreciation – owned assets	1,563	1,273
Staff costs	10,642	10,346
Cost of goods for resale	27,678	28,677
Other operating charges	25,512	26,253
	65,457	66,830

Staff costs:		
Wages and salaries	9,578	9,193
Social security costs	1,064	1,153
	10,642	10,346

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

	2001	2000
Administration	103	57
Marketing	365	140
Production	10	19
	478	216

5 Directors' emoluments

None of the Directors received any remuneration in respect of their services to the Company during the year (2000: £nil).

6 Taxation on ordinary activities

(1) Summary of tax on ordinary activities

	2001 £'000	2000 £'000
UK corporation tax	-	-
comprising		
current tax of the period at 30.0% (2000: 30.0%)	-	-
Overseas tax	652	425
Total current taxation	652	425
Deferred taxation	(3,596)	(120)
	(2,944)	305

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2001

6 Taxation on ordinary activities (continued)

(2) Factors affecting the tax charge for the period

The current tax charge for the period differs from the standard 30% rate of Corporation Tax in the UK. The major causes of this difference are listed below:

	2001 £'000	2000 £'000
Loss on ordinary activities before tax	(6,612)	(9,290)
Corporation tax at 30% (2000: 30%) on ordinary activities	(1,984)	(2,787)
Factors affecting the tax rate:		
Other timing differences	(289)	1,104
Overseas tax	652	425
Group loss relief surrendered at less than full consideration	2,273	1,683
Total current taxation charge	652	425

7 Tangible fixed assets

	Land & buildings	Fixtures & fittings & equipment	Motor vehicles	Computer equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2001	1,407	927	2,581	4,326	9,241
Expenditure	54	397	208	260	919
Disposals	0	(2)	(181)	(26)	(209)
Difference on exchange	(135)	17	67	29	(22)
At 31 December 2001	1,326	1,339	2,675	4,589	9,929
Depreciation					
At 1 January 2001	297	264	1,196	1,290	3,047
Charge for the year	112	99	449	903	1,563
Disposals	0	(1)	(115)	(18)	(134)
Difference on exchange	(29)	8	53	14	46
At 31 December 2001	380	370	1,583	2,189	4,522
Net book value					
At 31 December 2001	946	969	1,092	2,400	5,407
At 31 December 2000	1,110	663	1,385	3,036	6,194

8 Stocks

	2001 £'000	2000 £'000
Finished goods	3,570	4,014
Other Stocks	295	-
Total Stocks	3,865	4,014

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2001

9 Debtors - amounts falling due within one year

	2001 £'000	2000 £'000
Trade debtors	8,393	2,618
Other debtors	162	5,763
Deferred tax asset (note 14)	3,596	-
Prepayments and accrued income	5,580	3,348
	17,731	11,729

10 Creditors - amounts falling due within one year

	2001 £'000	2000 £'000
Trade creditors	5,613	10,307
Taxation and social security	635	553
Other creditors	-	1,527
Amounts owed to fellow subsidiaries	65,986	52,296
	72,234	64,683

11 Provisions for liabilities and charges

	1 January 2001 £'000	Amount provided £'000	Amounts utilised £'000	31 December 2001 £'000
Other provisions	1,731	4,723	(1,840)	4,614

Other provisions comprise provisions for payment of excise to government.

12 Called up share capital

Ordinary shares of £1 each	2001	2000
Authorised - value	£100	£100
- number	100	100
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

British American Tobacco (South America) Limited

Notes to the accounts – 31 December 2001

13 Reserves

	Profit and loss account £'000
1 January 2001	(16,235)
Loss for the financial year	(3,668)
Exchange differences	(1,384)
31 December 2001	(21,287)

14 Deferred taxation

	Provided		Unprovided	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Excess of capital allowances over depreciation	514	-	-	(258)
Other timing differences	(4,110)	-	-	-
	(3,596)	-	-	(258)

15 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Loss attributable to shareholders for the year	(3,668)	(9,595)
(Loss)/gain on exchange	(1,384)	1,995
Net transfer from shareholders' funds	(5,052)	(7,600)
Opening shareholders' funds	(16,235)	(8,635)
Closing shareholders' funds	(21,287)	(16,235)

16 Related parties

The Company has taken advantage of the exemption under paragraph 3(c) of the Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

17 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 2001

18 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.

19 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