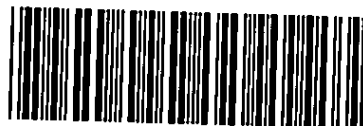


British American Tobacco (Investments) Limited
Registered Number 74974

Directors' Report and Accounts

For the period ended 31 December 2006

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British American Tobacco (Investments) Limited

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British American Tobacco (Investments) Limited

Directors' report

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

Principal activities

The Company is a holding company of a group of companies which includes a number of subsidiaries, the principal business activities of which are the manufacture and marketing of tobacco products. The Company, as described below, also undertakes a significant amount of research and development.

Business review of the year to 31 December 2006

The profit for the year attributable to British American Tobacco (Investments) Limited shareholders after deduction of all charges and the provision of tax amounted to £40,825,000 (2005 restated £151,672,000).

Key performance indicators

The Directors of British American Tobacco p l c, the ultimate parent company, manage the operations of the British American Tobacco p l c 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 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 amounting to £20,000,000 (2005 £345,000,000). The profit for the financial year, after dividends, of £20,825,000 will be transferred to reserves (2005 restated £193,328,000 loss offset against 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:

Rudi Kindts
Antonio Monteiro de Castro
Paul Ashley Rayner
Graham Albert Read
Dudley Christo Saayman
Peter Henry Taylor

British American Tobacco (Investments) Limited

Directors' indemnities

As at the date of this report, an indemnity is in force under which Messrs A Monteiro de Castro and P A Rayner, as Directors of the Company, are, to the extent permitted by law, indemnified in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company or as a result of things done by them as Directors on behalf of the Company

Tangible fixed assets

The movement of fixed assets is shown in note 9 to the accounts

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 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 a 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

Research and development

The Company's activities are concentrated on the development of new products, new processes, quality improvement of existing products and cost reduction programmes in the tobacco industry

Research is also undertaken into various aspects of the science and behavioural science related to smoking, including continued significant funding of independent studies

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,
- 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 website <http://www.payontime.co.uk>

British American Tobacco (Investments) Limited

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.

On behalf of the Board



G C W Cunningham
Assistant Secretary

30 October 2007

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

We have audited the financial statements of British American Tobacco (Investments) Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH

30 October 2007

British American Tobacco (Investments) Limited

Profit and loss account for the year ended 31 December 2006

	<i>Note</i>	2006 £'000	2005 Restated £'000
Turnover	2	10,727	9,675
Operating income	3	156,781	188,568
Operating charges	4	(223,914)	(201,413)
Operating loss		(56,406)	(3,170)
Income from shares in subsidiary undertakings		55,345	111,292
Investment income from Group undertakings		67	964
Profit/(loss) on sale of subsidiary		-	(145)
Other interest receivable and similar income	5	56,473	55,538
Interest payable and similar charges	6	(5,331)	(5,401)
Other financing income/(charges)	18	87	(20)
Profit on ordinary activities before taxation		50,235	159,058
Taxation on ordinary activities	7	(9,410)	(7,386)
Profit for the financial year		40,825	151,672
Dividends – paid on equity shares		(20,000)	(345,000)
Retained profit/(loss) for the year		20,825	(193,328)

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

The restatement of prior year comparatives is explained in note 1 (16) to the financial statements

Statement of total recognised gains and losses for the year ended 31 December 2006

	<i>Note</i>	2006 £'000	2005 Restated £'000
Profit for the financial year		40,825	151,672
Actuarial gains/(losses) on pension scheme	18	927	(434)
Unrealised losses arising on the translation of foreign operations		(123)	(34)
Total recognised gains relating to the year		41,629	151,204

Notes are shown on pages 9 to 23

British American Tobacco (Investments) Limited

Balance sheet – 31 December 2006

		2006	2005
	Note	£'000	Restated £'000
Fixed assets			
Intangible fixed assets	8	674	674
Tangible fixed assets	9	43,858	34,378
Investments in subsidiary undertakings	10	518,872	520,340
Investment in fellow subsidiary undertakings		20	20
Other investments		1,844	1,834
		565,268	557,246
Current assets			
Stocks	11	1,520	502
Debtors - amounts falling due within one year	12	1,912,282	1,745,013
Cash at bank and in hand		3,675	4,024
		1,917,477	1,749,539
Creditors - amounts falling due within one year	13	(1,756,622)	(1,597,307)
Net current assets		160,855	152,232
Total assets less current liabilities		726,123	709,478
Provisions for liabilities and charges	14	-	(3,500)
Net assets excluding pensions deficit		726,123	705,978
Pensions deficit	18	(7,903)	(9,387)
Net assets		718,220	696,591
Capital and reserves			
Called up share capital	15	134,747	134,747
Profit and loss account	16	542,132	521,187
Other reserves	16	41,341	40,657
Total equity shareholders' funds	17	718,220	696,591

The restatement of prior year comparatives is explained in note 1 (16) to the financial statements

The financial statements on pages 7 to 23 were approved by the Directors on 30 October 2007 and signed on behalf of the Board



P H Taylor
Director

Notes are shown on pages 9 to 23

British American Tobacco (Investments) 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 with exchange differences taken to the profit and loss account in the year.

(4) Turnover

Turnover comprises sales at the invoice value to external customers and other group companies.

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) Research and development

Revenue expenditure is charged against profit as incurred.

(6) Retirement benefits

The Company participates in several pension schemes, the largest of which, the British American Tobacco UK Pension Fund, is a multi-employer scheme. Under FRS 17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme.

The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer British American Tobacco Group funded defined benefit scheme and therefore, does not recognise any share of any surplus or deficit in respect of these.

For those defined benefit schemes where the Company is the major participator, FRS 17 disclosure requirements are as disclosed in Note 18. The net deficit or surplus for each defined benefit scheme is calculated in accordance with FRS 17, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. Actuarial gains and losses are recognised as they are incurred in the Statement of Total Recognised Gains and Losses.

Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognised asset is limited to that for which the Company can benefit in future, for example, by refunds or reduced contributions.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

1 Accounting policies (continued)

For defined benefit schemes, the actuarial cost charged to operating profit consists of current service cost, past service costs and gains or losses on settlements and curtailments. The interest cost and expected return on plan assets are recognised in other financing costs. There are no surplus restrictions in place.

(7) Stocks

Stocks are valued at the lower of cost and net realisable value.

(8) 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 in FRS19, the Group has chosen not to discount deferred tax assets and liabilities.

(9) Tangible fixed assets

Tangible fixed assets are stated at cost less 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 as follows:

	%
Freehold buildings	2.5
Plant and machinery	7
Process control and computer equipment	20
Other equipment and fittings	10-20
Leasehold assets	
Short leases	Over the period of the lease

(10) Fixed asset investments

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

(11) Intangible fixed assets

Licenses, trademarks, know-how and similar rights and assets are stated at cost, less any amounts provided for impairment in value. No annual amortisation is charged in respect of these assets except where the end of the useful economic lives of the assets can be foreseen. The useful economic lives and the carrying value are reviewed annually and any amortisation or provision for impairment in value charged in the profit and loss account.

(12) Other investments

Other investments are stated at cost less provisions.

(13) Listed investments

The Stock Exchange value of listed investments at the year end is computed at middle market prices.

(14) Leased assets

The annual payments under operating leases are charged to the profit and loss account.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

1 Accounting policies (continued)

(15) 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.

(16) Branch accounting

The Company has a trading branch in Suriname. The turnover and other profit and loss amounts of the branch are included in the relevant headings of the profit and loss account whereas in previous years they were reported net within income from shares in subsidiary undertakings. Similarly, assets and liabilities of the branch are now shown in the relevant balance sheet caption (whereas previously they were reported as a net amount due from the branch). The 2005 comparatives have been restated accordingly. While there is no overall effect on net profit or shareholders funds at 31 December 2005, the main changes are an increase in turnover to £9,675,000 from £nil, an increase in the tax charge to £7,386,000 from £5,586,000, an increase in cash to £4,024,000 from £724,000 and an increase the pension deficit to £9,387,000 from £7,744,000.

(17) Share Schemes

The Company is recharged by British-American Tobacco Holdings Limited, a fellow group company, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The recharge in the year ended 31 December 2006 was £1,518,000 (2005: £1,083,000). The fellow group company which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes and provides the relevant disclosures required under FRS 20 (IFRS 2) Share-based Payment.

2 Turnover

Turnover is generated from the sale of tobacco products by the Company's branch in Suriname.

3 Operating income

Operating income comprises technical and advisory fees receivable and commission income.

4 Operating charges

	2006 £'000	2005 Restated £'000
Foreign exchange loss/(gain)	1,048	(542)
Other operating leases	89	89
Research and development expenditure	1,727	1,736
Staff costs	44,379	34,088
Depreciation	5,224	4,966
Loss on disposal of tangible fixed assets	108	207
Other operating charges	168,972	158,036
Purchases of finished goods	2,348	2,713
	223,895	201,293
(Decrease)/Increase in stock of finished goods and work in progress	19	120
	223,914	201,413

Auditors' fees of £28,000 were borne by a fellow Group undertaking (2005: £9,000 borne by a fellow Group undertaking).

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

4 Operating charges (continued)

Staff costs	2006 £'000	2005 £'000 Restated
Wages and salaries	36,083	28,611
Social security costs	2,685	1,935
Other pension costs (Defined Contribution)	4,069	2,397
Other pension costs (Defined Benefit)	27	62
Share reward schemes	1,515	1,083
	44,379	34,088

The average weekly number of persons employed by the Company during the year was

	2006 Number	2005 Number Restated
Administration	377	251
Overseas	38	101
	415	352

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

The Company has annual commitments in respect of operating leases as follows

	2006 Land and buildings £'000	2005 Land and buildings £'000
Beyond 5 years	89	89

5 Other interest receivable and similar income

	2006 £'000	2005 Restated £'000
Interest receivable from Group undertakings	56,473	55,538

6 Interest payable and similar charges

	2006 £'000	2005 £'000
Interest payable to group undertakings	5,331	5,401

Interest is paid on loans wholly repayable within five years

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

7 Taxation on ordinary activities

(a) Summary of tax on ordinary activities

	2006 £'000	2005 Restated £'000
UK Corporation Tax comprising		
- current tax at 30.00% (2005 30.00%)	7,783	3,080
- double taxation relief	(7,783)	(3,080)
	-	-
Overseas tax comprising		
- current tax on income	9,410	7,386
	9,410	7,386
Total current taxation <i>note 7(b)</i>	9,410	7,386
Deferred taxation	-	-
Total taxation charge	9,410	7,386

(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 Restated £'000
Profit on ordinary activities before taxation	50,235	159,058
Corporation Tax at 30.00% (2005 30.00%) on profit on ordinary activities	15,071	47,717
Factors affecting the tax rate		
Permanent differences	(14,701)	(2,363)
Corporate tax on gross up of dividends	1,369	883
Timing differences	(147)	1,378
Group loss relief surrendered at less than full consideration	16,381	(16,624)
Corporate income tax relief on intra-group dividends	(10,189)	(27,911)
Overseas tax	9,410	7,386
Double tax relief	(7,783)	(3,080)
Total current taxation charge <i>note 7(a)</i>	9,410	7,386

An amount of £60,364,000 (2005 £20,026,000) (tax amount of £18,109,000 (2005 £6,008,000)) included in permanent differences above represents tax adjustments following in respect of UK to UK transfer pricing.

8 Intangible fixed assets

Intangible Fixed assets comprise costs of Know-How acquired.

	£'000
Cost	
At 1 January and 31 December 2006	674

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

9 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 1 January 2006	18,681	35,733	7,455	61,869
Additions	61	5,510	13,487	19,058
Reallocation	-	3,329	(3,329)	-
Disposals	(12)	(901)	(4,150)	(5,063)
At 31 December 2006	18,730	43,671	13,463	75,864
Depreciation				
At 1 January 2006	4,201	23,290	-	27,491
Charge for the year	471	4,753	-	5,224
Disposals	(8)	(701)	-	(709)
At 31 December 2006	4,664	27,342	-	32,006
Net book value				
At 31 December 2006	14,066	16,329	13,463	43,858
At 31 December 2005	14,480	12,443	7,455	34,378

10 Investments in subsidiary undertakings

(1) Shares in subsidiaries

	% equity shares held
<u>Listed – Registered in Pakistan</u>	Ordinary shares of PKR 10 each
Pakistan Tobacco Company Limited	79.00%
Stock exchange valuation at 31 December 2006 £145,657,588 (2005 £133,351,663)	
<u>Listed – Registered in Indonesia</u>	Ordinary shares of IDR 1,000 each
PT BAT Indonesia Tbk	71.00%
Stock exchange valuation at 31 December 2006 £10,665,680 (2005 £20,738,184)	
<u>Unlisted – Registered in England and Wales</u>	Ordinary shares of £1 each
B A T Cambodia (Investments) Limited	100.00%
B A T Uzbekistan (Investments) Limited	100.00%
B A T (U K & Export) Limited	100.00%
Westanley Trading & Investment Company Limited	100.00%

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

10 Investments in subsidiary undertakings (continued)

(1) Shares in subsidiaries

	% equity shares held
<u>Unlisted – Registered in Chile</u>	Ordinary shares of no par value
Inversiones Casablanca S A	100 00%
<u>Unlisted – Registered in Isle of Man</u>	Ordinary shares of £1 each
Abbey Investment Company Limited	100 00%
Tobacco Investments Limited	100 00%
<u>Unlisted – Registered in Uganda</u>	Ordinary shares of £1 25 each
British American Tobacco Uganda Limited	70 00%

The Company has taken advantage of the exemption under s231(5) of the Companies Act 1985 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the figures shown in the financial statements

(2) Shareholdings at cost less provisions

	£'000
1 January 2006	520,340
Additions	568
Disposals	(2,036)
31 December 2006	518,872

The addition of £568,000 relates to Inversiones Casablanca S A The disposal of £2,036,000 relates to the liquidation of Indian Leaf Tobacco Company

- (3) The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the balance sheet

11 Stocks

	2006 £'000	2005 Restated £'000
Finished goods	1,520	502
	1,520	502

The replacement cost of stock held at year end is £1,520,000 (2005 £502,000)

British American Tobacco (Investments) Limited
Notes to the accounts – 31 December 2006

12 Debtors: amounts falling due within one year

	2006 £'000	2005 Restated £'000
Trade debtors	23,943	19,415
Amounts due from Group undertakings	1,887,880	1,725,124
Prepayments and accrued income	459	474
	1,912,282	1,745,013

Amounts due from Group undertakings include £1,278,358,000 of interest bearing amounts. The interest rate for the year was variable between 4.5% and 4.8%.

13 Creditors: amounts falling due within one year

	2006 £'000	2005 Restated £'000
Amounts due to Group undertakings	1,636,435	1,468,257
Loans due to Group undertakings	101,003	101,003
Other creditors	18,195	27,187
Taxation and social security	989	860
	1,756,622	1,597,307

The loans are repayable within five years and bear interest based on LIBOR plus 0.5%.

14 Provisions for liabilities and charges

	Other provisions £'000
1 January 2006	3,500
Released during the year	(3,500)
31 December 2006	-

Other provisions comprise provision for warranties for which the Company is no longer liable.

15 Called up share capital

Ordinary shares of 25p each	2006	2005
Authorised - value	£135,000,000	£135,000,000
- number	540,000,000	540,000,000
Allotted, called up and fully paid		
- value	£134,747,265	£134,747,265
- number	538,989,062	538,989,062

British American Tobacco (Investments) Limited
Notes to the accounts – 31 December 2006

16 Reserves

	Other Reserves £'000	Profit and loss account £'000	Total £'000
1 January 2006	40,657	521,187	561,844
Profit for the financial year	-	40,825	40,825
Actuarial gain on pension scheme	-	927	927
Unrealised losses arising on the translation of foreign operations	-	(123)	(123)
Dividend paid	-	(20,000)	(20,000)
Transfer	684	(684)	-
31 December 2006	41,341	542,132	583,473

17 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 Restated £'000
Profit attributable to shareholders for the year	40,825	151,672
Dividend paid	(20,000)	(345,000)
Actuarial gain/(loss) on pension scheme	927	(434)
Unrealised losses arising on the translation of foreign operations	(123)	(34)
Net transfer to/(offset against) shareholders' funds	21,629	(193,796)
Opening shareholders' funds	696,591	890,387
Closing shareholders' funds	718,220	696,591

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

18 Pensions

The Company participates in several pension schemes, the largest of which, the British American Tobacco UK Pension Fund is a multi-employer scheme. Under FRS17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer British American Tobacco Group funded defined benefit schemes in which it participates. Therefore, under FRS17 the Company would not recognise any share of any surplus or deficit in respect of these schemes and would reverse any provisions in respect of timing differences on pension contributions.

The Company sponsors the B A T Overseas Pension Fund. The latest actuarial valuation of the Fund was carried out by the independent actuaries, Barnett Waddingham, as at 30 June 2006.

The main multi-employer scheme in which the Company participates is the British American Tobacco UK Pension Fund. The last full actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2005 by a qualified independent actuary. This has been updated to 31 December 2006 and a net deficit on this fund of £209,965,000 (2005: £359,617,000) was identified.

The total pension cost to the Company was £4,096,000 (2005: £2,436,000).

The Company is liable for any commitments in respect of the B A T Overseas Pension Fund and therefore is required to reflect any surplus or deficit in respect of this fund. Under FRS17, the principal retirement benefits balance that need to be reflected in the balance sheet of the Company are those liabilities in respect of the funded scheme.

The liabilities in respect of the unfunded pension scheme have been transferred during 2006 to a fellow group undertaking British American Tobacco (Holdings) Limited.

In addition a branch of the Company operates an unfunded defined benefit pension scheme and healthcare scheme for employees. The numbers are disclosed in these statutory accounts for the first time.

In respect of the B A T Overseas Pension Fund scheme the major assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	5.1%	5.0%	4.8%
Rate of increase in pensions in payment and deferred pensions	3.1%	3.0%	2.8%
Discount rate	5.1%	4.7%	5.3%
General inflation	3.1%	3.0%	2.8%

In respect of the branch unfunded Pension Fund scheme the major assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	8.0%	8.0%	5.0%
Rate of increase in pensions in payment and deferred pensions	-%	7.5%	3.0%
Discount rate	8.0%	3.33%	4.0%
Healthcare inflation	5.0%	16.2%	-%
General inflation	8.0%	16.2%	5.0%

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

18 Pensions (continued)

The assets of the B A T Overseas Pension Fund in 2006 and 2005 were estimated to be as follows

	BAT OPF 2006 £'000	BAT OPF 2005 £'000
Equities	25,614	24,244
Bonds	18,913	18,953
Other assets	1,107	1,482
Total fair value of scheme assets	45,634	44,679

The assets and liabilities of the schemes in 2006 and 2005 (restated) were estimated to be as follows

	BAT OPF 2006 £'000	Branch unfunded 2006 £'000	Total 2006 £'000	BAT OPF 2005 £'000	Branch unfunded 2005 £'000	UK unfunded 2005 £'000	Total 2005 £'000
Total fair value of scheme assets	45,634	-	45,634	44,679	-	-	44,679
Present value of scheme liabilities	(51,933)	(1,604)	(53,537)	(52,250)	(1,643)	(173)	(54,066)
Net deficit and pension liabilities	(6,299)	(1,604)	(7,903)	(7,571)	(1,643)	(173)	(9,387)

The long term rates of return expected were as follows

	BAT OPF 2006 %	BAT OPF 2005 %	BAT OPF 2004 %	BAT OPF 2003 %	BAT OPF 2002 %
Equities	7.50	7.10	7.50	7.80	7.50
Bonds	4.80	4.30	4.90	5.10	5.50
Property	7.50	7.10	7.50	7.80	7.50
Other assets	5.10	4.50	4.80	3.80	7.50

British American Tobacco (Investments) Limited
Notes to the accounts – 31 December 2006

18 Pensions (continued)

The movement in the net recognisable deficit in 2006 and 2005 (restated) were as follows

	BAT OPF £'000	Branch unfunded £'000	UK unfunded £'000	Total £'000
2006				
Net recognisable deficit	(7,571)	(1,643)	(173)	(9,387)
Foreign exchange movements	-	235	-	235
Current service cost	-	(27)	-	(27)
Transfers	-	-	173	173
Expected return on scheme assets	2,483	-	-	2,483
Interest on scheme liabilities	(2,266)	(130)	-	(2,396)
Company contributions/benefits paid	-	89	-	89
Actuarial gains/(losses)	1,055	(128)	-	927
Net recognisable deficit 31 December	(6,299)	(1,604)	-	(7,903)

2005 (Restated)

Net recognisable deficit	(8,282)	(2,795)	(170)	(11,247)
Foreign exchange movements	-	(180)	-	(180)
Current service cost	(39)	(23)	-	(62)
Past service cost - unvested	-	(166)	-	(166)
Scheme changes	-	1,534	-	1,534
Expected return on scheme assets	2,504	-	-	2,504
Interest on scheme liabilities	(2,434)	-	(8)	(2,524)
Company contributions/benefits paid	1,110	59	19	1,188
Actuarial gains/(losses)	(430)	10	(14)	(434)
Net recognisable deficit 31 December	(7,571)	(1,643)	(173)	(9,387)

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

18 Pensions (continued)

Analysis of amount charged to the profit and loss account	2006 £'000	2005 Restated £'000
Operating profit		
– current service cost	(27)	(62)
– Total operating charge	(27)	(62)
Other finance income/(expense)		
– expected return on scheme assets	2,483	2,504
– interest on scheme liabilities	(2,396)	(2,524)
– Net return	87	(20)
Analysis of amounts recognised in statement of total recognised gains and losses	2006 £'000	2005 Restated £'000
Difference between actual and expected return on scheme assets	2,597	3,520
Experience (losses)/gains on scheme liabilities	(3,020)	1,878
Changes in assumptions underlying present value of scheme liabilities	1,350	(5,832)
Actual gain/(loss) recognised in statement of total recognised gains and losses	927	(434)

Details of experience gains and losses for the years to 31 December

	2006		2005 Restated		2004		2003		2002	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between expected and actual return on scheme assets	2,597		3,520		799		1,854		(2,602)	
– percentage of scheme assets		6		8		2		4		6
Experience (losses)/gains on scheme liabilities	(3,020)		1,878		(1,012)		(740)		405	
– percentage of present value of scheme liabilities		6		3		2		1		1
Net actuarial gain/(loss)	927		(434)		(1,042)		(2,083)		(2,279)	
– percentage of present value of scheme liabilities		2		1		2		4		5

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2006

19 Related parties

Transactions with related parties have been aggregated by nature of transaction and were as follows

Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group	2006 £'000	2005 £'000
Other income	7,313	-
Other expenses	5,288	-

The associates referred to are

Reynolds American Inc

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

20 Contingent liabilities

The Company, as of 29 October 2007, has been served, in addition to other leading US cigarette manufacturers, as a defendant in a total of seven smoking and health cases. Of these two are recoupment actions, three are class actions and two are individual actions. One of the recoupment actions is a suit alleging violations of the US RICO legislation brought by the U S Department of Justice seeking equitable relief. Judgment was delivered in favour of the plaintiffs on 17 August 2006 and the defendants are currently appealing that judgment.

The Company has also been served as a defendant in two other lawsuits which are not smoking and health cases. The first is an individual action alleging misappropriation of novel ideas and breach of contract. The second is a class action suit alleging violations of the anti-trust laws in Kansas.

Outside the USA, there is a recoupment action in British Columbia, Canada, which named the Company, amongst others, as a defendant and the Company has been served as a defendant in a recoupment action in Israel. In Nigeria, healthcare recoupment claims have been filed in four states and the Company, amongst others, has been named as a defendant. In addition to recovery of healthcare costs, extensive injunctive relief designed to regulate the sale, use and marketing of tobacco products is being sought by the Claimants.

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.

21 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 (Holdings) Limited. Group accounts are prepared only at the British American Tobacco p l c level.

British American Tobacco (Investments) Limited
Notes to the accounts – 31 December 2006

22 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