

British American Tobacco (Investments) Limited

Registered Number 00074974

Directors' report and financial statements

For the year ended 31 December 2011



British American Tobacco (Investments) Limited

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British American Tobacco (Investments) Limited

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2011

Principal activities

The Company is a holding company of a group of companies which are active in the tobacco industry on behalf of the British American Tobacco plc group (the "Group") The Company, as described below, also undertakes a significant amount of research and development

Review of the year ended 31 December 2011

The profit for the financial year attributable to British American Tobacco (Investments) Limited shareholders after deduction of all charges and the provision of taxation amounted to £520,786,000 (2010 loss of £23,220,000) The profit for the financial year is shown after deduction of £1,400,000 (2010 £1,310,000) of exceptional costs, which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's headcount reduction programme

An impairment of £283,259,000 relates to Westanley Trading & Investment Company Limited as a result of the reduction in the value of the net assets of that company

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 (2010 £nil)

Board of Directors

The names of the persons who served as directors of the Company during the period 1 January 2011 to the date of this report are as follows

	Dates appointed	Dates resigned
Nicandro Durante		1 March 2011
Rudi Kindts		9 February 2011
Terrence Donald McConnell		
John Benedict Stevens		
Peter Henry Taylor		7 April 2011
Desmond John Naughton	14 February 2011	
John Patrick Daly	1 March 2011	
Giovanni Giordano	1 October 2011	

Directors' report

Directors' indemnities

Throughout the period 1 January 2011 to the date of this report, an indemnity has been in force under which Messrs J B Stevens, J P Daly from the date of his appointment, and N Durante until the date of his resignation, as directors of the Company, were, 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

Research and development

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

Research is also undertaken into various aspects of the science and behavioural science related to smoking, including continued significant funding of independent studies. The research and development expenditure incurred by the Company in 2011 was £55,510,000 (2010 £56,224,000) including associated depreciation and staffing

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

Payment of creditors is carried out by a fellow Group undertaking

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

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 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

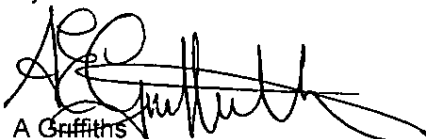
Directors' declaration in relation to relevant audit information

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


A Griffiths
Assistant Secretary

27 September 2012

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

We have audited the financial statements of British American Tobacco (Investments) Limited for the year ended 31 December 2011 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 2011 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 (Investments) 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

NAC Campbell Lambert

Nicholas Campbell Lambert

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Embankment Place

London

28 September 2012

British American Tobacco (Investments) Limited

Profit and loss account for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Continuing operations			
Operating income	2	205,285	256,752
Operating charges	3	(398,858)	(303,696)
Operating loss		(193,573)	(46,944)
Gain on disposal of shares in subsidiary undertakings		-	1,119
Amounts written-off investments	9	(284,271)	-
Income from shares in Group undertakings		1,009,696	49,484
Investment income from shares in associate undertakings		318	166
Profit on ordinary activities before interest and taxation		532,170	3,825
Interest receivable and similar income	4	2,018	806
Interest payable and similar charges	5	(2,639)	(2,474)
Other finance expense	15	(248)	(502)
Profit on ordinary activities before taxation		531,301	1,655
Taxation on profit on ordinary activities	6	(10,515)	(24,875)
Profit/(loss) for the financial year	13	520,786	(23,220)

There is no difference between the profit on ordinary activities before taxation and the profit/(loss) for the financial year stated above and their historical cost equivalents

Statement of total recognised gains and losses for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit/(loss) for the financial year		520,786	(23,220)
Actuarial (loss)/gain arising on defined benefit pension scheme	15	(7,938)	1,736
Difference on exchange arising on the retranslation to sterling of the profit/(loss) for the financial year from average to closing rates	14	294	(3)
Total recognised gains/(losses) relating to the financial year		513,142	(21,487)

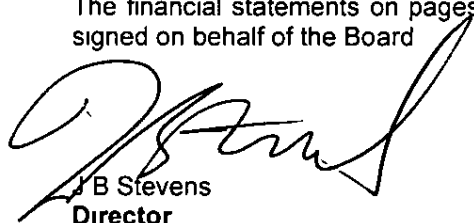
The accompanying notes are an integral part of the financial statements

British American Tobacco (Investments) Limited

Balance sheet at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets	7	674	674
Tangible assets	8	170,756	130,738
Investments	9	224,775	504,070
		396,205	635,482
Current assets			
Debtors amounts falling due within one year	10	1,503,076	1,474,312
Cash at bank and in hand		1,728	1,007
Creditors: amounts falling due within one year	11a	(705,175)	(1,333,695)
Net current assets		799,629	141,624
Total assets less current liabilities		1,195,834	777,106
Creditors: amounts falling due after more than one year	11b	-	(101,003)
Net assets excluding pensions deficit		1,195,834	676,103
Pensions deficit	15	(17,441)	(10,852)
Net assets		1,178,393	665,251
Capital and reserves			
Called up share capital	12	134,747	134,747
Profit and loss account	13	1,002,305	489,163
Other reserves	13	41,341	41,341
Total shareholders' funds	14	1,178,393	665,251

The financial statements on pages 7 to 23 were approved by the Directors on 27 September 2012 and signed on behalf of the Board



J B Stevens
Director

Registered number
00074974

The accompanying notes are an integral part of the financial statements

Notes to the financial statements for the year ended 31 December 2011

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

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 substantively 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.

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.

Notes to the financial statements for the year ended 31 December 2011

1 Accounting policies (continued)

Taxation (continued)

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.

Intangible assets

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

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
Buildings	2 – 3 33
Computer equipment	10 – 33 33
Plant, machinery and equipment	0.83 – 20
Short leasehold land	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.

Other investments

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

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.

Notes to the financial statements for the year ended 31 December 2011

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 pension scheme. Under FRS 17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme.

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

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group company for the cost of pensions to which its employees belong. The recharges in the year ended 31 December 2011 are disclosed in note three operating charges. The fellow Group company provides the relevant disclosures required under FRS 17.

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

Research and development

Research and development expenditure is charged against profit as incurred.

Employee share schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow group company, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The fellow Group company, which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes and provides the relevant disclosures required under FRS 20.

2 Operating income

Operating income comprises technical, advisory fees and commission income receivable from fellow Group companies.

Notes to the financial statements for the year ended 31 December 2011

3 Operating charges

	2011 £'000	2010 £'000
Staff costs	107,872	78,552
Research and development	31,766	31,724
Depreciation of tangible assets	7,680	9,095
Impairment of tangible assets	818	3,551
Loss on disposal of tangible assets	673	88
Operating lease charges		
- buildings	84	84
Exchange losses	60	358
Exceptional operating charges	1,400	1,310
Other operating charges	248,505	178,934
	398,858	303,696

Auditors' fees of £40,000 were borne by a fellow Group undertaking (2010 £28,000)

Exceptional costs of £1,400,000 (2010 £1,310,000) are the result of initiatives to improve effectiveness and efficiency as part of the Group's headcount reduction programme. The impairment charges of £818,000 (2010 £3,551,000) relate to certain plant, machinery and equipment assets which were expected to have minimal or limited future economic benefits.

Included within depreciation is an amount of £4,200,000 (2010 £3,700,000) which relates to research and development expenditure.

	2011 £'000	2010 £'000
Staff costs:		
Wages and salaries	85,310	62,491
Social security costs	8,369	5,158
Defined benefit scheme pension costs (note 15)	7	83
Other pension costs	136	21
Other pension costs - defined contribution	1,407	1,202
Defined benefit scheme treated as defined contribution scheme (note 15)	4,745	4,879
Share scheme charges	7,898	4,718
	107,872	78,552

Included within total staff costs is an amount of £19,544,000 (2010 £20,800,000) which relates to research and development expenditure.

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

	2011 Number	2010 Number
Administration	543	545

Notes to the financial statements for the year ended 31 December 2011

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

	2011 £'000	2010 £'000
Aggregate emoluments	-	531
Company contributions made to a money purchase pension scheme	-	3

	2011 Number	2010 Number
Directors exercising share options during the year	-	1
Directors entitled to receive shares under a long term incentive scheme	-	1
Directors retirement benefits accruing under a defined benefit scheme	-	2
Directors retirement benefits accruing under a money purchase scheme	-	1

The above figures do not include Messrs N Durante, J P Daly 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 of British American Tobacco p l c.

Highest paid Director

	2011 £'000	2010 £'000
Aggregate emoluments	-	442
Company contributions paid to a money purchase pension scheme	-	-
Defined benefit pension scheme accrued pension at end of year	-	-

During 2010, no Directors received emoluments (excluding shares) under long-term incentive schemes.

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

	Land and buildings	
	2011 £'000	2010 £'000
Beyond 5 years	84	84

4 Interest receivable and similar income

	2011 £'000	2010 £'000
Interest receivable from Group undertakings	2,018	806

Notes to the financial statements for the year ended 31 December 2011

5 Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable to Group undertakings	2,639	2,474

6 Taxation on profit on ordinary activities

(a) Summary of taxation on profit on ordinary activities

	2011 £'000	2010 £'000
Current taxation:		
UK corporation taxation on profit of the year		
Comprising		
- current taxation at 26.5% (2010: 28.0%)	2,205	3,334
- double taxation relief	(2,205)	(3,334)
	-	-
Overseas taxation	10,515	24,875
Total current taxation note 6(b)	10,515	24,875

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 28.0% to 26.0% with effect from 1 April 2011. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 26.5%.

The current taxation charge differs from the standard 26.5% (2010: 28.0%) rate of corporation taxation in the UK. The major causes of this difference are listed below.

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	531,301	1,655
Corporation taxation at 26.5% (2010: 28.0%) on profit on ordinary activities	140,795	464
Factors affecting the taxation rate.		
Permanent differences	107,435	16,155
Other timing differences	(1,335)	617
Overseas taxation	10,515	24,875
Corporate income taxation relief on intra-group dividends	(267,654)	(13,902)
Double taxation relief	(2,205)	(3,334)
Group loss relief surrendered at less than full consideration	22,964	-
Total current taxation charge note 6(a)	10,515	24,875

An amount of £21,579,000 (2010: £1,841,000) (taxation amount of £5,718,000 (2010: £515,000)) included in permanent differences above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

Notes to the financial statements for the year ended 31 December 2011

7 Intangible assets

Intangible fixed assets comprise costs of Know-How acquired

	£'000
Cost	
1 January 2011	674
31 December 2011	674
Accumulated amortisation	
1 January 2011	-
31 December 2011	-
Net book value	
1 January 2011	674
31 December 2011	674

8 Tangible assets

	Land and buildings	Plant, machinery and equipment	Computer equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
1 January 2011	48,378	63,125	31,992	55,022	198,517
Additions	5,412	5,264	7,382	31,261	49,319
Reallocations	-	2,488	16,281	(18,769)	-
Disposals	-	(2,034)	-	-	(2,034)
Transfer (to)/from fellow Group undertakings	-	(766)	-	143	(623)
31 December 2011	53,790	68,077	55,655	67,657	245,179
Accumulated depreciation					
1 January 2011	7,387	44,255	16,137	-	67,779
Charge for the year	998	1,871	4,811	-	7,680
Impairment charge	-	818	-	-	818
Disposals	-	(1,602)	-	-	(1,602)
Transfer (to)/from fellow Group undertakings	-	(252)	-	-	(252)
31 December 2011	8,385	45,090	20,948	-	74,423
Net book value					
1 January 2011	40,991	18,870	15,855	55,022	130,738
31 December 2011	45,405	22,987	34,707	67,657	170,756

The impairment charges principally relates to certain plant, machinery and equipment assets which were expected to have minimal or limited future economic benefits

Notes to the financial statements for the year ended 31 December 2011

9 Investments

(1) Shares in Group undertakings

<u>Listed - registered in Pakistan</u>	% equity shares held
Pakistan Tobacco Company Limited	94 35
241,045,141 ordinary shares of PKR10 each (Stock exchange valuation at 31 December 2011 £95,742,511 (2010 £198,153,523))	
<u>Unlisted - registered in Chile</u>	
Inversiones Casablanca S A	100*
9,999 ordinary shares of no par value	
<u>Unlisted - registered in England and Wales</u>	
B A T Cambodia (Investments) Limited	100
1 ordinary share of £1	
B A T Uzbekistan (Investments) Limited	100*
1 ordinary share of £1	
B A T (U K and Export) Limited	100*
999,999 ordinary shares of £1 each	
Westanley Trading & Investment Company Limited	100*
999 ordinary shares of £1 each	
<u>Unlisted - registered in Isle of Man</u>	
Abbey Investment Company Limited	100*
1,499,998 ordinary shares of £1 each	
Tobacco Investments Limited	100*
1,999,998 ordinary shares of £1 each	
<u>Unlisted - registered in Uganda</u>	
British American Tobacco Uganda Limited	70
34,356,000 ordinary shares of UGX1 25 each	

*Beneficial ownership in each case 1 or 2 share(s) is/are held by (a) fellow group subsidiary/(res) as nominee for the Company

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.

Notes to the financial statements for the year ended 31 December 2011

9 Investments (continued)

(2) Shareholdings at cost less provisions

	Shareholdings at cost less provisions	Other fixed asset investments	Total
	£'000	£'000	£'000
Cost			
1 January 2011	504,031	39	504,070
Additions	4,976	-	4,976
31 December 2011	509,007	39	509,046
Impairment provisions			
1 January 2011	-	-	-
Charge in the year	284,271	-	284,271
31 December 2011	284,271	-	284,271
Net book value			
1 January 2011	504,031	39	504,070
31 December 2011	224,736	39	224,775

An impairment of £283,259,000 relates to Westanley Trading & Investment Company Limited as a result of the reduction in the value of the net assets of that company

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

10 Debtors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade debtors	2,010	9,333
Amounts due from Group undertakings	1,500,991	1,458,450
Prepayments	75	6,529
	1,503,076	1,474,312

Included within amounts due from Group undertakings is an amount of £453,116,000 (2010 £177,349,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts due from Group undertakings are unsecured, interest free and repayable on demand.

11 Creditors

(a) Amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due to Group undertakings	687,507	1,320,937
Accruals	17,668	12,758
	705,175	1,333,695

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

Notes to the financial statements for the year ended 31 December 2011

11 Creditors (continued)

(b) Amounts falling due after more than one year

	2011	2010
	£'000	£'000
Amounts due to Group undertakings	-	101,003

Amounts due to Group undertakings were unsecured, repayable in December 2012 and incurred interest based on LIBOR plus 120 basis points. These amounts were repaid in December 2011.

12 Called up share capital

Ordinary shares of £0.25 each	2011	2010
Allotted, called up and fully paid		
- value	£134,747,266	£134,747,266
- number	538,989,062	538,989,062

13 Reserves

	Other reserves	Profit and loss account
	£'000	£'000
1 January 2011	41,341	489,163
Profit for the financial year	-	520,786
Unrealised exchange differences on translation of branch activities	-	294
Actuarial loss on pension scheme	-	(7,938)
31 December 2011	41,341	1,002,305

14 Reconciliation of movements in shareholders' funds

	2011	2010
	£'000	£'000
Profit/(loss) for the financial year	520,786	(23,220)
Unrealised exchange differences on translation of branch activities	294	(3)
Actuarial (loss)/gain on defined pension scheme	(7,938)	1,736
Net movement in shareholders' funds/(deficit)	513,142	(21,487)
Opening shareholders' funds	665,251	686,738
Closing shareholders' funds	1,178,393	665,251

Notes to the financial statements for the year ended 31 December 2011

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 full tri-annual actuarial valuation, calculated using the projected unit basis, 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 2011 the Group valuation of the deficit on an IAS 19 basis was £400,251,000 (2010 £221,000,000). The valuation is not completed on an FRS 17 basis therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

The Company sponsors the B A T Overseas Pension Fund ("BATOPF"), a defined benefit scheme where the Company is the major participator. Under FRS 17, the net deficit or surplus for each defined benefit scheme is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The latest actuarial valuation of the Fund was carried out by the independent actuaries, Barnett Waddingham, as at 30 June 2011.

The total pension cost to the Company was £6,295,000 (2010 £6,185,000).

At 31 December 2011 there were amounts of £nil (2010 £nil) outstanding in respect of defined contribution schemes.

The assets and the liabilities of the scheme are as follows:

	BATOPF 2011 £'000	BATOPF 2010 £'000
Present value of funded obligations	(54,949)	(50,947)
Fair value of plan assets	37,508	40,095
Net deficit	(17,441)	(10,852)
Analysis of amount charged to the profit and loss account	2011 £'000	2010 £'000
Operating charges		
– current service cost	(7)	(83)
Other finance income/(expense)		
– expected return on scheme assets	2,376	2,316
– interest cost	(2,624)	(2,818)
Net return	(248)	(502)

Notes to the financial statements for the year ended 31 December 2011

15 Pensions (continued)

Analysis of amount recognised in statement of total recognised gains and losses:	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	(1,422)	2,127
Experience gains arising on scheme liabilities	623	175
Changes in assumptions underlying the present value of the scheme liabilities	(7,139)	(566)
Actuarial (losses)/gains recognised in the STRGL	(7,938)	1,736

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

	2011 £'000	2010 £'000
Defined benefit obligation at 1 January	50,947	52,024
Current service cost	7	83
Interest cost	2,624	2,818
Benefits paid	(5,145)	(4,369)
Actuarial losses	6,516	391
Defined benefit obligation at 31 December	54,949	50,947

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

	2011 £'000	2010 £'000
Fair value of plans assets at 1 January	40,095	38,390
Expected return on plan assets	2,376	2,316
Company contributions	1,604	1,631
Benefits paid	(5,145)	(4,369)
Actuarial (losses)/gains	(1,422)	2,127
Fair value of plan assets at 31 December	37,508	40,095

The long term rate of return on assets were

	2011 %	2010 %
Equities	6.00	7.20
Bonds	3.80	4.80
Property	-	7.20
Other assets	6.00	7.20

Other assets principally comprise hedge funds and cash

Notes to the financial statements for the year ended 31 December 2011

15 Pensions (continued)

The major assumptions used by the actuary were

	2011	2010
	%	%
Rate of increase in salaries	4.50	4.90
Rate of increase in pensions in payment	3.00	3.40
Rate of increase in deferred pensions	3.00	2.90
Discount rate	4.68	5.42
General inflation	3.00	3.40

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

	2011	2010
	Years	Years
Member age 65 (current life expectancy)		
- male	22.45	19.60
- female	24.72	22.40
Member age 45 (life expectancy at age 65)		
- male	24.71	23.30
- female	27.12	26.70

In the UK, for post-retirement mortality assumptions 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, has been used. For 31 December 2010 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 has been used.

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

Historical information	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(54,949)	(50,947)	(52,024)	(48,081)	(52,656)
Fair value of plan assets	37,508	40,095	38,390	34,736	43,382
Net deficit	(17,441)	(10,852)	(13,634)	(13,345)	(9,274)
Experience losses/(gains) on defined benefit obligation	(623)	(175)	1,477	(525)	(1,754)
Experience losses/(gains) on fair value of plan assets	1,422	(2,127)	(4,589)	7,266	3,804

The total accumulated net actuarial losses taken through the statement of total recognised gains and losses is a loss of £20,887,000 (2010: £12,949,000)

Notes to the financial statements for the year ended 31 December 2011

16 Related party disclosures

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

	2011	2010
	£'000	£'000
Transactions with associates and of the British American Tobacco p.l.c. Group		
Other charges	-	3
Other income	113	958

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

17 Contingent liabilities

The Company has the benefit of an indemnity given by R J Reynolds Tobacco Company, a wholly owned subsidiary of R J Reynolds Tobacco Holdings, Inc , as part of the combination of the assets, liabilities and operations of its US tobacco business with Brown & Williamson, completed in 2004. The terms of this indemnity are set out in the BAT p l c Annual Report 2010 - 2011

As of 31 December 2011, the Company was a party to only one US smoking and health case, an individual action (Perry)

The Company has been named as a defendant in two further actions in the US (Smith and Gero). Smith is a class action suit alleging violations of antitrust and consumer protection laws in Kansas. On 23 March 2012, the judge granted the defendants' summary judgment motions in the Smith case. The plaintiff is now appealing.

Gero is an individual action alleging misappropriation of novel ideas and breach of contract in the US. On 7 November 2011, BAT plc and the Company were dismissed from the case for lack of personal jurisdiction. The plaintiff has appealed.

The Company's involvement with the United States Department of Justice (DOJ) suit alleging violations of US RICO legislation ended in March 2011, when Judge Kessler held that applying the Supreme Court decision in Morrison meant that her final order did not apply to the Company prospectively.

Outside the US, the Company, amongst others, has been named in seven healthcare recoupment actions filed by Canadian provinces (British Columbia, New Brunswick, Ontario, Newfoundland, Manitoba, Quebec and Saskatchewan) and in six smoking and health class actions in Nova Scotia, Manitoba, Saskatchewan, Alberta, and British Columbia (which has two cases).

In Nigeria, eight healthcare recoupment claims were filed by Nigerian states (Akwa Ibom, Ondo, Ekiti, Gombe, Kano, Lagos, Oyo, Ogun) and one healthcare recoupment claim was filed in Abuja by the Federal Government naming the Company, amongst others, as a defendant. The claims in Akwa Ibom, Ondo and Ekiti were struck out in 2009, and in late May 2012, the claim in Oyo State was also discontinued. The claimants in the remaining actions seek compensatory, special and punitive

Notes to the financial statements for the year ended 31 December 2011

17 Contingent liabilities (continued)

damages as well as injunctive relief designed to regulate the sale, use and marketing of tobacco products in their respective jurisdictions

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Company believes that the defences to these various claims are meritorious both on the law and the facts, and a vigorous defence is being made everywhere. If an adverse judgment is entered against the Company in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. Despite the quality of defences available to the Company, it is not impossible that the results of operations or cash flows of the Company in particular quarterly or annual periods could be materially affected by the final outcome of any particular litigation.

The Directors (i) do not consider it appropriate to make any provision in respect of any pending litigation of the Company and (ii) do not believe that the ultimate outcome of all litigation of the Company will significantly impair the Company's financial position.

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 formal tri-annual actuarial valuation in March 2011 of £516,000,000 (2008 £537,000,000). As at 31 December 2011 the Group valuation of the deficit on an IAS 19 basis was £400,251,000 (2010 £221,000,000). The valuation is not completed on an FRS 17 basis, therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

The Company provides guarantees in the normal course of business and as at 31 December 2011 had guaranteed payables by Group undertakings of up to US \$1,000,000.

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. The Company's immediate parent undertaking is British-American Tobacco (Holdings) Limited. Group financial statements are prepared only at the British American Tobacco p l c level and may be obtained from

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