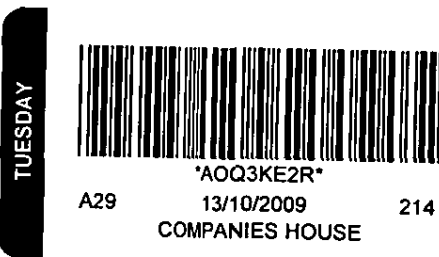


British American Tobacco (South America) Limited
Registered Number 2495427

Directors' Report and Financial Statements

For the year ended 31 December 2008



British American Tobacco (South America) Limited

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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 2008.

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.

Review of the year to 31 December 2008

The loss for the financial year attributable to British American Tobacco (South America) Limited shareholders after deduction of all charges and the provision of tax amounted to £171,000 (2007: £528,000).

The Directors expect the Company's activities to continue on a similar basis in the foreseeable future.

Key performance indicators

The Directors of British American Tobacco p.l.c., the ultimate parent company, manage the operations of the British American Tobacco Group (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 Review section in the Annual Report 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, 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 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 (2007: £nil).

Board of Directors

The names of the persons who served as directors of the Company during the period 1 January 2008 to the date of this report are as follows:

Robert James Casey
Nicandro Durante
Nicola Snook
Charl Erasmus Steyn

Appointed 9 September 2008

British American Tobacco (South America) Limited

Directors' report

Directors' indemnities

As at the date of this report, an indemnity is in force under which Mr. N. Durante, as a director of the Company, is, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, 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.

Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, publications and regular meetings with employee representatives.

The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

The Company has Employment Policies which are committed to providing a work environment that is free from harassment, bullying and discrimination – these policies are available to all staff on the Company's intranet. There is no discrimination against people with disabilities who apply to join the Company and anyone within the Company with disability is awarded the same opportunities for promotion, training and career development as other staff. We aim to establish and maintain a safe working environment for all staff, including those with disabilities.

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.

Payment of creditors is carried out by a fellow Group undertaking.

* Details of 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 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures being 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, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

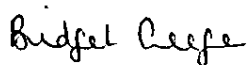
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' 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



B M Creegan
Secretary

2 October 2009

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 2008 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 2008 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

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

28 October 2009

British American Tobacco (South America) Limited

Profit and loss account for the year ended 31 December 2008

	<i>Note</i>	2008 £'000	2007 £'000
Turnover	2	33,803	28,733
Other operating income	2	837	440
Operating charges	3	(34,031)	(29,060)
Operating profit		609	113
Interest receivable and similar income	4	247	198
Interest payable and similar charges	5	(45)	(16)
Profit on ordinary activities before taxation		811	295
Taxation on profit on ordinary activities	6	(982)	(823)
Loss for the financial year	13	(171)	(528)

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

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

Statement of total recognised gains and losses for the year ended 31 December 2008

	<i>Note</i>	2008 £'000	2007 £'000
Loss for the financial year	13	(171)	(528)
Difference arising on the retranslation to sterling of the loss for the financial year from average to closing rates of exchange	14	24	40
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net liabilities at the beginning of the year	14	2,700	1,014
Total recognised gains for the financial year		2,553	526

Notes are shown on pages 9 to 15.

British American Tobacco (South America) Limited

Balance Sheet – 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible fixed assets	7	3,355	2,363
Current assets			
Stocks	8	11,222	1,970
Debtors: amounts falling due within one year	9	10,582	4,425
: amounts falling due after one year	9	-	833
Cash at bank and at hand		2,711	9,248
		24,515	16,476
Creditors: amounts falling due within one year	10	(43,345)	(37,629)
Net current liabilities		(18,830)	(21,153)
Total assets less current liabilities		(15,475)	(18,790)
Provisions for liabilities and charges	11	(1,833)	(1,071)
Net liabilities		(17,308)	(19,861)
Capital and reserves			
Share capital	12	-	-
Profit and loss account	13	(17,308)	(19,861)
Total shareholders' deficit	14	(17,308)	(19,861)

The financial statements on pages 7 to 15 were approved by the Directors on 2 October 2009 and signed on behalf of the Board.



N Snook
Director

Notes are shown on pages 9 to 15.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

1 Accounting policies

A summary of the principal accounting policies is set out below.

(1) 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 1985 and applicable accounting standards in the United Kingdom.

(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 FRS 1 (Revised) from publishing a cash flow statement.

(3) Foreign currencies

Monetary assets and liabilities are translated at closing rates of exchange. Differences on exchange arising on the retranslation to sterling of foreign currency net assets/(liabilities) at the beginning of the year is taken to reserves. 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.

(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 where there is an expectation that all or a portion of the amount due will not be recovered.

(5) Taxation

Taxation provided is that chargeable on the profits of the year, together with deferred taxation.

Deferred tax 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 tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

(6) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated 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

Assets in the course of construction are not depreciated until brought into operational use.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

1 Accounting policies (continued)

(7) 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.

(8) Financial instruments

The Company utilises forward foreign exchange contracts as part of its exchange rate management and has chosen under FRS 25 "Financial Instruments: Disclosure and presentation" not to recognise in the balance sheet, the fair value of those contracts. As required by the Companies Act 1985, the underlying exchange gain or loss of the contracts is disclosed in the notes to the financial statements.

2 Turnover and other operating income

	2008 £'000	2007 £'000
Turnover including duty and excise taxes	60,935	51,975
Duty and excise taxes	(27,132)	(23,242)
Turnover (net of duty and excise taxes)	33,803	28,733

Turnover comprises the sale of tobacco products in Uruguay, Ecuador, and Colombia.

Other operating income mainly comprises supplier discounts.

3 Operating charges

	2008 £'000	2007 £'000
Operating profit is stated after charging:		
Goods for resale	10,557	9,851
Staff costs	6,409	6,743
Depreciation of tangible fixed assets	864	799
Auditor's remuneration – audit services	41	42
Operating lease charges - land and buildings	705	538
Other operating charges	15,455	11,087
	34,031	29,060
Staff costs:		
Wages and salaries	5,799	6,196
Social security costs	610	547
	6,409	6,743

The average monthly number of persons employed by the Company during the year was 274 (2007: 222). 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 (2007 £nil).

At 31 December, the Company had annual commitments in respect of non-cancellable operating leases for land and buildings of £757,000 (2007: 557,000), all of which expire within one year.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

4 Interest receivable and similar income

	2008 £'000	2007 £'000
Bank interest	247	198

5 Interest payable and similar charges

	2008 £'000	2007 £'000
Bank loans	45	16

6 Taxation on profit on ordinary activities

(a) Summary of tax on profit on ordinary activities

	2008 £'000	2007 £'000
Current tax		
UK Corporation Tax		
Comprising		
- current tax at 28.5% (2007: 30%)	-	-
Overseas Tax comprising		
- current tax on income	982	823
Total current taxation note 4(b)	982	823

(b) Factors affecting the tax charge

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

The current taxation charge differs from the standard 28.5% rate of Corporation Tax in the UK. The major causes of this difference are listed below:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	811	295
Corporation Tax at 28.5% (2007: 30%) on profit on ordinary activities	231	89
Factors affecting the tax rate:		
Permanent differences	(555)	(686)
Timing differences	232	190
Overseas tax	982	823
Group loss relief surrendered for nil consideration	92	407
Total current taxation charge note 4(a)	982	823

An amount of £2,077,000 (tax amount £592,000) (2007: £2,391,000 (tax amount of £717,000)) included in permanent differences above represents tax adjustments in respect of UK to UK transfer pricing.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

7 Tangible fixed assets

Plant, machinery and equipment

	£'000
Cost	
At 1 January 2008	9,518
Additions	1,413
Disposals	(952)
Differences on exchange	1,473
At 31 December 2008	11,452
Accumulated depreciation	
At 1 January 2008	7,155
Charge for the year	864
Disposals	(952)
Differences on exchange	1,030
At 31 December 2008	8,097
Net book value	
At 31 December 2008	3,355
At 31 December 2007	2,363

8 Stocks

	2008 £'000	2007 £'000
Goods purchased for resale	11,222	1,970

9 Debtors

(a) Amounts falling due within one year

	2008 £'000	2007 £'000
Trade debtors	8,241	4,390
Amounts due from Group undertakings	2,341	35
	10,582	4,425

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

(b) Amounts falling due after one year

	2008 £'000	2007 £'000
Other debtors	-	833

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

10 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	6,312	3,818
Amounts due to Group undertakings	37,021	33,624
Taxation and social security	12	187
	43,345	37,629

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

11 Provisions for liabilities and charges

	£'000
1 January 2008	1,071
Provided in the year	471
Exchange differences	291
31 December 2008	1,833

Provisions mainly relate to disputed excise return filing issues.

12 Share capital

Ordinary shares of £1 each	2008	2007
Authorised – value	£100	£100
– number	100	100
Allotted, called up and fully paid		
– value	£2	£2
– number	2	2

13 Reserves

Profit and loss account	£'000
1 January 2008	(19,861)
Loss for the financial year	(171)
Exchange differences	2,724
31 December 2008	(17,308)

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

14 Reconciliation of movements in shareholders' deficit

	2008 £'000	2007 £'000
Loss for the financial year	(171)	(528)
Exchange differences	2,724	1,054
Net reduction to shareholders' deficit	2,553	526
Opening shareholders' deficit	(19,861)	(20,387)
Closing shareholders' deficit	(17,308)	(19,861)

15 Financial instruments

The Company's operations expose it to currency risk which is hedged with forward foreign exchange contracts. The fair value of the instruments as at 31 December 2008 was a gain of £779,000. Subsequent to the year end, the Company's financial position was not materially affected by the instruments reaching their maturity dates.

16 Related parties

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 p.l.c. Group.

17 Parent support

The immediate parent undertaking of the 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.

18 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. 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 accounts are prepared only at the British American Tobacco p.l.c. level.

19 Contingent liabilities

There are current regulatory actions, brought by individual plaintiffs, proceeding against the Company in Colombia. The actions are aimed at protection of the collective rights and interests of consumers of tobacco products and allege a failure to adequately warn the public of the health risks of smoking, and a failure to comply with existing warning regulations governing the sale and advertising of cigarettes. In one such action, GBP 114 million is claimed for medical expenses incurred in the treatment of diseases. The Company is confident that it has meritorious defences to the action.

In Uruguay, proceedings against the Company have also been commenced by the Ministry of Economy. The claim for USD 524,000 (which includes the original claim for USD 257,000, plus fines and penalties to date) alleges erroneous deductions on non-deductible transactions, in relation to income tax in 2003. The Ministry of Economy has imposed a general attachment over the Company's registered assets (including its vehicles), to cover the value of the claim. The Company's position is that the income tax deductions were valid under law and that no tax is payable on these expenditures. There is currently an internal appeal lodged with the Ministry of Economy; however, it is not expected that this appeal will be successful, and if the appeal is rejected, the Company is prepared to file a nullity suit before the superior authority for administration decisions.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2008

Contingent liabilities (continued)

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.

20 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