

**British-American Tobacco (Holdings) Limited**  
**Registered Number 262254**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2009**

THURSDAY



\*LHTBKNU7\*

L19

30/09/2010

122

COMPANIES HOUSE

# **British-American Tobacco (Holdings) Limited**

## **Contents**

Directors' report	3
Independent auditors' report to the members of British-American Tobacco (Holdings) Limited	6
Profit and loss account for the year ended 31 December 2009	8
Statement of total recognised gains and losses for the year ended 31 December 2009	8
Balance sheet – 31 December 2009	9
Notes to the financial statements – 31 December 2009	10

# **British-American Tobacco (Holdings) Limited**

## **Directors' report**

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2009

### **Principal activities**

The Company acts as an investment holding company in associated undertakings of the British American Tobacco p l c Group (the "Group") which are active in the tobacco industry and in addition acts as the principle Group Head Office operating company

### **Business review of the year to 31 December 2009**

The profit for the financial year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of tax amounted to £214,207,000 (2008 £201,219,000) Profit for the financial year 2009 is shown after deduction of £60,125,000 (2008 £nil) of exceptional costs, which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's Global Integration Programme

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 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 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 £200,000,000 (2008 £265,000,000)

### **Board of Directors**

The names of the persons who served as directors of the Company during the period 1 January 2009 to the date of this report are as follows

Nicandro Durante  
Rudi Kindts  
John Benedict Stevens  
Peter Henry Taylor  
Neil Robert Withington

# **British-American Tobacco (Holdings) Limited**

## **Directors' report**

### **Directors' indemnities**

Throughout the period 1 January 2009 to the date of this report, an indemnity has been in force under which Messrs Durante and Stevens, as Directors of the Company, are, to the extent permitted by law, indemnified by British American Tobacco 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

### **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, and
- avoid any delays when legitimately questioning invoices

The proportion which the amount owed to trade creditors at 31 December 2009 bears to the amounts invoiced by suppliers during the year then ended equated to a 44 days proportion of 365 days Previously payment of creditors was 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 (Holdings) 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, and
- 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.

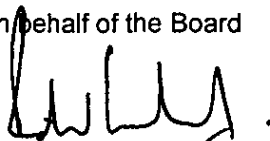
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Directors' 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



Mr Richard Cordeschi

Secretary

30 September 2010

# **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 2009 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 5 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 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.

## **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 2009 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.

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

### **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



Nicholas Campbell-Lambert

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Embankment Place

London

30 September 2010

# British-American Tobacco (Holdings) Limited

## Profit and loss account for the year ended 31 December 2009

		2009	2008
	Note	£'000	£'000
Operating income	2	339,738	227,299
Operating charges	3	(425,205)	(357,930)
Exceptional reorganisation costs	4	(60,125)	-
<b>Operating loss</b>		<b>(145,592)</b>	<b>(130,631)</b>
Income from shares in subsidiary undertakings		400,000	370,000
<b>Profit on ordinary activities before interest and taxation</b>		<b>254,408</b>	<b>239,369</b>
Interest receivable from Group undertakings		1,361	3,084
Interest payable to Group undertakings		(37,868)	(38,305)
Other finance costs	15	(3,197)	(2,860)
<b>Profit on ordinary activities before taxation</b>		<b>214,704</b>	<b>201,288</b>
Taxation on profit on ordinary activities	5	(497)	(69)
<b>Profit for the financial year</b>	13	<b>214,207</b>	<b>201,219</b>

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 2009

	Note	2009	2008
		£'000	£'000
<b>Profit for the financial year</b>		<b>214,207</b>	<b>201,219</b>
Actuarial (loss)/gain on pension scheme	15	(1,201)	7,024
<b>Total recognised gains relating to the year</b>		<b>213,006</b>	<b>208,243</b>

Notes are shown on pages 10 to 28

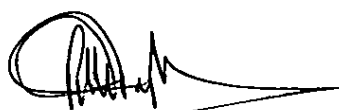


**British-American Tobacco (Holdings) Limited**  
**Registered Number 262254**

**Balance sheet – 31 December 2009**

		2009	2008
	Note	£'000	£'000
<b>Fixed assets</b>			
Tangible fixed assets	6	69,883	75,640
Investments in subsidiary undertakings	7	605,035	560,977
		<b>674,918</b>	<b>636,617</b>
<b>Current assets</b>			
Debtors amounts falling due within one year	8a	3,164,766	3,227,266
amounts falling due after one year	8b	832,647	935,211
		<b>3,997,413</b>	<b>4,162,477</b>
<b>Creditors: amounts falling due within one year</b>	9	<b>(1,966,977)</b>	<b>(2,019,550)</b>
<b>Net current assets</b>		<b>2,030,436</b>	<b>2,142,927</b>
<b>Total assets less current liabilities</b>		<b>2,705,354</b>	<b>2,779,544</b>
<b>Creditors: amounts falling due after more than one year</b>	10	<b>(2,146,347)</b>	<b>(2,248,911)</b>
<b>Provisions for liabilities and charges</b>	11	<b>(27,518)</b>	<b>(27,318)</b>
<b>Net assets excluding pensions deficit</b>		<b>531,489</b>	<b>503,315</b>
Pensions deficit	15	<b>(60,914)</b>	<b>(50,041)</b>
<b>Net assets</b>		<b>470,575</b>	<b>453,274</b>
<b>Capital and reserves</b>			
Share capital	12	84,630	84,630
Share premium account	13	744	744
Profit and loss account	13	385,201	367,900
<b>Total shareholders' funds</b>	14	<b>470,575</b>	<b>453,274</b>

The financial statements on pages 8 to 28 were approved by the Directors on 30 September 2010 and signed on behalf of the Board



Mr P H Taylor

Director

Notes are shown on pages 10 to 28

# **British-American Tobacco (Holdings) Limited**

## **Notes to the financial statements – 31 December 2009**

### **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 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. 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

#### **(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. Other exchange differences are taken to the profit and loss account in the year

#### **(4) Accounting for income**

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

#### **(5) 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 (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 1 Accounting policies (continued)

#### (6) Tangible fixed assets

Tangible fixed 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 fixed assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are

	%
Plant and machinery	7
Motor vehicles	25
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.

#### (7) Fixed asset investments

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

#### (8) Operating leases

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

#### (9) Retirement benefits

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

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements - 31 December 2009

### 1 Accounting policies (continued)

#### (10) 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.

#### (11) 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.

### 2 Operating income

Operating income comprises technical and advisory fees receivable from fellow Group undertakings.

### 3 Operating charges

	2009 £'000	2008 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Operating lease charges – buildings	12,446	12,591
Staff costs	306,568	217,698
Depreciation	8,621	8,782
Auditors' remuneration		
- Group audit services	1,700	1,600
- Company audit services	30	30
- Other non-audit services	1,517	376
Loss on exchange	4,767	2,893
Other operating charges	89,556	113,960
	<b>425,205</b>	<b>357,930</b>

**British-American Tobacco (Holdings) Limited**  
**Notes to the financial statements - 31 December 2009**

**3 Operating charges (continued)**

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Staff costs		
Wages and salaries	<b>162,990</b>	126,524
Social security costs	<b>16,943</b>	7,998
Unfunded defined benefit scheme pension costs (note 15)	<b>8,671</b>	7,058
Defined contribution scheme costs (note 15)	<b>2,018</b>	1,050
Other pension costs	<b>1,354</b>	675
Defined benefit pension scheme costs treated as defined contribution scheme costs	<b>102,000</b>	66,593
Contributions from other Group undertakings re pension costs	<b>(11,853)</b>	(14,683)
Share based payments expense (note 16)	<b>71,594</b>	56,764
Contributions from other Group undertakings to share based payments (note 16)	<b>(47,149)</b>	(34,281)
	<b>306,568</b>	217,698

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

	<b>2009</b> <b>Number</b>	<b>2008</b> <b>Number</b>
Administration	<b>611</b>	641

**Directors' emoluments**

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

	<b>2009</b>	<b>2008</b>
Aggregate emoluments	<b>£2,093,428</b>	£2,159,945
	<b>Number</b>	<b>Number</b>
Directors exercising share options during the year	<b>3</b>	3
Directors entitled to receive shares under a long term incentive scheme	<b>3</b>	3
Directors' retirement benefits accruing under a defined benefit scheme	<b>3</b>	3

**Highest paid Director**

	<b>2009</b>	<b>2008</b>
Aggregate emoluments	<b>£749,626</b>	£784,978
Defined benefit pension scheme		
Accrued pension at the end of the year	<b>£111,017</b>	£96,287
Accrued lump sum at the end of the year	<b>£57,885</b>	£49,664

The above figures do not include Messrs 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

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements - 31 December 2009

### 3 Operating charges (continued)

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

	2009 Building £'000	Restated 2008 Building £'000
1 – 5 years	518	-
After 5 years	10,804	10,582
<b>Total annual commitments</b>	<b>11,322</b>	<b>10,582</b>

### 4 Exceptional items

	2009 £'000	2008 £'000
Staff costs	3,843	-
Impairment of tangible fixed assets (note 6)	36,336	-
Other operating charges	19,946	-
<b>Total exceptional items</b>	<b>60,125</b>	<b>-</b>

The exceptional items within British-American Tobacco (Holdings) Limited relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's Global Integration Programme. The impairment charges are for certain software assets where the development of global software solutions has resulted in these assets having minimal or limited future economic benefits. Other operating charges are primarily due to the restructuring of the Group's IT shared services.

### 5 Taxation on profit on ordinary activities

#### (a) Summary of tax on ordinary activities

	2009 £'000	2008 £'000
<b>Current tax:</b>		
UK corporation tax on profit of the year		
Comprising		
- current tax at 28.0% (2008: 28.5%)	-	-
	-	-
Overseas tax	497	69
<b>Total current taxation note 5(b)</b>	<b>497</b>	<b>69</b>

**British-American Tobacco (Holdings) Limited**  
**Notes to the financial statements - 31 December 2009**

**5 Taxation on profit on ordinary activities (continued)**

**(b) Factors affecting the tax charge**

The standard rate of Corporation Tax in the UK changed from 30.0% to 28.0% with effect from 1 April 2008

The current taxation charge differs from the standard 28% (2008 28.5%) rate of Corporation Tax in the UK. The major causes of this difference are listed below

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	214,704	201,288
Corporation tax at 28.0% (2008 28.5%) on profit on ordinary activities	60,117	57,367
<b>Factors affecting the tax rate:</b>		
Group loss relief claimed for nil consideration	13,641	14,777
Permanent differences	3,990	30,963
Timing differences	34,252	2,343
Overseas tax	497	69
Corporate income tax relief on intra-group dividends	(112,000)	(105,450)
Total current taxation charge note 5(a)	497	69

An amount of £14,789,000 (2008 £67,883,000), tax amount of £4,141,000 (2008 £19,347,000) included in permanent differences above represents tax adjustments in respect of UK to UK transfer pricing. The Company has a deferred tax asset of £135,958,000 (2008 £78,186,000) 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.

**British-American Tobacco (Holdings) Limited**  
**Notes to the financial statements - 31 December 2009**

**6 Tangible fixed assets**

	Short leasehold land and buildings £'000	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>				
At 1 January 2009	42,071	76,819	40,347	159,237
Additions	5	17,410	21,932	39,347
Reallocation	-	32,111	(32,111)	-
Disposals	-	(702)	-	(702)
<b>At 31 December 2009</b>	<b>42,076</b>	<b>125,638</b>	<b>30,168</b>	<b>197,882</b>
<b>Accumulated depreciation</b>				
At 1 January 2009	23,299	60,298	-	83,597
Charge for the year	2,467	6,154	-	8,621
Impairment charge	-	36,336	-	36,336
Disposals	-	(555)	-	(555)
<b>At 31 December 2009</b>	<b>25,766</b>	<b>102,233</b>	<b>-</b>	<b>127,999</b>
<b>Net book value</b>				
<b>At 31 December 2009</b>	<b>16,310</b>	<b>23,405</b>	<b>30,168</b>	<b>69,883</b>
At 31 December 2008	18,772	16,521	40,347	75,640

**7 Investments in subsidiary undertakings**

**(1) Shares in subsidiaries**

**Unlisted – registered in England**

**% equity shares held**

British American Tobacco (Investments) Limited 100  
538,989,061 ordinary shares of £0 25 each

Louisville Securities Limited 100  
1 ordinary share of £1 00 each

British American Tobacco (Supply Chain WE) Limited 100  
2 ordinary shares of £1 00 each  
50,000,000 ordinary shares of €1 00 each

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 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. Subsidiary undertakings operate in the tobacco industry.



**British-American Tobacco (Holdings) Limited**  
**Notes to the financial statements - 31 December 2009**

**7 Investments in subsidiary undertakings (continued)**

**(2) Shareholdings at cost less provisions**

	<b>£'000</b>
<b>Cost</b>	
1 January 2009	560,977
Additions	44,058
31 December 2009	<b>605,035</b>

Included in additions is an investment in British American Tobacco (Supply Chain WE) Limited of £43,558,000

- (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

**8 Debtors**

**(a) Amounts falling due within one year**

	<b>2009 £'000</b>	<b>2008 £'000</b>
Amounts due from Group undertakings	<b>3,146,523</b>	3,191,236
Other debtors	<b>4,599</b>	404
Prepayments and accrued income	<b>13,644</b>	35,626
	<b>3,164,766</b>	3,227,266

Amounts due from Group undertakings include £1,115,113,194 (2008 £253,953,923) which is unsecured, repayable on demand and interest bearing. The interest rate for the year was based on LIBOR. All other amounts are unsecured, repayable on demand and interest free.

**(b) Amounts falling due after one year**

	<b>2009 £'000</b>	<b>2008 £'000</b>
Amounts due from Group undertakings	<b>832,647</b>	935,211
	<b>832,647</b>	935,211

Amounts due from Group undertakings consists of two loans to fellow Group undertakings of £832,646,995 (USD 1,344,600,000) (2008 £935,211,268 (USD 1,344,600,000)) which are unsecured, repayable in 2011 and interest free.

**British-American Tobacco (Holdings) Limited**  
**Notes to the financial statements - 31 December 2009**

**9 Creditors: amounts falling due within one year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	<b>12,297</b>	-
Amounts due to Group undertakings	<b>1,806,906</b>	1,907,864
Taxation and social security	<b>7,316</b>	-
Accruals and deferred income	<b>140,458</b>	111,686
	<b>1,966,977</b>	2,019,550

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

**10 Creditors: amounts falling due after more than one year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Amounts due from Group undertakings	<b>2,146,347</b>	2,248,911

The amounts due from Group undertakings include unsecured US dollar borrowings of £566,616,094 (USD 915,000,000) (2008 £636,411,059 (USD 915,000,000)) and £266,030,901 (USD 429,600,000) (2008 £298,800,209 (USD 429,600,000)), which are unsecured, repayable in 2011 and interest bearing. The interest rate is calculated at USD 6 month LIBOR plus 1.4%. All other amounts unsecured, interest free and repayable in 2011.

**11 Provisions for liabilities and charges**

<b>Cash settled share schemes</b>	<b>£'000</b>
1 January 2009	<b>27,318</b>
Provided in the year	<b>12,794</b>
Utilised during the year	<b>(12,594)</b>
31 December 2009	<b>27,518</b>

**12 Share capital**

<b>Ordinary shares of £1 each</b>	<b>2009</b>	<b>2008</b>
Allotted, called up and fully paid		
- value	<b>£84,630,122</b>	£84,630,122
- number	<b>84,630,122</b>	84,630,122

The concept of authorised share capital was abolished in October 2009 pursuant to the provisions of the Companies Act 2006, therefore authorised share capital has not been presented as at 31 December 2009.

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements - 31 December 2009

### 13 Reserves

	Share premium account £'000	Profit and loss account £'000
1 January 2009	744	367,900
Profit for the financial year	-	214,207
Actuarial loss on pension scheme	-	(1,201)
Exercise of equity-settled share options	-	(56,323)
Equity share scheme expense	-	60,618
Dividends - interim paid	-	(200,000)
<b>31 December 2009</b>	<b>744</b>	<b>385,201</b>

### 14 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	214,207	201,219
Actuarial (loss)/gain on pension scheme	(1,201)	7,024
Exercise of equity-settled share options	(56,323)	(55,119)
Equity share scheme expense	60,618	50,012
Dividends - interim paid	(200,000)	(265,000)
Net addition to/(withdrawal from) shareholders' funds	17,301	(61,864)
Opening shareholders' funds	453,274	515,138
Closing shareholders' funds	470,575	453,274

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements - 31 December 2009

### 15 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 actuarial valuation, calculated using the projected unit basis, 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 2009 and a net deficit on this fund of £604,321,000 (2008 £333,556,000) was identified.

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 £2,018,000 (2008 £1,050,000).

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 2009 these amounted to £60,914,000 (2008 £50,041,000) as shown below.

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 £102,190,000 (2008 £60,693,000).

At 31 December 2009 there were amounts of £nil (2008 £316,000) outstanding in respect of defined contribution schemes.

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

	2009 £'000	2008 £'000
Present value of scheme liabilities	(60,914)	(50,041)
<hr/>		
<b>Analysis of amount charged to the profit and loss account</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit		
– current service cost	3,471	4,934
– Past service cost	5,200	2,124
– Total operating charge	8,671	7,058
Other finance expense		
– interest on scheme liabilities	3,197	2,860
– Net finance costs	3,197	2,860

**British-American Tobacco (Holdings) Limited**  
**Notes to the financial statements – 31 December 2009**

**15 Pensions (continued)**

<b>Analysis of amounts in statement of total recognised gains and losses</b>	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Experience gains/(losses) on scheme liabilities	<b>4,795</b>	(1,516)
Changes in assumptions underlying present value of scheme liabilities gains	<b>(5,996)</b>	8,540
Actuarial (loss) / gain recognised in statement of total recognised gains and losses	<b>(1,201)</b>	7,024

<b>Changes in the defined benefit obligation are as follows</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	<b>(50,041)</b>	(50,998)
Current service cost	<b>(3,471)</b>	(4,934)
Past service costs vested	<b>(5,200)</b>	(2,124)
Interest on scheme liabilities	<b>(3,197)</b>	(2,860)
Contributions paid	<b>2,196</b>	3,851
Actuarial (loss)/gain	<b>(1,201)</b>	7,024
<b>At 31 December</b>	<b>(60,914)</b>	(50,041)

<b>The major assumptions used by the actuary were</b>	<b>2009</b>	<b>2008</b>
Rate of increase in salaries	<b>5.00%</b>	4.40%
Rate of increase in deferred and pensions in payment	<b>3.50%</b>	2.90%
General inflation	<b>3.50%</b>	2.90%
Discount rate	<b>5.65%</b>	6.00%

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

	<b>2009</b>	<b>2008</b>
	<b>Years</b>	<b>Years</b>
Member age 65 (current life expectancy)		
- male	<b>19.60</b>	19.40
- female	<b>22.40</b>	22.20
Member age 45 (life expectancy at age 65)		
- male	<b>23.21</b>	23.10
- female	<b>26.60</b>	26.50

In the United Kingdom, for post-retirement mortality assumptions at 31 December 2009 and 31 December 2008 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 and experience gains and losses are as follows

<b>Historical information</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Defined benefit obligation	<b>(60,914)</b>	(50,041)	(50,998)	(45,550)	(45,824)
Experience (losses)/gains on defined benefit obligation	<b>4,795</b>	(1,516)	(692)	533	(2,005)

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 16 Share based payments

During the period ended 31 December 2009, the following material share-based payment arrangements existed, which are described below

Type of arrangement	Long Term Incentive Plan	Deferred Share Bonus Scheme	Sharesave Scheme	Share Option Scheme	Share Reward Scheme
Timing of grant	Annually in March & May	Annually in March	Annually in November	See note (a)	Annually in April
Number of options granted in 2009	March – 3,505,333	3,194,631	3 year – 104,361/ 5 year – 115,004	n/a	253,678
Number of options granted in 2008	March – 1,746,923/ May – 755,187	1,553,359	3 year – 143,280/ 5 year – 165,859	n/a	155,643
Fair value per share for 2009 grant	March - £10 99	£13 47	3 year - £3 89/ 5 year - £4 15	n/a	£16 07
Fair value per share for 2008 grant	March - £12 80/ May - £13 47	£17 03	3 year - £3 73/ 5 year - £3 95	n/a	£19 22
Method of settlement	Both equity and cash-settled grants	Both equity and cash-settled grants	Equity settled grant	Both equity and cash-settled grants	Equity settled grant
Contractual life	10 years	3 years	3 5 or 5 5 years	10 years	3 years
Vesting conditions	See note (b)	See note (c)	See note (d)	See note (e)	See note (f)

#### Notes

(a) The granting of options under this scheme ceased with the last grant made in March 2004. Eligible individuals are entitled to participate in the Long Term Incentive Plan and Deferred Share Bonus Scheme.

(b) Nil-cost options exercisable three years from date of grant, with payout 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 Company by reference to two comparator groups (50 per cent of grant). Participants are not entitled to dividends prior to the exercise of the options. For grants made in 2005 and thereafter, a cash equivalent dividend will accrue through the vesting period and will be paid on vesting.

(c) Free shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend during the holding period.

(d) Options granted by invitation at a 20 per cent discount to the market price. Options are exercisable at the end of a three or five year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount which can be saved by a participant in this way is £3,000 in any tax year.

(e) Options exercisable three years from date of grant and 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.

(f) Free shares granted (maximum £3,000 in any year) subject to three year holding period. Participants are entitled to receive dividends during the holding period which are re-invested to buy further shares.

During the period, the Company operated a Partnership Share Scheme, which was open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco. 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.

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 16 Share based payments (continued)

#### Share Option schemes

Details of the movements for equity-settled share option schemes during the year ended 31 December 2009 and 31 December 2008 covering the Share Option and Sharesave schemes were as follows

	2009		2008	
	Number of options	Weighted average exercise price per share (£)	Number of options	Weighted average exercise price per share (£)
Outstanding at start of year	3,289,947	8 34	4,596,010	7 32
Granted during the period	219,365	15 55	309,139	13 60
Exercised during the period	(1,016,568)	6 82	(1,507,887)	6 17
Forfeited during the period	(57,160)	11 40	(107,315)	10 25
Outstanding at end of year	2,435,584	9 55	3,289,947	8 34
Exercisable at end of year	1,203,109	6 79	2,209,370	6 78

In addition to the above options, the movement in nil-cost equity-settled options from the Long Term Incentive Plan was as follows

	2009	2008
	Number of options	Number of options
Outstanding at start of year	6,583,908	7,238,490
Granted during the period	3,329,887	2,304,086
Exercised during the period	(2,266,603)	(2,540,886)
Forfeited during the period	(314,071)	(412,500)
Changed to cash-settled share-based arrangement*	(1,230)	(5,282)
Outstanding at end of year	7,331,891	6,583,908
Exercisable at end of year	619,141	1,036,291

\* During 2009, equity-settled awards in respect of 1,230 (2008 5,282) awards were modified to a cash-settled basis

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 16 Share Based Payments (continued)

The weighted average British American Tobacco share price at the date of exercise for share options exercised during the period was £17.58 (2008 £18.78). A detailed breakdown of the range of exercise prices for options outstanding at the end of 31 December 2009 and 31 December 2008 is shown in the table below

Range of exercise prices	2009			2008		
	Number outstanding at end of year	Weighted average remaining contractual life in years	Weighted average exercise price per share £	Number outstanding at end of year	Weighted average remaining contractual life in years	Weighted average exercise price per share £
Nil cost	7,331,891	8.2	n/a	6,583,908	7.7	n/a
£2.53 to £4.99	60,672	0.2	2.54	107,256	1.2	2.54
£5.00 to £6.99	609,528	2.7	6.08	1,185,185	3.1	5.98
£7.00 to £8.99	738,914	3.1	7.68	1,016,553	4.4	7.77
£9.00 to £12.49	306,281	1.6	10.93	445,619	2.0	10.60
£12.50 to £15.99	369,193	3.6	14.41	535,334	4.2	13.92
Total	9,416,479	6.9	1.93	9,873,855	6.3	2.78

The weighted average fair value of equity-settled share option schemes granted during 2009 was £10.56 (2008 £11.94)

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

	2009		2008	
	Long Term Incentive Plan	Sharesave Schemes**	Long Term Incentive Plan*	Sharesave Schemes**
Share price at date of grant (£)	15.79	16.07	19.03/20.01	17.00
Exercise price (£)	nil-cost	15.55	nil-cost	13.60
Volatility (%)	24.30	24.30	18	23
Average expected term to exercise (yrs)	3.0	3.2/5.2	3.5	3.2/5.2
Risk free rate (%)	1.95	1.6/2.6	3.9/4.5	2.7/3.1
Expected dividend yield (%)	5.30	5.21	3.7/3.5	4.1

\* Where two figures have been quoted for the Long Term Incentive Plan, the first figure represents March award and the second figure the May award

\*\* Where two figures have been quoted for the Sharesave schemes, the first number represents the assumptions for the three-year savings contract and the second number for the five-year savings contract

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

	2009 %	2008 %
Average share price volatility FTSE 100 comparator group	35	26
Average share price volatility FMCG comparator group	24	19
Average correlation FTSE 100 comparator group	38	31
Average correlation FMCG comparator group*	32	18/17

\* Where two figures have been quoted for the Long Term Incentive Plan, the first number represents March and the second number May award



# British-American Tobacco (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 16 Share Based Payments (continued)

The expected British American Tobacco plc share price volatility was determined taking account of the daily share price movements over a five year period. The respective FMCG and FTSE100 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.

For grants containing earnings per share performance conditions, the payout calculation is based on the expectations based on published analysts' forecasts.

#### Other equity share-based payment arrangements (other than share options)

Details of the movements of other equity share-based payment arrangements during the year ended 31 December 2009 and 31 December 2008, covering the Deferred Share Bonus and Share Reward Schemes, were as follows:

	2009	2008
	Number of shares	Number of shares
Outstanding at start of year	4,998,760	5,563,811
Granted during the period	3,193,350	1,589,898
Exercised during the period	(1,720,669)	(2,097,921)
Forfeited during the period	(30,526)	(56,123)
Changed to cash-settled share-based payment arrangement*	(8,376)	(905)
Outstanding at end of year	6,432,539	4,998,760
Exercisable at end of year	240,408	307,244

\* Equity-settled awards in respect of 8,376 (2008: 905) shares were modified to a cash-settled basis.

The shares outstanding for the year ended 31 December 2009 had a weighted average contractual life of 1.4 years (2008: 1.2 years).

The fair value for other equity share-based payment arrangements granted during the period was determined using the Black-Scholes model with the following input assumptions at their grant date:

	2009		2008	
	Deferred Share Bonus Scheme	Share Reward Scheme	Deferred Share Bonus Scheme	Share Reward Scheme
Grant price (£)	15.79	16.07	19.03	19.22
Expected volatility (%)	24	24	18	18
Average expected term to exercise (yrs)	3.0	5.0	3.0	5.0
Risk free rate (%)	2.0	2.3	3.9	4.0
Expected dividend yield (%)	5.3	5.2	3.7	3.7

The weighted average fair value of other equity share-based payment arrangements granted during 2009 was £13.67 (2008: £17.24).

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 16 Share Based Payments (continued)

#### Cash-settled share-based payment arrangements

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 Group has recorded liabilities at 31 December 2009 of £15,775,097 (2008 £16,032,842) of which £4,808,833 (2008 £4,973,102) was in respect of vested grants. Fair value was determined from the Black-Scholes and Monte-Carlo models, using assumptions revised at the balance sheet date for cash-settled share-based payment arrangements. The Company recorded total expenses of £6,269,576 in 2009 (2008 £2,399,046).

Details of movements for cash-settled arrangements in respect of the Share Option scheme, during the year ended 31 December 2009 and 31 December 2008, were as follows

	2009		2008	
	Number of options	Weighted average exercise price per share (£)	Number of options	Weighted average exercise price per share (£)
Outstanding at start of year	213,189	6.51	295,331	6.63
Granted during the period	n/a	n/a	n/a	n/a
Exercised during the period	(103,113)	6.54	(82,142)	6.92
Forfeited during the period	-	n/a	-	n/a
Outstanding at end of year	110,076	6.49	213,189	6.51
Exercisable at end of year	110,076	6.49	213,189	6.51

In addition to the above, the movement in other nil-cost cash-settled arrangements during the year ended 31 December 2009 and 31 December 2008, covering the Long Term Incentive Plan and Deferred Share Bonus Scheme, were as follows

	2009	2008
	Number of shares	Number of shares
Outstanding at start of year	1,245,300	1,703,474
Granted during the period	430,405	317,128
Exercised during the period	(443,873)	(764,573)
Forfeited during the period	(25,222)	(16,916)
Changed from equity-settled share-based arrangement*	9,606	6,187
Outstanding at end of year	1,216,216	1,245,300
Exercisable at end of year	175,201	140,253

\*As explained in the sections for Share Option Schemes and Other equity share-based payment arrangements, 9,606 (2008 6,187) awards in respect of shares were changed from an equity-settled to a cash-settled basis.

Assumptions used to determine the fair value of cash-settled share-based payment arrangements at date of grant, can be found in the sections relating to Share Option Schemes and Other equity share-based payment arrangements.

# British-American Tobacco (Holdings) Limited

## Notes to the financial statements – 31 December 2009

### 16 Share Based Payments (continued)

The weighted average British American Tobacco share price at the date of exercise for cash-settled share-based arrangements exercised during the period was £17.18 (2008 £18.85). A detailed breakdown of the range of exercise prices for cash-settled share-based payment arrangements outstanding at the end of 31 December 2009 and 31 December 2008 is shown in the table below.

Range of exercise prices	2009			2008		
	Number outstanding at end of year	Weighted Average Remaining Contractual Life (in years)	Weighted average exercise price per share (£)	Number outstanding at end of year	Weighted Average Remaining Contractual Life (in years)	Weighted average exercise price per share (£)
Price						
Nil cost	1,216,216	5.3	n/a	1,245,300	5.6	n/a
£5.60 to £5.98	51,281	3.2	5.98	96,859	4.0	5.96
£6.39 to £8.09	58,795	2.8	6.93	116,330	3.9	6.98
<b>Total</b>	<b>1,326,292</b>	<b>5.1</b>	<b>0.54</b>	<b>1,458,489</b>	<b>5.4</b>	<b>0.95</b>

### Share-based payment expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	2009	2008
	£	£
Equity-settled share-based payments	60,618,462	50,011,656
Cash-settled share-based payments	6,269,576	2,399,046
Employers NI charge	4,705,597	4,353,584
<b>Total amount recognised in revenue statement</b>	<b>71,593,635</b>	<b>56,764,286</b>

In addition to the above share-based payment expense, for the year ended 31 December 2009, the Company recharged £47,149,000 (2008 £34,281,000) to other Group companies, for share scheme related costs based on the fair value calculated at award date, for awards granted during the year.

# **British-American Tobacco (Holdings) Limited**

## **Notes to the financial statements – 31 December 2009**

### **17 Related party disclosures**

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group</b>		
Other charges	<b>565</b>	<b>1,016</b>

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 FRS 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p l c Group

### **18 Parent undertakings**

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p l c being incorporated in the United Kingdom and registered in England and Wales Its immediate parent undertaking is B A T Industries p l c Group financial statements are prepared only at the British American Tobacco p l c level

### **19 Copies of the annual report and financial statements**

Copies of the annual report of British American Tobacco p l c may be obtained from

The Company Secretary  
Globe House  
4 Temple Place  
London  
WC2R 2PG