

British American Tobacco Italy Limited

Registered Number 4746902

Directors' Report and Accounts

For the year ended 31 December 2006



British American Tobacco Italy Limited

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British American Tobacco Italy 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")

Business review of the year to 31 December 2006

The profit for the year attributable to British American Tobacco Italy Limited shareholders after deduction of all charges and the provision of tax amounted to €54,097,000 (2005 €59,587,000)

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

During the year, the Company paid dividends to equity shareholders amounting to €44,000,000 (2005 €52,300,000). The Company also paid preference dividends amounting to €nil (2005 €6,000,000). The retained profit for the financial year after dividends of €10,097,000 will be transferred to reserves (2005 €7,287,000).

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
David Cameron Potter
Paul Ashley Rayner
David Andrew Swann
Neil Robert Withington

Directors' Report

Directors' indemnities

As at the date of this report, an indemnity is in force under which Mr P A Rayner, as a Director of the Company, is, to the extent permitted by law, indemnified 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

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

British American Tobacco Italy Limited

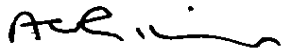
Directors' Report

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

- (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

On behalf of the Board



A C Girling
Assistant Secretary

12 October 2007

Report of the independent auditors to the members of British American Tobacco Italy Limited

We have audited the financial statements of British American Tobacco Italy 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 October 2007

British American Tobacco Italy Limited

Profit and loss account for the year ended 31 December 2006

	<i>Note</i>	2006 €'000	2005 €'000
Operating charges	2	(264)	(319)
Operating loss		(264)	(319)
Income from shares in subsidiary undertakings		44,000	58,300
Other interest receivable and similar income	3	69,683	99,770
Interest payable and similar charges	4	(59,322)	(98,164)
Profit on ordinary activities before taxation		54,097	59,587
Taxation on ordinary activities	5	-	-
Profit for the financial year		54,097	59,587
Dividends – paid on equity shares		(44,000)	(52,300)
Increase in reserves		10,097	7,287

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

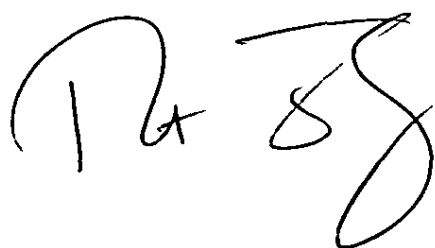
Notes are shown on pages 9 to 14

British American Tobacco Italy Limited

Balance sheet – 31 December 2006

	Note	2006 €'000	2005 €'000
Fixed assets			
Investment in subsidiary undertaking	6	544,567	544,567
Current assets			
Debtors			
- amounts falling due within one year	7	3,420	143,067
- amounts falling due after more than one year	7	1,343,000	1,279,000
Creditors - amounts falling due within one year	8	(15,400)	(61,306)
Net current assets		1,331,020	1,360,761
Total assets less current liabilities		1,875,587	1,905,328
Creditors – amounts falling due after more than one year	9	(1,329,816)	(1,369,654)
Net assets		545,771	535,674
Capital and reserves			
Called up share capital	10	1,898	1,898
Share premium	11	529,000	529,000
Profit and loss account	11	14,873	4,776
Total shareholders' funds	12	545,771	535,674

The financial statements on pages 7 to 14 were approved by the Directors on 12 October 2007 and signed on behalf of the Board



R J Casey
Director

Notes are shown on pages 9 to 14

British American Tobacco Italy 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

More than 90% of the voting rights for the Company are controlled within the British American Tobacco plc Group. 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 the euro are translated at the rate of exchange ruling on the date of the transaction. Assets and liabilities expressed in currencies other than the euro 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.

(7) Dividends

Dividends payable that are unapproved at the year end are not recognised as a liability. Similarly, dividends income is recognised at the same time as the paying company recognises the liability to pay a dividend.

British American Tobacco Italy Limited

Notes to the accounts – 31 December 2006

2 Operating charges

	2006 €'000	2005 €'000
Other operating charges	264	319

Auditors' fees of €5,805 were borne by a fellow Group undertaking (2005 €4,687 borne by a fellow Group undertaking)

There were no employees and no staff costs during the year (2005 €nil)

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2005 €nil)

3 Other interest receivable and similar income

	2006 €'000	2005 €'000
Interest receivable from group undertakings	69,683	99,770

4 Interest payable and similar charges

	2006 €'000	2005 €'000
Interest payable to group undertakings	59,322	92,164
Preference share dividend paid	-	6,000
	59,322	98,164

5 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2006 €'000	2005 €'000
UK Corporation Tax		
Comprising		
- current tax at 30.00%	20,308	24,986
- double tax relief	(20,308)	(24,986)
Total current taxation note 5(b)	-	-

British American Tobacco Italy Limited

5 Taxation on ordinary activities

(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	54,097	59,587
Corporation Tax at 30.00% (2005 30.00%) on profit on ordinary activities	16,229	17,876
Factors affecting the tax rate:		
Permanent difference	(238)	1,651
Corporate tax on gross up of dividends	7,108	7,496
Group loss relief claimed at less than full consideration	(2,791)	(2,037)
Double tax relief	(20,308)	(24,986)
Total current taxation charge note 5(a)	-	-

An amount of €793,000 (2005 €498,000) (tax amount of €238,000 (2005 €149,000)) included in permanent differences above represents tax adjustments in respect of UK to UK transfer pricing

6 Investments in subsidiary undertakings

(1) Shares in subsidiaries

Unlisted registered in Italy

% equity shares held
Ordinary shares of €100 each

Britannica Italiana Tabacchi S.p.A.

100%

(2) Shareholdings at cost less provisions

€'000

1 January to 31 December 2006

544,567

(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

British American Tobacco Italy Limited

Notes to the accounts – 31 December 2006

7 Debtors

	2006 €'000	2005 €'000
Amounts falling due within one year		
Amounts due from Group undertakings	3,281	141,949
Other debtors	139	1,118
	3,420	143,067
Amounts falling due after more than one year		
Loan due from Group undertaking	1,343,000	1,279,000

Included in amounts due from Group undertakings is a balance of €196,000 which bears interest at LIBOR, is unsecured and repayable on demand. All other amounts due from Group undertakings are unsecured, interest free and repayable on demand.

The loan is interest bearing and wholly repayable within 3 years.

8 Creditors - amounts falling due within one year

	2006 €'000	2005 €'000
Amounts due to Group undertaking	13,918	59,587
Other creditors	1,482	1,719
	15,400	61,306

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

9 Creditors - amounts falling due after more than one year

	2006 €'000	2005 €'000
Loan due to Group undertaking	1,329,594	1,369,432
Redeemable preference A shares of €1.00 each (2006 and 2005 authorised, 222,000, allotted, called up and fully paid 222,000)	222	222
	1,329,816	1,369,654

The loan to Group undertaking is interest bearing and wholly repayable within 3 years.

The holders of the redeemable preference A shares are not entitled to any right of participation in the assets of the Company on a winding up nor are they entitled to receive notice of, attend or vote at general meetings of the Company. They are entitled to rank in priority for any distribution up to an aggregate amount of €6,000,000 and this amount was paid in 2005. The shares are redeemable by the Company at par.

British American Tobacco Italy Limited

Notes to the accounts – 31 December 2006

10 Called up share capital

Ordinary B shares of €1 00 each	2006	2005
Authorised - value	€1,894,000	€1,894,000
- number	1,894,000	1,894,000
Allotted, called up and fully paid		
- value	€1,894,000	€1,894,000
- number	1,894,000	1,894,000
Ordinary C shares of €1.00 each		
Authorised - value	€4,000	€4,000
- number	4,000	4,000
Allotted, called up and fully paid		
- value	€4,000	€4,000
- number	4,000	4,000
Total allotted, called up and fully paid	€1,898,000	€1,898,000

The holders of the ordinary B shares are not entitled to participate in the first €6,000,000 in aggregate of dividends declared and paid by the Company, they are entitled to participate in the assets of the Company on a winding up, and are entitled to receive notice of, attend and vote at general meetings of the Company

The holders of the ordinary C shares are not entitled to participate in any dividends declared and paid by the Company until the aggregate of the dividends declared by the Company shall exceed €1,000,000,000. The holders are not entitled to any right of participation in the assets of the Company on a winding up nor are they entitled to receive notice of, attend or vote at general meetings of the Company

11 Reserves

	Share premium €'000	Profit and loss account €'000	Total €'000
1 January 2006	529,000	4,776	533,776
Retained profit for the financial year	-	10,097	10,097
31 December 2006	529,000	14,873	543,873

British American Tobacco Italy Limited

Notes to the accounts – 31 December 2006

12 Reconciliation of movements in shareholders' funds

	2006 €'000	2005 €'000
Profit for the financial year	54,097	59,587
Dividends paid	(44,000)	(52,300)
Net transfer to shareholders' funds	10,097	7,287
Opening shareholders' funds	535,674	528,387
Closing shareholders' funds	545,771	535,674

13 Related parties

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

14 Parent undertakings

The Company's ultimate parent undertaking is British American Tobacco p l c being incorporated in the United Kingdom and registered in England and Wales. Its immediate parent undertaking is British American Tobacco Italy Investments Limited. Group accounts are prepared only at the British American Tobacco p l c level.

15 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