

British American Tobacco (South America) Limited
Registered Number 2495427

Directors' Report and Financial Statements

For the year ended 31 December 2009

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British American Tobacco (South America) Limited

Contents

Directors' report	3
Independent auditors' report to the members of British American Tobacco (South America) Limited	6
Profit and loss account for the year ended 31 December 2009	8
Statement of total recognised gains and losses for the year ended 31 December 2009	8
Balance sheet - 31 December 2009	9
Notes to the financial statements – 31 December 2009	10

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 2009

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 2009

The profit 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 £121,000 (2008 loss £171,000)

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

Post balance sheet events

Subsequent to the year end the Company initiated plans to downsize its current business model in the Uruguay branch with effect from April 2010. It is expected that this restructuring will generate an approximate one-off exceptional cost of £0.4 million in the 2010 financial year

Dividends

The Directors do not recommend the payment of a dividend for the year (2008: £nil)

Board of Directors

The names of the persons who served as directors of the Company during the period 1 January 2009 to the date of this report are as follows

Robert James Casey
Nicandro Durante
Nicola Snook
Charl Erasmus Steyn

British American Tobacco (South America) Limited

Directors' report

Directors' indemnities

Throughout the period 1 January 2009 to the date of this report, an indemnity has been 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

Financial risk management

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 2009 was £nil (2008 gain £779,000)

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 believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the immediate parent company British American Tobacco (Investments) Limited and confirm that they have complied with the above requirements in preparing the financial statements.

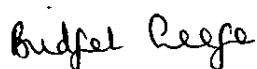
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' 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.

By order of the Board



B M Creegan
Secretary

28 October 2010

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 2009 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 5 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 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.

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 2009 and of its profit 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.

Independent auditors' report to the members of British American Tobacco (South America) Limited (continued)

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

24 October 2010

British American Tobacco (South America) Limited

Profit and loss account for the year ended 31 December 2009

	Note	2009 £'000	Restated 2008 £'000
Turnover	2	35,056	33,803
Other operating income	2	283	675
Operating charges	3	(34,788)	(33,869)
Operating profit		551	609
Interest receivable and similar income	4	102	247
Interest payable and similar charges	5	(80)	(45)
Profit on ordinary activities before taxation		573	811
Taxation on profit on ordinary activities	6	(452)	(982)
Profit/(loss) for the financial year	13	121	(171)

The restatement in the year to the 2008 comparatives is a reclassification adjustment of £162,000 between Other operating income and Operating charges, there was no impact on operating profit

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 profit/(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 2009

	Note	2009 £'000	2008 £'000
Profit/(loss) for the financial year		121	(171)
Differences on exchange arising on the retranslation to sterling of the profit/(loss) for the financial year from average to closing rates of exchange	14	(22)	24
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net liabilities at the beginning of the year	14	(238)	2,700
Total recognised gains for the financial year		(139)	2,553

Notes are shown on pages 10 to 17

British American Tobacco (South America) Limited
Registered Number 2495427

Balance Sheet – 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible fixed assets	7	2,785	3,355
Current assets			
Stock	8	3,265	11,222
Debtors amounts falling due within one year	9	7,181	10,582
Cash at bank and at hand		8,462	2,711
		18,908	24,515
Creditors: amounts falling due within one year	10	(39,052)	(43,345)
Net current liabilities		(20,144)	(18,830)
Total assets less current liabilities		(17,359)	(15,475)
Provisions for liabilities and charges	11	(88)	(1,833)
Net liabilities		(17,447)	(17,308)
Capital and reserves			
Share capital	12	-	-
Profit and loss account	13	(17,447)	(17,308)
Total shareholders' deficit	14	(17,447)	(17,308)

The financial statements on pages 8 to 17 were approved by the Directors on 28 October 2010 and signed on behalf of the Board



C E Steyn
 Director

Notes are shown on pages 10 to 17

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

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 2006 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 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.

Forward contracts are used to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes. The forward contracts are accounted for in the financial statements where the underlying transactions have occurred by the balance sheet date. As required by the Companies Act 2006, the fair value of all forward contracts outstanding at year end is disclosed in note 15.

(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. 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 fixed assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

1 Accounting policies (continued)

(6) Tangible fixed assets (continued)

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

(7) Stock

Stock is 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) 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 fellow Group company, which administers the share schemes on behalf of other Group companies, calculates and reflects the charge for the share schemes, provides the relevant disclosures required under FRS 20.

(9) 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.

2 Turnover and other operating income

	2009 £'000	2008 £'000
Turnover including duty and excise taxes	63,101	60,935
Duty and excise taxes	(28,045)	(27,132)
Turnover (net of duty and excise taxes)	35,056	33,803

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

Other operating income mainly comprises supplier discounts.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

3 Operating charges

	2009 £'000	Restated 2008 £'000
Operating profit is stated after charging/(crediting):		
Goods for resale	12,600	10,557
Change in stock of finished goods	3,268	(3,447)
Staff costs	6,931	6,409
Depreciation of tangible fixed assets	1,029	864
Profit on sale of tangible fixed assets	(103)	(162)
Auditor's remuneration		
- Audit services	44	38
- Non audit services	2	3
Operating lease charges		
- land and buildings	687	705
Other operating charges	10,330	18,902
	34,788	33,869

Staff costs:

Wages and salaries	5,683	5,347
Social security costs	700	610
Defined contribution pension costs	320	302
Share scheme costs	228	150
	6,931	6,409

The average monthly number of persons employed by the Company during the year was 242 (2008 274). 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 (2008 £nil).

At 31 December, the Company had annual commitments in respect of non-cancellable operating leases for land and buildings of £687,000 (2008 757,000), all of which expire within one year.

The restatement in the year to the 2008 comparatives is a reclassification adjustment of £162,000 between Other operating income and Operating charges, there was no impact on operating profit.

4 Interest receivable and similar income

	2009 £'000	2008 £'000
Bank interest	102	247

5 Interest payable and similar charges

	2009 £'000	2008 £'000
Bank loans	80	45

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

6 Taxation on profit on ordinary activities

(a) Summary of tax on profit on ordinary activities

	2009 £'000	2008 £'000
Current tax		
UK corporation tax on profit/(loss) of the year		
Comprising		
- current tax at 28 0% (2008 28 5%)	175	-
- double tax relief	(175)	-
	-	-
Overseas tax	452	982
Total current taxation note 6(b)	452	982

(b) Factors affecting the tax charge

The standard rate of Corporation Tax in the UK changed from 30 0% to 28 0% with effect from 1 April 2008

The current taxation charge differs from the standard 28 0% (2008 28 5%) rate of Corporation Tax in the UK. The major causes of this difference are listed below

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	573	811
Corporation tax at 28 0% (2008 28 5%) on profit on ordinary activities	161	231
Factors affecting the tax rate:		
Permanent differences	(377)	(555)
Timing differences	259	232
Overseas tax	452	982
Double tax relief	(175)	-
Group loss relief surrendered at nil consideration	132	92
Total current taxation charge note 6(a)	452	982

An amount of £1,635,000 (tax amount £458,000) (2008 £2,077,000 (tax amount of £592,000)) 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 2009

7 Tangible fixed assets

	Plant, machinery and equipment £'000
Cost	
At 1 January 2009	11,452
Additions	598
Disposals	(251)
Differences on exchange	(111)
At 31 December 2009	11,688
Accumulated depreciation	
At 1 January 2009	8,097
Charge for the year	1,029
Disposals	(196)
Differences on exchange	(27)
At 31 December 2009	8,903
Net book value	
At 31 December 2009	2,785
At 31 December 2008	3,355

8 Stock

	2009 £'000	2008 £'000
Goods purchased for resale	3,265	11,222

9 Debtors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade debtors	6,631	8,241
Amounts due from Group undertakings	550	2,341
	7,181	10,582

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

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

10 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	6,573	6,312
Amounts due to Group undertakings	32,460	37,021
Taxation and social security	-	12
Accruals and deferred income	19	-
	39,052	43,345

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

11 Provisions for liabilities and charges

	£'000
1 January 2009	1,833
Utilised during the year	(1,688)
Exchange differences	(57)
31 December 2009	88

12 Share capital

Ordinary shares of £1 each	2009	2008
Allotted, called up and fully paid		
– value	£2	£2
– number	2	2

The concept of authorised share capital was abolished in October 2009 pursuant to the provisions of the Companies Act 2006, therefore authorised share capital has not been presented as at 31 December 2009

13 Reserves

	Profit and loss account £'000
1 January 2009	(17,308)
Profit for the financial year	121
Unrealised exchange differences on translation of branch activities	(260)
31 December 2009	(17,447)

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

14 Reconciliation of movements in shareholders' deficit

	2009 £'000	2008 £'000
Profit/(loss) for the financial year	121	(171)
Unrealised exchange differences on translation of branch activities	(260)	2,724
Net reduction to shareholders' deficit	(139)	2,553
Opening shareholders' deficit	(17,308)	(19,861)
Closing shareholders' deficit	(17,447)	(17,308)

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 2009 was £nil (2008 £779,000).

16 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.

17 Contingent liabilities

Morales is the remaining "consumer popular" action against the Company in Colombia and was served in June 2008. The plaintiffs claim to represent the collective rights and interests of the Colombian population affected by the consumption of tobacco. In addition to regulatory relief, the plaintiffs seek payment from the defendants to a State-managed fund of an amount equal to 25% of the amount the State has spent on treating tobacco-related illness annually since the year it began operations until judgment. Thereafter, the plaintiffs request that the Company contribute \$50 million a year. The plaintiffs also request that the court order the Company to make all tobacco-related documents available on line in both Spanish and English.

A "consumer popular" action was filed in the city of Ibagué against five government bodies and five tobacco manufacturers/distributors including the Company. Service of the claim was effected on the Company on 27 May 2010. The Company filed a preliminary objection asking the court to reconsider its acceptance of the lawsuit, as filed, in view of the decision in the Florez claim, which was based on similar, if not identical, allegations. This request is being considered by the court.

In Uruguay, proceedings against the Company have been commenced by the Ministry of Economy. The claim for approximately USD 750,000 (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 has requested that the attachment over its vehicles be replaced with a bank guarantee and a decision on that petition is pending. The Company's position on the allegations is that the income tax deductions were legally valid and that no tax was payable on those expenditures. Due to an internal appeal to the Ministry of Economy being rejected, the Company has filed a nullity suit before the superior authority for administration decisions.

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.

British American Tobacco (South America) Limited

Notes to the financial statements – 31 December 2009

18 Post balance sheet events

Subsequent to the year end the Company initiated plans to downsize its current business model in the Uruguay branch with effect from April 2010. It is expected that this restructuring will generate an approximate one-off exceptional cost of £0.4 million in the 2010 financial year.

19 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 financial statements are prepared only at the British American Tobacco p.l.c. level.

20 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.

21 Copies of the annual report and financial statements

Copies of the annual report of British American Tobacco p.l.c. may be obtained from

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