

British-American Tobacco (Holdings) Limited

Registered Number 00262254

Directors' report and financial statements

For the year ended 31 December 2012



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Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2012

Principal activities

The Company acts as an investment holding company in subsidiary undertakings of the British American Tobacco plc Group (the "Group") which are active in the tobacco industry and in addition acts as the principal Group Head Office operating company

Review of the year ended 31 December 2012

The profit for the financial year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of taxation amounted to £52,994,000 (2011 £368,698,000) Profit for the financial year is shown after deduction of £9,227,000 (2011 £25,745,000) of exceptional costs, which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model

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

Key performance indicators

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 plc 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 plc and do not form part of this report

Dividends

The Directors do not recommend the payment of a dividend for the year (2011 £450,000,000)

Directors' report

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2012 to the date of this report are as follows

	Appointed	Resigned
Nicandro Durante		
John Benedict Stevens		
Desmond John Naughton		
John Patrick Daly		
Neil Robert Withington		
Andrew MacLachlan Gray		
Jack Bowles		
David Stuart Fell		31 December 2012
Giovanni Giordano		
Jean-Marc Levy		
Mark Martijn Cobben		30 October 2012
David O'Reilly	1 January 2012	
Naresh Kumar Sethi	1 January 2012	
Kingsley Wheaton	1 January 2012	
Michael Prideaux		29 June 2012
Alan Davy	1 March 2013	
Ricardo Oberlander	1 January 2013	

Directors' indemnities

Throughout the period 1 January 2012 to the date of this report, a qualifying third party indemnity has been in force under which Messrs J B Stevens, J P Daly and N Durante, 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

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

Directors' report

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 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, and
- avoid any delays when legitimately questioning invoices

The proportion which the amount owed to trade creditors at 31 December 2012 bears to the amounts invoiced by suppliers during the year then ended equated to a 42 days proportion of 366 days (2011: 46 days)

* Details of the Better Payment Practice Code are available on the website <http://www.payontime.co.uk>

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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

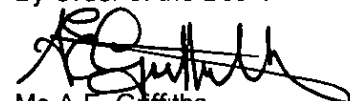
Directors' report (continued)

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

- (a) to the best of his knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) 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

By Order of the Board



Ms A E Griffiths
Assistant Secretary

25 September 2013

Independent auditors' report to the members of British-American Tobacco (Holdings) Limited

We have audited the financial statements of British-American Tobacco (Holdings) Limited for the year ended 31 December 2012 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

British-American Tobacco (Holdings) Limited

Independent auditors' report to the members of British-American Tobacco (Holdings) Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



James Parker

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Embankment Place

London

25 September 2013

Profit and loss account for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Continuing operations			
Other operating income	2	712,900	671,540
Other operating charges	3	(678,752)	(822,467)
Operating profit/(loss)		34,148	(150,927)
Income from shares in Group undertakings		32,379	562,085
Interest receivable and similar income	4	1,739	3,280
Interest payable and similar charges	5	(7)	(29,797)
Other finance costs		(3,994)	(3,800)
Profit on ordinary activities before taxation		64,265	380,841
Tax on profit on ordinary activities	6	(11,271)	(12,143)
Profit for the financial year	14	52,994	368,698

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 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		52,994	368,698
Actuarial loss arising on defined benefit pension scheme	15	(15,674)	(3,314)
Total recognised gains relating to the financial year		37,320	365,384

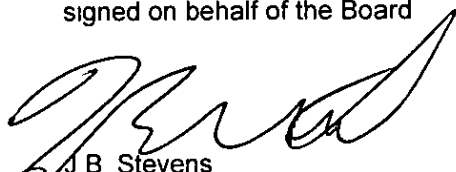
The accompanying notes are an integral part of the financial statements

British-American Tobacco (Holdings) Limited

Balance sheet at 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	8	269,654	172,439
Investments	9	605,236	605,035
		874,890	777,474
Current assets			
Debtors amounts falling due within one year	10a	1,437,138	2,586,364
Creditors amounts falling due within one year	11	(1,387,898)	(2,484,489)
Net current assets		49,240	101,875
Total assets less current liabilities		924,130	879,349
Provisions for liabilities	12	(28,103)	(36,734)
Net assets excluding pension deficit		896,027	842,615
Pension deficit	16	(107,853)	(82,571)
Net assets including pension deficit		788,174	760,044
Capital and reserves			
Called up share capital	13	84,630	84,630
Share premium account	14	744	744
Profit and loss account	14	702,800	674,670
Total shareholders' funds	15	788,174	760,044

The financial statements on pages 8 to 28 were approved by the Directors on 25 September 2013 and signed on behalf of the Board



J B Stevens
Director

Registered number
00262254

The accompanying notes are an integral part of the financial statements

Notes to the financial statements for the year ended 31 December 2012

1 Accounting policies

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 2006 and applicable accounting standards in the United Kingdom

The Company is included in the consolidated financial statements of British American Tobacco p l c which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

The principal accounting policies have been applied consistently throughout the year and a summary is set out below

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 has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996) 'Cash flow statements'

Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction, or at the forward rate if fully hedged by a forward exchange contract. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year, or the forward rate if fully hedged by a forward exchange contract. All exchange differences are taken to the profit and loss account in the year.

Forward contracts are used to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes. The forward contracts are accounted for in the financial statements where the underlying transactions have occurred by the balance sheet date. As required by the Companies Act 2006, the fair value of all forward contracts outstanding at year end is disclosed in note 18.

Accounting for income

Income is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts where there is an expectation that all or a portion of the amount due will not be recovered.

Taxation

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

The current income taxation charge is calculated on the basis of taxation laws enacted or substantially enacted at the balance sheet date.

Deferred taxation 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 taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

Notes to the financial statements for the year ended 31 December 2012

1 Accounting policies (continued)

Taxation (continued)

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted

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

Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis to write off the cost of tangible assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal

The rates of depreciation used are

	%
Freehold land	nil
Plant, machinery and equipment	7 - 33
Leasehold assets	Over the period of the lease

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

Fixed asset investments

Fixed asset investments are stated at cost less provisions for any impairment in value. Any impairment is recognised in the profit and loss account in the period in which it arises

Operating leases

The annual payments under operating leases are charged to the profit and loss account on a straight line basis over the length of the lease term

Employee share schemes

The Company has both equity-settled and cash-settled compensation plans. Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting periods, based on the Company's estimate of awards that will eventually vest, with a corresponding credit to reserves

For cash-settled share based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date

Fair value is measured by the use of Black-Scholes and Monte-Carlo option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

Notes to the financial statements for the year ended 31 December 2012

1 Accounting policies (continued)

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.

Retirement benefits

The Company participates in several pension schemes, the largest of which, the British American Tobacco UK Pension Fund, is a multi-employer funded 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 UK Pension Fund defined benefit scheme, and therefore, does not recognise any share of any surplus or deficit in respect of this scheme.

Pension surpluses/deficits as of the balance sheet date are recognised in full as an asset/liability for all defined benefit pension schemes where the Company is the major participant or where it is possible to identify the Company's individual share of the underlying assets and liabilities in the scheme. The net deficit or surplus for these schemes is based on the present value of defined benefit scheme obligations at the balance sheet date less the fair value of the scheme assets.

Actuarial gains and losses are recognised through the statement of total recognised gains and losses.

Past service costs resulting from enhanced benefits are expensed over the period to vesting and if they vest immediately, then they are recognised at that time in the profit and loss account.

The actuarial cost charged to operating charges in the profit and loss account consists of current service cost, past service cost and the impact of any settlements and curtailments. Interest costs and expected return on plan assets are shown as other finance income or expense.

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

2 Other operating income

Other operating income comprises technical and advisory fees and royalties receivable from fellow Group undertakings.

Notes to the financial statements for the year ended 31 December 2012

3 Other operating charges

	2012 £'000	2011 £'000
Other operating charges comprise		
Staff costs	445,985	412,080
Depreciation of tangible assets	17,391	16,940
Impairment of tangible assets	-	29,606
Loss/(gain) on disposal of tangible assets	1,989	(358)
Operating lease charges		
- buildings	3,115	15,043
Auditors' remuneration		
- For the audit of the financial statements of the ultimate parent undertaking	2,057	2,401
- For the audit of the financial statements of the Company	50	49
- Taxation advisory services	-	250
- Other non-audit services	71	-
Exchange losses	1,276	575
Exceptional operating charges	9,227	25,745
Other	197,591	320,136
	678,752	822,467

Exceptional charges of £9,227,000 (2011 £25,745,000) relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model

In 2011, other operating charges included an amount of £42,000,000 relating to the write-off of unrecoverable amounts due from Group undertakings

	2012 £'000	2011 £'000
Staff costs.		
Wages and salaries	179,034	181,299
Social security costs	14,994	12,539
Unfunded defined benefit scheme pension costs (note 16)	8,982	9,369
Defined contribution scheme costs (note 16)	2,830	3,179
Other pension costs	1,467	1,935
Defined benefit scheme treated as defined contribution scheme (note 16)	220,000	170,000
Contributions from other Group undertakings - pension costs	(10,318)	(11,310)
Share-based payments (note 17)	84,171	93,200
Contributions from other Group undertakings to share based payments (note 17)	(55,175)	(48,131)
	445,985	412,080

The Company acts as contractual employer and recharges the costs as appropriate to other Group undertakings where its employees perform work on behalf of other Group undertakings. Additionally the Company is recharged for work performed for the Company by employees employed by other Group undertakings. The total number of employees contractually paid by the Company averaged 752 (2011 654)

The average monthly number of persons (including directors) employed by the Company by activity during the year was

	2012 Number	2011 Number
Administration	752	654

Notes to the financial statements for the year ended 31 December 2012

3 Operating charges (continued)

The aggregate emoluments of the Directors payable by the Company or its subsidiary undertakings in respect of their services to those companies while directors of the Company were

	2012	2011
Aggregate emoluments	£13,802,436	£3,612,058

	2012 Number	2011 Number
Directors exercising share options during the year	11	10
Directors entitled to receive shares under a long term incentive scheme	12	10
Directors retirement benefits accruing under a defined benefit scheme	11	9
Directors retirement benefits accruing under a defined contribution retirement scheme	2	-

Highest paid Director

	2012	2011
Aggregate emoluments	£2,392,080	£944,080
Defined benefit pension scheme		
Accrued pension at the end of year	£100,102	£139,503
Accrued lump sum at the end of the year	-	-

Included in the total aggregate emoluments above is a payment for compensation for loss of office of £866,000 (2011 £nil)

The above figures do not include Messrs N Durante J B Stevens and J P Daly who receive remuneration in respect of their services as Directors of British American Tobacco plc and do not receive any remuneration in their capacity as Directors of the Company. Their remuneration is disclosed in the Annual Report of British American Tobacco plc

One Director is deemed to benefit from an annual interest-free quasi-loan from the Company in respect of the payment of his overseas tax liabilities. During 2012 this amounted to £38,464. Under the terms of the quasi-loan arrangement, repayment to the Company will be made upon receipt of his UK tax refund each year, hence no repayment was received during 2012.

During 2012 and 2011, the highest paid Director was entitled to receive shares under a long term incentive scheme and exercised share options during the year.

At 31 December, the Company had annual commitments in respect of non-cancellable operating leases as follows

	Land and buildings	
	2012 £'000	2011 £'000
Within one year	-	242
1 – 5 years	-	1,261
Beyond 5 years	11,920	10,671
	11,920	12,174

Notes to the financial statements for the year ended 31 December 2012

4 Interest receivable and similar income

	2012 £'000	2011 £'000
Interest receivable from Group undertakings	1,739	3,280

5 Interest payable and similar charges

	2012 £'000	2011 £'000
Interest payable to Group undertakings	7	29,797

6 Tax on profit on ordinary activities

(a) Summary of taxation on profit on ordinary activities

	2012 £'000	2011 £'000
Current taxation:		
UK corporation taxation on profit of the year		
Comprising		
- current taxation at 24.5% (2011 26.5%)	-	-
Overseas taxation	11,271	12,143
Total current taxation note 6(b)	11,271	12,143

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 26.0% to 24.0% with effect from 1 April 2012. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 24.5%.

The current taxation charge differs from the standard 24.5% (2011 26.5%) rate of corporation taxation in the UK. The major causes of this difference are listed below.

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	64,265	380,841
Corporation taxation at 24.5% (2011 26.5%) on profit on ordinary activities	15,744	100,923
Factors affecting the taxation rate		
Permanent differences	(21,997)	12,325
Other timing differences	12,957	4,302
Group loss relief surrendered at less than full consideration	1,229	31,402
Overseas taxation	11,271	12,143
Corporate income taxation relief on intra-group dividends	(7,933)	(148,952)
Total current taxation charge note 6(a)	11,271	12,143

An amount of £29,534,000 (2011 £21,248,000) (taxation amount of £7,236,000 (2011 £5,631,000)) included in permanent differences above represents taxation adjustments in respect of UK to UK transfer pricing for the imputed interest adjustment.

The Company has a deferred taxation asset of £201,114,000 (2011 £182,433,000) (taxation amount of £49,273,000 (2011 £48,345,000)) relating to the accelerated capital allowance, which is not recognised in the balance sheet due to it not being sufficiently probable that it will be fully utilised in the foreseeable future.

Notes to the financial statements for the year ended 31 December 2012

7 Dividends

	2012 £'000	2011 £'000
Equity - ordinary		
Interim paid	-	450,000

8 Tangible assets

	Freehold land £'000	Leasehold assets £'000	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
Cost					
1 January 2012	4,133	44,355	188,834	113,514	350,836
Additions	-	230	10,180	106,913	117,323
Reallocation	-	88	36,868	(36,956)	-
Disposals	-	-	(15,451)	-	(15,451)
Transfer to fellow Group undertakings	-	-	(728)	-	(728)
31 December 2012	4,133	44,673	219,703	183,471	451,980
Accumulated depreciation					
1 January 2012	-	32,188	146,209	-	178,397
Charge for the year	-	3,029	14,362	-	17,391
Disposals	-	-	(13,462)	-	(13,462)
31 December 2012	-	35,217	147,109	-	182,326
Net book value					
1 January 2012	4,133	12,167	42,625	113,514	172,439
31 December 2012	4,133	9,456	72,594	183,471	269,654

An impairment charge of £nil (2011 £29,606,000) was recognised as a result of the continued review of software assets in light of the development of global software solutions

Notes to the financial statements for the year ended 31 December 2012

9 Investments

(1) Shares in Group undertakings

<u>Unlisted - registered in England</u>	<u>% equity shares held</u>
British American Tobacco (Investments) Limited 538,989,061 ordinary shares of £0.25 each	100*
Agrega Limited** 500,000 Ordinary A Shares of £1.00 each 500,000 Ordinary B Shares of £1.00 each	50
Louisville Securities Limited 1 ordinary share of £1.00	100
British American Tobacco (Supply Chain WE) Limited 2 ordinary shares of £1.00 each 50,000,000 ordinary shares of €1.00 each	100
British American Global Shared Services Limited 6,383,964 ordinary shares of £1.00 each	100
South Western Nominees Limited 2 ordinary shares of £1.00 each 915,000,000 ordinary shares of US\$1.00 each	100
<u>Unlisted – registered in Singapore</u>	
Agrega Asia Pacific Pte Ltd 1 Ordinary share of SGD no par value	100

*Beneficial ownership: 1 share in British American Tobacco (Investments) Limited is held by a fellow Group subsidiary company as nominee for the Company

**The Company owned 100% of the Ordinary A Shares in Agrega Limited is a joint venture company. And, therefore, only owns 50% of the total issued share capital of that company

The subsidiary undertakings that principally affect the Company's financial position are British American Tobacco (Investments) Limited which is a holding company and South Western Nominees Limited which is dormant

Notes to the financial statements for the year ended 31 December 2012

(2) Shareholdings at cost less provisions

	Shareholdings at cost less provisions £'000
Cost	
1 January 2012	611,419
Additions	201
31 December 2012	611,620
Impairment provisions	
1 January 2012	6,384
31 December 2012	6,384
Net book value	
1 January 2012	605,035
31 December 2012	605,236

- (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

Notes to the financial statements for the year ended 31 December 2012

10 Debtors

(a) Amounts falling due within one year

	2012 £'000	2011 £'000
Amounts owed by Group undertakings	1,389,708	2,541,999
Other debtors	47,160	44,365
Prepayments and accrued income	270	-
	1,437,138	2,586,364

Included within amounts owed by Group undertakings is an amount of £337,865,000 (2011 £431,557,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

11 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	28,695	26,946
Amounts owed to Group undertakings	1,175,361	2,244,541
Taxation and social security	20,793	22,923
Other creditors	2,229	3,466
Accruals and deferred income	160,820	186,613
	1,387,898	2,484,489

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

12 Provisions for liabilities

	Share schemes £'000
1 January 2012	36,734
Provided in the year	17,266
Utilised during the year	(25,897)
31 December 2012	28,103

13 Called up share capital

Ordinary shares of 1 each	2012	2011
Allotted, called up and fully paid		
- value	£84,630,122	£84,630,122
- number	84,630,122	84,630,122

Notes to the financial statements for the year ended 31 December 2012

14 Reserves

	Share premium account £'000	Profit and loss account £'000
1 January 2012	744	674,670
Profit for the financial year	-	52,994
Actuarial loss on pension scheme	-	(15,674)
Equity share scheme expense	-	69,941
Exercise of equity-settled share options	-	(79,131)
31 December 2012	744	702,800

15 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit for the financial year	52,994	368,698
Actuarial loss on defined pension scheme	(15,674)	(3,314)
Equity share scheme expense	69,941	71,926
Exercise of equity-settled shares	(79,131)	(79,962)
Dividends - interim paid	-	(450,000)
Net movement in shareholders' funds	28,130	(92,652)
Opening shareholders' funds	760,044	852,696
Closing shareholders' funds	788,174	760,044

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 tri-annual actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2011 by a qualified independent actuary. The valuation showed that the fund had a deficit of £516,000,000 (2008 £537,000,000). As at 31 December 2012 the Group valuation of the deficit on an IAS 19 basis was £340,743,000 (2011 £400,251,000). The valuation is not completed on an FRS 17 basis therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

On 1 April 2005 the UK defined benefit schemes were closed to new employees who are now eligible to join a defined contribution pension scheme, the cost to Company for which was £2,830,000 (2011 £3,179,000).

Under FRS 17 the Company is required to report its liabilities in respect of certain unfunded defined benefit pension schemes where the Company is the major participator. At 31 December 2012 these amounted to £107,853,000 (2011 £82,571,000) as shown below.

Notes to the financial statements for the year ended 31 December 2012

16 Pensions (continued)

The total operating pension cost to the Company, including charges in respect of unfunded defined benefit schemes and defined contribution scheme costs, net of contributions from other Group undertakings was £222,961,000 (2011 £173,173,000)

At 31 December 2012 there were amounts of £nil (2011 £nil) outstanding in respect of defined contribution schemes

The liabilities of the unfunded schemes are as follows	2012	2011
	£'000	£'000
Present value of funded obligations	(107,853)	(82,571)
Net deficit	(107,853)	(82,571)
Analysis of amount charged to the Profit and loss account	2012	2011
	£'000	£'000
Operating profit		
– current service cost	5,714	3,742
– past service cost	3,268	5,627
	8,982	9,369
Other finance costs		
– interest cost	3,994	3,800
Net return	3,994	3,800
Analysis of amounts in the Statement of total recognised gains and losses	2012	2011
	£'000	£'000
Experience (losses)/gains arising on scheme liabilities	(918)	5,393
Changes in assumptions underlying the present value of the scheme liabilities	(14,756)	(8,707)
Actuarial losses recognised in the STRGL	(15,674)	(3,314)

The cumulative amount of actuarial losses recognised in the Statement of recognised gains and losses is £27,910,000 (2011 £12,236,000)

Notes to the financial statements for the year ended 31 December 2012

16 Pensions (continued)

Changes in the present value of the defined benefit obligation are as follows

	2012 £'000	2011 £'000
Defined benefit obligation at 1 January	(82,571)	(68,537)
Current service cost	(5,714)	(3,742)
Interest cost	(3,994)	(3,800)
Past service costs - vested	(3,268)	(5,627)
Benefits paid	3,368	2,449
Actuarial losses	(15,674)	(3,314)
Defined benefit obligation at 31 December	(107,853)	(82,571)

The principal actuarial assumptions at the balance sheet date are

	2012 %	2011 %
Rate of increase in salaries	4.40	4.50
Rate of increase in pensions in payment	2.90	3.00
Rate of increase in deferred pensions	2.40	2.50
Discount rate	4.07	4.68
General inflation	2.90	3.00

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

	2012 Years	2011 Years
Member age 65 (current life expectancy)		
- male	25.00	22.45
- female	27.90	24.72
Member age 45 (life expectancy at age 65)		
- male	26.00	24.71
- female	29.20	27.12

In the UK, for post-retirement mortality assumptions at 31 December 2012 the S1NA light series (year of birth) table with the Continuous Mortality Investigation (2009) model with a 2 per cent long term improvement rate, has been used. At 31 December 2011 the S1NA (year of birth) table with the Continuous Mortality Investigation (2009) model with a 1.5 per cent long term improvement rate, was used.

The history of the present value of the defined benefit obligation and experience gains and losses are as follows

Historical information	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Defined benefit obligation	(107,853)	(82,571)	(68,537)	(60,914)	(50,041)
Experience (losses)/gains on defined benefit obligation	(918)	5,393	(2,281)	4,795	(1,516)

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments

The Company operates a number of share-based payment arrangements of which the two principal ones are

Long-Term Incentive Plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share relative to inflation (50 per cent of grant) and total shareholder return, combining the share price and dividend performance of the Group by reference to two comparator groups (50 per cent of grant). Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year. In 2011 the Directors' LTIP award was made in May.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

The Company also has a number of other arrangements as follows

Executive Share Option Scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of ten years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options.

The granting of options under this scheme ceased with the last grant made in March 2004 and final outstanding awards must be exercised by March 2014. The awards were both equity and cash-settled.

Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20 per cent discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three year or five year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £3,000 in any tax year.

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco plc. The maximum amount that can be allocated in this way to any individual is £1,500 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five year holding period.

Further details on the operation of share-based payment arrangements can be found in the Remuneration report of British American Tobacco plc.

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

Share-based payment expense

The amounts recognised in the profit and loss account in respect of share-based payments were as follows

	2012		2011	
	Equity-settled in £'000	Cash-settled in £'000	Equity-settled in £'000	Cash-settled in £'000
LTIP (note a)	21,000	3,000	26,000	4,000
DSBS (note b)	44,000	5,000	41,000	6,000
ESOS (note c)	-	-	-	-
SAYE (note c)	1,000	-	1,000	-
SRS (note c)	4,000	-	4,000	-
Total share-based payment expense	70,000	8,000	72,000	10,000

The employers' NI charge, for the year ended 31 December 2012 was £6,222,000 (2011 £11,234,000)

In addition to the above share-based payment expense, for the year ended 31 December 2012, the Company recharged £55,175,000 (2011 £48,131,000) to other Group companies for share scheme related costs based on the fair value calculated at award date, for awards granted during the year

Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Company has recorded liabilities in respect of vested and unvested grants at the end of 2012 and 2011

	2012		2011	
	Vested £'000	Unvested £'000	Vested £'000	Unvested £'000
LTIP	3,000	3,900	3,700	5,100
DSBS	100	5,500	-	7,700
ESOS	200	-	600	-
Total liability	3,300	9,400	4,300	12,800

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2012 and 31 December 2011 were as follows

	2012		2011	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	6,354	439	7,051	501
Granted during year	1,773	68	2,156	110
Exercised during the year	(2,060)	(147)	(2,266)	(127)
Forfeited during the year	(336)	(10)	(587)	(45)
Outstanding at end of the year	5,731	350	6,354	439
Exercisable at end of year	729	100	374	134

The weighted average British American Tobacco plc share price at the date of exercise for share options exercised during the year was £31.96 (2011 £25.52) for equity-settled and £31.88 (2011 £25.86) for cash-settled options

The outstanding shares for the year ended 31 December 2012 had a weighted average contractual life of 8.0 years (2011 8.0 years) for the equity-settled scheme and 7.1 years (2011 6.9 years) for the cash-settled share-based payment arrangements

(b) Deferred share bonus scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2012 and 31 December 2011 were as follows

	2012		2011	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	5,830	419	5,240	411
Granted during year	1,948	105	2,360	146
Exercised during the year	(2,580)	(200)	(1,713)	(131)
Forfeited during the year	(94)	(8)	(57)	(7)
Outstanding at end of the year	5,104	316	5,830	419
Exercisable at end of year	4	2	3	-

The weighted average British American Tobacco plc share price at the date of exercise for share options exercised during the year was £32.02 (2011 £25.08) for equity-settled and £32.01 (2011 £25.65) for cash-settled options

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

(b) Deferred share bonus scheme (continued)

The outstanding shares for the year ended 31 December 2012 had a weighted average contractual life of 1.3 years (2011 1.3 years) for the equity-settled scheme and 1.2 years (2011 1.1 years) for the cash-settled scheme

(c) Other schemes

ESOS

The number of outstanding equity-settled options at the end of the year was 204,002 (2011 385,451) and cash-settled options was 9,150 (2011 24,870)

SAYE

The number of outstanding options at the end of the year for the three year scheme was 280,383 (2011 317,484) and for the five year scheme was 526,023 (2011 564,484)

SRS and ISRS

The number of outstanding shares at the end of the year for the Share Reward Scheme was 565,312 (2011 591,204) and for the International Share Reward Scheme was 49,318 (2011 76,213)

Valuation assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows

	2012		2011	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	26	26	25	25
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)*	0.7	0.6	2.0/1.6	1.8
Expected dividend yield (%)*	3.9	3.9	4.8/4.2	4.8
			23.77/	
Share price at date of grant (£)*	32.08	32.08	27.15	23.77
	21.79/		15.60/	
Fair value at grant date (£)*	21.68	28.50	18.60	20.58

*Where two figures have been quoted for the Long Term Incentive Plan the first number represents the awards made to employees below Management Board level and the second number to awards made to the members of the Management Board as at the date of award

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows

	2012	2011
	%	%
Average share price volatility FTSE 100 comparator group*	39	40/39
Average share price volatility FMCG comparator group*	26	26/26
Average correlation FTSE 100 comparator group*	38	39/21
Average correlation FMCG comparator group*	36	35/35

*Where two figures have been quoted for the Long-Term Incentive Plan the first number represents the awards made to employees below Management Board level and the second number to awards made to the members of the Management Board as at the date of award

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each financial year for cash-settled share-based payment arrangements

Notes to the financial statements for the year ended 31 December 2012

17 Share based payments (continued)

Valuation assumptions (continued)

The expected British American Tobacco p l c share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

18 Financial instruments

The Company's operations expose it to currency risk as income from shares in Group undertakings is denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The fair value of the instruments at 31 December 2012 was a gain of £38,000 (2011: £nil). Subsequent to the year end, the Company's financial position was not materially affected by the instruments reaching their maturity dates.

19 Related party disclosures

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

	2012 £'000	2011 £'000
Transactions with associates and joint ventures of the British American Tobacco p l c Group		
Other charges	612	816

The associates referred to are Reynolds American Inc. and ITC Limited.

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

20 Contingent liabilities

The Company's ultimate parent British American Tobacco p l c has guaranteed the liabilities of the British American Tobacco UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. The fund had a deficit, according to the last tri-annual actuarial valuation in March 2011, of £516,000,000 (2008: £537,000,000). As at 31 December 2012 the Group valuation of the deficit on an IAS 19 basis was £340,743,000 (2011: £400,251,000). The valuation is not completed on an FRS 17 basis, therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

Notes to the financial statements for the year ended 31 December 2012

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. The Company's immediate parent undertaking is B A T Industries p l c. Group financial statements are prepared only at the British American Tobacco p l c level and may be obtained from

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