

British American Tobacco UK Limited

Registered Number 02346565

Directors' Report and Accounts

For the year ended 31 December 2007

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British American Tobacco UK Limited

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British American Tobacco UK Limited

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2007

Principal activities

The Company distributes and sells cigarettes and tobacco products in the United Kingdom

Business Review of the year to 31 December 2007

The loss for the year attributable to British American Tobacco UK Limited shareholders after the inclusion of compensation of £2,202,000 (2006 £nil) relating to the loss of pipe tobacco distribution rights, the deduction of all charges and the provision of tax amounted to £183,000 (2006 profit of £1,710,000)

Key Performance Indicators

The Directors of British American Tobacco plc, the ultimate parent company, manages the operations of the British American Tobacco Group (the "Group") on a regional basis. For this reason, and given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed under the Operating and Finance Review 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 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 also be relevant to the Company are disclosed in the Annual Report of British American Tobacco plc for the year ended 31 December 2007 and do not form part of this report.

Dividends

The Directors do not recommend the payment of a dividend for the year (2006 £nil)

Board of Directors

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

	Appointed	Resigned
David Patrick Ian Booth		
Roy Duncan Chambers	19 May 2008	
Hans Arsene Herman Maria Geeroms		
Marianna Charalambous Ikonomou		5 November 2007
Ilona Luttmann	5 November 2007	
Gemma Bridget Webb		

British American Tobacco UK Limited

Directors Report

Creditor payment policy

The Company follows the Better Payment Practice Code* and therefore for both the current and the next financial year aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction, in any case within the supplier's own standard payment period, and also aims to pay all of its suppliers within a reasonable period of their invoices being received

In respect of all of its suppliers, it is the Company's policy to

- agree the terms of payment with those suppliers when agreeing the terms of each transaction,
- ensure that those suppliers are made aware of the terms of payment,
- abide by the terms of payment,
- avoid any delays when legitimately questioning invoices

The proportion which the amount owed to trade creditors at 31 December 2007 bears to the amounts invoiced by suppliers during the year then ended equated to 26 days proportion of 365 days (2006 36 days)

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

Employees

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

The Company actively encourages employee share ownership through participation in the employee share plans, the most recent of which are the Partnership Share Scheme and the Share Reward Scheme

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

British American Tobacco UK Limited

Directors' report

Statement of Directors' responsibilities

The following Statement sets out the responsibilities of the Directors in relation to the financial statements. The report of the independent auditors, shown on page 6, sets out their responsibilities in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the Directors are required to

- select appropriate accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures being disclosed and explained, and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this Statement.

Directors' declaration in relation to relevant audit information

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

- (1) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



D P I Booth

Director

30 October 2008

Independent auditors report to the members of British American Tobacco UK Limited

We have audited the financial statements of British American Tobacco UK Limited for the year ended 31 December 2007 which comprise the Profit and Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

West London

30 October 2008

British American Tobacco UK Limited

Profit and loss account for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Turnover	2	63,251	64,521
Cost of sales		(17,332)	(16,279)
Gross Profit		45,919	48,242
Distribution costs		(2,786)	(2,979)
Administrative expenses		(47,379)	(44,581)
Operating (loss)/profit on ordinary activities	3	(4,246)	682
Compensation for loss of pipe tobacco distribution rights	16	2,202	-
Interest receivable and similar income	6a	1,873	1,083
Interest payable and similar charges	6b	(12)	(55)
(Loss)/profit on ordinary activities before taxation		(183)	1,710
Taxation on ordinary activities	7	-	-
(Loss)/profit for the financial year	14/15	(183)	1,710

There are no recognised gains and losses other than the (loss)/profit for the year

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

Notes are shown on pages 9 to 16

British American Tobacco UK Limited

Balance sheet as at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	8	3,410	4,638
Current assets			
Stock	9	7,036	4,133
Debtors	10	71,882	77,624
Cash at bank and in hand		1,695	73
		80,613	81,830
Creditors - amounts falling due within one year	11	(70,202)	(71,730)
Net current assets		10,411	10,100
Total assets less current liabilities		13,821	14,738
Provisions for liabilities and charges	12	(2,169)	(2,903)
Net assets		11,652	11,835
Capital and reserves			
Share capital	13	1,000	1,000
Profit and loss account	14	10,652	10,835
Total equity shareholders' funds	15	11,652	11,835

The financial statements on pages 7 to 16 were approved by the Directors on 30 October 2008 and signed on behalf of the Board



R D Chambers
Director

Notes are shown on pages 9 to 16

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

1 Accounting policies

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

(1) Turnover

Turnover is the net amount receivable after discounts by the Company from sales despatched to third parties excluding value added taxes, tobacco duties and all other sales taxes. Revenue is recognised when goods are despatched from the warehouse.

(2) Advertising, promotion and research

These expenses are written off in the accounting period in which they are incurred and taken into account in arriving at operating profit, except advertising and promotional costs relating to specific future events.

(3) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of tangible fixed assets over their useful economic lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are

	%
Plant and machinery	10
Computer equipment	20-33
Motor vehicles	25
Furniture and Equipment	12.5 - 20

(4) Leased assets

Rentals payable on assets held under operating leases are charged to operating profit as incurred over the life of the lease period.

(5) Stocks

Stocks are valued at the lower of cost and net realisable value, being the estimated selling price less costs to sell. Provision is made for slow moving and damaged goods.

(6) Deferred tax

Deferred taxation is provided in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. A net deferred tax asset is recognised only when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits against which the future reversal of underlying timing differences can be deducted. As allowed by FRS 19, the Company has chosen not to discount deferred tax assets and liabilities.

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

(7) Cash flow statement and related party disclosures

The Company is a wholly-owned subsidiary of British American Tobacco plc. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco plc, which is publicly available. Consequently, the Company is exempt under the terms of the FRS 1 (revised 1996) from preparing a cash flow statement. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the British American Tobacco group or investees of the British American Tobacco group (see note 19).

(8) Retirement benefits

Under FRS 17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as if it were a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme. The Company only participates in multi-employer schemes and the Company is unable to identify its share of the underlying assets and liabilities of the schemes. Therefore, under FRS 17 the Company does not recognise any share of any surplus or deficit in respect of the joint pension schemes.

(9) Foreign currency

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

(10) 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 recharge in the year ended 31 December 2007 was £299,000 (2006 £566,000). The fellow group company which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes and provides the relevant disclosures required under FRS 20 Share-based Payments.

2 Turnover

The Company's turnover consists solely of the sale of cigarettes and tobacco products in the United Kingdom which are shown net of discounts and are the result of continuing operations.

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

3 Operating (loss)/profit

	2007 £'000	2006 £'000
Operating (loss)/profit is stated after charging/(crediting)		
Profit on disposal of fixed assets	(170)	(22)
Depreciation of fixed assets	1,736	1,890
Operating lease charges		
- Land and buildings	289	263
- Other	135	-
Fees payable to the Company's auditor for		
-the audit of the Company financial statements	76	80
-other services	15	-
Restructuring costs (note 12)	1,103	2,903

4 Directors' emoluments

	2007 £'000	2006 £'000
Aggregate emoluments	851	928

Two directors (2006 none) exercised share options during the year

Retirement benefits are accruing to three (2006 three) Directors under a group defined benefit scheme

Highest paid Director

	2007 £'000	2006 £'000
Total emoluments	296	260
Defined benefit pension scheme		
Accrued pension at 31 December	5	11

5 Employee costs and numbers information

	2007 £'000	2006 £'000
Wages and salaries	8,145	11,220
Social security costs	944	844
Other pension costs (note 17)	1,431	1,751
Staff costs	10,520	13,815

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

By activity	2007 No.	2006 No
Selling and distribution	110	144
Administration	32	28
	142	172

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

6 Interest

(a) Interest receivable and similar income

	2007 £'000	2006 £'000
Interest receivable from Group undertakings	1,873	1,065
Interest receivable from third parties	-	18
	1,873	1,083

(b) Interest payable and similar charges

	2007 £'000	2006 £'000
Interest payable to Group undertakings	9	49
Interest payable to third parties	3	6
	12	55

7 Taxation on ordinary activities

(a) Summary of tax on (loss)/profit on ordinary activities

	2007 £'000	2006 £'000
UK corporation tax comprising		
Current tax of the period at 30% (2006 30%)	-	-
Total current taxation <i>Note 7(b)</i>	-	-

(b) Factors affecting the tax charge

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

	2007 £'000	2006 £'000
(Loss)/profit loss on ordinary activities before taxation	(183)	1,710
Corporation Tax at 30% (2006 30%) on (loss)/profit on ordinary activities	(55)	513
Factors affecting the tax rate:		
Permanent differences	(20)	(26)
Timing differences	600	537
Group loss relief surrendered/(received) for nil consideration	(525)	(1,024)
Total current taxation <i>Note 7(a)</i>	-	-

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

8 Tangible fixed assets

	Plant and Machinery	Computer Equipment	Furniture and Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2007	229	3,801	2,322	2,422	8,774
Additions	-	624	95	-	719
Disposals	-	(922)	(14)	(852)	(1,788)
At 31 December 2007	229	3,503	2,403	1,570	7,705
Accumulated depreciation					
At 1 January 2007	143	2,022	506	1,465	4,136
Charge for the year	33	756	438	509	1,736
Disposals	-	(872)	(3)	(702)	(1,577)
At 31 December 2007	176	1,906	941	1,272	4,295
Net book amount					
At 31 December 2007	53	1,597	1,462	298	3,410
At 31 December 2006	86	1,779	1,816	957	4,638

9 Stocks

	2007 £'000	2006 £'000
Finished goods and goods for resale	7,036	4,133

10 Debtors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade debtors	48,504	51,435
Amounts owed by Group undertakings	472	1,729
Loans to Group undertakings	22,593	23,754
Other debtors	26	230
Prepayments and accrued income	287	476
	71,882	77,624

Amounts owed by Group undertakings are mainly in the normal course of business and are unsecured, interest free and have no fixed date of repayment. Loans to Group undertakings are interest bearing at an average rate for the year of 5.5% p.a.

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

11 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Overdrafts	-	409
Trade creditors	1,002	315
Amounts due to Group undertakings	3,752	6,054
Taxation and social security	55,153	58,660
Accruals and deferred income	10,295	6,292
	70,202	71,730

Amounts due to Group undertakings are unsecured, repayable on demand and incur interest based on LIBOR

12 Provisions for liabilities and charges

	£'000
1 January 2007	2,903
Provided during the year	1,103
Utilised during the year	(1,837)
31 December 2007	2,169

The provisions relate to costs committed under restructuring of the business and consist primarily of staff severance costs, which will be utilised over the next two years

Provision for deferred tax amounts to £nil (2006 £nil)

	2007 £'000	2006 £'000
Unrecognised components of deferred tax asset		
Accelerated capital allowances	3,514	3,435
Total unrecognised deferred tax asset	3,514	3,435

The deferred tax asset has not been recognised as the Directors of the Company consider that in view of the overall UK BAT Group position, it is more likely than not that the asset will not reverse in the foreseeable future

13 Share capital

	2007 £	2006 £
Ordinary shares of £1 each		
Authorised		
5,000,000 Ordinary shares of £1 each	5,000,000	5,000,000
Allotted and fully paid		
1,000,002 Ordinary shares of £1 each	1,000,002	1,000,002

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

14 Reserves

	Profit and loss account £'000
1 January 2007	10,835
Loss for the financial year	(183)
31 December 2007	10,652

15 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
(Loss)/profit for the year	(183)	1,710
Opening shareholders' funds	11,835	10,125
Closing shareholders' funds	11,652	11,835

16 Exceptional item

During the year, the Company received compensation of £2,202,000 for the loss of its pipe tobacco distribution rights arising from the Group's disposal of pipe tobacco trademarks to the Danish company, Orlik Tobacco Company A/S

17 Pension commitments

Under FRS17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as if it were a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme. The Company only participates in the British American Tobacco UK Pension Fund, a multi-employer scheme and the Company is unable to identify its share of the underlying assets and liabilities of the scheme. Therefore, under FRS17 the Company does not recognise any share of any surplus or deficit in respect of the pension scheme.

The last full actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2005 by a qualified independent actuary. This has been updated to 31 December 2007 and a deficit of £136 million (2006 £210 million) was identified.

The Company's contributions to the Group scheme amount to £1,431,000 (2006 £1,751,000).

British American Tobacco UK Limited

Notes to the accounts – 31 December 2007

18 Capital and other financial commitments

	2007	2006
	£'000	£'000
Capital commitments		
Contracts placed for future capital expenditure not provided in the financial statements	-	-

At 31 December 2007 the Company had annual commitments under non-cancellable operating leases and other contractual obligations expiring as follows

	Land and buildings		Other	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Within one year	260	190	1,319	1,538
Within two to five years	-	-	-	-
After five years	29	29	-	-
	289	219	1,319	1,538

Other financial commitments above mainly comprise contractual obligations in respect of outsourced warehouse facilities

19 Parent undertakings

The Company's ultimate parent undertaking and 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 Weston Investment Company Limited. Group accounts are prepared only at the British American Tobacco p l c level.

20 Copies of the Annual Report and Accounts

Copies of the Report and Accounts of British American Tobacco p l c may be obtained from

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