

British American Tobacco (Investments) Limited
Registered Number 74974

Directors' Report and Accounts

For the year ended 31 December 2007

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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 financial statements of the Company for the year ended 31 December 2007

Principal activities

The Company is a holding company of a group of companies and operates a branch in Suriname, the principal business activities of which are the marketing and manufacture 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 2007

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 £17,344,000 (2006 £40,825,000)

Key performance indicators

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

Dividends

During the year the Company paid dividends amounting to £85,000,000 (2006 £20,000,000)

Board of Directors

The names of the persons who served as directors of the Company during the period 1 January 2007 to the date of this report are as follows

	Appointed	Resigned
Nicandro Durante	22 April 2008	
Rudi Kindts		
Tadeu Luiz Marroco	25 January 2008	
Antonio Monteiro de Castro		31 December 2007
Paul Ashley Rayner		30 April 2008
Graham Albert Read		
Dudley Christo Saayman		23 November 2007
John Benedict Stevens	11 July 2008	
Peter Henry Taylor		

British American Tobacco (Investments) Limited

Directors' report

Directors' indemnities

As at the date of this report, indemnities are in force under which Messrs Durante and Stevens, as Directors of the Company, are, to the extent permitted by law, indemnified by British American Tobacco plc, the ultimate parent undertaking, 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. Messrs Monteiro de Castro and Rayner had similar indemnities from British American Tobacco plc until their resignations as Directors of the Company on 31 December 2007 and 30 April 2008, respectively.

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, the most recent of which are the Partnership Share Scheme and 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.

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

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.

On behalf of the Board



B M Creegan
Assistant Secretary

30 October 2008

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 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 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

31 October 2008

British American Tobacco (Investments) Limited

Profit and loss account for the year ended 31 December 2007

	<i>Note</i>	2007 £'000	2006 £'000
Turnover	2	8,469	10,727
Operating income	3	228,401	156,781
Operating charges	4	(354,864)	(223,914)
Operating loss		(117,994)	(56,406)
Income from shares in subsidiary undertakings		79,100	55,345
Investment income from Group associate undertakings		62	67
Gain on disposal of fixed asset	9	81	-
Interest receivable and similar income	5	73,065	56,473
Interest payable and similar charges	6	(6,145)	(5,331)
Other finance income	18	303	87
Profit on ordinary activities before taxation		28,472	50,235
Taxation on profit on ordinary activities	7	(11,128)	(9,410)
Profit for the financial year	16	17,344	40,825

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

As a result of the amendment to FRS 3 as described in the Basis of Accounting section in note 1, dividends in the current and prior year are now shown directly as movements in reserves

Statement of total recognised gains and losses for the year ended 31 December 2007

	<i>Note</i>	2007 £'000	2006 £'000
Profit for the financial year		17,344	40,825
Actuarial (losses)/gains on pension scheme	18	(2,381)	927
Loss arising on the translation of foreign operations		(33)	(123)
Total recognised gains relating to the year		14,930	41,629

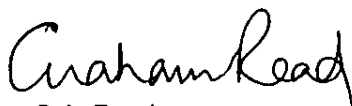
Notes are shown on pages 9 to 23

British American Tobacco (Investments) Limited

Balance sheet – 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Intangible fixed assets	9	674	674
Tangible fixed assets	10	62,642	43,858
Investments in subsidiary undertakings	11	520,383	518,872
Investment in fellow subsidiary undertakings		-	20
Other investments		39	1,844
		583,738	565,268
Current assets			
Stocks	12	-	1,520
Debtors - amounts falling due within one year	13	2,122,719	1,912,282
Cash at bank and in hand		2,421	3,675
		2,125,140	1,917,477
Creditors - amounts falling due within one year	14	(1,950,451)	(1,756,622)
Net current assets		174,689	160,855
Total assets less current liabilities		758,427	726,123
Creditors – amounts falling due after more than one year	14	101,003	-
Net assets excluding pension deficit		657,424	726,123
Pensions deficit	18	(9,274)	(7,903)
Net assets		648,150	718,220
Capital and reserves			
Called up share capital	15	134,747	134,747
Other reserves	16	41,341	41,341
Profit and loss account	16	472,062	542,132
Total shareholders' funds	17	648,150	718,220

The financial statements on pages 7 to 23 were approved by the Directors on 30 October 2008 and signed on behalf of the Board



G A Read
Director

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

1 Accounting policies

A summary of the principal accounting policies is set out below

(1) Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom

Following the amendment to FRS3 'Reporting Financial Performance', dividends paid are now reported as a reserve movement for the current and prior year. There is no overall change in equity or profit for the financial year in either the current or prior financial year as a result of this presentational change

(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

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. The difference between the retained profit of the overseas branch translated to sterling at the average and closing rates of exchange is taken to reserves, as are differences on exchange arising on the retranslation to sterling of foreign currency net assets at the beginning of the year. Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange. Other exchange differences are taken to the profit and loss account in the year

(4) Accounting for income

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) 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 Company has chosen not to discount deferred tax assets and liabilities

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

1 Accounting policies (continued)

(7) 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, under FRS 17, the net deficit or surplus for each defined benefit scheme is 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. 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.

The Company also operates a defined contribution scheme which was introduced in 2005. Payments in respect of defined contribution schemes are charged as an expense as they fall due.

(8) Stocks

Stocks are valued at the lower of cost and net realisable value. The method used in calculating cost, which includes raw materials, direct labour and overheads where appropriate, is average cost.

(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 and commences when the assets are ready for their intended use. 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 provisions for any impairment in value.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

1 Accounting policies (continued)

(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.

(14) Leased assets

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

(15) Dividends

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

(16) 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 and provides the relevant disclosures required under FRS 20 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.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

4 Operating charges

	2007 £'000	2006 £'000
Foreign exchange (gain)/loss	(623)	1,048
Operating lease charges	84	89
Research and development expenditure	1,328	1,727
Staff costs	57,961	44,379
Depreciation	7,328	5,224
Loss on disposal of tangible fixed assets	226	108
Other operating charges	288,151	168,972
Purchases of finished goods	1,929	2,348
	356,384	223,895
(Decrease)/increase in stocks of finished goods	(1,520)	19
	354,864	223,914

Auditors' fees of £28,000 were borne by a fellow Group undertaking (2006 £28,000 borne by a fellow Group undertaking)

	2007 £'000	2006 £'000
Staff costs		
Wages and salaries	44,780	36,083
Social security costs	3,134	2,685
Other pension costs - Defined Contribution (note 18)	5,423	4,069
Other pension costs - Defined Benefit (note 18)	3,289	27
Share reward schemes	1,335	1,515
	57,961	44,379

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

	2007 Number	2006 Number
Administration	451	377
Overseas	7	38
	458	415

None of the Directors received any remuneration in respect of their services to the Company during the year (2006 £nil)

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

	2007 £'000	2006 £'000
Land and buildings		
After 5 years	84	89

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

5 Interest receivable and similar income

	2007 £'000	2006 £'000
Interest receivable from Group undertakings	73,065	56,473

6 Interest payable and similar charges

	2007 £'000	2006 £'000
Interest payable to Group undertakings	6,145	5,331

Interest is paid on loans wholly repayable within five years

7 Taxation on profit on ordinary activities

(a) Summary of tax on ordinary activities

	2007 £'000	2006 £'000
UK Corporation Tax comprising		
- current tax at 30% (2006 30%)	10,414	7,783
- double taxation relief	(10,414)	(7,783)
	-	-
Overseas tax comprising		
- current tax on income	11,128	9,410
Total current taxation note 7(b)	11,128	9,410

(b) Factors affecting the tax charge

The current taxation charge differs from the standard 30 per cent rate of Corporation Tax in the UK. The major causes of this difference are listed below.

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	28,472	50,235
Corporation Tax at 30% (2006 30%) on profit on ordinary activities	8,542	15,071
Factors affecting the tax rate		
Permanent differences	(16,993)	(14,702)
Corporate tax on gross up of dividends	3,169	1,369
Timing differences	966	(147)
Group loss relief surrendered at less than full consideration	31,230	16,381
Corporate income tax relief on intra-Group dividends	(16,500)	(10,189)
Overseas tax	11,128	9,410
Double tax relief	(10,414)	(7,783)
Total current taxation charge note 7(a)	11,128	9,410

An amount of £75,690,000 (2006 £60,364,000) (tax amount of £22,707,000 (2006 £18,109,000)) included in permanent differences above represents tax adjustments following in respect of UK to UK transfer pricing.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

8 Dividends

	2007 £'000	2006 £'000
Equity – ordinary		
Interim paid	85,000	20,000

9 Intangible fixed assets

Intangible fixed assets comprise costs of Know-How acquired

	£'000
Cost	
At 1 January and 31 December 2007	674

In June 2007, the Company sold to Orlik Tobacco Company A/S its pipe tobacco trademarks which had a nil book value thereby realising an exceptional gain of £81,000, being the net proceeds

10 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 2007	18,730	43,671	13,463	75,864
Additions	8,779	4,598	31,005	44,382
Reallocation	59	20,561	(20,620)	-
Disposals	-	(20,285)	-	(20,285)
At 31 December 2007	27,568	48,545	23,848	99,961
Accumulated depreciation				
At 1 January 2007	4,664	27,342	-	32,006
Charge for the year	486	6,842	-	7,328
Disposals	-	(2,015)	-	(2,015)
At 31 December 2007	5,150	32,169	-	37,319
Net book value				
At 31 December 2007	22,418	16,376	23,848	62,642
At 31 December 2006	14,066	16,329	13,463	43,858

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

11 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 2007 £255,790,252 (2006 £145,657,588)	
<u>Listed – Registered in Indonesia</u>	Ordinary shares of IDR 1,000 each
PT BAT Indonesia Tbk	78.74%
Stock exchange valuation at 31 December 2007 £12,785,959 (2006 £10,665,680)	
<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%
<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 UGX1 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 2007	518,872
Additions	1,511
31 December 2007	520,383

The addition of £1,511,000 relates to the purchase of 5,035,000 additional shares in PT BAT Indonesia Tbk, thereby increasing the shareholding by 7.7%

- (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

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

12 Stocks

	2007 £'000	2006 £'000
Finished goods	-	1,520

The replacement cost of stock held at year end is £nil (2006 £1,520,000)

13 Debtors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade debtors	21,619	23,943
Amounts due from Group undertakings	2,098,616	1,887,880
Prepayments and accrued income	396	459
Other debtors	2,088	-
	2,122,719	1,912,282

Amounts due from Group undertakings include £1,403,026,000 (2006 £1,278,358,000) which is unsecured, interest bearing at rates based on LIBOR and repayable on demand. All other amounts due from Group undertakings are unsecured, interest free and repayable on demand.

14 Creditors

(a) Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Amounts due to Group undertakings	1,758,812	1,636,435
Loans due to Group undertakings	-	101,003
Other creditors	191,639	18,195
Taxation and social security	-	989
	1,950,451	1,756,622

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

(b) Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Loans due to Group undertakings	101,003	-

The loan is unsecured, repayable in December 2012 and bears interest based on LIBOR plus 120 basis points.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

15 Share capital

Ordinary shares of 25p each	2007	2006
Authorised - value	£135,000,000	£135,000,000
- number	540,000,000	540,000,000
<hr/>		
Allotted, called up and fully paid		
- value	£134,747,265	£134,747,265
- number	538,989,062	538,989,062
<hr/>		

16 Reserves

	Other Reserves £'000	Profit and loss account £'000	Total £'000
1 January 2007	41,341	542,132	583,473
Profit for the financial year	-	17,344	17,344
Actuarial loss on pension scheme	-	(2,381)	(2,381)
Loss on translation of foreign operations	-	(33)	(33)
Dividend paid	-	(85,000)	(85,000)
31 December 2007	41,341	472,062	513,403

17 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Profit for the year	17,344	40,825
Dividends paid	(85,000)	(20,000)
Actuarial (loss)/gain on pension scheme	(2,381)	927
Loss on translation of foreign operations	(33)	(123)
Net transfer (from)/to shareholders' funds	(70,070)	21,629
Opening shareholders' funds	718,220	696,591
Closing shareholders' funds	648,150	718,220

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

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 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 schemes in which it participates. Therefore, under FRS 17 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 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 2007 and a net deficit on this fund of £135,958,000 (2006 £209,965,000) was identified.

The Company sponsors the B A T Overseas Pension Fund, a defined benefit scheme where the Company is the major participator. Under FRS 17, the net deficit or surplus for each defined benefit scheme is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The latest actuarial valuation of the Fund was carried out by the independent actuaries, Barnett Waddingham, as at 30 June 2007.

In addition the Company's branch operates an unfunded defined benefit pension scheme and healthcare scheme for employees.

The total pension cost to the Company was £8,712,000 (2006 £4,096,000).

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

	2007	2006	2005
Rate of increase in salaries	5.4%	5.1%	5.0%
Rate of increase in pensions in payment and deferred pensions	3.4%	3.1%	3.0%
Discount rate	5.8%	5.1%	4.7%
General inflation	3.4%	3.1%	3.0%

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

	2007	2006	2005
Rate of increase in salaries	5.0%	8.0%	8.0%
Rate of increase in pensions in payment and deferred pensions	-%	-%	7.5%
Discount rate	3.3%	8.0%	3.3%
Healthcare inflation	5.0%	5.0%	16.2%
General inflation	5.0%	8.0%	16.2%

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

18 Pensions (continued)

The assets of the B A T Overseas Pension Fund in 2007 and 2006 were estimated to be as follows

	2007 £'000	2006 £'000
Equities	24,527	25,614
Bonds	18,706	18,913
Other assets	149	1,107
Total fair value of scheme assets	43,382	45,634

The assets and liabilities of the schemes in 2007, 2006 and 2005 were estimated to be as follows

	BAT OPF 2007 £'000	Branch unfunded 2007 £'000	Total 2007 £'000
Total fair value of scheme assets	43,382	-	43,382
Present value of scheme liabilities	(52,103)	(553)	(52,656)
Net deficit and pension liabilities	(8,721)	(553)	(9,274)

	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 in respect of the B A T Overseas Pension Fund were as follows

	2007 %	2006 %	2005 %
Equities	7.50	7.50	7.10
Bonds	5.20	4.80	4.30
Other assets	6.60	5.10	4.50

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

18 Pensions (continued)

The movements in the net recognisable deficit in 2007 and 2006 were as follows

	BAT OPF £'000	Branch unfunded £'000	UK unfunded £'000	Total £'000
2007				
Net deficit 1 January	(6,299)	(1,604)	-	(7,903)
Foreign exchange movements	-	(31)	-	(31)
Current service cost	-	(68)	-	(68)
Past service cost	(3,221)	-	-	(3,221)
Scheme changes	-	188	-	188
Expected return on scheme assets	2,815	-	-	2,815
Interest on scheme liabilities	(2,447)	(65)	-	(2,512)
Company contributions/pensions paid	2,783	1,056	-	3,839
Actuarial losses	(2,352)	(29)	-	(2,381)
Net deficit 31 December	(8,721)	(553)	-	(9,274)

2006

Net deficit 1 January	(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/pensions paid	-	89	-	89
Actuarial gains/(losses)	1,055	(128)	-	927
Net deficit 31 December	(6,299)	(1,604)	-	(7,903)

The liabilities in respect of an unfunded United Kingdom pension scheme were transferred during 2006 to a fellow Group undertaking, British-American Tobacco (Holdings) Limited

Analysis of amount charged to the profit and loss account	2007	2006
	£'000	£'000
Operating profit		
– current service cost	(68)	(27)
– Past service cost	(3,221)	-
– Total operating charge	(3,289)	(27)
Other finance income/(expense)		
– expected return on scheme assets	2,815	2,483
– interest on scheme liabilities	(2,512)	(2,396)
– Net finance income	303	87

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

18 Pensions (continued)

Analysis of amounts recognised in statement of total recognised gains and losses	2007	2006
	£'000	£'000
Difference between actual and expected return on scheme assets	(3,804)	2,597
Experience gains/(losses) on scheme liabilities	1,754	(3,020)
Changes in assumptions underlying present value of scheme liabilities	(331)	1,350
Actual (loss)/gain recognised in statement of total recognised gains and losses	(2,381)	927

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

	2007		2006		2005	
	£'000	%	£'000	%	£'000	%
Difference between expected and actual return on scheme assets	(3,804)		2,597		3,520	
– percentage of scheme assets		(9)		6		8
Experience gains/(losses) on scheme liabilities	1,754		(3,020)		1,878	
– percentage of present value of scheme liabilities		3		(6)		3
Net actuarial (loss)/gain	(2,381)		927		(434)	
– percentage of present value of scheme liabilities		(5)		2		1

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	2007	2006
	£'000	£'000
Other income	194	7,313
Other expenses	120	5,288

The associates referred to are

Reynolds American Inc

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

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2007

20 Contingent liabilities

As of 24 October 2008, the Company has been served, or service has been attempted, in a total of six US smoking and health cases. One is a recoupment action (City of St. Louis), two are class actions (Cleary and Schwab), two are individual actions (Eiser and Perry), and one is a suit alleging violations of US RICO legislation brought by the United States Department of Justice, seeking injunctive relief (DOJ). In the DOJ case, final judgment was delivered in favour of the plaintiffs on 17 August 2006 and the defendants are currently appealing from that judgment. The judgment has been stayed pending the outcome of this appeal. In the Schwab case, on 3 April 2008, the Second Circuit reversed the trial court's certification of a nationwide class of "Lights" smokers on the grounds that numerous issues in the case are not susceptible to common proof, and thus, individual issues of fact and law predominate over allegedly common issues. The case has been returned to the District Court.

In the US, the Company has been named as a defendant in a class action suit alleging violations of the anti-trust laws in Kansas (Smith). Discovery is continuing in this case.

Outside the US, the Company, amongst others, has been named in two recoupment actions filed by Canadian provinces (British Columbia and New Brunswick). In addition, the Company has been named as a defendant in a recoupment action in Israel (Clalit). In Nigeria, healthcare recoupment claims have been filed by four Nigerian states (Lagos, Kano, Oyo and Gombe) and the Company, amongst others, has been named as a defendant in each of these actions. The federal government of Nigeria has filed a similar lawsuit and the Company is named as a defendant in that action as well. The claimants in these Nigerian actions seek compensatory, special and punitive damages. In addition, the claimants seek injunctive relief designed to regulate the sale, use and marketing of tobacco products in their respective jurisdictions. In Saudi Arabia, a recoupment action was reportedly filed by the King Faisal Specialist Hospital in the Riyadh General Court, naming "BAT Company Limited" as a defendant. Details of the claim, including the amount of damages sought, have not been disclosed.

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 and ultimate controlling party 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 2007

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