

British American Tobacco (Serbia) Limited
Registered Number 2725113

Directors' Report and Accounts

For the year ended 31 December 2006



British American Tobacco (Serbia) Limited

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British American Tobacco (Serbia) Limited

Directors' report

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

Principal activities

The Company's principal activity is the holding of an investment in a company operating in the tobacco industry as a member of the British American Tobacco p l c Group (the "Group")

Review of the year to 31 December 2006

The profit for the year attributable to British American Tobacco (Serbia) Limited shareholders after deduction of all charges and the provision of tax amounted to £1,000 (2005 £nil)

Key performance indicators

The Directors of British American Tobacco p l c , the ultimate parent company, manage the operations of the Group on a regional basis. For this reason, and given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed under the Operating and Financial Review section in the Annual Review of British American Tobacco p l c and do not form part of this report.

Principal risks and uncertainties

The principal risks and uncertainties of the Company are integrated with the principal risks of the Group and are monitored by audit committees to provide a framework for identifying, evaluating and managing risks faced by the Group. Accordingly, the key group risk factors that may be relevant to the Company are disclosed in the Annual Review of British American Tobacco p l c and do not form part of this report.

Dividends

The Directors do not recommend the payment of a dividend for the year (2005 £nil). The retained profit for the financial year of £1,000 (2005 £nil) will be transferred to reserves.

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2006 to the date of this report are as follows:

Robert James Casey
Kenneth John Hardman
John Victor Richardson
John Youngson Moffat (Resigned 30 November 2006)
Ridirectors Limited

British American Tobacco (Serbia) Limited

Directors' report

Statement of Directors' responsibilities

The following Statement sets out the responsibilities of the Directors in relation to the financial statements. The report of the independent auditors, shown on page 6, sets out their responsibilities in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the Directors are required to

- select appropriate accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures being disclosed and explained, and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

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

Directors' declaration in relation to relevant audit information

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that

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

General Meetings

Elective resolutions have been passed, in accordance with Section 379A of the Companies Act 1985 (as amended), to dispense with the laying of accounts before the Company in General Meeting (pursuant to Section 252 of the Act) and to dispense with the holding of the Annual General Meeting (pursuant to Section 366A of the Act).

British American Tobacco (Serbia) Limited

Directors' report

Auditors

An elective resolution has been passed, in accordance with Section 379A of the Companies Act 1985 (as amended), to dispense with the appointment of auditors annually (pursuant to Section 386 of the Act) Accordingly, PricewaterhouseCoopers LLP will continue as auditors

On behalf of the Board

A handwritten signature in black ink, appearing to be 'A. G. G. G.', written over a horizontal line.

For and on behalf of Rsecretaries Limited
Secretary

12 September 2007

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

We have audited the financial statements of British American Tobacco (Serbia) Limited for the year ended 31 December 2006 which comprise the profit and loss account, 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 Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit 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

12 September 2007

British American Tobacco (Serbia) Limited

Profit and loss account for the year ended 31 December 2006

	<i>Note</i>	2006 £'000	2005 £'000
Operating profit	2	-	-
Interest receivable and similar income	3	1	-
Profit on ordinary activities before taxation		1	-
Taxation on ordinary activities	4	-	-
Profit for the financial year		1	-

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 for the financial year stated above and their historical cost equivalents

There are no recognised gains and losses other than the profit for the year

Notes are shown on pages 9 to 13

British American Tobacco (Serbia) Limited


Balance sheet – 31 December 2006

	<i>Note</i>	2006 £'000	2005 £'000
Fixed assets			
Investment in subsidiary undertaking	5	60,326	60,007
Current assets			
Cash at bank and in hand		588	-
Debtors - amounts falling due within one year	6	42	42
Creditors - amounts falling due within one year	7	(1,587)	(1,000)
Net current liabilities		(957)	(958)
Total assets less current liabilities		59,369	59,049
Capital and reserves			
Called up share capital	8	-	-
Other reserves	9	59,368	59,049
Profit and loss account	9	1	-
Total equity shareholders' funds	10	59,369	59,049

The financial statements on pages 7 to 13 were approved by the Directors on 12 September 2007 and signed on behalf of the Board

For and on behalf of Ridirectors Limited
Director

FOR AND ON BEHALF OF
Ridirectors Limited, Director



authorised signatory

Notes are shown on pages 9 to 13

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2006

1 Accounting policies

A summary of the principal accounting policies is set out below

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Principles

(2) Cash flow statement

The Company is a wholly-owned subsidiary of British American Tobacco plc. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco plc 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 on the date of the transaction. Assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the profit and loss account in the year.

(4) Accounting for income

Income is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts, including where delays are anticipated in the receipt of monies from overseas.

(5) Taxation

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

Deferred taxation is provided in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. However, as allowed by FRS 19, the Group has chosen not to discount deferred tax assets and liabilities.

(6) Fixed asset investments

Fixed asset investments are stated at cost less any impairment in value.

2 Operating charges

Auditors' fees of £696 were borne by a fellow Group undertaking (2005: £nil fees borne by a fellow Group undertaking).

None of the Directors received any remuneration in respect of their services to the Company during the year (2005: £nil).

There were no employees and no staff costs during the year (2005: £nil).

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2006

3 Interest receivable and similar income

	2006 £'000	2005 £'000
Interest received	1	-

4 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2006 £'000	2005 £'000
UK Corporation Tax		
Comprising		
- current tax at 30.00%	-	-
- double tax relief	-	-
Total current taxation <i>note 4 (b)</i>	-	-

(b) Factors affecting the tax charge

The current taxation charge differs from the standard 30.00 per cent rate of Corporation Tax in the UK. The major causes of this difference are listed below.

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	1	-
Corporation Tax at 30.00% (2005: 30.00%) on profit on ordinary activities	-	-
Factors affecting the tax rate:		
Permanent difference	(28)	-
Group loss relief claimed at less than full consideration	28	-
Total current taxation charge <i>note 4(a)</i>	-	-

An amount of £93,796 (2005: £nil) (tax amount of £28,139 (2005: £nil)) included in permanent differences above represents tax adjustments in respect of UK to UK transfer pricing.

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2006

5 Investment in subsidiary undertaking

(1) Shares in subsidiaries

Unlisted - registered in Serbia	Ordinary shares of YD 1,000 each
Duvanska Industrija "Vranje" A D	88 10%

(2) Investment at cost less provisions

	£'000
1 January 2006	60,007
Additions - note 9	319
31 December 2006	60,326

- (3) The Directors are of the opinion that the investment in the subsidiary undertaking has a value not less than the amount at which it is shown in the balance sheet

6 Debtors: amounts falling due within one year

	2006 £'000	2005 £'000
Amounts due from Group undertakings	42	42

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

7 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Amounts due to Group undertakings	1,471	816
Other creditors	116	184
	1,587	1,000

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

8 Called up share capital

Ordinary shares of £1 each	2006	2005
Authorised - value	£100	£100
- number	100	100
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2006

9 Reserves

	Other reserves £'000	Profit and loss account £'000	Total £'000
1 January 2006	59,049	-	59,049
Capital contribution	319	-	319
Profit for the financial year	-	1	1
31 December 2006	59,368	1	59,369

On 24 February 2005, the Company received a capital contribution of £6,201,000 from its shareholder, British American Tobacco (Hamburg International) GmbH. On the same date, the capital contribution was used to increase its investment in its Serbian subsidiary undertaking.

On 31 December 2006, the Company received a further capital contribution of £319,000 from its shareholder, British American Tobacco (Hamburg International) GmbH. On the same date, the capital contribution was used to increase its investment in its Serbian subsidiary undertaking.

10 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit for the year	1	-
Capital contribution	319	6,201
Net transfer to shareholders' funds	320	6,201
Opening shareholders' funds	59,049	52,848
Closing shareholders' funds	59,369	59,049

11 Related parties

As a wholly-owned subsidiary, the Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco plc Group.

12 Parent undertakings

The Company's ultimate parent undertaking is British American Tobacco plc, being incorporated in the United Kingdom and registered in England and Wales. Its immediate parent undertaking is British American Tobacco (Hamburg International) GmbH. Group accounts are prepared only at the British American Tobacco plc level.

British American Tobacco (Serbia) Limited

Notes to the accounts – 31 December 2006

13 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