



**BRITISH AMERICAN
TOBACCO**

news release

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30 July 2009

HALF-YEARLY REPORT TO 30 JUNE 2009

SUMMARY

SIX MONTHS RESULTS - unaudited	2009	2008	Change
Revenue	£6,780m	£5,457m	+24%
Profit from operations	£2,111m	£1,724m	+22%
Basic earnings per share	73.23p	62.48p	+17%
Adjusted diluted earnings per share	77.27p	62.02p	+25%
Interim dividend per share	27.9p	22.1p	+26%

- Group revenue increased by 24 per cent to £6,780 million as a result of the continued good pricing momentum, volume growth from acquisitions made in the middle of last year (Skandinavisk Tobakskompagni (ST) and Tekel) and the favourable impact of exchange rate movements. Revenue increased by 14 per cent at constant rates of exchange.
- The reported profit from operations was 22 per cent higher at £2,111 million with a 23 per cent increase after adjusting items. Profit from operations, after adjusting items, would have been 13 per cent higher at constant rates of exchange, despite the adverse transactional impact of exchange rates on costs.
- Group volumes from subsidiaries were 349 billion, an increase of 5 per cent, as a result of the acquisitions of ST and Tekel. Excluding the benefits of these acquisitions, volumes were down 2 per cent on last year, mainly driven by market declines in Russia, Ukraine, Japan and Mexico.
- The four Global Drive Brands continued their strong performance and achieved overall volume growth of 5 per cent. Dunhill was up 8 per cent, Lucky Strike 7 per cent and Pall Mall grew by 10 per cent, while Kent volumes fell 2 per cent.
- Adjusted diluted earnings per share rose by 25 per cent, principally as a result of the strong growth in profit from operations and favourable exchange movements. Basic earnings per share were up 17 per cent at 73.23p (2008: 62.48p).
- The Board has declared an interim dividend of 27.9p, a 26 per cent increase on last year, to be paid on 29 September 2009.
- The acquisition of an 85 per cent stake in PT Bentoel Internasional Investama Tbk was completed on 17 June 2009 and did not have any impact on profit from operations for the six months to 30 June 2009.
- The Chairman, Jan du Plessis, commented "Despite difficult economic and trading conditions in many countries, the continued market share growth from our Global Drive Brands, our ability to innovate and our broad geographic spread should continue to stand us in very good stead. These half-yearly results give us confidence that we are very much on track to deliver another year of strong earnings growth."

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BRITISH AMERICAN TOBACCO p.l.c.
HALF-YEARLY REPORT TO 30 JUNE 2009

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CHAIRMAN'S STATEMENT

British American Tobacco has continued to perform remarkably well, with adjusted diluted earnings per share increasing by 25 per cent to 77.27p in the first half of the year. The Board has declared an interim dividend of 27.9p, a rise of 26 per cent.

Revenue rose by 14 per cent at constant rates of exchange and by 24 per cent at current rates. Profit from operations, after adjusting items, grew by 13 per cent at constant rates and by 23 per cent to £2,164 million at current rates. These very strong results have been driven by good pricing momentum, volume growth from the acquisitions of Tekel and ST in the middle of last year, and the favourable impact of exchange rate movements on the translation of the Group's results into sterling. The benefit from exchange was £187 million.

Our volume from subsidiaries rose by 5 per cent to 349 billion cigarettes, as a result of the acquisitions. Excluding them, volume was down 2 per cent following relatively large market declines in countries such as Russia, Ukraine, Japan and Mexico. Market sizes have principally been affected by rising unemployment, excise-driven price increases, the growth in illicit trade and trade inventory reductions.

Whilst down-trading on a global basis is limited, it is affecting some markets. British American Tobacco's premium volume declined by 1 per cent on an organic basis and low price volume by 5 per cent, leading to an improvement in the quality of our portfolio.

The four Global Drive Brands grew by 5 per cent, leading to improved share in many markets. Kent was 2 per cent lower, following market declines in its two major markets of Russia and Japan, but Dunhill was up 8 per cent, Lucky Strike up 7 per cent and Pall Mall up 10 per cent.

The volume from associate companies was 94 billion. After adjusting items and at constant rates of exchange, Reynolds American's contribution was up 5 per cent and ITC's was up 10 per cent.

Adjusted diluted earnings per share grew by 25 per cent to 77.27p, in line with the growth in profit from operations.

The Board has declared an interim dividend of 27.9p, an increase of 26 per cent, which will be paid on 29 September to shareholders on the register on 21 August. In line with our established practice, the interim dividend payment represents one-third of the total dividend in respect of last year.

Although it had no impact on the profit from operations in these results, the Group acquired control of PT Bentoel Internasional Investama Tbk (Bentoel) in Indonesia on 17 June for £303 million. Bentoel is Indonesia's fourth largest cigarette maker, with a market share of some 7 per cent. Indonesia is the world's fifth largest tobacco market by volume and in the top ten in terms of profit. The move represents an excellent strategic opportunity to enter the large kretek market in Indonesia and should present us with a good platform for further growth.

Despite difficult economic and trading conditions in many countries, the continued market share growth from our Global Drive Brands, our ability to innovate and our broad geographic spread should continue to stand us in very good stead. These half-yearly results give us confidence that we are very much on track to deliver another year of strong earnings growth.

Jan du Plessis
29 July 2009

BUSINESS REVIEW

Group revenue increased by 24 per cent to £6,780 million as a result of the continued good pricing momentum, volume growth from acquisitions made in the middle of last year (Skandinavisk Tobakskompagni (ST) and Tekel) and the favourable impact of exchange rate movements. Revenue increased by 14 per cent at constant rates of exchange.

The reported profit from operations was 22 per cent higher at £2,111 million with a 23 per cent increase after adjusting items. Profit from operations, after adjusting items, would have been 13 per cent higher at constant rates of exchange, despite the adverse transactional impact of exchange rates on costs.

The recently announced acquisition of PT Bentoel Internasional Investama Tbk did not have any impact on profit from operations.

Group volumes from subsidiaries were 349 billion, an increase of 5 per cent, as a result of the acquisitions of ST and Tekel. Excluding the benefits of the acquisitions, volumes were down 2 per cent on last year, mainly driven by market declines in Russia, Ukraine, Japan and Mexico. However, volume losses were mainly in the low-price segment with premium just 1 per cent lower. Good volume growth in Pakistan, Bangladesh, South Korea, Uzbekistan, Nigeria and the Gulf Cooperation Council (GCC) was more than offset by declines in Russia, Japan, Malaysia, Brazil, Mexico, Italy, Ukraine and South Africa.

Despite market size declines in many countries, the four Global Drive Brands achieved good overall volume growth of 5 per cent and improved shares in a number of markets. Over half of the growth was contributed by brand migrations. Although there was pressure on the premium segment, Dunhill grew market share in all its key markets, except in Taiwan, while Kent increased market shares in its main markets, apart from Japan.

Kent volumes fell by 2 per cent with volume growth in Romania, Uzbekistan and Azerbaijan, offset by industry declines in Japan and Russia and despite increasing its market share in Russia. Dunhill rose by 8 per cent, with growth in the GCC, Russia, South Korea and Brazil, partially offset by declines in Malaysia, Taiwan and South Africa. Dunhill's growth was mostly driven by a brand migration in Brazil.

Lucky Strike volumes were 7 per cent higher with growth in Germany, France, Italy, Indonesia, Chile and Brazil, partially offset by declines in Spain, Japan and Argentina. This was largely the result of industry volume decline. Market share grew well across all its key markets except Japan, where it was slightly down. Pall Mall volumes increased by 10 per cent with growth in Germany, Uzbekistan, Mexico, Turkey and Chile, partially offset by lower volumes in Italy, Pakistan, Russia, Romania and Hungary. Despite lower volumes, market share grew in Romania and Hungary.

In **Asia-Pacific**, profit at £557 million was up £101 million, mainly as a result of favourable exchange rates, backed by strong performances in Australia, Pakistan, Bangladesh and Vietnam. At constant rates of exchange, profit would have increased by £25 million or 5 per cent. Volumes at 88 billion were 2 per cent lower as increases in Pakistan, Bangladesh and South Korea were more than offset by lower volumes in Japan and Malaysia.

Strong profit growth in Australia was attributable to higher pricing and continued cost saving initiatives, partially offset by increased competitor price discounting. Volumes and market share were in line with last year despite the growth experienced in Pall Mall and Winfield. In New Zealand, overall volumes were down as the challenging economic environment impacted the business. Profit was in line with last year as price increases and lower costs were offset by the unfavourable product mix.

Business review cont...

In Malaysia, Dunhill achieved a record market share and Kent was successfully relaunched. This was offset by a decline in tail brands. Volumes decreased in line with the overall contraction of the market, exacerbated by the continued growth in illicit trade and steep excise increases over the last two years. A strong growth in profit was predominantly attributable to favourable exchange rates with an improved product mix, higher pricing and cost management offset by the impact of lower volumes.

In Vietnam, strong profit growth was achieved through a combination of price increases, productivity initiatives, improved product mix and favourable exchange rates. Whilst market share was slightly down on last year, volumes were maintained.

Volumes and market share in South Korea grew due to a good performance from Dunhill. Profit decreased as a weaker exchange rate had an adverse transactional impact, leading to higher material costs. In Taiwan, profit improved due to price increases, cost savings and the favourable exchange rate.

In Japan, volumes suffered as a result of significant industry decline. Although the premium priced Kool continued to grow, market share was down slightly. Significant profit growth was achieved predominantly through favourable exchange rates, productivity savings and a better product mix.

Pakistan continued to experience good growth in both volumes and market share. Profit was up significantly due to the higher volumes, combined with price increases.

In Bangladesh, volumes grew although market share was slightly lower due to the substantial growth in the low-price segment of the market. Profit was significantly higher due to increased volumes, improved sales mix, the effect of prior year price increases and lower costs.

Profit continued to grow in Sri Lanka, benefiting from higher prices, a better sales mix and continuing productivity improvements. Volumes were down due to the excise-led price increases and diminishing consumer affordability.

In **Americas**, profit rose by £63 million to £579 million, following a strong performance from Brazil. At constant rates of exchange, profit would have risen by £57 million or 11 per cent. Volumes were down 5 per cent at 74 billion, with decreases experienced by most markets across the region.

In Brazil, significant profit growth was achieved primarily as a result of a recent price increase in anticipation of an excise increase, coupled with a better brand mix. The higher prices led to lower volumes, although overall market share increased on last year. Dunhill performed well due to its continuing migration from Carlton.

Profit in Canada decreased as lower costs, better pricing and the benefits of a strong currency were more than offset by lower volumes and an adverse product mix. Market share for the last four quarters has been stable although it fell slightly compared to the same period last year.

Volumes in Mexico were lower due to the excise-driven price increase at the end of 2008 and reduced market share. However, Montana performed well, as did Pall Mall following the migration from Boots. The reduction in volumes and increased marketing investment were only partially offset by the price increase, resulting in a profit decline. In Argentina, profit fell due to adverse exchange impacts and lower volumes.

Business review cont...

In Chile, the contraction of the market led to lower volumes. Although Lucky Strike and Pall Mall both performed well, market share was slightly down. Profit decreased as a result of the lower volumes and higher costs, including the adverse exchange impact on imported materials. Profit increased in Peru, although volumes were slightly lower than last year due to general market contraction. However, market share remained strong.

Market share in Venezuela improved, driven by the growth of Lucky Strike and the strength of the brand portfolio. However, volumes declined, impacted by excise-driven price increases in 2008 and the current year. Profit was significantly lower due to the adverse impact of exchange rates. In Colombia, market share is down on last year with decreasing volumes driven by strong competition in the market and a reduction in trade inventory levels. Profit was higher due to lower costs.

Profit increased in the Central America and Caribbean area. This was due to exchange gains, higher prices and an improved product mix in key markets, partially offset by lower volumes. Market share remained strong, with Pall Mall and Dunhill being key drivers for the growth.

Profit in **Western Europe** increased by £175 million to £509 million, mainly as a result of strong performances from Italy, Germany, Spain, Belgium, and the Czech Republic, coupled with the acquisition of ST in 2008. At constant rates of exchange, profit would have increased by £100 million or 30 per cent. Regional volumes were up 18 per cent to 63 billion, with significant increases arising due to the new ST businesses in Poland, Denmark and Greece, partially offset by declines in Italy, Spain and the Netherlands.

Profit increased significantly in Italy mainly driven by higher prices, productivity savings and favourable exchange rates. Volumes dropped as the total market contracted and there was also a small decline in market share, mostly due to MS and tail brands, partly offset by growth in Lucky Strike.

In Germany, sales volumes were in line with last year, benefiting from lower illicit trade and stable consumption. Market share grew with good performances from Pall Mall and Lucky Strike compensating for tail brand declines. This, along with favourable exchange rates, contributed to a higher profit.

Volumes and market share in France were stable, with the strength of Lucky Strike and Pall Mall offsetting declining tail brands. Profit benefited from a favourable exchange rate. In Spain, profit increased reflecting price rises in January and continuing cost management, despite lower volumes in a much reduced market.

Profit improved significantly in Belgium with stable volumes and mix benefits supported by lower costs. There was good growth in Pall Mall following the 2008 migration from Winfield, supported by an increase in Kent. In the Netherlands, cigarette volumes decreased following the excise rise in late 2008. Profit increased due to favourable exchange rates, slightly offset by the impact of the overall market decline.

In Poland, profit increased significantly due to improved pricing, coupled with the acquisition of ST which also led to significantly higher volumes. Both Lucky Strike and Pall Mall increased market share.

Business review cont...

In Hungary, the impact of declining volumes was offset by improved margins and productivity benefits, leading to an increase in profit. Market share remained stable in the light of declining industry volumes. Profit and volumes were higher in the Czech Republic, driven predominantly by the reversal of the 2007 trade load effect and the ST acquisition, which positively impacted market share.

Profit in Switzerland increased due to favourable exchange rates and the 2008 price increases, offsetting the impact of decreased volumes. Market share improved, with Parisienne demonstrating a strong performance.

The acquisition of the ST businesses transformed results in Scandinavia and they have been successfully integrated.

Profit in the **Eastern Europe** region decreased by £16 million to £183 million. This was principally due to lower volumes and the adverse transactional impact of exchange rates on product costs. Profit would have been down a similar amount at constant rates of exchange. Volumes at 60 billion were 9 per cent lower than last year, with decreases seen in a number of markets as a result of overall industry declines following the excise-driven price increases and also a lower market share in Russia.

In Russia, volumes were impacted by a lower market share and a decline in market size. Profit was lower as a result of lower volumes, higher marketing investments and adverse transactional exchange effects on costs, which more than offset the impact of higher prices. Market share fell in the second half of 2008, as a result of the decline of low-price and local brands, following price increases that were not immediately followed by competitors. Market share was stable in the second quarter of this year, as competitors' price increases flowed through to the market.

In Romania, market share continued to grow through strong performances from Kent, Dunhill and Vogue and, as a result, volumes declined by less than the industry decline. Increased marketing investment together with the reduction in volumes led to lower profit.

In Ukraine, Kent continued to grow its market share, although total volumes and market share decreased. Profit was lower as a result of the rapid currency devaluation, combined with the excise increases. Strong volumes and market share performances were achieved in the Caucasus. This was driven by good performances by Kent and Pall Mall. In Uzbekistan, profit increased significantly on the back of strong volumes and market share gains.

Profit from the **Africa and Middle East** region grew by £84 million to £336 million. At constant rates of exchange, profit would have increased by £53 million or 21 per cent, mainly driven by Nigeria, the GCC and the benefit of the acquisition of Tekel during 2008. Volumes were 37 per cent higher at 64 billion, following increases in Turkey, GCC, Nigeria and Egypt, which was partly offset by a decline in South Africa.

In South Africa, volumes are down from last year largely due to an increase in illicit trade and reductions in trade inventories. However, market share increased, with the relaunched Peter Stuyvesant showing strong growth and achieving record market share, whilst Kent and Dunhill continue to perform well. Profit was broadly in line with last year.

Profit in Nigeria increased significantly due to increased volumes and lower costs. Volumes increased strongly as a result of marketing and supply chain initiatives with an excellent performance by Pall Mall. It was also positively impacted by anti-illicit trade initiatives from the government.

Business review cont...

In the Middle East, market share grew across the area and as a result volumes increased significantly. Dunhill showed excellent growth in the GCC whilst sales of Kent and Lucky Strike improved markedly in the Levant. Profit rose as a result of increased prices, improved product mix and lower costs coupled with the favourable exchange rate.

In Turkey, the Tekel business acquired in 2008 has been successfully integrated. Kent, Pall Mall and Viceroy all performed well although total market share was lower as a result of a decline in Tekel tail brands.

The above regional profits were achieved after adjusting for **restructuring and integration costs, amortisation of trademarks and gains on disposal of businesses and trademarks**.

Profit from operations at current rates of exchange is as follows:

	30.6.09		30.6.08	
	Profit from operations £m	Adjusted profit from operations* £m	Profit from operations £m	Adjusted profit from operations* £m
Asia-Pacific	557	557	454	456
Americas	574	579	518	516
Western Europe	473	509	308	334
Eastern Europe	183	183	199	199
Africa and Middle East	324	336	245	252
Total	<u>2,111</u>	<u>2,164</u>	<u>1,724</u>	<u>1,757</u>

*After adjusting for restructuring and integration costs, amortisation of trademarks and gains on disposal of businesses and trademarks as explained on page 25.

Results of associates

Associates principally comprise Reynolds American and ITC. ST was an associate until 2 July 2008 when the cigarette and snus businesses of ST were acquired and from that date it was consolidated into the Group results.

The Group's share of the post-tax results of associates decreased by £62 million, or 21 per cent, to £231 million. After adjusting items in 2008 and in 2009, explained on page 29, the Group's share of the post-tax results of associates increased by 19 per cent to £279 million, with a decline of 5 per cent at constant rates of exchange. The decline in the Group's share of post-tax results of associates reflects the non-inclusion of ST in the 2009 associates' results.

Business review cont...

The contribution from Reynolds American was down 20 per cent at £149 million. Excluding the impairment of brands in 2009 and the gain on termination of a joint venture in 2008, the contribution was 39 per cent higher at £197 million. At constant rates of exchange this increase was 5 per cent. Earnings were higher as increases in pricing, productivity and moist-snuff volume more than offset cigarette volume declines and higher pension and legal expenses.

The Group's associate in India, ITC, continued its strong profit growth and its contribution to the Group rose by £13 million to £77 million. At constant rates of exchange, the contribution would have been 10 per cent higher than last year.

The segmental analysis of the **Group's share of the post-tax results of associates and joint ventures** at current rates of exchange is as follows:

	30.6.09		30.6.08	
	Share of post-tax results £m	Adjusted share of post-tax results* £m	Share of post-tax results £m	Adjusted share of post tax results* £m
Asia-Pacific	79	79	66	66
Americas	151	199	188	143
Western Europe			38	25
Eastern Europe				
Africa and Middle East	1	1	1	1
Total	231	279	293	235

*After adjusting for trademark impairments, additional ST income and gain on termination of joint venture as explained on page 29.

CIGARETTE VOLUMES

The segmental analysis of the volumes of subsidiaries is as follows:

3 months to			6 months to		Year to
30.06.09	30.06.08		30.06.09	30.06.08	31.12.08
bns	bns		bns	bns	bns
45	47	Asia-Pacific	88	90	180
36	39	Americas	74	78	161
33	28	Western Europe	63	54	123
33	37	Eastern Europe	60	66	137
32	24	Africa and Middle East	64	46	114
179	175		349	334	715

Associates' volumes decreased by 15 per cent to 94 billion largely as a result of the ST transaction. With the inclusion of associates' volumes, total group volumes were 443 billion (2008: 445 billion).

DIVIDENDS

The Board has declared an interim dividend of 27.9 pence per ordinary share of 25p for the six months ended 30 June 2009. The interim dividend will be payable on 29 September 2009 to shareholders registered on either the UK main register or the South African branch register on 21 August 2009 (the record date).

In compliance with the requirements of Strate, the electronic settlement and custody system used by the JSE Limited (JSE), the following salient dates for the payment of the interim dividend are applicable:

Last date to trade cum dividend (JSE):	Friday 14 August 2009
Shares commence trading ex dividend (JSE):	Monday 17 August 2009
Shares commence trading ex dividend (LSE):	Wednesday 19 August 2009
Record date (JSE and LSE):	Friday 21 August 2009
Payment date:	Tuesday 29 September 2009

As the Group reports in sterling, dividends are declared and payable in sterling except for shareholders on the branch register in South Africa whose dividends are payable in rand. A rate of exchange of £:R = 12.95460 as at 28 July 2009 (the closing rate on that date as quoted by Bloomberg), results in an equivalent interim dividend of 361.43334 SA cents per ordinary share. From the close of business on 14 August 2009 until the close of business on 21 August 2009, no transfers between the UK main register and the South African branch register will be permitted and no shares may be dematerialised or rematerialised between 17 August 2009 and 21 August 2009, both days inclusive.

This interim dividend amounts to £552 million. The comparative dividend for the six months to 30 June 2008 of 22.1 pence per ordinary share amounted to £440 million.

In accordance with IFRS, the interim dividend will be charged in the Group results for the third quarter. The condensed consolidated financial information for the six months to 30 June 2009 include the final dividend paid in respect of the year ended 31 December 2008 of 61.6p per share amounting to £1,241 million (30 June 2008: 47.6p amounting to £954 million).

RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the business activities of the Group were identified under the heading 'Key Group risk factors', set out on pages 30 to 35 of the Annual Report for the year ended 31 December 2008, a copy of which is available on the Group's website www.bat.com. The key Group risks were summarised under the headings of:

- Illicit trade;
- Excise and tax;
- Financial;
- Marketplace;
- Regulation;
- Litigation; and
- Information technology.

In the view of the Board the key risks and uncertainties for the remaining six months of the financial year continue to be those set out in the above section of the 2008 Annual Report, coupled with the challenges of incorporating the recent acquisition of Bentoel (see page 26) into the Group. These should be read in the context of the cautionary statement regarding forward-looking statements on page 40.

GOING CONCERN

The Annual Report and the Half-Yearly Report have been prepared on a going concern basis. After reviewing the Group's annual budgets, plans, current forecasts and financing arrangements, as well as the current trading activities of the Group, the Directors consider that the Group has adequate resources to continue operating for the foreseeable future. A full description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowing position, together with the factors likely to affect its future development, performance and position, are set out in the Business Review and Financial Review and in the notes to the accounts, all of which are included in the 2008 Annual Report that is available on the Group's website, www.bat.com. This Half-Yearly Report provides updated information regarding the business activities for the six months to 30 June 2009 and of the financial position, cash flow and liquidity position at 30 June 2009.

The Group has, at the date of this report, sufficient financing available for its estimated existing requirements for at least the next twelve months. This, together with the proven ability to generate cash from trading activities, the performance of the Group's Global Drive Brands, its leading market positions in a number of markets and its geographical spread, as well as numerous contracts with established customers and suppliers across different geographical areas and industries, provides the Directors with the confidence that the Group is well placed to manage its business risks successfully despite the current financial conditions and uncertain outlook in the general global economy and financial climate.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that this condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that this Half-Yearly Report includes a fair review of the information required by the Disclosure and Transparency Rules of the Financial Services Authority, paragraphs DTR 4.2.7 and DTR 4.2.8.

The current Directors of British American Tobacco p.l.c. are as listed on page 54 in the British American Tobacco Annual Report for the year ended 31 December 2008, with the exception of Gerry Murphy who was appointed a Non-Executive Director on 13 March 2009 and Thys Visser who retired at the conclusion of the Annual General Meeting on 30 April 2009. Details of all the current Directors of British American Tobacco p.l.c. are maintained on www.bat.com.

For and on behalf of the Board of Directors:

Jan du Plessis
Chairman

Ben Stevens
Finance Director

29 July 2009

INDEPENDENT REVIEW REPORT TO BRITISH AMERICAN TOBACCO p.l.c.

Introduction

We have been engaged by the Company to review the condensed consolidated financial information in the Half-Yearly Report for the six months ended 30 June 2009, which comprises the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group balance sheet, the Group cash flow statement, the accounting policies and basis of preparation and the related notes. We have read the other information contained in the Half-Yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial information.

Directors' responsibilities

The Half-Yearly Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed on page 19, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial information in the Half-Yearly Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial information in the Half-Yearly Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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 review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information in the Half-Yearly Report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
29 July 2009

GROUP INCOME STATEMENT - unaudited

	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	£m	£m	£m
Gross turnover (including duty, excise and other taxes of £12,295 million (30.6.08: £9,518 million; 31.12.08: £21,799 million))	19,075	14,975	33,921
Revenue	6,780	5,457	12,122
Raw materials and consumables used	(1,899)	(1,537)	(3,335)
Changes in inventories of finished goods and work in progress	104	52	19
Employee benefit costs	(1,079)	(806)	(1,907)
Depreciation and amortisation costs	(285)	(174)	(430)
Other operating income	85	54	281
Other operating expenses	(1,595)	(1,322)	(3,178)
Profit from operations	2,111	1,724	3,572
after (charging)/crediting:			
- restructuring and integration costs	(29)	(33)	(160)
- Canadian settlement			(102)
- amortisation of trademarks	(26)		(24)
- gains on disposal of businesses and trademarks	2		141
Finance income	5	121	267
Finance costs	(224)	(300)	(658)
Net finance costs	(219)	(179)	(391)
Share of post-tax results of associates and joint ventures	231	293	503
after (charging)/crediting:			
- trademark impairments	(48)		(20)
- additional ST income		13	13
- termination of joint venture		45	45
- restructuring costs			(12)
Profit before taxation	2,123	1,838	3,684
Taxation on ordinary activities	(534)	(494)	(1,025)
Profit for the period	1,589	1,344	2,659
Attributable to:			
Shareholders' equity	1,450	1,249	2,457
Minority interests	139	95	202
Earnings per share			
Basic	73.23p	62.48p	123.28p
Diluted	72.75p	62.08p	122.54p

The accompanying notes on pages 19 to 40 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME - unaudited

	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	£m	restated £m	£m
Profit for the period <i>page 13</i>	1,589	1,344	2,659
Other comprehensive income:			
Differences on exchange	(606)	(196)	937
Difference on exchange reclassified and reported in profit for the period			(22)
Cash flow hedges			
- net fair value gains	121	19	180
- reclassified and reported in profit for the period	(98)	(22)	(173)
- reclassified and reported in net assets	(7)		1
Available-for-sale investments			
- net fair value gains	1	1	1
- reclassified and reported in profit for the period	(1)	(1)	(6)
Net investment hedges			
- net fair value gains/(losses)	307	(39)	(672)
- differences on exchange on borrowings	8		(178)
Revaluation of existing business			179
Retirement benefit schemes			
- actuarial losses in respect of subsidiaries	(103)		(547)
- surplus recognition in respect of subsidiaries	(48)		
- actuarial gains/(losses) in respect of associate companies	28		(396)
Tax on items recognised directly in other comprehensive income	(38)	(23)	184
Total comprehensive income for the period	1,153	1,083	2,147
Total comprehensive income attributable to:			
- shareholders' equity	1,029	972	1,913
- minority interests	124	111	234

The restatement of the 30 June 2008 statement of comprehensive income reflects the change in Group accounting policy for recognition of actuarial gains and losses, together with the early adoption of IFRIC 14, as explained on page 20.

The accompanying notes on pages 19 to 40 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited

	30.6.09	30.6.08 restated	31.12.08
	£m	£m	£m
Total comprehensive income for the period <i>page 14</i>	1,153	1,083	2,147
Employee share options			
- value of employee services	27	26	51
- proceeds from shares issued	4	7	10
Dividends and other appropriations			
- ordinary shares	(1,241)	(954)	(1,393)
- to minority interests	(108)	(80)	(176)
Purchase of own shares			
- held in employee share ownership trusts	(92)	(116)	(116)
- share buy-back programme		(191)	(400)
Minority interests in Bentoel <i>page 26</i>	25		
Acquisition of minority interests		(1)	(5)
Other movements	10	2	8
	(222)	(224)	126
Balance at beginning of period	7,215	7,089	7,089
Balance at end of period	6,993	6,865	7,215

The restatement of the June 2008 movements in total equity reflects the change in Group accounting policy for recognition of actuarial gains and losses, together with the early adoption of IFRIC 14, as explained on page 20.

The accompanying notes on pages 19 to 40 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET – unaudited

	30.6.09	30.6.08	31.12.08	1.1.08
	£m	restated £m	restated £m	restated £m
Assets				
Non-current assets				
Intangible assets	11,437	8,872	12,318	8,105
Property, plant and equipment	2,796	2,496	3,076	2,378
Investments in associates and joint ventures	2,364	2,194	2,552	2,316
Retirement benefit assets	64	46	75	37
Deferred tax assets	353	275	392	264
Trade and other receivables	197	159	193	123
Available-for-sale investments	23	24	27	22
Derivative financial instruments	118	97	179	154
Total non-current assets	<u>17,352</u>	<u>14,163</u>	<u>18,812</u>	<u>13,399</u>
Current assets				
Inventories	3,451	2,637	3,177	1,985
Income tax receivable	114	94	137	85
Trade and other receivables	2,237	1,749	2,395	1,845
Available-for-sale investments	80	76	79	75
Derivative financial instruments	270	203	417	81
Cash and cash equivalents	1,304	2,326	2,309	1,258
	<u>7,456</u>	<u>7,085</u>	<u>8,514</u>	<u>5,329</u>
Assets classified as held-for-sale	17	285	225	36
Total current assets	<u>7,473</u>	<u>7,370</u>	<u>8,739</u>	<u>5,365</u>
Total assets	<u>24,825</u>	<u>21,533</u>	<u>27,551</u>	<u>18,764</u>

The restatement of the 30 June 2008 balance sheet reflects the change in Group accounting policy for recognition of actuarial gains and losses, together with the early adoption of IFRIC 14, as explained on page 20. The balance sheets as at 30 June 2008 and 31 December 2008 have been restated for the reclassification of certain derivatives, as explained on page 20. In accordance with IAS 1 Revised, an additional balance sheet comparative has been presented as at 1 January 2008.

The accompanying notes on pages 19 to 40 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET – unaudited cont...

	30.6.09	30.6.08	31.12.08	1.1.08
	£m	restated £m	restated £m	restated £m
Equity				
Capital and Reserves				
Share capital	506	506	506	506
Share premium, capital redemption and merger reserves	3,907	3,905	3,905	3,902
Other reserves	647	381	955	658
Retained earnings	1,622	1,825	1,578	1,805
Shareholders' funds	6,682	6,617	6,944	6,871
after deducting				
- cost of treasury shares	(788)	(554)	(745)	(296)
Minority interests	311	248	271	218
Total equity	6,993	6,865	7,215	7,089
Liabilities				
Non-current liabilities				
Borrowings	8,369	7,895	9,437	6,062
Retirement benefit liabilities	885	302	848	360
Deferred tax liabilities	543	380	599	336
Other provisions for liabilities and charges	152	153	186	165
Trade and other payables	145	139	166	149
Derivative financial instruments	109	121	222	59
Total non-current liabilities	10,203	8,990	11,458	7,131
Current liabilities				
Borrowings	2,522	1,760	2,724	861
Income tax payable	323	274	300	227
Other provisions for liabilities and charges	277	300	295	263
Trade and other payables	4,377	3,167	4,718	2,976
Derivative financial instruments	130	174	841	215
	7,629	5,675	8,878	4,542
Liabilities directly associated with assets classified as held-for-sale		3		2
Total current liabilities	7,629	5,678	8,878	4,544
Total liabilities	17,832	14,668	20,336	11,675
Total equity and liabilities	24,825	21,533	27,551	18,764

The restatement of the 30 June 2008 balance sheet reflects the change in Group accounting policy for recognition of actuarial gains and losses, together with the early adoption of IFRIC 14, as explained on page 20. The balance sheets as at 30 June 2008 and 31 December 2008 have been restated for the reclassification of certain derivatives, as explained on page 20. In accordance with IAS 1 Revised, an additional balance sheet comparative has been presented as at 1 January 2008.

The accompanying notes on pages 19 to 40 form an integral part of this condensed consolidated financial information.

GROUP CASH FLOW STATEMENT – unaudited

	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	£m	£m	£m
Cash flows from operating activities			
Cash generated from operations <i>page 34</i>	1,806	1,569	4,156
Dividends received from associates	143	153	326
Tax paid	(517)	(455)	(943)
Net cash from operating activities	1,432	1,267	3,539
Cash flows from investing activities			
Interest received	55	63	125
Dividends received from investments	2	1	2
Purchases of property, plant and equipment	(160)	(117)	(448)
Proceeds on disposal of property, plant and equipment	28	17	62
Purchases of intangibles	(33)	(15)	(96)
Proceeds on disposal of intangibles		17	17
Purchases and proceeds on disposals of investments	13	15	9
Proceeds from associates' share buy-backs		19	42
Purchase of Bentoel	(300)		
Purchase of Tekel cigarette assets	(12)	(867)	(873)
Proceeds from ST trademark disposals and purchase of ST businesses	190		(1,243)
Purchases of other subsidiaries and minority interests		(2)	(9)
Proceeds on disposal of subsidiaries			26
Net cash from investing activities	(217)	(869)	(2,386)
Cash flows from financing activities			
Interest paid	(351)	(179)	(400)
Interest element of finance lease rental payments	(1)	(1)	(3)
Capital element of finance lease rental payments	(18)	(13)	(30)
Proceeds from issue of shares to Group shareholders	2	3	3
Proceeds from exercise of options over own shares held in employee share ownership trusts	2	4	7
Proceeds from increases in and new borrowings	696	2,727	3,518
Movements relating to derivative financial instruments	(87)	(301)	(656)
Purchases of own shares		(137)	(400)
Purchase of own shares held in employee share ownership trusts	(92)	(116)	(116)
Reductions in and repayments of borrowings	(948)	(372)	(731)
Dividends paid to shareholders	(1,241)	(954)	(1,393)
Dividends paid to minority interests	(112)	(79)	(173)
Net cash from financing activities	(2,150)	582	(374)
Net cash flows from operating, investing and financing activities	(935)	980	779
Differences on exchange	(246)	91	261
(Decrease)/ increase in net cash and cash equivalents in the period	(1,181)	1,071	1,040
Net cash and cash equivalents at 1 January	2,220	1,180	1,180
Net cash and cash equivalents at period end	1,039	2,251	2,220

The accompanying notes on pages 19 to 40 form an integral part of this condensed consolidated financial information.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information comprises the unaudited interim financial information for the six months to 30 June 2009 and 30 June 2008, together with the audited results for the year ended 31 December 2008. This condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules issued by the Financial Services Authority. They are unaudited but have been reviewed by the auditors and their review report is set out on page 12.

The condensed consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the UK Companies Act 2006 and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2008, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and implemented in the UK. The annual consolidated financial statements for 2008 represent the statutory accounts for that year and have been filed with the Registrar of Companies. The auditors' report on those statements was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

This condensed consolidated financial information has been prepared under the historical cost convention, except in respect of certain financial instruments, and on a basis consistent with the IFRS accounting policies as set out in the Annual Report for the year ended 31 December 2008, with the following amendments due to certain changes in IFRS, as endorsed by the EU, affecting the Group. These changes are effective from 1 January 2009:

- IFRS 8 (Operating Segments). This standard requires segmental reporting in the financial statements to be on the same basis as is used for internal management reporting to the chief operating decision maker. This has not required any changes to the segments reported by the Group, however, it has resulted in certain changes to the disclosures;
- IFRS 2 (Share-based Payment - Vesting Conditions and Cancellations). This interpretation clarifies that vesting conditions are service conditions and performance conditions only, and specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This change has had no material affect on the Group's reported profit or equity;
- IAS 1 Revised (Presentation of Financial Statements). This standard requires separate disclosure of non-owner and owner changes in equity. The Group has chosen to show other comprehensive income in a separate statement from the income statement, however, implementation of the standard has not affected the measurement of reported profit or equity; and
- IAS 23 Revised (Borrowing Costs). This standard requires borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale, to be capitalised as part of the cost of the asset. The Group's previous policy was to expense such borrowing costs as they were incurred. This change has not materially affected the Group's reported profit or equity.

Accounting policies and basis of preparation cont...

The Annual Improvements to IFRS have been endorsed by the EU, and have varying application dates commencing on or after 1 January 2009. The main effect has been a reclassification of derivatives held for trading with a settlement date greater than one year from current to non-current on the balance sheet. The balance sheets of prior reporting periods have been amended to reflect this reclassification and, in accordance with IAS 1 Revised (Presentation of Financial Statements), an additional balance sheet comparative has been presented as at 1 January 2008. The effect of the reclassification has been to increase non-current assets and decrease current assets at 31 December 2008 by £3 million (30 June 2008 and 1 January 2008: £1 million) and to increase non-current liabilities and decrease current liabilities at 31 December 2008 by £23 million (30 June 2008: £7 million, 1 January 2008: £10 million).

As explained in the 2008 Annual Report, the Group has amended its treatment with regard to the recognition of actuarial gains and losses of retirement benefit schemes under IAS 19, and has adopted IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction). Following these changes, the Group now recognises actuarial gains and losses in the period in which they occur, in the statement of comprehensive income, rather than using partial deferral of such gains and losses through the ‘corridor’ method as also permitted by IAS 19. The effect of this change in accounting policy on the 30 June 2008 balance sheet and equity is as follows:

Balance sheet as at 30 June 2008		£m
Investments in associates and joint ventures		47
Retirement benefits assets		(14)
Deferred tax assets		<u>1</u>
Total assets		<u>34</u>
Opening equity	(9)	
Differences on exchange (other comprehensive income)	<u>3</u>	
Total equity		(6)
Retirement benefits liabilities		(4)
Deferred tax liabilities		<u>44</u>
Total equity and liabilities		<u>34</u>

Apart from the above, the change in accounting policy had no material effect on the income statement or the statement of other comprehensive income for the six months ended 30 June 2008.

As a result of the change in accounting policy, from 1 January 2009, the Group reviews the asset valuations and actuarial assumptions underlying the retirement benefits of its material schemes on a half-yearly basis. This resulted in the recognition of actuarial losses of £123 million pre-tax at 30 June 2009. This review was not carried out at 30 June 2008 and actuarial gains and losses for the year ended 31 December 2008 are deemed to have arisen in the second half of the year.

The preparation of the condensed consolidated financial information requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the condensed consolidated financial information. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management’s best judgement at the date of the financial statements. In future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the period in which the circumstances change.

NON-GAAP MEASURES

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles (GAAP) under which the Group reports. The Group believes that these additional measures, which are used internally by the Group, are useful to users of the financial information in helping them understand the underlying business performance.

The principal non-GAAP measure which the Group uses is adjusted diluted earnings per share, which is reconciled to diluted earnings per share. The adjusting items that mainly drive the adjustments made, are separately disclosed, as memorandum information on the face of the Income Statement, and all adjustments are explained in this Report.

The chief operating decision maker reviews current and prior year segmental income statement information of subsidiaries and associates at constant rates of exchange which provides an approximate guide to performance in the current year if exchange rates had not changed from the prior year. The constant rate comparison provided for reporting segment information in accordance with IFRS 8, is based on a retranslation, at prior year exchange rates, of the current year results of the Group's overseas entities but does not adjust for the normal transactional gains and losses in operations which are generated by exchange movements.

The Group also prepares an alternative cash flow, which includes a measure of 'free cash flow', to illustrate the cash flows before transactions relating to borrowings. The Group also provides gross turnover as an additional disclosure to indicate the impact of duty, excise and other taxes. Certain reclassifications have been made in respect of gross turnover in 2008 and, as a result, historical information has been re-presented.

Due to the secondary listing of the ordinary shares of British American Tobacco p.l.c. on the main board of the JSE Limited (JSE) in South Africa, the Group is required to present headline earnings per share and diluted headline earnings per share which are additional alternative measures of earnings per share, calculated in accordance with Circular 8/2007 'Headline Earnings' issued by the South African Institute of Chartered Accountants. These are shown on pages 30 and 31.

FOREIGN CURRENCIES

The income and cash flow statements of overseas subsidiaries and associates have been translated at the average rates for the respective periods. Assets and liabilities have been translated at the relevant period end rates. For high inflation countries, the local currency results are adjusted for the impact of inflation prior to translation to sterling at closing exchange rates.

The principal exchange rates used were as follows:

	Average			Closing		
	30.6.09	30.6.08	31.12.08	30.6.09	30.6.08	31.12.08
US dollar	1.493	1.975	1.852	1.647	1.990	1.438
Canadian dollar	1.797	1.989	1.961	1.913	2.019	1.775
Euro	1.119	1.291	1.257	1.174	1.263	1.034
South African rand	13.676	15.127	15.132	12.718	15.579	13.292
Brazilian real	3.267	3.351	3.355	3.228	3.165	3.353
Australian dollar	2.099	2.138	2.187	2.037	2.074	2.062
Russian rouble	49.304	47.251	45.810	51.336	46.658	43.902

SEGMENTAL ANALYSES OF REVENUE AND PROFIT - unaudited

The five geographic regions are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the chief operating decision maker, identified as the Management Board, for assessing performance and allocating resources. The Management Board reviews external net revenues and operating profit after adjusting items, to evaluate segment performance and allocate resources.

The Management Board reviews current and prior year income statement information of subsidiaries and associates at constant rates of exchange. As a result, the 2009 segmental results were translated using the 2008 average rates of exchange. The 2008 comparative figures are stated at the 2008 actual average rates of exchange for the relevant period.

The tables below are represented for the new regional structure effective 1 January 2009, as previously disclosed in the Annual Report for the year ended 31 December 2008.

The analyses of **revenue** for the six months to 30 June 2009, 30 June 2008 and the year to 31 December 2008, based on location of sales, are as follows:

	30.6.09			30.6.08	31.12.08
	Revenue Constant £m	Translation exchange £m	Revenue Current £m	Revenue £m	Revenue £m
Asia-Pacific	1,315	232	1,547	1,293	2,717
Americas	1,466	30	1,496	1,349	2,863
Western Europe	1,665	219	1,884	1,406	3,218
Eastern Europe	754	(13)	741	689	1,594
Africa and Middle East	1,027	85	1,112	720	1,730
Total	<u>6,227</u>	<u>553</u>	<u>6,780</u>	<u>5,457</u>	<u>12,122</u>

Profit from operations for the six months to 30 June 2009 is as follows:

	30.6.09				
	Adjusted profit from operations Constant* £m	Translation exchange £m	Adjusted profit from operations Current* £m	Adjusting items £m	Profit from operations £m
Asia-Pacific	481	76	557		557
Americas	573	6	579	(5)	574
Western Europe	434	75	509	(36)	473
Eastern Europe	184	(1)	183		183
Africa and Middle East	305	31	336	(12)	324
Total	<u>1,977</u>	<u>187</u>	<u>2,164</u>	<u>(53)</u>	<u>2,111</u>
Net finance costs					(219)
Share of post-tax results of associates and joint ventures					231
Profit before taxation					<u>2,123</u>

*After adjusting for restructuring and integration costs, amortisation of trademarks and gains on disposal of businesses and trademarks as explained on page 25.

Segmental analyses of revenue and profit – unaudited cont...

Profit from operations for the six months to 30 June 2008 and the year to 31 December 2008 is as follows:

	30.6.08			31.12.08		
	Adjusted profit from operations* £m	Adjusting items £m	Profit from operations £m	Adjusted profit from operations* £m	Adjusting items £m	Profit from operations £m
Asia-Pacific	456	(2)	454	924	(2)	922
Americas	516	2	518	1,052	(96)	956
Western Europe	334	(26)	308	760	5	765
Eastern Europe	199		199	468		468
Africa and Middle East	252	(7)	245	513	(52)	461
Total	<u>1,757</u>	<u>(33)</u>	<u>1,724</u>	<u>3,717</u>	<u>(145)</u>	<u>3,572</u>
Net finance costs			(179)			(391)
Share of post-tax results of associates and joint ventures			293			503
Profit before taxation			<u>1,838</u>			<u>3,684</u>

*After adjusting for restructuring and integration costs, the 2008 Canadian settlement, amortisation of trademarks and gains on disposal of businesses and trademarks as explained on page 25.

The segmental analysis of the **Group's share of the post-tax results of associates and joint ventures** for the six months to 30 June 2009 is as follows:

	30.6.09				
	Adjusted share of post-tax results Constant* £m	Translation exchange £m	Adjusted share of post-tax results Current* £m	Adjusting items £m	Share of post-tax results £m
Asia-Pacific	72	7	79		79
Americas	151	48	199	(48)	151
Western Europe					
Eastern Europe					
Africa and Middle East	1		1		1
Total	<u>224</u>	<u>55</u>	<u>279</u>	<u>(48)</u>	<u>231</u>

*After adjusting for trademark impairment charges as explained on page 29.

Segmental analyses of revenue and profit – unaudited cont...

The segmental analysis of the **Group's share of the post-tax results of associates and joint ventures** for the six months to 30 June 2008 and the year to 31 December 2008 is as follows:

	30.6.08			31.12.08		
	Adjusted share of post-tax results* £m	Adjusting items £m	Share of post-tax results £m	Adjusted share of post-tax results* £m	Adjusting items £m	Share of post-tax results £m
Asia-Pacific	66		66	121		121
Americas	143	45	188	328	13	341
Western Europe	25	13	38	26	13	39
Eastern Europe						
Africa and Middle East	1		1	2		2
Total	<u>235</u>	<u>58</u>	<u>293</u>	<u>477</u>	<u>26</u>	<u>503</u>

*After adjusting for gain on termination of joint venture, charges for trademark impairments, additional ST income and restructuring costs as explained on page 29.

ADJUSTING ITEMS

Adjusting items are distorting items in the profit from operations and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type in aggregate, are relevant to an understanding of the Group's underlying financial performance. These items are separately disclosed either as memorandum information on the face of the income statement and in the segmental analyses, or in the notes, as appropriate.

(a) Restructuring and integration costs

The integration of the Tekel and ST businesses into existing operations and the review of the Group's manufacturing operations and organisational structure including the initiative to reduce overheads and indirect costs, continued during the six months to 30 June 2009.

The six months to 30 June 2009 includes a charge for restructuring and integration of £29 million (2008: £33 million), principally in respect of the integration of ST and Tekel, the restructuring of the Group's IT shared services and further costs related to restructurings announced in prior years.

The results for the year ended 31 December 2008 included a charge for restructuring and integration of £160 million, principally in respect of further costs related to restructurings announced in prior years, the re-organisation of the business in the Netherlands and costs in respect of the integration of the Tekel and ST businesses into existing operations.

(b) Canadian settlement

On 31 July 2008, the Group's subsidiary in Canada (Imperial Tobacco Canada) announced that it had reached a resolution with the federal and provincial governments with regard to the investigation related to the export to the United States of Imperial Tobacco Canada tobacco products in the late 1980s and early 1990s. The subsidiary entered a plea of guilty to a regulatory violation of a single count of Section 240(i) (a) of the Excise Act and has paid a fine of £102 million which was included in other operating expenses in the profit from operations for the year ended 31 December 2008.

Imperial Tobacco Canada has also entered into a 15 year civil agreement with the federal and provincial governments. In order, amongst other things, to assist the governments in their future efforts against illicit trade, Imperial Tobacco Canada has agreed to pay a percentage of annual net sales revenue each year going forward for 15 years, up to a maximum of Can\$350 million, which is expensed as it is incurred.

(c) Amortisation of trademarks

The acquisitions of Tekel and ST resulted in the capitalisation of trademarks which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £26 million was included in depreciation and amortisation costs in the profit from operations for the six months to 30 June 2009 (2008: £nil). For the year ended 31 December 2008, the amortisation charge was £24 million.

(d) Gains on disposal of businesses and trademarks

The gain on disposal of businesses and trademarks for the year ended 31 December 2008 was £141 million, of which £139 million arose on 2 July 2008 with the disposal of the Group's 32.35 per cent holding in the non-cigarette and snus businesses of ST (see page 28). This gain was included in other operating income in the profit from operations for the year to 31 December 2008.

The acquisition of the cigarette and snus businesses of ST was subject to regulatory approval which was received on the condition that the Group divest a small number of local trademarks, primarily in Norway. The disposal of the trademarks was dealt with in two packages, with the first package sold and completed in February 2009. In March 2009, contracts were exchanged in respect of the second package and it was completed in May 2009. The total proceeds from the two packages resulted in a gain of £2 million which was included in other operating income in the profit from operations for the six months to 30 June 2009.

OTHER CHANGES IN THE GROUP

(a) PT Bentoel Internasional Investama Tbk

On 17 June 2009, the Group acquired from Rajawali Group and other shareholders an 85 per cent stake in Indonesia's fourth largest cigarette maker PT Bentoel Internasional Investama Tbk (Bentoel) for US\$494 million (£303 million). The price is equivalent to IDR873 per share, a premium of 20 per cent over Bentoel's closing price of IDR730 per share on 17 June 2009. A public tender offer for the remaining shares was announced after the acquisition and is expected to be completed by the end of August 2009. The fair value table below, stated at the exchange rates ruling at the date of the transaction, has been based on available management information and, given the short period of time since acquisition, work is continuing in respect of the fair value exercise and the necessary adjustments between Indonesian GAAP and IFRS to determine acquired book values. The values shown in the table below are therefore provisional and the full table will be presented and updated in due course as permitted under IFRS 3.

Provisional values

	Book values	Fair value adjustments	Estimated fair value
	£m	£m	£m
Property, plant and equipment	57	21	78
Deferred tax asset	5	(1)	4
Trade and other receivables	41		41
Inventories	152	(13)	139
Cash and cash equivalents	3		3
Borrowings	(97)		(97)
Retirement benefit liabilities	(9)	(1)	(10)
Deferred tax liabilities		(27)	(27)
Trade and other payables	(48)		(48)
Net tangible assets acquired	104	(21)	83
Intangible assets	4	246	250
	108	225	333
Less: minority share of net assets acquired			(25)
Total consideration including accrued acquisition costs			308

The provisional intangible assets of £250 million on the acquisition of the 85 per cent stake in the business, reflects the goodwill representing a strategic premium to acquire the opportunity to enter the very large Indonesian kretek market and anticipated synergies that will arise from combining the businesses in Indonesia, post-acquisition, as well as the value of acquired trademarks.

Although the acquisition was completed on 17 June 2009, the results generated from the acquired business for the period to 30 June 2009 were not material to the profit from operations.

If the acquisition had occurred on 1 January 2009, before accounting for anticipated synergy, restructuring and pricing benefits, it is currently estimated that Group revenue would have been £6,862 million and Group profit from operations would have been £2,116 million for the 6 months to 30 June 2009, after charging £32 million for the amortisation of acquired intangibles. These amounts have been estimated based on Bentoel's results for the 6 months prior to acquisition, adjusted to reflect changes arising from differences in accounting policies and the anticipated effect of fair value adjustments.

Other changes in the group cont....

(b) Tekel

On 22 February 2008, the Group announced that it had won the public tender to acquire the cigarette assets of Tekel, the Turkish state-owned tobacco company, with a bid of US\$1,720 million. The acquisition only related to the cigarette assets of Tekel, which principally comprised trademarks, factories and tobacco leaf stocks. The acquisition did not include employees and the Group had directly employed the required workforce by the effective date of the transaction. Completion of this transaction was subject to regulatory approval which was subsequently received and on 24 June 2008 the Group completed the transaction, subject to finalisation of the purchase price based on agreed completion accounts.

As noted in the December 2008 Annual Report, finalisation of part of the transaction was still continuing. This has now been concluded with an adjustment of £12 million to the purchase price and goodwill.

The goodwill of £578 million on the cigarette assets of Tekel, stated at the exchange rates ruling at the date of the transaction, arose as follows:

	Final fair value £m
Net assets acquired	307
Goodwill	578
Total consideration	<u>885</u>
Consideration comprises:	
- Cash	878
- Acquisition costs	7
Total consideration	<u>885</u>

Included within the cigarette assets acquired from Tekel are certain items of property, plant and equipment that are being actively marketed for sale. These assets, amounting to £15 million at 31 December 2008, have been included as 'Assets classified as held-for-sale'. At 30 June 2009, these assets amounted to £13 million.

The goodwill of £578 million arising on the acquisition of the cigarette assets of Tekel represents a strategic premium to acquire Tekel's significant market position in the Turkish cigarette market and significant anticipated synergies that will arise post acquisition of combining the Turkey businesses.

Other changes in the group cont...

(c) Skandinavisk Tobakskomagni (ST)

On 27 February 2008, the Group agreed to acquire 100 per cent of ST's cigarette and snus businesses in exchange for its existing 32.35 per cent holding in ST and payment of DKK11,582 million (£1,237 million) in cash. Completion of this transaction was subject to regulatory approval which was subsequently received on the condition that the Group agreed to divest a small number of local trademarks, primarily in Norway. The transaction was completed on 2 July 2008. The transaction resulted in a revaluation gain of £179 million, included in other comprehensive income for the year ended 31 December 2008, and goodwill of £923 million. The gain on disposal from this transaction and subsequent trademark disposals, are explained on page 25.

Until the date of the transaction, the results of ST were equity accounted as an associate undertaking and following the transaction, the results of the acquired business have been consolidated.

NET FINANCE COSTS

Net finance costs comprise:

	6 months to		
	30.6.09		30.6.08
	£m		£m
Finance costs	(224)		(300)
Finance income	5		121
	<u>(219)</u>		<u>(179)</u>
Comprising:			
Interest payable	(260)		(224)
Interest and dividend income	55		66
Fair value changes	198	(157)	
Exchange differences	<u>(212)</u>	<u>136</u>	<u>(21)</u>
	<u>(219)</u>		<u>(179)</u>

Net finance costs at £219 million were £40 million higher than last year, principally reflecting the higher interest cost as a result of increased borrowings, as well as the impact of derivatives and exchange differences.

The net £14 million loss (2008: £21 million loss) of fair value changes and exchange differences reflects a loss of £10 million (2008: £9 million) from the net impact of exchange rate movements and a loss of £4 million (2008: £12 million) principally due to interest related changes in the fair value of derivatives.

IFRS requires fair value changes for derivatives, which do not meet the tests for hedge accounting under IAS 39, to be included in the income statement. In addition, certain exchange differences are required to be included in the income statement under IFRS and, as they are subject to exchange rate movements in a period, they can be a volatile element of net finance costs. These amounts do not always reflect an economic gain or loss for the Group and, accordingly, the Group has decided that, in calculating the adjusted diluted earnings per share, it is appropriate to exclude certain amounts.

Net finance costs....

The adjusted diluted earnings per share for the period ended 30 June 2008 exclude, in line with previous practice, an £11 million loss relating to exchange losses in net finance costs where there is a compensating exchange gain reflected in differences in exchange taken directly to the statement of comprehensive income and expense. There are no similar gains or losses in the six months ended 30 June 2009.

ASSOCIATES AND JOINT VENTURES

The Group's share of post-tax results of associates and joint ventures was £231 million (2008: £293 million) after taxation of £133 million (2008: £151 million). For the year to 31 December 2008, the share of post-tax results was £503 million after tax of £284 million. This share is after the following adjusting items which are excluded from the calculation of adjusted diluted earnings per share (pages 30 and 31).

In the six months to 30 June 2009, Reynolds American recognised a trademark impairment charge of US\$280 million, triggered by the increase in federal excise taxes on tobacco products and changes in pricing. The Group's share of this charge amounted to £48 million (net of tax).

In the year ended 31 December 2008, Reynolds American modified the previously anticipated level of support between certain trademarks and the projected net sales of certain trademarks, resulting in a trademark impairment charge of which the Group's share amounted to £20 million (net of tax).

On 21 February 2008, Reynolds American announced that it would receive a payment from Gallaher Limited resulting from the termination of a joint venture agreement. While the payment will be received over a number of years, in the six months to 30 June 2008 and in the year to 31 December 2008 Reynolds American recognised a pre-tax gain of US\$328 million. The Group's share of this gain included in the results for the six months to 30 June 2008 and for the year to 31 December 2008, amounts to £45 million (net of tax).

On 9 September 2008, Reynolds American further announced planned changes in the organisational structure at Reynolds American Inc. and its largest subsidiary, R. J. Reynolds Tobacco Company. The charge to the results for the year ended 31 December 2008 amounted to US\$90 million. The Group's share of this charge included in the results for the year amounted to £12 million (net of tax).

The year end of ST, an associate of the Group to 2 July 2008, was 30 June, and, for practical reasons, the Group had previously equity accounted for its interest based on the information available from ST which was 3 months in arrears to that of the Group. As explained on page 28, the Group acquired 100 per cent of ST's cigarette and snus businesses on 2 July 2008. Consequently, in order to account for the Group's share of the net assets of ST at the date of the acquisition, the results of ST for the period up to 2 July 2008 were included in the results from associates for 2008, resulting in one additional quarter's income in 2008. This contributed an additional £13 million to the share of post-tax results of associates and joint ventures.

TAXATION

The tax rate in the income statement of 25.2 per cent for the six months to 30 June 2009 (30 June 2008: 26.9 per cent) is affected by the inclusion of the share of associates' post-tax profit in the Group's pre-tax results and adjusting items. The underlying rate for subsidiaries reflected in the adjusted earnings per share below was 28.0 per cent in 2009 and 30.1 per cent for the six months to 30 June 2008. The decrease arises primarily from a favourable change in the mix of profits and a reduction in national tax rates in several countries. The charge relates to taxes payable overseas.

The tax charge for the period ended 30 June 2008 included a one-off net deferred tax charge of £22 million (31 December 2008: £26 million) as a result of the acquisition of the cigarette assets of Tekel. This has been excluded from the adjusted diluted earnings per share and consequently from the underlying tax rate above.

EARNINGS PER SHARE

	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	pence	pence	pence
Earnings per share			
- basic	73.23	62.48	123.28
- diluted	72.75	62.08	122.54
Adjusted earnings per share			
- basic	77.78	62.43	129.55
- diluted	77.27	62.02	128.78
Headline earnings per share			
- basic	76.67	60.28	114.80
- diluted	76.17	59.89	114.11

Basic earnings per share are based on the profit for the period attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year (excluding treasury shares).

For the calculation of the diluted earnings per share, the weighted average number of shares reflects the potential dilutive effect of employee share schemes.

The presentation of headline earnings per share is mandated under the JSE Listing Requirements. It is calculated in accordance with Circular 8/2007 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

The earnings per share are based on:

	30.6.09		30.6.08		31.12.08	
	Earnings	Shares	Earnings	Shares	Earnings	Shares
	£m	m	£m	m	£m	m
Earnings per share						
- basic	1,450	1,980	1,249	1,999	2,457	1,993
- diluted	1,450	1,993	1,249	2,012	2,457	2,005
Adjusted earnings per share						
- basic	1,540	1,980	1,248	1,999	2,582	1,993
- diluted	1,540	1,993	1,248	2,012	2,582	2,005
Headline earnings per share						
- basic	1,518	1,980	1,205	1,999	2,288	1,993
- diluted	1,518	1,993	1,205	2,012	2,288	2,005

Earnings per share cont...

In 2009, earnings have been affected by a number of adjusting items which include restructuring and integration costs, amortisation of trademarks and the effect on disposal of businesses and trademarks (see page 25). The earnings for 2008 were affected by similar adjusting items, together with the Canadian settlement and certain distortions to net finance costs under IFRS (see page 29) and to deferred tax (see page 30). In order to illustrate the impact of these items, the adjusted diluted earnings per share are shown below:

	Diluted earnings per share		
	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	pence	pence	pence
Unadjusted earnings per share	72.75	62.08	122.54
Effect of restructuring and integration costs	1.17	1.19	6.08
Effect of Canadian settlement			5.09
Effect of amortisation of trademarks	1.00		0.90
Effect of disposals of businesses and trademarks	(0.05)		(6.38)
Effect of net finance cost adjustment		0.55	0.55
Effect of associates' trademark impairments, restructuring costs and termination of joint venture	2.40	(2.24)	(0.65)
Effect of additional ST income		(0.65)	(0.65)
Effect of deferred tax adjustment		1.09	1.30
Adjusted diluted earnings per share	77.27	62.02	128.78

Similar types of adjustments would apply to basic earnings per share.

Headline earnings per share are calculated by taking the following adjustments into account:

	Diluted headline earnings per share		
	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	pence	pence	pence
Unadjusted earnings per share	72.75	62.08	122.54
Effect of impairment of goodwill and property, plant and equipment	1.12	0.20	0.25
Effect of gains on disposal of property, plant and equipment		(0.10)	(0.45)
Effect of gains on disposal of businesses and trademarks	(0.05)		(6.68)
Effect of losses/(gains) reclassified from the available-for-sale reserve	(0.05)	(0.05)	(0.30)
Effect of share of associates' trademark impairments and termination of joint venture	2.40	(2.24)	(1.25)
Headline earnings per share	76.17	59.89	114.11

CASH FLOW

a) The IFRS cash flow includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow below is presented to illustrate the cash flows before transactions relating to borrowings.

	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	£m	£m	£m
Net cash from operating activities before restructuring costs and taxation	2,031	1,796	4,692
Restructuring costs	(82)	(74)	(210)
Taxation	(517)	(455)	(943)
Net cash from operating activities (page 18)	1,432	1,267	3,539
Net interest	(307)	(125)	(280)
Net capital expenditure	(165)	(115)	(482)
Dividends paid to minority interests	(112)	(79)	(173)
Free cash flow	848	948	2,604
Dividends paid to shareholders	(1,241)	(954)	(1,393)
Share buy-back		(137)	(400)
Purchase of Bentoel (page 26)	(300)		
Purchase of Tekel cigarette assets (page 27)	(12)	(867)	(873)
Proceeds from ST trademark disposals and purchase of ST businesses (page 28)	190		(1,243)
Other net flows	(151)	(117)	(227)
Net cash flows	(666)	(1,127)	(1,532)

Net cash from operating activities before restructuring costs and taxation increased by £235 million to £2,031 million, reflecting growth in underlying operating performance, partly offset by the impact of lower dividends from associates and adverse working capital movements reflecting timing differences. Although outflows relating to taxation and restructuring costs were £70 million higher than last year due to higher profits and the timing of payments, the Group's net cash flow from operating activities was £165 million higher at £1,432 million.

Free cash flow is the Group's cash flow before dividends, share buy-back and investing activities. With the impact of higher net interest payments, increased net capital expenditure and dividends paid to minorities, the Group's free cash flow was £100 million lower than 2008 at £848 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 55 per cent (30 June 2008: 76 per cent), with free cash flow per share decreasing by 10 per cent.

Below free cash flow, the principal cash outflows comprise the payment of the prior year final dividend which was £287 million higher at £1,241 million, and the acquisition of PT Bentoel Internasional Investama Tbk in Indonesia. The Bentoel acquisition resulted in a net cash outflow of £300 million, which comprises the purchase consideration less acquired cash and cash equivalents, as explained on page 26. As explained on page 37, there was no share buy-back in the six months ended 30 June 2009 (30 June 2008: £137 million; 31 December 2008: £400 million).

The other net flows principally relate to share purchases by the employee share ownership trusts and outflows in respect of certain derivative financial instruments.

Cash flow cont...

The above flows resulted in net cash outflows of £666 million (30 June 2008: £1,127 million outflow; 31 December 2008: £1,532 million outflow). After taking account of transactions related to borrowings, especially net repayment of debt, the above flows resulted in a net decrease of cash and cash equivalents of £935 million (30 June 2008: £980 million increase; 31 December 2008: £779 million increase) as shown in the IFRS cash flow on page 18.

b) The movements in net debt (borrowings including related derivatives, less cash and cash equivalents and current available-for-sale investments) and the maturity analyses of net debt are as follows:

Reconciliation of movements in net debt

	30.6.09 £m	30.6.08 £m	31.12.08 £m
Net debt at 1 January	(9,891)	(5,581)	(5,581)
Exchange*	1,173	(462)	(2,622)
Free cash flow	848	948	2,604
Dividends	(1,241)	(954)	(1,393)
Share buy-back		(137)	(400)
Bentoel acquisition			
- purchase consideration less acquired cash and cash equivalents	(300)		
- debt acquired	(97)		
Tekel acquisition	(12)	(867)	(873)
ST trademark disposals and purchase of ST businesses	190		(1,243)
Other net flows	(151)	(117)	(227)
Other non-cash items	105	(46)	(156)
Net debt at period end	(9,376)	(7,216)	(9,891)

*Including movements in respect of debt related derivatives.

Maturity analyses of net debt

	30.6.09 £m	30.6.08 £m	31.12.08 £m
Net debt due within one year:			
Borrowings	(2,522)	(1,760)	(2,724)
Related derivatives	127	61	(91)
Cash and cash equivalents	1,304	2,326	2,309
Current available-for-sale investments	80	76	79
	(1,011)	703	(427)
Net debt due beyond one year:			
Borrowings	(8,369)	(7,895)	(9,437)
Related derivatives	4	(24)	(27)
	(8,365)	(7,919)	(9,464)
Total net debt	(9,376)	(7,216)	(9,891)

The Group remains confident about its ability to successfully access the debt capital markets and reviews its options on an ongoing basis.

Cash flow cont...

c) Cash generated from operations (page 18)

	6 months to		Year to
	30.6.09	30.6.08	31.12.08
	£m	£m	£m
Profit from operations	2,111	1,724	3,572
Adjustments for:			
Amortisation of trademarks	26		24
Gains on disposal of businesses and trademarks	(2)		(141)
Depreciation and impairment of property, plant and equipment	205	153	350
Amortisation and write off of intangible assets	54	21	56
Increase in inventories	(527)	(415)	(367)
(Increase)/decrease in trade and other receivables	(35)	120	19
Increase in trade and other payables	84	55	746
Decrease in net retirement benefit liabilities	(78)	(58)	(99)
Decrease in provisions for liabilities and charges	(23)	(41)	(31)
Other non-cash items	(9)	10	27
Cash generated from operations	<u>1,806</u>	<u>1,569</u>	<u>4,156</u>

d) IFRS investing and financing activities

The investing and financing activities in the IFRS cash flows on page 18 include the following items:

The proceeds on disposal of intangibles of £17 million for the six months ended 30 June 2008 and the year ended 31 December 2008 arose from the termination of a licence agreement in Southern Africa, as reported in the 2007 results.

In the six months ended 30 June 2008, the purchases and disposals of investments (which comprise available-for-sale investments and loans and receivables) include a net cash inflow of £14 million (31 December 2008: £8 million inflow) in respect of current investments and a £1 million inflow (31 December 2008: £1 million inflow) from non-current investments. In the six months ended 30 June 2009, the purchases and disposals of investments of £13 million arose from the disposal of current investments.

The proceeds of £19 million from associates' share buy-backs for the six months ended 30 June 2008 (31 December 2008: £42 million) principally reflect cash received in respect of the Group's participation in the share buy-back programme conducted by Reynolds American Inc.

In the six months ended 30 June 2009, the Group acquired PT Bentoel Internasional Investama Tbk, resulting in a net cash outflow of £300 million, which comprises the purchase consideration less acquired cash and cash equivalents, as explained on page 26.

In the six months ended 30 June 2008 and the year ended 31 December 2008, the cash outflows of £867 million and £873 million respectively, in respect of the Tekel acquisition, reflect the purchase price paid as well as related acquisition costs. In the six months ended 30 June 2009, the £12 million outflow in respect of the Tekel acquisition reflects purchase price adjustments arising from the conclusion of the transaction, as explained on page 27.

Cash flow cont...

In the year ended 31 December 2008, the cash outflow of £1,243 million in respect of the ST acquisition reflects the purchase price, the related acquisition costs less acquired net cash and cash equivalents and overdrafts. Proceeds from ST trademark disposals and purchases of ST businesses in the six months ended 30 June 2009, represent the proceeds on disposal of a small number of trademarks in Norway (see page 25) of £188 million and the receipt in 2009 of a partial refund of the purchase price, accrued at 31 December 2008, of £2 million.

In the six months ended 30 June 2008 and the year ended 31 December 2008, the purchases of other subsidiaries and minorities of £2 million and £9 million respectively, arise from the acquisition of minority interests in Africa and Middle East and Western Europe.

In the year ended 31 December 2008, the £26 million cash inflow from the disposal of subsidiaries reflected the net proceeds on disposal of a non-core business in Asia-Pacific region.

The movement relating to derivative financial instruments is in respect of derivatives taken out to hedge cash and cash equivalents and external borrowings, derivatives taken out to hedge inter company loans and derivatives treated as net investment hedges. Derivatives taken out as cash flow hedges in respect of financing activities are also included in the movement relating to derivative financial instruments, while other such derivatives in respect of operating and investing activities are reflected along with the underlying transactions.

e) Net cash and cash equivalents in the Group cash flow statement comprise:

	30.6.09	30.6.08	31.12.08
	£m	£m	£m
Cash and cash equivalents per balance sheet	1,304	2,326	2,309
Accrued interest		(4)	(3)
Overdrafts	(265)	(71)	(86)
Net cash and cash equivalents	<u>1,039</u>	<u>2,251</u>	<u>2,220</u>

f) Liquidity

In the six months to 30 June 2009, the Group re-established its euro commercial paper (ECP) programme of £1 billion. £260 million of ECP is outstanding at 30 June 2009.

The Group's €1.75 billion revolving credit facility was undrawn at 30 June 2009.

In June 2009, the Group issued a £250 million bond with a maturity of June 2022. In February 2009, the Group repaid a €900 million bond and a MYR100 million bond in May 2009.

In July 2009, the Group entered into a new €700 million term loan facility with a maturity date of 31 October 2013. The facility will be used to refinance part of the Group's existing €860 million credit facility.

In the year ended 31 December 2008, the €1.8 billion revolving credit facility arranged in December 2007 was cancelled and replaced with the issue of €1.25 billion and £500 million bonds maturing in 2015 and 2024 respectively. In addition to this, the Group increased its €1 billion (5.375 per cent, maturity 2017) bond by an additional €250 million, bringing the total size of the bond to €1.25 billion.

During 2008, the Group also issued US\$300 million and US\$700 million bonds, maturing in 2013 and 2018 respectively, pursuant to Rule 144A and RegS under the US Securities Act. The Group also repaid US\$330 million and £217 million bonds upon maturity in May and November respectively. In addition, on 22 September 2008, the Group repurchased its maturing Mexican 2011 MXN1,055 million UDI bond and refinanced it with a floating rate borrowing of MXN1,444 million.

Cash flow cont...

On 13 February 2008, the Group entered into an acquisition credit facility whereby lenders agreed to make available an amount of US\$2 billion. On 1 May 2008, this facility was syndicated in the market and was redenominated into two euro facilities, one of €420 million and one of €860 million. These facilities expire on 31 October 2009. There was a net draw down on these credit facilities of €1.15 billion during the year ended 31 December 2008 which continued through the six months ended 30 June 2009.

TOTAL EQUITY

	30.6.09	30.6.08 restated	31.12.08	1.1.08
	£m	£m	£m	£m
Share capital	506	506	506	506
Share premium account	58	56	56	53
Capital redemption reserves	101	101	101	101
Merger reserves	3,748	3,748	3,748	3,748
Translation reserve	(125)	(194)	188	80
Hedging reserve	9	(14)	4	(11)
Available-for-sale reserve	11	16	11	16
Revaluation reserve	179		179	
Other reserves	573	573	573	573
Retained earnings	1,622	1,825	1,578	1,805
after deducting				
- cost of treasury shares	(788)	(554)	(745)	(296)
Total shareholders' funds	6,682	6,617	6,944	6,871
Minority interests	311	248	271	218
	6,993	6,865	7,215	7,089

Total equity at 30 June 2009 was £222 million lower than at 31 December 2008 as the payment of dividends exceeded total comprehensive income for the period. In addition, exchange movements had a £606 million negative impact on shareholders' funds, reflecting the general strengthening of the closing rates for sterling in 2009 compared to 2008.

LITIGATION: FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER

British American Tobacco is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs in the Franked Investment Income Group Litigation Order ("FII GLO"). There are over 20 companies in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK. The claim was filed in 2003 and the case was heard in the European Court of Justice in 2005 and a decision of the ECJ received in December 2006. In July 2008, the case reverted to a trial in the UK High Court for the UK Court to determine how the principles of the ECJ decision should be applied in a UK context.

The High Court judgment in November 2008 concluded, amongst many other things, that dividends received from EU subsidiaries should be, and should have been, exempt from UK taxation. It also concluded that certain dividends received before 5 April 1999 from the EU and, in some limited circumstances after 1993 from outside the EU, should have been treated as franked investment income with the consequence that advance corporation tax need not have been paid. Claims for the repayment of UK tax incurred where the dividends were from the EU can be made back to 1973. This judgement was appealed and will be heard by the Court of Appeal in October this year.

Litigation: Franked investment income Group litigation order cont...

The tentative conclusion reached in the judgment would, if upheld, produce an estimated receivable of about £1.2 billion for British American Tobacco.

The potential receipt of some or all of the amount referred to above has not been recognised in the results of the Group due to the uncertainty of the amounts and the eventual outcome.

CONTINGENT LIABILITIES

As noted in the 2008 Annual Report for the year ended 31 December 2008, there are contingent liabilities in respect of litigation, overseas taxes and guarantees in various countries.

Group companies, as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant. At least in the aggregate and despite the quality of defences available to the Group, it is not impossible that the results of operations or cash flows of the Group in particular quarterly or annual periods could be materially affected by this.

Having regard to these matters, the Directors (i) do not consider it appropriate to make any provision in respect of any pending litigation and (ii) do not believe that the ultimate outcome of this litigation will significantly impair the financial condition of the Group.

RELATED PARTY DISCLOSURES

The Group's related party transactions and relationships for 2008 were disclosed in the British American Tobacco Annual Report for the year ended 31 December 2008. In the six months to 30 June 2009, there were no material changes in related parties or related party transactions.

SHARE BUY-BACK PROGRAMME

The Group initiated an on-market share buy-back programme at the end of February 2003. During the year to 31 December 2008, 22 million shares were bought back at a cost of £400 million (six months to 30 June 2008: 7 million shares at a cost of £141 million). At the beginning of 2009, the Board suspended the share buy-back programme for the time being, in order to preserve the Group's financial flexibility during the period of economic uncertainty. Consequently, to 30 June 2009, no shares were bought back.

Purchase of own shares in the Group statement of changes in equity for the six months ended 30 June 2008, included an amount of £50 million provided for the potential buy-back of shares during July 2008 under an irrevocable non-discretionary contract.

FINANCIAL CALENDAR

28 October 2009 Interim Management Statement

25 February 2010 Preliminary Statement

CALENDAR FOR THE INTERIM DIVIDEND 2009

2009

30 July	Dividend announced (including amount of dividend per share in both sterling and rand; applicable exchange rate and conversion date – 28 July 2009)
14 August	Last Day to Trade (JSE)
17 August to 21 August	No transfers between UK main register and South African branch register; no shares may be dematerialised or rematerialised
17 August	Ex-dividend date (JSE)
19 August	Ex-dividend date (LSE)
21 August	Record date (LSE and JSE)
29 September	Payment date (sterling and rand)

Details of the applicable exchange rate can be found under the heading 'Dividends' above.

For holders of American Depositary Receipts (ADRs), the record date for ADRs is also 21 August 2009 with an ADR payment date of 5 October 2009.

CORPORATE INFORMATION

Primary listing

London Stock Exchange (Share Code: BATS; ISIN: GB0002875804)

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The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, UK
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share dealing tel: 0870 703 889 3159 (UK only)
your account: www.computershare.com
share dealing: www.computershare.com/dealing/uk
queries: www.investorcentre.co.uk/contactus

Secondary listing

JSE (Share Code: BTI)

Shares are traded in electronic form only and transactions settled electronically through Strate.

Computershare Investor Services (Pty) Limited
PO Box 61051, Marshalltown 2107, South Africa
tel: 0861 100 950; +27 11 373 0017
queries: web.queries@computershare.co.za

Corporate information cont...

American Depositary Receipts (ADRs)

NYSE Alternext US (Share Code: BTI; CUSIP Number: 110448107;
ISIN: US1104481072)

Sponsored ADR programme; each ADR represents two ordinary shares of British American Tobacco p.l.c.

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This announcement contains certain forward looking statements which are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

DISTRIBUTION OF REPORT

This Half-Yearly Report is released to the London Stock Exchange and the JSE Limited. It may be viewed and downloaded from our website www.bat.com.

Copies of the Half-Yearly Report may also be obtained during normal business hours from: (1) the Company's registered office; (2) the Company's representative office in South Africa; and (3) British American Tobacco Publications, as above.

Nicola Snook
Secretary
29 July 2009