

**British American Tobacco (South America) Limited**

**Registered Number 2495427**

**Directors' report and financial statements**

**For the year ended 31 December 2011**



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**British American Tobacco (South America) Limited**

**Contents**

Directors' report	2
Independent auditors' report to the members of British American Tobacco (South America) Limited	5
Profit and loss account for the year ended 31 December 2011	7
Statement of total recognised gains and losses for the year ended 31 December 2011	7
Balance sheet at 31 December 2011	8
Notes to the financial statements for the year ended 31 December 2011	9

## **British American Tobacco (South America) Limited**

### **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 principal activity of the Company is the marketing and sale of tobacco products by its branch in Colombia

### **Review of the year ended 31 December 2011**

The loss for the financial year attributable to British American Tobacco (South America) Limited shareholders after deduction of all charges and the provision of taxation amounted to £4,820,000 (2010 £1,259,000). The loss for the financial year is shown after deduction of £1,101,000 of exceptional costs, which relate to costs incurred by the Colombia branch in respect of the integration with Productora Tabacalera de Colombia SAS, a subsidiary company acquired by the British American Tobacco plc Group (the "Group") on 10 October 2011.

In 2010, a one-off exceptional cost of £326,000 was incurred by the Uruguay branch which mainly comprised of redundancy costs due to downsizing.

On 10 October 2011, the Company transferred the majority of the Colombian business assets to Productora Tabacalera de Colombia SAS ("Protabaco") and a gain on disposal of £4,930,000 was recognised in the profit and loss account. This gain arose from the disposal of stock of £553,000, disposal of fixed assets of £1,169,000 and disposal of client database of £3,208,000.

The Directors expect the Company's activities to reduce due to the sale of assets to Protabaco.

### **Going concern**

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the immediate parent company British American Tobacco (Investments) Limited. This support is expected to continue for the foreseeable future. The Directors confirm that they have complied with the above requirements in preparing the financial statements.

### **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 plc 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 plc, and do not form part of this report.

### **Dividends**

The Directors do not recommend the payment of a dividend for the year (2010 £nil).

## **Directors' report**

### **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

Nicola Snook  
Charl Erasmus Steyn  
Steven Glyn Dale

### **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, and
- avoid any delays when legitimately questioning invoices

The proportion which the amount owed to trade creditors at 31 December 2011 bears to the amounts invoiced by suppliers during the year then ended equated to a 46 days proportion of 365 days (2010 45 days)

\* Details of the Better Payment Practice Code are available on the website <http://www.payontime.co.uk>

### **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 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' report**

### **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 or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) 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

By Order of the Board



Ms A E Griffiths  
Secretary

26 September 2012

## **Independent auditors' 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 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, 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 loss 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.

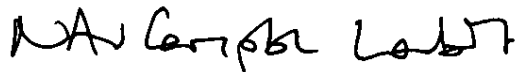
**British American Tobacco (South America) Limited**

## **Independent auditors' report to the members of British American Tobacco (South America) 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

28 September 2012

**British American Tobacco (South America) Limited**

**Profit and loss account for the year ended 31 December 2011**

		<b>2011</b>	<b>2010</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Continuing operations</b>			
<b>Turnover</b>	2	<b>37,596</b>	39,945
Other operating income	2	<b>1,144</b>	641
Operating charges	3	<b>(42,579)</b>	(41,432)
<b>Operating loss</b>		<b>(3,839)</b>	(846)
Interest receivable and similar income	4	<b>9</b>	62
Interest payable and similar charges	5	<b>(204)</b>	(29)
<b>Loss on ordinary activities before taxation</b>		<b>(4,034)</b>	(813)
Taxation on loss on ordinary activities	6	<b>(786)</b>	(446)
<b>Loss for the financial year</b>	12	<b>(4,820)</b>	(1,259)

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

The Directors expect the Company's activities to reduce due to the sale of assets to Protabaco

**Statement of total recognised gains and losses for the year ended 31 December 2011**

		<b>2011</b>	<b>2010</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
Loss for the financial year		<b>(4,820)</b>	(1,259)
Differences on exchange arising on the retranslation to sterling of the loss for the financial year from average to closing rates	13	<b>(17)</b>	5
Differences on exchange arising on the retranslation to sterling (using closing rates of exchange) of net liabilities at the beginning of the year	13	<b>(149)</b>	1,042
<b>Total recognised losses relating to the financial year</b>		<b>(4,986)</b>	(212)

The accompanying notes are an integral part of the financial statements



**British American Tobacco (South America) Limited**

**Balance sheet at 31 December 2011**

	Note	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Tangible assets	7	300	3,188
		<b>300</b>	<b>3,188</b>
<b>Current assets</b>			
Stock	8	1,199	2,661
Debtors amounts falling due within one year	9	19,529	8,384
Cash at bank and in hand		4,292	2,870
<b>Creditors, amounts falling due within one year</b>	10	<b>(47,965)</b>	<b>(34,762)</b>
<b>Net current liabilities</b>		<b>(22,945)</b>	<b>(20,847)</b>
<b>Total assets less current liabilities</b>		<b>(22,645)</b>	<b>(17,659)</b>
<b>Capital and reserves</b>			
Called up share capital	11	-	-
Profit and loss account	12	(22,645)	(17,659)
<b>Total shareholders' deficit</b>	13	<b>(22,645)</b>	<b>(17,659)</b>

The financial statements on pages 7 to 16 were approved by the Directors on 26 September 2012 and signed on behalf of the Board



C E Steyn  
Director

**Registered number 2495427**

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 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**

Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange Assets and liabilities are translated at closing rates of exchange The difference between the retained loss of the overseas branch translated at the average and closing rates of exchange is taken to reserves, as are differences on exchange arising on the retranslation to sterling of foreign currency net liabilities at the beginning of the year Exchange differences arising on the retranslation of monetary assets and liabilities between the Company and its branch, which are translated at the exchange rate ruling at the end of the year, are also taken to reserves Other exchange differences, including those on remittances, are reflected in the profit and loss account

#### **Accounting for turnover and income**

Turnover comprises sales at invoiced value (excluding duty, excise and other taxes) and is after deducting rebates, returns and similar discounts, and 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 when 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

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

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

**1 Accounting policies (continued)**

**Stock**

Stock is valued at the lower of cost and net realisable value. Cost is based on weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale.

**Tangible assets**

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis to write off the cost of tangible 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, machinery and equipment	7-20

**Operating leases**

The annual payments under operating leases are charged to the profit and loss account on a straight line basis over the length of the lease term.

**Employee share schemes**

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow group company, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The recharge in the year ended 31 December 2011 was £299,000 (2010 £240,000). The fellow Group company, which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes and provides the relevant disclosures required under FRS 20.

**Retirement benefit schemes**

The Company operates a defined contribution pension scheme in Colombia, which is made through a private pension plan. By law, contributions to pension funds are 16% of the basic salary. The Company has to make a contribution of 12% and the employee the remaining 4%. This contribution is made on a monthly basis and does not generate a pension liability for the company.

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

## 2 Turnover and other operating income

	2011	2010
	£'000	£'000
Turnover including duty and excise taxes	71,785	73,520
Duty and excise taxes	(34,189)	(33,575)
	37,596	39,945
Other operating income	1,144	641
	38,740	40,586

Turnover comprises the sale of tobacco products in Colombia

Other operating income mainly comprises supplier discounts and expense recoveries

## 3 Operating charges

	2011	2010
	£'000	£'000
<b>Operating charges comprise:</b>		
Purchases of goods for resale	12,111	14,414
Change in stocks of finished goods and goods for resale	793	852
Staff costs	8,226	7,966
Depreciation of tangible fixed assets	1,127	1,101
Loss/(profit) on sale of tangible fixed assets	243	(90)
Profit on sale of assets to Protabaco (note a)	(4,930)	-
Auditors' remuneration		
- Audit services	44	47
- Non-audit services taxation advice	-	3
Operating lease charges		
- land and buildings	858	808
Exchange losses	18	314
Exceptional operating charges (note b)	1,101	326
Other operating charges	22,988	15,691
	42,579	41,432
<b>Staff costs:</b>		
Wages and salaries	7,020	6,472
Social security costs	508	868
Defined contribution scheme costs	399	386
Share scheme costs	299	240
	8,226	7,966

(a) On 10 October 2011, the Company transferred the majority of the Colombian business assets to Productora Tabacalera de Colombia SAS ("Protabaco"), a subsidiary company acquired by the Group on 10 October 2011, and a gain on disposal of £4,930,000 was recognised in the profit and loss account. This gain arose from the disposal of stock of £553,000, disposal of fixed assets of £1,169,000 and disposal of client database of £3,208,000.

(b) Exceptional costs of £1,101,000 relate to costs incurred by the Colombian branch in respect of the integration with Protabaco.

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

### 3 Operating charges (continued)

In 2010, a one-off exceptional cost of £326,000 was incurred by the Uruguay branch which mainly comprised of redundancy costs due to downsizing

The average monthly number of persons employed by the Company during the year was 234 (2010 237) Employees are engaged in the sale and marketing of tobacco products

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

At 31 December, the Company had annual commitments in respect of non-cancellable operating leases expiring as follows

	Land and buildings	
	2011	2010
	£'000	£'000
Within 1 year	-	22
1 – 5 years	858	786
	<b>858</b>	<b>808</b>

### 4 Interest receivable and similar income

	2011	2010
	£'000	£'000
Bank interest	9	62

### 5 Interest payable and similar charges

	2011	2010
	£'000	£'000
Bank loans and overdrafts	204	29

In 2011, the Colombian branch used its approved credit facilities to fund the expenses relating to the integration with Protobaco In 2010, the Colombian branch held an overdraft on which interest was payable

### 6 Taxation on loss on ordinary activities

#### (a) Summary of taxation on loss on ordinary activities

	2011	2010
	£'000	£'000
<b>Current taxation:</b>		
UK corporation taxation on loss of the year		
Comprising		
- current taxation at 26.5% (2010 28.0%)	-	-
	-	-
Overseas taxation	786	446
<b>Total current taxation note 6(b)</b>	<b>786</b>	<b>446</b>

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

### 6 Taxation on loss on ordinary activities (continued)

#### (b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 28.0% to 26.0% 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
Loss on ordinary activities before taxation	(4,034)	(813)
Corporation taxation at 26.5% (2010: 28.0%) on loss on ordinary activities	(1,069)	(228)
<b>Factors affecting the taxation rate:</b>		
Permanent differences	349	(268)
Other timing differences	53	271
Overseas taxation	786	446
Group loss relief surrendered at nil consideration	667	225
<b>Total current taxation charge note 6(a)</b>	<b>786</b>	<b>446</b>

An amount of £509,000 (2010: £976,000), (taxation amount £135,000 (2010: £273,000)) included in permanent differences above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

At the balance sheet date, the Company has not recognised a deferred taxation asset in respect of deductible timing differences of £3,423,000 (2010: £2,675,000), which relate to accelerated capital allowances, and unused taxation credits of £912,000 (2010: £954,000). These unrecognised deductible timing differences and unused taxation credits have no expiry date. No recognition has been made for deferred taxation in respect of these items as their future recoverability remains uncertain.

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

### 7 Tangible assets

	Plant, machinery and equipment £'000
<b>Cost</b>	
1 January 2011	12,553
Differences on exchange	(22)
Additions	420
Disposals	(9,703)
<b>31 December 2011</b>	<b>3,248</b>
<b>Accumulated depreciation</b>	
1 January 2011	9,365
Differences on exchange	(35)
Charge for the year	1,127
Disposals	(7,509)
<b>31 December 2011</b>	<b>2,948</b>
<b>Net book value</b>	
1 January 2011	3,188
<b>31 December 2011</b>	<b>300</b>

The decrease in fixed assets during the year is mainly due to the sale of assets to Protabaco (note 3a)

### 8 Stock

	2011 £'000	2010 £'000
Finished goods and goods for resale	1,199	2,661

### 9 Debtors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade debtors	541	5,597
Amounts due from Group undertakings	13,849	1,131
Other debtors	2,990	-
Taxation debtors	2,149	1,656
	<b>19,529</b>	<b>8,384</b>

Amounts due from Group undertakings increased due to the sale of assets to Protabaco (note 3a)

Amounts due from Group undertakings are unsecured, interest free and repayable on demand

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

## 10 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	11,044	6,254
Bank overdraft	6,118	-
Amounts due to Group undertakings	30,803	28,508
	<b>47,965</b>	<b>34,762</b>

In 2011, creditor balances were mainly affected by the external funding of expenses generated by the Colombian branch in respect of the integration with Protabaco

Amounts due to Group undertakings are unsecured, interest free and repayable on demand

## 11 Called up share capital

Ordinary shares of £1 each	2011	2010
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

## 12 Reserves

	Profit and loss account £'000
1 January 2011	(17,659)
Loss for the financial year	(4,820)
Unrealised exchange differences on translation of branch activities	(166)
<b>31 December 2011</b>	<b>(22,645)</b>

## 13 Reconciliation of movements in shareholders' deficit

	2011 £'000	2010 £'000
Loss for the financial year	(4,820)	(1,259)
Unrealised exchange differences on translation of branch activities	(166)	1,047
Net movement in shareholders' deficit	(4,986)	(212)
Opening shareholders' deficit	(17,659)	(17,447)
<b>Closing shareholders' deficit</b>	<b>(22,645)</b>	<b>(17,659)</b>



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

### 14 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 British American Tobacco plc Group

### 15 Parent company support

The intermediate parent undertaking British American Tobacco (Investments) Limited 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

### 16 Contingent liabilities

Dirección General Impositiva (DGI) has commenced proceedings against the Company in Uruguay. DGI claims that the Company's branch office in Uruguay has evaded payment of Income Tax (IRIC) by erroneously deducting a number of transactions (destruction of machinery) as expenditures. DGI is claiming Value Added Tax (VAT) (along with other taxes) for these transactions. The current value of the claim is USD800,000. The Contentious Administrative decision is expected in the last quarter of 2012.

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.

### 17 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 (Investments) Limited. Group financial statements are prepared only at the British American Tobacco plc level and may be obtained from

The Company Secretary  
Globe House  
4 Temple Place  
London  
WC2R 2PG