

British American Tobacco (Investments) Limited
Registered Number 74974

Directors' Report and Financial Statements

For the year ended 31 December 2008

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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 2008.

Principal activities

The Company is a holding company of a group of companies which are active in the tobacco industry. The Company operated a branch in Suriname which ceased its trading operations with effect from 1 January 2008.

The Company, as described below, also undertakes a significant amount of research and development.

Review of the year to 31 December 2008

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 £1,742,000 (2007: £17,344,000).

The Directors expect the Company's activities to continue on a similar basis in the foreseeable future.

Key performance indicators

The Directors of British American Tobacco p.l.c., the ultimate parent company, manage the operations of the British American Tobacco 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 Business Review section in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

Principal risks and uncertainties

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

Dividends

During the year the Company paid dividends amounting to £nil (2007: £85,000,000).

Board of Directors

The names of the persons who served as directors of the Company during the period 1 January 2008 to the date of this report are as follows:

	Appointed	Resigned
Nicandro Durante	22 April 2008	
Rudi Kindts		
Tadeu Luiz Marroco	25 January 2008	
Paul Ashley Rayner		30 April 2008
Graham Albert Read		
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, an indemnity is in force under which Messrs N.Durante and J.B.Stevens, as directors of the Company, are, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which 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. A similar indemnity was in force in respect of Mr. P.A. Rayner until his resignation as a director of the Company on 30 April 2008.

Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, publications and regular meetings with employee representatives.

The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

The Company has Employment Policies which are committed to providing a work environment that is free from harassment, bullying and discrimination – these policies are available to all staff on the Company's intranet. There is no discrimination against people with disabilities who apply to join the Company and anyone within the Company with disability is awarded the same opportunities for promotion, training and career development as other staff. We aim to establish and maintain a safe working environment for all staff, including those with disabilities.

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 Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

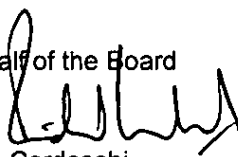
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' declaration in relation to relevant audit information

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

- (1) to the best of his 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


Richard Cordeschi
Company Secretary

26 October

2009

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 2008 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 2008 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 

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH

24 October 2009

British American Tobacco (Investments) Limited

Profit and loss account for the year ended 31 December 2008

	<i>Note</i>	2008 £'000	2007 £'000
Turnover	2	-	8,469
Operating income	3	272,239	228,401
Operating charges	4	(417,377)	(354,864)
Operating loss		(145,138)	(117,994)
Income from shares in subsidiary undertakings		104,422	79,100
Investment income from Group associate undertakings		116	62
Gain on disposal of fixed asset	8	-	81
Interest receivable and similar income	5	63,792	73,065
Interest payable and similar charges	6	(7,171)	(6,145)
Other finance (cost)/income	16	(212)	303
Profit on ordinary activities before taxation		15,809	28,472
Taxation on profit on ordinary activities	7	(14,067)	(11,128)
Profit for the financial year	14	1,742	17,344

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.

Statement of total recognised gains and losses for the year ended 31 December 2008

	<i>Note</i>	2008 £'000	2007 £'000
Profit for the financial year		1,742	17,344
Actuarial losses on pension scheme	16	(4,129)	(2,381)
Gain arising on the translation of foreign operations		76	(33)
Total recognised gains and losses relating to the year		(2,311)	14,930

Notes are shown on pages 9 to 21.

British American Tobacco (Investments) Limited

Balance sheet – 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible fixed assets	8	674	674
Tangible fixed assets	9	86,744	62,642
Investments in subsidiary undertakings	10	520,383	520,383
Other investments		39	39
		607,840	583,738
Current assets			
Debtors - amounts falling due within one year	11	2,026,198	2,122,719
Cash at bank and at hand		4,148	2,421
		2,030,346	2,125,140
Creditors - amounts falling due within one year	12(a)	(1,877,999)	(1,950,451)
Net current assets		152,347	174,689
Total assets less current liabilities		760,187	758,427
Creditors – amounts falling due after more than one year	12 (b)	(101,003)	(101,003)
Net assets excluding pension deficit		659,184	657,424
Pensions deficit	16	(13,345)	(9,274)
Net assets including pensions deficit		645,839	648,150
Capital and reserves			
Share capital	13	134,747	134,747
Other reserves	14	41,341	41,341
Profit and loss account	14	469,751	472,062
Total shareholders' funds	15	645,839	648,150

The financial statements on pages 7 to 21 were approved by the Directors on 26 October 2009 and signed on behalf of the Board.

Director

Notes are shown on pages 9 to 21.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

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. The Company has adopted the amendment to FRS 17 'Retirement Benefits' in the year and the additional disclosures. There is no effect on the balance sheet, profit and loss account or statement of total recognised gains and losses in 2008 or 2007 as a result of this adoption.

The Company is included in the consolidated financial statements of British American Tobacco p.l.c. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 228 of the Companies Act 1985.

(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. Monetary 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 by the Company's branch 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 where there is an expectation that all or a portion of the amount due will not be recovered.

(5) Research and development

Revenue expenditure is charged against profit as incurred.

(6) Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

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. 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 accumulated 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

Assets in the course of construction are not depreciated until brought into operational use.

(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 2008

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 for any impairment in value.

(14) Leased assets

The annual payments under operating leases are charged to the profit and loss account over the length of the lease.

(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

Until 1 January 2008, turnover was generated from the sale of tobacco products by the Company's branch in Suriname. This activity was discontinued on 31 December 2007.

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 2008

4 Operating charges

	2008 £'000	2007 £'000
Staff costs	60,346	57,961
Research and development expenditure	2,273	1,328
Depreciation	6,282	7,328
Impairment of tangible fixed assets	8,826	-
Loss on disposal of tangible fixed assets	-	226
Operating lease charges - other	84	84
Purchases of finished goods	-	409
Foreign exchange gain	(49)	(623)
Other operating charges	339,615	288,151
	417,377	354,864

Auditors' fees of £28,000 were borne by a fellow Group undertaking (2007: £28,000 borne by a fellow Group undertaking).

Staff costs:	2008 £'000	2007 £'000
Wages and salaries	49,638	44,780
Social security costs	3,598	3,134
Other pension costs - Defined Contribution (note 16)	4,873	5,423
Other pension costs - Defined Benefit (note 16)	352	3,289
Share reward schemes	1,885	1,335
	60,346	57,961

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

	2008 Number	2007 Number
Administration	471	451
Overseas	-	7
	471	458

Directors' emoluments

The remuneration of the Directors in respect of their services as Directors of the Company during the year was as follows:

	2008 £'000	2007 £'000
Aggregate emoluments	863	-
Company contributions paid to a money purchase pension scheme	14	-
Highest paid Director:		
Aggregate emoluments	540	-
Company contributions paid to a money purchase pension scheme	14	-

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

Directors' emoluments (continued)

	Number	Number
Directors exercising share options during the year	1	-
Directors entitled to receive shares under a long term incentive scheme	2	-
Directors retirement benefits accruing under a money purchase scheme	1	-
Directors retirement benefits accruing under a defined benefit scheme	1	-

The highest paid Director received shares under a long term incentive scheme but he did not exercise share options during the year. No Directors received emoluments (excluding shares) under long-term incentive schemes during the year (2007: none).

The above figures do not include Messrs P.A. Rayner, N. Durante and J.B Stevens who receive remuneration in respect of their services as Directors of the British American Tobacco p.l.c. Group and do not receive any remuneration in their capacity as Directors of the Company. Their remuneration is disclosed in the Annual Report and Accounts of British American Tobacco p.l.c

Lease commitments

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

	2008 £'000	2007 £'000
Land and buildings		
After 5 years	84	84

5 Interest receivable and similar income

	2008 £'000	2007 £'000
Interest receivable from Group undertakings	63,770	73,065
Other interest receivable	22	-
	63,792	73,065

6 Interest payable and similar charges

	2008 £'000	2007 £'000
Interest payable to Group undertakings	7,171	6,145
Interest is paid on loans wholly repayable within five years.		

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

7 Taxation on profit on ordinary activities

(a) Summary of tax on ordinary activities

	2008 £'000	2007 £'000
Current tax:		
UK Corporation Tax comprising:		
- current tax at 28.5% (2007: 30%)	16,052	10,414
- double taxation relief	(16,052)	(10,414)
	-	-
Overseas tax comprising:		
- current tax on income	14,067	11,128
Total current taxation note 7(b)	14,067	11,128

(b) Factors affecting the tax charge

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

The current taxation charge differs from the standard 28.5% rate of Corporation Tax in the UK. The major causes of this difference are listed below:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	15,809	28,472
Corporation Tax at 28.5% (2007: 30%) on profit on ordinary activities	4,505	8,542
Factors affecting the tax rate:		
Permanent differences	(4,362)	(16,993)
Corporate tax on gross up of dividends	4,655	3,169
Timing differences	755	966
Group loss relief surrendered at nil consideration	28,893	31,230
Corporate income tax relief on intra-Group dividends	(18,394)	(16,500)
Overseas tax	14,067	11,128
Double tax relief	(16,052)	(10,414)
Total current taxation charge note 7(a)	14,067	11,128

An amount of £71,948,000 (2007: £75,690,000) (tax amount of £20,505,000 (2007: £22,707,000)) 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 2008	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.

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

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 2008	27,568	48,545	23,848	99,961
Additions	2,160	10,639	55,878	68,677
Reallocation	-	35,006	(35,006)	-
Disposals	-	(35,075)	-	(35,075)
At 31 December 2008	29,728	59,115	44,720	133,563
Accumulated depreciation				
At 1 January 2008	5,150	32,169	-	37,319
Charge for the year	594	5,688	-	6,282
Impairment charge	-	8,826	-	8,826
Disposals	-	(5,608)	-	(5,608)
At 31 December 2008	5,744	41,075	-	46,819
Net book value				
At 31 December 2008	23,984	18,040	44,720	86,744
At 31 December 2007	22,418	16,376	23,848	62,642

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 2008 £188,552,175 (2007: £255,790,252).	
<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 2008 £16,580,586 (2007: £12,785,959)	
<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%

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

10 Investments in subsidiary undertakings (continued)

(1) Shares in subsidiaries (continued)

Unlisted – Registered in Uganda

Ordinary shares of £1.25 each

British American Tobacco Uganda Limited

70.00%

The Company's subsidiaries operate in the Tobacco industry. 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 to 31 December 2008

520,383

- (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 Debtors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade debtors	21,483	21,619
Amounts due from Group undertakings	2,003,672	2,098,616
Prepayments and accrued income	305	396
Other debtors	738	2,088
	<u>2,026,198</u>	<u>2,122,719</u>

Amounts due from Group undertakings include £999,992,000 (2007: £1,403,026,000) 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.

12 Creditors: amounts falling due within one year

(a) Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts due to Group undertakings	1,671,551	1,758,812
Other creditors	206,448	191,639
	<u>1,877,999</u>	<u>1,950,451</u>

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
Loan due to Group undertakings	101,003	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 2008

13 Share capital

Ordinary shares of 25p each	2008	2007
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

14 Reserves

	Other Reserves £'000	Profit and loss account £'000
1 January 2008	41,341	472,062
Profit for the financial year	-	1,742
Actuarial loss on pension scheme	-	(4,129)
Gain on translation of foreign operations	-	76
31 December 2008	41,341	469,751

15 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Profit for the financial year	1,742	17,344
Dividends - interim paid	-	(85,000)
Actuarial loss on pension scheme	(4,129)	(2,381)
Gain/(Loss) on translation of foreign operations	76	(33)
Net withdrawal from shareholders' funds	(2,311)	(70,070)
Opening shareholders' funds	648,150	718,220
Closing shareholders' funds	645,839	648,150

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

16 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 and therefore, does not recognise any share of any surplus or deficit in respect of these.

The last full actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2008 by a qualified independent actuary. This has been updated to 31 December 2008 and a net deficit on this fund of £333,556,000 (2007: £135,958,000) was identified.

The Company sponsors the B.A.T Overseas Pension Fund ("BATOPF"), 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 2007 the Company's branch operated an unfunded defined benefit pension scheme and healthcare scheme for employees.

In 2008 the management of British American Tobacco Suriname Branch entered into an agreement with Carisma Marketing Services Suriname Branch to transfer the assets and liabilities, including all staff, following a restructuring of the business of British American Tobacco Suriname Branch. In 2008 the balances as at 31 December 2007 of the pension and healthcare liabilities were transferred to Carisma Marketing Services Limited Suriname Branch.

The total pension cost to the Company was £5,225,000 (2007: £8,712,000).

The assets and liabilities of the schemes were estimated to be as follows:

	BAT OPF	Branch unfunded	Total	BAT OPF	Branch unfunded	Total
	2008	2008	2008	2007	2007	2007
	£'000	£'000	£'000	£'000	£'000	£'000
Total fair value of scheme assets	34,736	-	34,736	43,382	-	43,382
Present value of scheme liabilities	(48,081)	-	(48,081)	(52,103)	(553)	(52,656)
Net deficit and pension liabilities	(13,345)	-	(13,345)	(8,721)	(553)	(9,274)

Analysis of amount charged to the profit and loss account	2008	2007
	£'000	£'000
Operating profit		
– current service cost	(98)	(68)
– Past service cost	(254)	(3,221)
– Total operating charge	(352)	(3,289)
Other finance income/(expense)		
– expected return on scheme assets	2,692	2,815
– interest on scheme liabilities	(2,904)	(2,512)
– Net finance (costs)/income	(212)	303

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

16 Pensions (continued)

Analysis of amounts recognised in statement of total recognised gains and losses

	2008 £'000	2007 £'000
Actuarial losses on scheme assets	(7,266)	(3,804)
Experience gains on scheme liabilities	525	1,754
Changes in assumptions underlying the present value of scheme liabilities gains/(losses)	2,612	(331)
Net actuarial loss	(4,129)	(2,381)

Changes in the defined benefit obligation are as follows:

	2008 Branch £'000	2008 BAT OPF £'000	2008 Total £'000	2007 Branch £'000	2007 BAT OPF £'000	2007 Total £'000
At 1 January	553	52,103	52,656	1,604	51,933	53,537
Foreign exchange movements	-	-	-	31	-	31
Transfer to Group undertaking	(553)	-	(553)	-	-	-
Current service cost	-	98	98	68	-	68
Past service cost	-	254	254	-	3,221	3,221
Scheme changes	-	-	-	(188)	-	(188)
Interest on scheme liabilities	-	2,904	2,904	65	2,447	2,512
Benefits paid	-	(4,141)	(4,141)	(1,056)	(4,046)	(5,102)
Actuarial losses/(gains)	-	(3,137)	(3,137)	29	(1,452)	1,423
At 31 December	-	48,081	48,081	553	52,103	52,656

Changes in the fair value of funded plan assets are as follows:

	2008 BAT OPF £'000	2007 BAT OPF £'000
At 1 January	43,382	45,634
Expected return on scheme	2,692	2,815
Benefits paid	(4,141)	(4,046)
Company contributions	69	2,783
Actuarial losses	(7,266)	(3,804)
At 31 December	34,736	43,382

The major assumptions used by the actuary were:

	BAT OPF		Branch	
	2008	2007	2008	2007
Rate of increase in salaries	4.4%	5.4%	-	5.0%
Rate of increase in pensions in payment and deferred pensions	2.9%	3.4%	-	-%
Discount rate	6.0%	5.8%	-	3.3%
General inflation	2.9%	3.4%	-	5.0%
Healthcare inflation	-	-	-	5.0%

British American Tobacco (Investments) Limited

Notes to the accounts – 31 December 2008

16 Pensions (continued)

The weighted average life expectancy in years for mortality tables used to determine the defined benefit obligations is as follows:

	2008 Years	2007 Years
Member age 65 (current life expectancy)		
- male	19.4	19.4
- female	22.2	22.2
Member age 45 (life expectancy at age 65)		
- male	23.1	23.1
- female	26.5	26.5

In the United Kingdom, for post-retirement mortality assumptions at 31 December 2008 and 31 December 2007 the table PXA92 (B=1965) rated up one year for active and deferred members and PXA92 (B=1935) table rated up three years for current pensioners, all with medium cohort effect, have been used.

The history of the present value of the defined benefit obligation, fair value of the plan assets, the net surplus and experience gains and losses are as follows:

Historical information	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Defined benefit obligation	(48,081)	(52,656)	(53,537)	(54,066)	(49,884)
Fair value of plan assets	34,736	43,382	45,634	44,679	41,603
Net deficit	(13,345)	(9,274)	(7,903)	(9,387)	(8,281)
Experience gains/(losses) on defined benefit obligation	525	1,754	(3,020)	1,878	(740)
Experience (losses)/gains on fair value of plan assets	(7,266)	(3,804)	2,597	3,520	799

17 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	2008 £'000	2007 £'000
Other income	27	194
Other expenses	526	120

The associate referred to is Reynolds American Inc.

As a wholly owned subsidiary, 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 2008

18 Contingent liabilities

As of 20 October 2009, the Company has been served, or service has been attempted, in a total of six US smoking and health cases. One is a healthcare recoupment action (*City of St. Louis, et al*), 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 (DOJ). In the DOJ case, the D.C. Circuit Court affirmed District Court Judge Kessler's 22 May 2009 ruling on RICO liability in granting injunctive relief to restrain future violations of RICO. Compliance with the judgment will mean the Company having to take a number of steps that will include disclosure of company documents on the internet. The Company's request for a panel/en banc hearing of the Circuit Court's opinion was refused on 22 September 2009. A further appeal is under consideration.

In the US, the Company has been named as a defendant in a class action suit alleging violations of antitrust and consumer protection laws in Kansas (*Smith*) and as defendant in an individual action alleging misappropriation of novel ideas and breach of contract (*Gero*).

Outside the US, the Company, amongst others, has been named in three healthcare recoupment actions filed by Canadian provinces (British Columbia, Ontario and New Brunswick) and in five smoking and health class actions in Nova Scotia, Manitoba, Saskatchewan (which has two cases) and Alberta. In addition, the Company has been named as a defendant in a recoupment claim in Israel (*Clalit*).

In Nigeria, six healthcare recoupment claims have been filed by Nigerian states (Akwa Ibom, Gombe, Kano, Lagos, Oyo, Ogun) and one healthcare recoupment claim has been filed by the Federal Government and the Company, amongst others, has been named as a defendant in each of these actions. The claimants in these actions seek compensatory, special and punitive damages as well as 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, but service has not been effected. 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.

19 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is British-American Tobacco (Holdings) Limited. Group accounts are prepared only at the British American Tobacco p.l.c. level.

20 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