



25 February 2010

PRELIMINARY ANNOUNCEMENT - YEAR ENDED 31 DECEMBER 2009

SUMMARY

| | 2009 | 2008 | Change |
|-------------------------------------|-----------------|-------------|---------------|
| Revenue | £14,208m | £12,122m | +17% |
| Profit from operations | £4,101m | £3,572m | +15% |
| Adjusted profit from operations | £4,461m | £3,717m | +20% |
| Basic earnings per share | 137.0p | 123.3p | +11% |
| Adjusted diluted earnings per share | 153.0p | 128.8p | +19% |
| Dividends per share | 99.5p | 83.7p | +19% |

- The reported Group revenue increased by 17 per cent to £14,208 million as a result of the favourable impact of exchange rate movements, continued good pricing momentum, volume from acquisitions made in the middle of 2008 (Skandinavisk Tobakskompagni (ST) and Tekel) and the acquisition of Bentoel Internasional Investama Tbk in June 2009. Revenue increased by 10 per cent at constant rates of exchange.
- The reported Group profit from operations was 15 per cent higher at £4,101 million. Adjusted profit from operations was 20 per cent higher and would have been up 10 per cent at constant rates of exchange, despite the adverse transactional impact of exchange rates on costs.
- Group volumes from subsidiaries were 724 billion, an increase of 1 per cent, as a result of the acquisitions of ST, Tekel and Bentoel. On an organic basis, volumes were down 3 per cent on last year, mainly driven by deteriorating economies.
- The four Global Drive Brands achieved good overall volume growth of 4 per cent. Dunhill was up 9 per cent, Lucky Strike 4 per cent and Pall Mall grew by 10 per cent, while Kent volumes fell 4 per cent.
- Adjusted diluted earnings per share rose by 19 per cent, principally as a result of the strong growth in profit from operations and favourable exchange movements.
- The Board is recommending a final dividend of 71.6p, which will be paid on 6 May 2010. This, together with the interim dividend, will take dividends in respect of 2009 as a whole to 99.5p, an increase of 19 per cent.
- The Chairman, Richard Burrows, commented "There are signs that the global economy is beginning to improve, although unemployment, which is an important influence on our business, may continue to rise in developed markets. We have a very clear strategy and excellent management, with a well balanced portfolio of brands. Our unrivalled geographic spread mitigates risk for shareholders and will help us maintain sustainable growth and build shareholder value."

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BRITISH AMERICAN TOBACCO p.l.c.

PRELIMINARY ANNOUNCEMENT - YEAR ENDED 31 DECEMBER 2009

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CHAIRMAN'S STATEMENT

2009 was a remarkable year to join British American Tobacco. While many companies have struggled in the harsh economic climate and international markets have wavered, I find myself with the great privilege of being Chairman of a business that continues to deliver excellent results and has a well established strategy for achieving sustainable growth.

Revenue rose by 10 per cent at constant rates of exchange and by 17 per cent to £14,208 million at current rates. Adjusted profit from operations increased by 10 per cent at constant rates of exchange and by 20 per cent to £4,461 million at current rates. The benefit from the translation of our results into sterling was £355 million.

These fine figures resulted in adjusted diluted earnings per share growing by 19 per cent to 153.0p.

The Board has recommended a final dividend of 71.6p per share, an increase of 16 per cent, which will be paid on 6 May 2010 to shareholders on the register at 12 March 2010. This takes the total dividend for the year to 99.5p, an increase of 19 per cent, and maintains our target of paying out 65 per cent of sustainable earnings in dividends.

It is to the credit of all our people that British American Tobacco has had yet another successful year and I am delighted with the performance of our executive team. At the end of 2009, Jimmi Rembiszewski, our outstanding and long-serving Marketing Director, retired and was succeeded by Jean-Marc Levy. Jean-Marc, who was previously Regional Director, Western Europe, has been succeeded by Jack Bowles.

My fellow Non-Executive directors have played an important role in constructively challenging our strategy and ensuring that the Group is very well governed. My thanks to them for their help and support in my new role.

May I also extend my warmest thanks on behalf of all shareholders to my predecessor, Jan du Plessis, who led the Board so skilfully over the past five years. He set an exemplary standard of Chairmanship and is a tough act to follow. I know I speak for everyone at British American Tobacco in wishing him continued success.

Jan's time here has certainly been a period of impressive value creation for shareholders. Over the past 5 years, British American Tobacco has achieved compound growth of 15 per cent in earnings per share and 19 per cent in dividends per share. Over the same five year period, our total shareholder return has been 175 per cent, compared to 35 per cent for the FTSE 100.

In summary, I am delighted to be here and optimistic about the future for British American Tobacco. We have a well established company in one of the more resilient industries. Indeed, as an outsider, I have been struck by both the broad stability of the tobacco sector and the opportunities for growth within it.

There are signs that the global economy is beginning to improve, although unemployment, which is an important influence on our business, may continue to rise in developed markets. We have a very clear strategy and excellent management, with a well balanced portfolio of brands. Our unrivalled geographic spread mitigates risk for shareholders and will help us maintain sustainable growth and build shareholder value.

Richard Burrows
24 February 2010

BUSINESS REVIEW

The Group grew revenue by 17 per cent in very difficult times, to £14,208 million. This was the result of favourable exchange rate movements, good pricing momentum, volume from acquisitions made in the middle of 2008 (ST and Tekel) and the acquisition of Bentoel in June 2009. Revenue increased by 10 per cent at constant rates of exchange. All the regions contributed to this good result.

The reported profit from operations was 15 per cent higher at £4,101 million. Adjusted profit from operations was 20 per cent higher and would have been up 10 per cent at constant rates of exchange, despite the adverse transactional impact of exchange rates on costs.

Group volumes from subsidiaries were 724 billion, an increase of 1 per cent, mainly as a result of the acquisitions of ST, Tekel and Bentoel. Market shares increased in a number of markets but, on an organic basis, volumes were down 3 per cent mainly as a result of deteriorating economies which led to declines in the total size of a number of markets and, in some markets, down-trading and an increase in illicit trade. Good volume growth in Bangladesh, South Korea, Vietnam, Uzbekistan, Nigeria, Egypt and the Gulf Cooperation Council (GCC) was more than offset by declines in Malaysia, Japan, Brazil, Mexico, Argentina, Venezuela, Italy, Russia, Ukraine, Romania and South Africa.

Despite market size declines in many countries, the four Global Drive Brands achieved good overall volume growth of 4 per cent and improved share in a number of markets. Just 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 share in its main markets, apart from Japan.

Kent volumes fell by 4 per cent mainly as a result of industry declines in Russia and Japan, its principal markets and despite a higher market share in Eastern Europe and an increased premium segment share in Russia. Volumes grew in Kazakhstan, Ukraine, Uzbekistan and Azerbaijan, while they were slightly down in Romania. Dunhill rose by 9 per cent, mostly driven by a brand migration in Brazil, with growth in South Korea, the GCC, South Africa and Russia, partially offset by declines in Malaysia, Taiwan and Australia.

Lucky Strike volumes were 4 per cent higher with growth in Germany, France, Italy and Chile, partially offset by declines in Spain, Japan and Argentina, largely as a result of the industry volume decline. Market share grew well across all its key markets. Pall Mall volumes increased by 10 per cent with growth in Germany, Uzbekistan, Spain, Mexico, Chile and Turkey, partially offset by lower volumes in Pakistan, Russia, Romania and Hungary.

The profit discussed in the business review is based on the adjusted profit from operations, at current rates of exchange.

Adjusted profit from operations* at constant and current rates of exchange is as follows:

| | 31.12.09 | | 31.12.08 |
|------------------------|---------------------------------|---------------|---------------------------------|
| | Adjusted profit from operations | | Adjusted Profit from operations |
| | Constant rates | Current rates | |
| | £m | £m | £m |
| Asia-Pacific | 1,015 | 1,148 | 924 |
| Americas | 1,120 | 1,186 | 1,052 |
| Western Europe | 879 | 994 | 760 |
| Eastern Europe | 433 | 409 | 468 |
| Africa and Middle East | 659 | 724 | 513 |
| | <u>4,106</u> | <u>4,461</u> | <u>3,717</u> |

*Adjusted profit from operations (page 11) is derived after excluding adjusting items from profit from operations. Adjusting items include restructuring and integration costs, the 2008 Canadian Settlement, amortisation of trademarks and gains on disposal of businesses and trademarks, as explained on pages 23 and 24.

Business review cont...

In **Asia-Pacific**, profit at £1,148 million was up £224 million, mainly as a result of favourable exchange rates, backed by strong performances in Australia, Pakistan, Bangladesh, Taiwan and Vietnam, as well as the contribution resulting from the acquisition of Bentoel mid-year. Bentoel's performance was in line with expectations. At constant rates of exchange, profit would have increased by £91 million or 10 per cent. Volumes at 185 billion were 3 per cent higher as increases in Bangladesh, Vietnam and South Korea, and the additional volumes from Bentoel, were partially offset by lower volumes in Japan, Malaysia and Taiwan.

Strong profit growth in Australia was attributable to higher pricing and continued cost saving initiatives. Volumes were in line with last year while market share was slightly lower despite the growth experienced by Pall Mall and Winfield. In New Zealand, volumes and market share were down as competitor discounting intensified although Pall Mall performed well. Profit was up due to price increases, lower costs and a stronger exchange rate.

In Malaysia, Kent's market share grew after its relaunch in 2008 and Dunhill achieved a record share. However, volumes were down due to steep excise increases over the last two years and legal industry volume decreases as a result of the growth of illicit trade. Profit rose as a result of a favourable exchange rate, higher pricing and cost management, partially offset by the lower volumes.

In Japan, strong profit growth was achieved predominantly through favourable exchange rates, productivity savings and a better product mix. Volumes suffered as a result of significant industry decline. The premium priced brand Kool grew share although overall market share was slightly lower.

In Vietnam, higher volumes, supported by a combination of price increases, productivity initiatives and favourable exchange rates, led to strong profit growth. Whilst market share was down slightly, Dunhill performed well.

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 excise-led price increases, cost savings and the favourable exchange rate. Market share increased in a substantially contracted market.

Market share in Pakistan continued to grow and despite lower volumes, excise led price increases resulted in a strong growth in profit. In Bangladesh, profit was significantly higher due to increased volumes, improved sales mix, lower costs and favourable exchange rates. Market share was slightly lower due to the substantial growth in the low-price segment of the market. In Sri Lanka, profit was up strongly benefiting from price increases, a better sales mix and productivity improvements. Volumes were adversely affected by the excise-led price increases although Dunhill and Pall Mall increased share.

In **Americas**, profit rose by £134 million to £1,186 million, mainly attributable to a strong performance from Brazil, an improved product mix and exchange rate benefits. At constant rates of exchange, profit would have risen by £68 million or 6 per cent. Volumes were down 6 per cent at 151 billion, with decreases experienced in most markets across the region, despite some market share gains.

In Brazil, strong profit growth was achieved as a result of a substantial excise led price increase, coupled with a better premium mix performance and improved margins on the tobacco leaf export business. Higher prices led to lower industry volumes but share increased in the legal market. Dunhill is performing well after its migration from Carlton.

Business review cont...

Profit in Canada increased, benefiting from a strong currency and some reduction in illicit trade partially offset by slightly lower volumes, provincial tobacco tax increases and an adverse product mix. Market share declined slightly due to downtrading but share grew in the value-for-money and low price segments.

In Mexico, industry volumes were reduced by the excise-driven price increase at the end of 2008. Montana performed well and Boots was successfully migrated to Pall Mall. However, market share was lower. The impact of the reduction in volumes and increased marketing investment were only partially offset by the price increase and lower overheads, resulting in a profit decline. Profit in Argentina was in line with last year as the adverse exchange impacts on variable costs, other cost pressures and lower volumes, were offset by higher prices.

In Chile, the contraction of the market led to lower volumes. Although Lucky Strike and Pall Mall both performed well, market share was in line with last year. Profit decreased as a result of the lower volumes and higher costs, including the impact of foreign exchange on imported materials. Profit increased in Peru as a result of stable volumes and an improved product mix. Market share improved, driven by distribution expansion and strong growth by Lucky Strike and Pall Mall.

Market share in Venezuela was up strongly as a result of the growth of Lucky Strike and the refocusing of the brand portfolio. However, industry volumes declined sharply, affected by significant price increases to offset excise increases and high inflation. Profit was significantly lower due to the impact of foreign exchange and lower volumes. In Colombia, market share was lower than last year and industry volumes also declined. Profit rose as a result of lower costs.

Profit grew strongly in the Central America and Caribbean area despite lower industry volumes. This was due to higher prices and an improved product mix in key markets, as well as exchange gains. Market share increased, with Pall Mall and Dunhill being the main drivers for the growth.

Profit in **Western Europe** increased by £234 million to £994 million, mainly as a result of the acquisition of ST in 2008 and stronger exchange rates, partially offset by continuing losses in Poland. At constant rates of exchange, profit would have increased by £119 million or 16 per cent. Regional volumes were up 6 per cent to 130 billion, as a result of the additional volumes due to the acquisition of the ST businesses and growth in Greece, France and Spain, partially offset by declines in Italy, Switzerland and the Netherlands.

Profit increased in Italy mainly driven by higher prices, a better product mix and productivity savings. Volumes dropped as the total market contracted and there was a slight decline in share, mostly due to MS and other local brands, partly offset by growth in Lucky Strike.

In Germany, volumes were in line with last year, benefiting from higher market share with strong growth by Pall Mall and higher volumes from Lucky Strike, compensating for a decline in local brands. This, along with higher margins, favourable exchange rates and lower overheads, contributed to a significant rise in profit.

Market share in France was stable with industry volumes up. Lucky Strike and Pall Mall continued their growth. Profit increased on last year, mainly attributable to the favourable exchange rate and the price increase in November 2009. In Spain, profit and volume grew despite a sharp decline in the total market. Higher volumes were driven by Pall Mall and Lucky Strike increasing their market shares. Increased profit reflected the impact of price rises, as well as overhead savings.

Business review cont...

Profit in Switzerland was lower due to increased price discounting by competitors and lower volumes, partially offset by favourable exchange rates and a price increase. Market share was slightly down while the total market contracted, with Parisienne demonstrating strong share growth.

Profit improved significantly in Belgium with stable volumes and mix benefits supported by lower costs. There was strong 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 increase in late 2008. Profit rose due to favourable exchange rates, partially offset by the impact of the overall market decline.

In Poland, reported volume increased significantly due to the incorporation of the ST Polish business. Organic volumes were down driven by the contraction in the market as a result of general economic conditions and excise-driven price rises.

In Hungary, the impact of declining volumes was partially offset by productivity benefits and improved margins leading to a slight decrease in profit. Market share remained stable.

The acquisition and the integration of ST transformed our businesses in Scandinavia. The combined volumes and market share were slightly lower although Prince remained stable. Profit was in line with expectations at the time of the acquisition.

Profit in the **Eastern Europe** region decreased by £59 million to £409 million. This was principally due to lower volumes and the adverse effect of exchange rates on transactional costs and on translation to sterling. At constant rates of exchange, profit would have decreased by £35 million. Volumes at 131 billion were 4 per cent lower than last year, with decreases seen in Russia, Ukraine and Romania due to industry declines as a result of lower consumption and an increase in illicit trade, partially offset by a strong performance in Uzbekistan.

In Russia, volumes were reduced by a decline in market size and competitor pricing. Profit was down as a result of lower volumes, down-trading and adverse exchange effects on costs, which more than offset the impact of higher prices. Market share decreased, although share grew in the premium segment with Dunhill and Kent performing well.

In Romania, an impressive performance by Kent and strong growth by Dunhill and Vogue resulted in a record corporate share. Industry volumes declined due to a number of excise price rises and increased illicit trade. Higher marketing investment, higher product costs, together with the reduction in volumes, led to lower profit.

In Ukraine, Kent continued growing volumes and overall share in a market where industry volumes declined sharply. Profit was higher despite lower volumes and market share, rapid currency devaluations and excise increases.

Strong volumes and market share performances were achieved in the Caucasus through the growth of Kent, Pall Mall and Viceroy. In Uzbekistan, profit increased significantly.

Business review cont...

Profit from the **Africa and Middle East** region grew by £211 million to £724 million. At constant rates of exchange, profit would have increased by £146 million or 28 per cent, mainly driven by South Africa, Nigeria, the GCC and the benefit of the acquisition of Tekel during 2008. Volumes were 11 per cent higher at 127 billion, following increases in Turkey, the GCC, Nigeria and Egypt, which were partly offset by declines in South Africa and Iran.

In South Africa, the overall market contracted and with a reduction in trade inventories and down-trading to illicit trade, volumes were much lower. However, market share increased, with Peter Stuyvesant showing strong growth, whilst Dunhill and Kent performed well, assisted by the migration of Courtleigh Gold Band to Dunhill. Profit was up, benefiting from price increases and lower costs.

Profit in Nigeria increased significantly due to higher volumes and lower costs, partially offset by a weaker local currency. Volumes and market share grew well. The market benefited from anti-illicit trade initiatives by the government.

Volumes in the Middle East increased strongly. Dunhill achieved excellent growth in the GCC whilst sales of Kent and Lucky Strike improved markedly in the Levant. This led to growth in market share across the area and profit rose as a result of higher prices and volumes, improved product mix and lower costs coupled with the favourable exchange rate.

In Egypt there was significant volume and market share growth, supported by an expansion in distribution.

In Turkey, the Tekel business acquired in 2008 was successfully integrated. Kent, Pall Mall and Viceroy all performed extremely well although total market share was lower as a result of a decline in the Tekel local brands. The financial performance remains in line with our expectations at the time of the acquisition.

Results of associates

Associates principally comprise Reynolds American and ITC, while they also included ST for the first six months of 2008.

The Group's share of the post-tax results of associates decreased by £20 million, or 4 per cent, to £483 million. Excluding the adjusting items in 2008 and in 2009, explained on page 27, the Group's share of the post-tax results of associates increased by 13 per cent to £541 million, with a decline of 1 per cent at constant rates of exchange as a result of accounting for ST as a subsidiary from July 2008.

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

| | 31.12.09 | | 31.12.08 |
|------------------------|------------------------------------|---------------|------------------------------------|
| | Adjusted share of post-tax results | | Adjusted share of post-tax results |
| | Constant rates | Current rates | |
| | £m | £m | £m |
| Asia-Pacific | 140 | 148 | 121 |
| Americas | 332 | 391 | 328 |
| Western Europe | | | 26 |
| Eastern Europe | | | |
| Africa and Middle East | 2 | 2 | 2 |
| | <u>474</u> | <u>541</u> | <u>477</u> |

*After adjusting for trademark impairments, health plan credit, additional ST income, gain on termination of joint venture and restructuring costs as explained on page 27.

Business review cont...

The contribution from Reynolds American excluding adjusting items was 19 per cent higher at £388 million, mainly driven by higher pricing and gains in productivity, offset by lower volumes and legal expenses. At constant rates of exchange the increase was 1 per cent.

The Group's associate in India, ITC, continued its strong profit growth and its contribution to the Group rose by £27 million to £144 million. At constant rates of exchange, the contribution would have been 17 per cent higher than last year.

Cigarette volumes

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

| 6 months to | | | 12 months to | |
|--------------------|------------|------------------------|---------------------|------------|
| 30.06.09 | 30.06.08 | | 31.12.09 | 31.12.08 |
| bns | bns | | bns | bns |
| 88 | 90 | Asia-Pacific | 185 | 180 |
| 74 | 78 | Americas | 151 | 161 |
| 63 | 54 | Western Europe | 130 | 123 |
| 60 | 66 | Eastern Europe | 131 | 137 |
| 64 | 46 | Africa and Middle East | 127 | 114 |
| <u>349</u> | <u>334</u> | | <u>724</u> | <u>715</u> |

Associates' volumes decreased by 10 per cent to 183 billion largely as a result of ST being consolidated as a subsidiary. With the inclusion of associates' volumes, total Group volumes were 907 billion (2008: 919 billion).

DIVIDENDS

The Board recommends a final dividend of 71.6 pence per ordinary share of 25p for the year ended 31 December 2009. If approved by shareholders at the Annual General Meeting to be held on 28 April 2010, the dividend will be payable on 6 May 2010 to shareholders registered on either the UK main register or the South African branch register on 12 March 2010 (the record date).

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

| | |
|--|-------------------------|
| Last day to trade cum dividend (JSE): | Friday 5 March 2010 |
| Shares commence trading ex dividend (JSE): | Monday 8 March 2010 |
| Shares commence trading ex dividend (LSE): | Wednesday 10 March 2010 |
| Record date (JSE and LSE): | Friday 12 March 2010 |
| Payment date: | Thursday 6 May 2010 |

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 = 12.03230 as at 23 February 2010 (the closing rate on that date as quoted by Bloomberg), results in an equivalent final dividend of 861.51268 SA cents per ordinary share. From the close of business on 5 March 2010 until the close of business on 12 March 2010, 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 8 March 2010 and 12 March 2010, both days inclusive.

The following is a summary of the dividends declared for the years ended 31 December 2009 and 2008:

| | 2009 | | 2008 | |
|-------------------------------|--------------------|---------------------|--------------------|---------------------|
| | Pence per share | £m | Pence per share | £m |
| Ordinary shares | | | | |
| Interim | | | | |
| - 2009 paid 29 September 2009 | 27.9 | 557 | | |
| - 2008 paid 17 September 2008 | | | 22.1 | 440 |
| Final | | | | |
| - 2009 payable 6 May 2010 | 71.6 | 1,418 | | |
| - 2008 paid 6 May 2009 | | | 61.6 | 1,241 |
| | <u>99.5</u> | <u>1,975</u> | <u>83.7</u> | <u>1,681</u> |

In accordance with IFRS, the proposed final dividend amounting to £1,418 million (2008: £1,241 million), payable on 6 May 2010, will be recognised in the Group accounts for the year ending 31 December 2010. For the year ended 31 December 2009, the accounts include the final dividend paid in respect of the year ended 31 December 2008, amounting to £1,241 million and the interim dividend amounting to £557 million, paid on 29 September 2009. For the year ended 31 December 2008, the accounts include the final dividend paid in respect of the year ended 31 December 2007, amounting to £953 million and the 2008 interim dividend, amounting to £440 million.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the business activities of the Group were reviewed and updated and are summarised in a table that is attached as appendix 1 to this announcement. The table provides a brief description of the key risks to which the Group's operations are exposed and it identifies, in each case, their potential impact on the Group and the principal processes in place to manage the risk.

The key Group risks are summarised under the headings of:

- Illicit trade
- Excise and tax
- Financial
- Marketplace
- Regulation
- Litigation
- Data risks

GOING CONCERN

A description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position, together with the factors likely to affect its future development, performance and position, are set out in this announcement. It will also be discussed and disclosed in the Business Review and Financial Review and in the notes to the financial statements, all of which will be included in the 2009 Annual Report that will be available on the Group's website, www.bat.com on 26 March 2010.

The Group has, at the date of this report, sufficient existing financing available for its estimated 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 countries and its broad 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 the uncertain outlook in the general global economy.

After reviewing the Group's annual budget, plans and financing arrangements, the Directors consider that the Group has adequate resources to continue operating for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

DIRECTORS' RESPONSIBILITY STATEMENT

The responsibility statement below has been prepared in connection with the company's full Annual Report for the year ended 31 December 2009. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
- the Directors' report (which incorporates the business review), includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 24 February 2010 and is signed on its behalf by:

Richard Burrows
Chairman

Ben Stevens
Finance Director

GROUP INCOME STATEMENT

For the year ended 31 December

| | 2009 £m | 2008 £m |
|--|-----------------------|----------------|
| Gross turnover (including duty, excise and other taxes of £26,505 million (2008: £21,799 million)) | <u>40,713</u> | <u>33,921</u> |
| Revenue | 14,208 | 12,122 |
| Raw materials and consumables used | (3,983) | (3,335) |
| Changes in inventories of finished goods and work in progress | 35 | 19 |
| Employee benefit costs | (2,317) | (1,907) |
| Depreciation and amortisation costs | (611) | (430) |
| Other operating income | 196 | 281 |
| Other operating expenses | <u>(3,427)</u> | <u>(3,178)</u> |
| Profit from operations | 4,101 | 3,572 |
| Analysed as: | | |
| - adjusted profit from operations | 4,461 | 3,717 |
| - restructuring and integration costs | (304) | (160) |
| - Canadian settlement | | (102) |
| - amortisation of trademarks | (58) | (24) |
| - gains on disposal of businesses and trademarks | 2 | 141 |
| | <u>4,101</u> | <u>3,572</u> |
| Finance income | 77 | 267 |
| Finance costs | (581) | (658) |
| Net finance costs | (504) | (391) |
| Share of post-tax results of associates and joint ventures | 483 | 503 |
| Analysed as: | | |
| - adjusted share of post-tax results of associates and joint ventures | 541 | 477 |
| - trademark impairments | (65) | (20) |
| - additional ST income | | 13 |
| - termination of joint venture | | 45 |
| - health plan credit | 16 | |
| - restructuring costs | (9) | (12) |
| | <u>483</u> | <u>503</u> |
| Profit before taxation | <u>4,080</u> | <u>3,684</u> |
| Taxation on ordinary activities | (1,124) | (1,025) |
| Profit for the year | <u>2,956</u> | <u>2,659</u> |
| Attributable to | | |
| Shareholders' equity | 2,713 | 2,457 |
| Minority interests | 243 | 202 |
| | <u>2,956</u> | <u>2,659</u> |
| Earnings per share | | |
| Basic | <u>137.0p</u> | <u>123.3p</u> |
| Diluted | <u>136.3p</u> | <u>122.5p</u> |

The accompanying notes on pages 17 to 51 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

| | 2009 £m | 2008 £m |
|--|---------------------|---------------------|
| Profit for the year (page 11) | 2,956 | 2,659 |
| Other comprehensive income | | |
| Differences on exchange | | |
| - subsidiaries | 166 | 213 |
| - associates | (258) | 724 |
| Difference on exchange reclassified and reported in profit for the year | | (22) |
| Cash flow hedges | | |
| - net fair value (losses)/gains | (72) | 180 |
| - reclassified and reported in profit for the year | 67 | (173) |
| - reclassified and reported in net assets | (1) | 1 |
| Available-for-sale investments | | |
| - net fair value gains | 3 | 1 |
| - reclassified and reported in profit for the year | (3) | (6) |
| Net investment hedges | | |
| - net fair value gains/(losses) | 238 | (672) |
| - differences on exchange on borrowings | 12 | (178) |
| Revaluation of existing business | | 179 |
| Retirement benefit schemes | | |
| - actuarial losses in respect of subsidiaries | (295) | (547) |
| - surplus recognition and minimum funding obligations in respect of subsidiaries | (76) | |
| - actuarial gains/(losses) in respect of associates net of tax | 61 | (396) |
| Tax on items recognised directly in other comprehensive income | (71) | 184 |
| Total other comprehensive income for the year | (229) | (512) |
| Total comprehensive income for the year | <u>2,727</u> | <u>2,147</u> |
| Attributable to | | |
| - shareholders' equity | 2,476 | 1,913 |
| - minority interests | 251 | 234 |
| | <u>2,727</u> | <u>2,147</u> |

The accompanying notes on pages 17 to 51 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF CHANGES IN EQUITY

At 31 December

2009

| | Share capital £m | Share premium, capital redemption and merger reserves £m | Other reserves £m | Retained earnings £m | Share holders' funds £m | Minority interests £m | Total equity £m |
|---|---------------------|--|-------------------------|----------------------------|----------------------------------|-----------------------------|-----------------------|
| Total comprehensive income for the year (page 12) | | | 77 | 2,399 | 2,476 | 251 | 2,727 |
| Employee share options | | | | | | | |
| - value of employee services | | | | 61 | 61 | | 61 |
| - proceeds from shares issued | | 2 | | 5 | 7 | | 7 |
| Dividends and other appropriations | | | | | | | |
| - ordinary shares | | | | (1,798) | (1,798) | | (1,798) |
| - to minority interests | | | | | | (240) | (240) |
| Purchase of own shares | | | | | | | |
| - held in employee share ownership trusts | | | | (94) | (94) | | (94) |
| Minority interests in Bentoel (page 24) | | | | | | 1 | 1 |
| Minority interests - capital injection | | | | | | 16 | 16 |
| Other movements | | | | 17 | 17 | | 17 |
| Total changes in equity for the year | | 2 | 77 | 590 | 669 | 28 | 697 |
| Balance at 1 January | 506 | 3,905 | 955 | 1,578 | 6,944 | 271 | 7,215 |
| Balance at 31 December | 506 | 3,907 | 1,032 | 2,168 | 7,613 | 299 | 7,912 |

2008

| | Share capital £m | Share premium, capital redemption and merger reserves £m | Other reserves £m | Retained earnings £m | Share holders' funds £m | Minority interests £m | Total equity £m |
|---|---------------------|--|-------------------------|----------------------------|----------------------------------|-----------------------------|-----------------------|
| Total comprehensive income for the year (page 12) | | | 297 | 1,616 | 1,913 | 234 | 2,147 |
| Employee share options | | | | | | | |
| - value of employee services | | | | 51 | 51 | | 51 |
| - proceeds from shares issued | | 3 | | 7 | 10 | | 10 |
| Dividends and other appropriations | | | | | | | |
| - ordinary shares | | | | (1,393) | (1,393) | | (1,393) |
| - to minority interests | | | | | | (176) | (176) |
| Purchase of own shares | | | | | | | |
| - held in employee share ownership trusts | | | | (116) | (116) | | (116) |
| - share buy-back programme | | | | (400) | (400) | | (400) |
| Acquisition of minority interests | | | | | | (5) | (5) |
| Other movements | | | | 8 | 8 | | 8 |
| Total changes in equity for the year | | 3 | 297 | (227) | 73 | 53 | 126 |
| Balance at 1 January | 506 | 3,902 | 658 | 1,805 | 6,871 | 218 | 7,089 |
| Balance at 31 December | 506 | 3,905 | 955 | 1,578 | 6,944 | 271 | 7,215 |

The accompanying notes on pages 17 to 51 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET

At 31 December

| | 31.12.09 | 31.12.08 | 01.01.08 |
|--|----------------------|----------------|----------------|
| | £m | restated £m | restated £m |
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 12,232 | 12,318 | 8,105 |
| Property, plant and equipment | 3,010 | 3,076 | 2,378 |
| Investments in associates and joint ventures | 2,521 | 2,552 | 2,316 |
| Retirement benefit assets | 105 | 75 | 37 |
| Deferred tax assets | 350 | 392 | 264 |
| Trade and other receivables | 171 | 193 | 123 |
| Available-for-sale investments | 26 | 27 | 22 |
| Derivative financial instruments | 93 | 179 | 154 |
| Total non-current assets | <u>18,508</u> | <u>18,812</u> | <u>13,399</u> |
| Current assets | | | |
| Inventories | 3,261 | 3,177 | 1,985 |
| Income tax receivable | 97 | 137 | 85 |
| Trade and other receivables | 2,344 | 2,395 | 1,845 |
| Available-for-sale investments | 57 | 79 | 75 |
| Derivative financial instruments | 156 | 417 | 81 |
| Cash and cash equivalents | 2,161 | 2,309 | 1,258 |
| | 8,076 | 8,514 | 5,329 |
| Assets classified as held-for-sale | 30 | 225 | 36 |
| Total current assets | <u>8,106</u> | <u>8,739</u> | <u>5,365</u> |
| Total assets | <u>26,614</u> | <u>27,551</u> | <u>18,764</u> |

The balance sheet as at 31 December 2008 has been restated for the reclassification of certain derivatives, as explained on page 17. In accordance with IAS 1 Revised, an additional balance sheet comparative has been presented as at 1 January 2008.

The accompanying notes on pages 17 to 51 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET

At 31 December

| | 31.12.09 | 31.12.08 | 01.01.08 |
|---|----------------------|----------------------|----------------------|
| | £m | restated £m | restated £m |
| Equity | | | |
| Capital and reserves | | | |
| Share capital | 506 | 506 | 506 |
| Share premium, capital redemption and merger reserves | 3,907 | 3,905 | 3,902 |
| Other reserves | 1,032 | 955 | 658 |
| Retained earnings | 2,168 | 1,578 | 1,805 |
| Shareholders' funds | <u>7,613</u> | <u>6,944</u> | <u>6,871</u> |
| after deducting | | | |
| - cost of treasury shares | <u>(772)</u> | <u>(745)</u> | <u>(296)</u> |
| Minority interests | <u>299</u> | <u>271</u> | <u>218</u> |
| Total equity | <u><u>7,912</u></u> | <u><u>7,215</u></u> | <u><u>7,089</u></u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 9,712 | 9,437 | 6,062 |
| Retirement benefit liabilities | 1,129 | 848 | 360 |
| Deferred tax liabilities | 527 | 599 | 336 |
| Other provisions for liabilities and charges | 144 | 186 | 165 |
| Trade and other payables | 180 | 166 | 149 |
| Derivative financial instruments | 94 | 222 | 59 |
| Total non-current liabilities | <u>11,786</u> | <u>11,458</u> | <u>7,131</u> |
| Current liabilities | | | |
| Borrowings | 1,370 | 2,724 | 861 |
| Income tax payable | 364 | 300 | 227 |
| Other provisions for liabilities and charges | 312 | 295 | 263 |
| Trade and other payables | 4,727 | 4,718 | 2,976 |
| Derivative financial instruments | 127 | 841 | 215 |
| | <u>6,900</u> | <u>8,878</u> | <u>4,542</u> |
| Liabilities directly associated with assets classified as held-for-sale | <u>16</u> | | <u>2</u> |
| Total current liabilities | <u>6,916</u> | <u>8,878</u> | <u>4,544</u> |
| Total equity and liabilities | <u><u>26,614</u></u> | <u><u>27,551</u></u> | <u><u>18,764</u></u> |

The balance sheet as at 31 December 2008 has been restated for the reclassification of certain derivatives, as explained on page 17. In accordance with IAS 1 Revised, an additional balance sheet comparative has been presented as at 1 January 2008.

The accompanying notes on pages 17 to 51 form an integral part of this condensed consolidated financial information.

GROUP CASH FLOW STATEMENT

For the year ended 31 December

| | 2009 £m | 2008 £m |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Cash generated from operations <i>page 32</i> | 4,645 | 4,156 |
| Dividends received from associates | 328 | 326 |
| Tax paid | <u>(1,095)</u> | <u>(943)</u> |
| Net cash from operating activities | <u>3,878</u> | <u>3,539</u> |
| Cash flows from investing activities | | |
| Interest received | 83 | 125 |
| Dividends received from investments | 2 | 2 |
| Purchases of property, plant and equipment | (450) | (448) |
| Proceeds on disposal of property, plant and equipment | 39 | 62 |
| Purchases of intangibles | (104) | (96) |
| Proceeds on disposal of intangibles | | 17 |
| Purchases and proceeds on disposals of investments | 37 | 9 |
| Proceeds from associates' share buy-backs | | 42 |
| Purchase of Bentoel | (370) | |
| Purchase of Tekel cigarette assets | (12) | (873) |
| Proceeds from ST trademark disposals and purchase of ST businesses | 187 | (1,243) |
| Purchases of other subsidiaries, associates and minority interests | (1) | (9) |
| Proceeds on disposal of subsidiaries | | 26 |
| Net cash from investing activities | <u>(589)</u> | <u>(2,386)</u> |
| Cash flows from financing activities | | |
| Interest paid | (576) | (400) |
| Interest element of finance lease rental payments | (2) | (3) |
| Capital element of finance lease rental payments | (35) | (30) |
| Proceeds from issue of shares to Group shareholders | 2 | 3 |
| Proceeds from exercise of options over own shares held in employee share ownership trusts | 5 | 7 |
| Proceeds from increases in and new borrowings | 1,447 | 3,518 |
| Movements relating to derivative financial instruments | (267) | (656) |
| Purchases of own shares | | (400) |
| Purchase of own shares held in employee share ownership trusts | (94) | (116) |
| Reductions in and repayments of borrowings | (1,853) | (731) |
| Dividends paid to shareholders | (1,798) | (1,393) |
| Dividends paid to minority interests | (234) | (173) |
| Net cash from financing activities | <u>(3,405)</u> | <u>(374)</u> |
| Net cash flows from operating, investing and financing activities | <u>(116)</u> | 779 |
| Differences on exchange | <u>(125)</u> | 261 |
| (Decrease)/increase in net cash and cash equivalents in the year | <u>(241)</u> | 1,040 |
| Net cash and cash equivalents at 1 January | <u>2,220</u> | 1,180 |
| Net cash and cash equivalents at 31 December | <u>1,979</u> | <u>2,220</u> |

The accompanying notes on pages 17 to 51 form an integral part of this condensed consolidated financial information.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 December 2009. This financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The Group has prepared its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and implemented in the UK.

These financial statements have 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 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;
- Amendment to 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 certain changes in the format of the financial statements including the separate disclosure of owner and non-owner changes in equity as primary statements, and permits some changes in terminology, but does not affect the measurement of reported profit or equity. The Group has chosen to show other comprehensive income in a separate statement from the income statement and hence all owner changes in equity are presented in the consolidated statement of changes in equity, whereas non-owner changes in equity are shown in the consolidated statement of comprehensive income;
- 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. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. This change has not materially affected the Group's reported profit or equity;
- Improvements to IFRSs (issued in May 2008). These amendments 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 (1 January 2008: £1 million) and to increase non-current liabilities and decrease current liabilities at 31 December 2008 by £23 million (1 January 2008: £10 million);
- IFRIC16 (Hedges of a Net Investment in a Foreign Operation). This interpretation clarifies the specific hedge accounting requirements for net investment hedges. This change has not materially affected the Group's reported profit or equity; and
- Amendment to IFRS 7 (Financial Instruments – Disclosures). The amendment requires additional disclosures regarding fair value measurements and liquidity risk, including disclosure of fair value measurements by level of a fair value measurement hierarchy, and has had no effect on reported profit or equity.

Accounting policies and basis of preparation cont...

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of these financial statements. 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 the future, actual experience may deviate from these estimates and assumptions, which could affect these 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, are useful to users of the financial information in helping them understand 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 are used to calculate the additional non-GAAP measures of adjusted profit from operations and adjusted share of post-tax results of associates and joint ventures. All adjustments to profit from operations and diluted earnings per share are explained in this Announcement.

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 had they been translated at last year's rate of exchange. The constant rate comparison provided for reporting segment information 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, and provides gross turnover as an additional disclosure to indicate the impact of duty, excise and other taxes.

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, as 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 28 to 30.

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 | |
|--------------------|---------------|--------|---------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| US dollar | 1.566 | 1.852 | 1.615 | 1.438 |
| Canadian dollar | 1.779 | 1.961 | 1.693 | 1.775 |
| Euro | 1.123 | 1.257 | 1.126 | 1.034 |
| South African rand | 13.091 | 15.132 | 11.891 | 13.292 |
| Brazilian real | 3.108 | 3.355 | 2.815 | 3.353 |
| Australian dollar | 1.990 | 2.187 | 1.796 | 2.062 |
| Russian rouble | 49.535 | 45.810 | 48.952 | 43.902 |

HALF-YEARLY ANALYSES OF PROFIT

The figures shown below have been produced using average rates of exchange on a half-yearly basis since the beginning of the year. Thus the discrete half-year to 30 June has not been restated for subsequent movements in foreign exchange rates during the year, which are reflected in the results for the subsequent half-year to 31 December.

| | 6 months to | | Year to |
|--|--------------|--------------|---------------|
| | 30.6.09 | 31.12.09 | 31.12.09 |
| | £m | £m | £m |
| Revenue | 6,780 | 7,428 | 14,208 |
| Adjusted profit from operations | | | |
| Asia-Pacific | 557 | 591 | 1,148 |
| Americas | 579 | 607 | 1,186 |
| Western Europe | 509 | 485 | 994 |
| Eastern Europe | 183 | 226 | 409 |
| Africa and Middle East | 336 | 388 | 724 |
| | <u>2,164</u> | <u>2,297</u> | <u>4,461</u> |
| Restructuring and integration costs | (29) | (275) | (304) |
| Amortisation of trademarks | (26) | (32) | (58) |
| Gains on disposal of businesses and trademarks | 2 | | 2 |
| Profit from operations | 2,111 | 1,990 | 4,101 |
| Net finance costs | (219) | (285) | (504) |
| Share of post-tax results of associates and joint ventures | 231 | 252 | 483 |
| Profit before taxation | 2,123 | 1,957 | 4,080 |
| Taxation on ordinary activities | (534) | (590) | (1,124) |
| Profit for the period | 1,589 | 1,367 | 2,956 |
| Earnings per share | | | |
| Basic | <u>73.2p</u> | <u>63.8p</u> | <u>137.0p</u> |
| Diluted | <u>72.8p</u> | <u>63.5p</u> | <u>136.3p</u> |
| Adjusted diluted | <u>77.3p</u> | <u>75.7p</u> | <u>153.0p</u> |
| | | | |
| | 6 months to | | Year to |
| | 30.6.08 | 31.12.08 | 31.12.08 |
| | £m | £m | £m |
| Revenue | 5,457 | 6,665 | 12,122 |
| Adjusted profit from operations | | | |
| Asia-Pacific | 456 | 468 | 924 |
| Americas | 516 | 536 | 1,052 |
| Western Europe | 334 | 426 | 760 |
| Eastern Europe | 199 | 269 | 468 |
| Africa and Middle East | 252 | 261 | 513 |
| | <u>1,757</u> | <u>1,960</u> | <u>3,717</u> |
| Restructuring and integration costs | (33) | (127) | (160) |
| Canadian settlement | | (102) | (102) |
| Amortisation of trademarks | | (24) | (24) |
| Gains on disposal of businesses and trademarks | | 141 | 141 |
| Profit from operations | 1,724 | 1,848 | 3,572 |
| Net finance costs | (179) | (212) | (391) |
| Share of post-tax results of associates and joint ventures | 293 | 210 | 503 |
| Profit before taxation | 1,838 | 1,846 | 3,684 |
| Taxation on ordinary activities | (494) | (531) | (1,025) |
| Profit for the period | 1,344 | 1,315 | 2,659 |
| Earnings per share | | | |
| Basic | <u>62.5p</u> | <u>60.8p</u> | <u>123.3p</u> |
| Diluted | <u>62.1p</u> | <u>60.4p</u> | <u>122.5p</u> |
| Adjusted diluted | <u>62.0p</u> | <u>66.8p</u> | <u>128.8p</u> |

SEGMENTAL ANALYSES OF REVENUE AND PROFIT

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 revenues and adjusted profit from operations to evaluate segment performance and allocate resources.

The Management Board reviews current and prior year segmental adjusted profit from operations of subsidiaries and adjusted post-tax results of associates and joint ventures at constant rates of exchange. As a result, the 2009 segmental results are translated using the 2008 average rates of exchange. The 2008 comparative figures are also stated at the 2008 average rates of exchange for the relevant period.

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

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

| | 31.12.09 | | | 31.12.08 |
|------------------------|------------------------------------|-------------------------------|-----------------------------------|---------------|
| | Revenue Constant rates £m | Translation exchange £m | Revenue Current rates £m | Revenue £m |
| Asia-Pacific | 2,877 | 393 | 3,270 | 2,717 |
| Americas | 2,991 | 165 | 3,156 | 2,863 |
| Western Europe | 3,523 | 361 | 3,884 | 3,218 |
| Eastern Europe | 1,744 | (116) | 1,628 | 1,594 |
| Africa and Middle East | 2,145 | 125 | 2,270 | 1,730 |
| Total | <u>13,280</u> | <u>928</u> | <u>14,208</u> | <u>12,122</u> |

Segmental analysis of revenue and profit cont...

The analyses of profit from operations and the Group's share of the post-tax results of associates and joint ventures for the year ended 31 December 2009, reconciled to profit before tax, are as follows:

| | 31.12.09 | | | | |
|---|---|-------------------------------|--|--------------------------|---|
| | Adjusted* segment result Constant rates £m | Translation exchange £m | Adjusted* segment result Current rates £m | Adjusting items £m | Segment result Current rates £m |
| Asia-Pacific | 1,015 | 133 | 1,148 | (59) | 1,089 |
| Americas | 1,120 | 66 | 1,186 | (51) | 1,135 |
| Western Europe | 879 | 115 | 994 | (188) | 806 |
| Eastern Europe | 433 | (24) | 409 | (16) | 393 |
| Africa and Middle East | 659 | 65 | 724 | (46) | 678 |
| Profit from operations | 4,106 | 355 | 4,461 | (360) | 4,101 |
| Net finance costs | | | | | (504) |
| Asia-Pacific | 140 | 8 | 148 | | 148 |
| Americas | 332 | 59 | 391 | (58) | 333 |
| Western Europe | | | | | |
| Eastern Europe | | | | | |
| Africa and Middle East | 2 | | 2 | | 2 |
| Share of post-tax results of associates and joint ventures | 474 | 67 | 541 | (58) | 483 |
| Profit before taxation | | | | | 4,080 |

*The adjustments to profit from operations and the Group's share of the post-tax results of associates and joint ventures are explained on pages 23 and 27, respectively.

Segmental analysis of revenue and profit cont...

The analyses of profit from operations and the Group's share of the **post-tax results of associates and joint ventures** for the year ended 31 December 2008, reconciled to profit before tax, are as follows:

| | 31.12.08 | | |
|---|--|--------------------------|---------------------------------------|
| | Adjusted* segment result Current rates £m | Adjusting items £m | Segment result Current rates £m |
| Asia-Pacific | 924 | (2) | 922 |
| Americas | 1,052 | (96) | 956 |
| Western Europe | 760 | 5 | 765 |
| Eastern Europe | 468 | | 468 |
| Africa and Middle East | 513 | (52) | 461 |
| Profit from operations | <u>3,717</u> | <u>(145)</u> | <u>3,572</u> |
| Net finance costs | | | <u>(391)</u> |
| Asia-Pacific | 121 | | 121 |
| Americas | 328 | 13 | 341 |
| Western Europe | 26 | 13 | 39 |
| Eastern Europe | | | |
| Africa and Middle East | 2 | | 2 |
| Share of post-tax results of associates and joint ventures | <u>477</u> | <u>26</u> | <u>503</u> |
| Profit before taxation | | | <u><u>3,684</u></u> |

*The adjustments to profit from operations and the Group's share of the post-tax results of associates and joint ventures are explained on pages 23 and 27, respectively.

ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations 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, and are used to derive the Group's principal non-GAAP measure which is adjusted diluted earnings per share.

(a) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise. These initiatives include a review of the Group's manufacturing operations, overheads and indirect costs, organisational structure and systems and software used. The costs of these initiatives together with the costs of integrating acquired businesses into existing operations were £304 million for the year ended 31 December 2009 (2008: £160 million).

Restructuring and integration costs in 2009 principally relate to costs in respect of the planned closure of the Soeborg factory in Denmark, the planned downsizing of the manufacturing plant in Australia, the continued integration of ST and Tekel and the integration of Bentoel into existing operations, as well as other restructuring initiatives directly related to improving the efficiency and effectiveness of the Group as a globally integrated enterprise. The costs for these other initiatives include redundancies, principally in respect of restructuring activities in the Group's subsidiary in Canada, and impairment charges for certain software assets where the development of global software solutions has resulted in these assets having minimal or limited future economic benefits.

Restructuring costs in 2008 principally relate to costs in respect of the integration of ST and Tekel into existing operations, the reorganisation of the business in the Netherlands, as well as further costs in respect of restructurings announced in 2007 and earlier years.

Other operating income in 2009 includes a gain on disposal of a property related to restructuring announced in prior years and the release of deferred income from a disposal in 2007. In 2008, other operating income includes gains on property disposals and a gain on disposal of a non-core business in the Asia-Pacific region arising from the restructuring exercises.

(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 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.

At the same time, 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 agreed to pay, each year, a percentage of annual net sales revenue for 15 years, up to a maximum of Can\$350 million, which is expensed as it is incurred. These payments are not treated as adjusting items.

(c) Amortisation of trademarks

The acquisitions of Bentoel, 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 £58 million was included in depreciation and amortisation costs in the profit from operations for the year ended 31 December 2009 (2008: £24 million).

Adjusting items cont...

(d) Gains on disposal of businesses and trademarks

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 the sale 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 year ended 31 December 2009.

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 business of ST (see other changes in the Group on page 26). This gain was included in other operating income in the profit from operations for the year to 31 December 2008.

OTHER CHANGES IN THE GROUP

(a) PT Bentoel Internasional Investama Tbk

On 17 June 2009, the Group acquired from PT Rajawali Corpora 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 was completed on 26 August 2009, resulting in the acquisition of a further 14 per cent share in the company, for IDR855,783 million (£52 million), bringing the total shareholding in the Bentoel Group to 99.7 per cent.

On 20 October, it was announced that Bentoel and BAT Indonesia would enter into a merger plan whereby BAT Indonesia would merge into Bentoel. The Bentoel name has been retained and the company remains listed on the Indonesian Stock Exchange.

The goodwill of £188 million on the acquisition of the cigarette business of Bentoel, stated at the exchange rates ruling at the date of the transactions, arises as follows:

| | Book values | Fair value adjustments | Estimated fair value |
|---|-------------|------------------------|----------------------|
| | £m | £m | £m |
| Intangible assets | 4 | 92 | 96 |
| Property, plant and equipment | 57 | 21 | 78 |
| Deferred tax asset | 5 | (5) | |
| Inventories | 152 | (13) | 139 |
| Trade and other receivables | 41 | | 41 |
| Cash and cash equivalents | 3 | | 3 |
| Overdrafts | (13) | | (13) |
| Borrowings | (84) | | (84) |
| Retirement benefit liabilities | (9) | (1) | (10) |
| Deferred tax liabilities | | (29) | (29) |
| Trade and other payables | (48) | | (48) |
| Net assets acquired | 108 | 65 | 173 |
| Less: minority share of net assets acquired | | | (1) |
| | | | 172 |
| Goodwill | | | 188 |
| Total consideration including accrued acquisition costs of £5 million | | | 360 |

The fair value adjustment principally relates to the value attributable to trademarks, the revaluation of property, plant and equipment and inventory, with the relevant tax applicable on these adjustments.

Other changes in the group cont....

The goodwill of £188 million on the acquisition of the business, represents a strategic premium to enter the very large Indonesian kretek market and the anticipated synergies that will arise from combining the businesses in Indonesia.

In the period from 17 June 2009 to 31 December 2009, the acquired business contributed revenue of £105 million and profit from operations of £6 million after charging £4 million for amortisation of acquired intangibles and £2 million in respect of restructuring and integration costs.

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 £14,291 million and Group profit from operations would have been £4,108 million for the 12 months to 31 December 2009, after charging £4 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.

(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 provisional purchase price of £873 million and therefore to goodwill. The goodwill of £578 million (previously £566 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><u>885</u></u> |

Other changes in the group cont....

(c) Skandinavisk Tobakskompagni (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 24.

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:

| | 31.12.09 £m | Year to | 31.12.08 £m |
|----------------------------------|----------------|------------|----------------|
| Finance costs | (581) | | (658) |
| Finance income | 77 | | 267 |
| | <u>(504)</u> | | <u>(391)</u> |
| Comprising: | | | |
| Interest payable | (602) | | (535) |
| Interest and dividend income | 85 | | 131 |
| Fair value changes - derivatives | (4) | (521) | |
| Exchange differences | <u>17</u> | <u>534</u> | 13 |
| | <u>(504)</u> | | <u>(391)</u> |

Net finance costs at £504 million were £113 million higher than last year, principally reflecting the impact of a higher interest cost as a result of increased borrowings to finance acquisitions, as well as the impact of exchange rate movements.

IFRS requires fair value changes for derivatives, which do not meet the tests for hedge accounting under IAS39, 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 such amounts.

The adjusted diluted earnings per share for the year ended 31 December 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. There are no similar gains or losses in the year ended 31 December 2009.

The Group's interest cover was also distorted by the pre-tax impact of adjusting items, shown in the adjusted diluted earnings per share calculations (page 29). On an adjusted basis, based on profit before interest payable over interest payable, interest cover remains strong at 8.6x (2008: 8.5x) with the higher cover reflecting increased profit from operations, its cash generation and the contribution of ST and Tekel since the middle of 2008 and Bentoel since the middle of 2009, offset by the increase in costs as a result of the financing arrangements for the acquisitions.

ASSOCIATES AND JOINT VENTURES

The Group's share of the post-tax results of associates and joint ventures was £483 million (2008: £503 million) after tax of £291 million (2008: £284 million). The share is after the following adjusting items which are excluded from the calculation of adjusted diluted earnings per share (page 29).

In the year ended 31 December 2009, Reynolds American recognised a trademark impairment charge of US\$394 million, triggered by the increase in federal excise taxes on tobacco products and changes in pricing. It also had an amortisation charge of US\$5 million in respect of brands. The Group's share of these charges amounted to £65 million (net of tax).

During 2009, Reynolds American reviewed its post-retirement medical plans, resulting in a past service credit which is amortised under US GAAP. However, under IFRS, it must be recognised in full in the income statement. The Group's share of this credit amounted to £16 million (net of tax).

Reynolds American also recognised a charge of US\$56 million in 2009 in connection with severance and related costs of around 400 employees in order to better align staffing levels with business requirements and enable Reynolds American's manufacturing operations to phase in new productivity programs over time. The Group's share of this charge amounted to £9 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 year ended 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 year amounted to £45 million (net of tax).

On 9 September 2008, Reynolds American announced planned changes in the organisational structure at Reynolds American Inc. and its largest subsidiary, R. J. Reynolds Tobacco Company. The charge 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 26, the Group acquired 100 per cent of ST's cigarette and snus business on 2 July 2008. 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 have been 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

| | Year to | |
|--|--------------|--------------|
| | 31.12.09 | 31.12.08 |
| | £m | £m |
| UK | | |
| - adjustment in respect of prior periods | 16 | |
| Overseas | | |
| - overseas tax | 1,104 | 959 |
| - adjustment in respect of prior periods | 43 | (14) |
| Current tax | <u>1,163</u> | <u>945</u> |
| Deferred tax | <u>(39)</u> | <u>80</u> |
| | <u>1,124</u> | <u>1,025</u> |

The tax rates in the income statement of 27.5 per cent in 2009 and 27.8 per cent in 2008 are affected by the inclusion of the share of associates' post-tax profit in the Group's pre-tax results and by adjusting items. The underlying tax rate for subsidiaries reflected in the adjusted earnings per share below was 30.3 per cent in 2009 and 30.8 per cent in 2008. The decrease arose primarily from a favourable change in the mix of profits and a reduction in tax rates in several countries. The benefits were partially offset by a tax charge following an adverse decision by the Federal Court of Australia in December 2009. This was in respect of a tax case pursued by the Australian Tax Office concerning the utilisation of capital losses. The judgement has been appealed. Without this tax case the 2009 underlying tax rate would be 0.7 per cent lower.

The tax charge for 2008 included a one-off deferred tax charge of £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

| | Year to | |
|-----------------------------|----------|----------|
| | 31.12.09 | 31.12.08 |
| | pence | pence |
| Earnings per share | | |
| - basic | 137.0 | 123.3 |
| - diluted | 136.3 | 122.5 |
| Adjusted earnings per share | | |
| - basic | 153.8 | 129.6 |
| - diluted | 153.0 | 128.8 |
| Headline earnings per share | | |
| - basic | 144.1 | 114.8 |
| - diluted | 143.3 | 114.1 |

Basic earnings per share are based on the profit for the year 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, as an alternative measure of 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.

Earnings per share cont...

Earnings have been affected by a number of adjusting items which impact profit from operations (see pages 23 and 24) and share of post-tax results of associates and joint ventures (see page 27), as well as certain distortions to net finance costs under IFRS (see page 26) and to deferred tax (see page 28). In order to illustrate the impact of these items, the adjusted diluted earnings per share are shown below:

| | Adjusted diluted earnings per share | |
|---|-------------------------------------|-------------------|
| | Year to 31.12.09 pence | 31.12.08 pence |
| Unadjusted earnings per share | 136.3 | 122.5 |
| Effect of restructuring and integration costs | 11.7 | 6.1 |
| Effect of Canadian settlement | | 5.1 |
| Effect of amortisation of trademarks | 2.1 | 0.9 |
| Effect of disposals of businesses and trademarks | | (6.4) |
| Effect of net finance cost adjustment | | 0.5 |
| Effect of associates' trademark impairments, restructuring costs, health plan credit and termination of joint venture | 2.9 | (0.6) |
| Effect of additional ST income | | (0.6) |
| Effect of deferred tax adjustment | | 1.3 |
| Adjusted diluted earnings per share | <u>153.0</u> | <u>128.8</u> |

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

The earnings per share are based on:

| | 31.12.09 | | 31.12.08 | |
|-----------------------------|----------------|--------------|----------------|-------------|
| | Earnings £m | Shares m | Earnings £m | Shares m |
| Earnings per share | | | | |
| - basic | 2,713 | 1,980 | 2,457 | 1,993 |
| - diluted | 2,713 | 1,991 | 2,457 | 2,005 |
| Adjusted earnings per share | | | | |
| - basic | 3,046 | 1,980 | 2,582 | 1,993 |
| - diluted | 3,046 | 1,991 | 2,582 | 2,005 |
| Headline earnings per share | | | | |
| - basic | 2,853 | 1,980 | 2,288 | 1,993 |
| - diluted | 2,853 | 1,991 | 2,288 | 2,005 |

Earnings per share cont...

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

| | Diluted headline earnings per share | |
|--|-------------------------------------|--------------|
| | Year to | |
| | 31.12.09 | 31.12.08 |
| | pence | pence |
| Unadjusted earnings per share | 136.3 | 122.5 |
| Effect of impairment of intangibles and property, plant and equipment | 4.3 | 0.2 |
| Effect of gains on disposal of property, plant and equipment | (0.2) | (0.4) |
| Effect of gains on disposal of businesses and trademarks | (0.2) | (6.7) |
| Effect of gains reclassified from the available-for-sale reserve | (0.2) | (0.3) |
| Effect of share of associates' trademark impairments and termination of joint ventures | 3.3 | (1.2) |
| Headline earnings per share | <u>143.3</u> | <u>114.1</u> |

CASH FLOW AND NET DEBT MOVEMENTS

a) The IFRS cash flow statement on page 16 includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow statement below is presented to illustrate the cash flows before transactions relating to borrowings.

| | Year to | |
|--|----------------|----------------|
| | 31.12.09 | 31.12.08 |
| | £m | £m |
| Net cash from operating activities before restructuring costs and taxation | 5,160 | 4,692 |
| Restructuring costs | (187) | (210) |
| Taxation | (1,095) | (943) |
| Net cash from operating activities (page 16) | <u>3,878</u> | <u>3,539</u> |
| Net interest | (499) | (280) |
| Net capital expenditure | (515) | (482) |
| Dividends paid to minority interests | (234) | (173) |
| Free cash flow | <u>2,630</u> | <u>2,604</u> |
| Dividends paid to shareholders | (1,798) | (1,393) |
| Share buy-back | | (400) |
| Purchase of Bentoel (page 24) | (370) | |
| Purchase of Tekel cigarette assets (page 25) | (12) | (873) |
| Proceeds from ST trademark disposals and purchase of ST businesses (page 26) | 187 | (1,243) |
| Purchases of other subsidiaries, associates and minority interests | (1) | (9) |
| Other net flows | (203) | (218) |
| Net cash flows | <u>433</u> | <u>(1,532)</u> |
| Opening net debt | (9,891) | (5,581) |
| Exchange rate effects | 672 | (2,622) |
| Acquired debt | (84) | |
| Accrued interest and other | 28 | (156) |
| Closing net debt | <u>(8,842)</u> | <u>(9,891)</u> |

Cash flow cont...

Net cash from operating activities before restructuring costs and taxation increased by £468 million to £5,160 million, reflecting growth in underlying operating performance, partly offset by the impact of adverse working capital movements reflecting timing differences. Although there was a £152 million increase in tax outflows, reflecting higher profit and the timing of payments, with the above operating cash flows and the lower restructuring costs, the Group's net cash flow from operating activities was £339 million higher at £3,878 million.

Free cash flow is the Group's cash flow before dividends, share buy-backs and investing activities. Although net interest payments, net capital expenditure and dividends paid to minorities increased, the Group's free cash flow was £26 million higher than 2008 at £2,630 million. The free cash flow exceeded the total cash outlay on dividends to shareholders by £832 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 86 per cent (2008: 101 per cent), with free cash flow per share increasing by 2 per cent (2008: increasing by 55 per cent).

Below free cash flow, the principal cash outflows for 2009 comprise the payment of the prior year final dividend, 2009 interim dividend and the acquisition of PT Bentoel Internasional Investama Tbk in Indonesia. The Bentoel acquisition resulted in a net cash outflow of £370 million, which comprises the purchase consideration, together with the related acquisition costs and acquired cash and cash equivalents and overdrafts, as shown on page 24. As explained on page 51, there was no share buy-back in the year ended 31 December 2009 (31 December 2008: £400 million).

There were also outflows in respect of the acquisition of the Tekel assets, £12 million in 2009 and £873 million in 2008, and for acquiring the ST businesses in 2008, for £1,243 million. The ST transaction resulted in a net cash inflow of £187 million in 2009 (see page 32).

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

The above flows resulted in net cash inflows of £433 million (2008: £1,532 million outflow). After taking account of exchange rate movements of £672 million, acquired debt of £84 million with the Bentoel acquisition and the change in accrued interest and other, total net debt was £8,842 million at 31 December 2009, down £1,049 million from £9,891 million on 31 December 2008.

After taking account of transactions related to borrowings, the above flows resulted in a net decrease of cash and cash equivalents of £116 million (2008: £779 million increase) as shown in the IFRS cash flow on page 16.

b) The Group defines net debt as borrowings including related derivatives, less cash and cash equivalents and current available-for-sale investments. The maturity profile of net debt is as follows:

| | 31.12.09 £m | 31.12.08 £m |
|--|-----------------------|-----------------------|
| Net debt due within one year: | | |
| Borrowings | (1,370) | (2,724) |
| Related derivatives | 33 | (91) |
| Cash and cash equivalents | 2,161 | 2,309 |
| Current available-for-sale investments | 57 | 79 |
| | <u>881</u> | <u>(427)</u> |
| Net debt due beyond one year: | | |
| Borrowings | (9,712) | (9,437) |
| Related derivatives | (11) | (27) |
| | <u>(9,723)</u> | <u>(9,464)</u> |
| Total net debt | <u><u>(8,842)</u></u> | <u><u>(9,891)</u></u> |

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

Cash flow cont...

c) Cash generated from operations (page 16)

| | Year to 31.12.09 | 31.12.08 Restated |
|--|----------------------------|----------------------|
| | £m | £m |
| Profit from operations | 4,101 | 3,572 |
| Adjustments for: | | |
| Amortisation of trademarks | 58 | 24 |
| Gains on disposal of businesses and trademarks | (2) | (141) |
| Depreciation and impairment of property, plant and equipment | 433 | 350 |
| Amortisation and write off of intangible assets | 120 | 56 |
| Increase in inventories | (125) | (367) |
| Decrease in trade and other receivables | 30 | 19 |
| Increase in trade and other payables | 174 | 746 |
| Decrease in net retirement benefit liabilities | (127) | (99) |
| Decrease in provisions for liabilities and charges | (38) | (31) |
| Other non-cash items | 21 | 27 |
| Cash generated from operations | <u>4,645</u> | <u>4,156</u> |

In the year ended 31 December 2008, cash generated from operations includes an outflow of £102 million relating to the Canada Settlement as explained on page 23.

d) IFRS Investing and financing activities

The investing and financing activities in the IFRS cash flows on page 16 include the following items:

The proceeds on disposal of intangibles of £17 million in 2008 arose from the termination of a licence agreement in South Africa in 2007.

The purchases and disposals of investments (which comprise available-for-sale investments and loans and receivables) included a net cash inflow of £37 million (2008: £8 million) in respect of current investments and £nil (2008: £1 million inflow) from non-current investments.

In 2008, the proceeds from associates' share buy-backs principally reflected proceeds of £41 million in respect of the Group's participation in the share buy-back programme conducted by Reynolds American Inc.

In 2009, the net cash outflow of £370 million on the purchase of Bentoel reflects the settlement of the purchase consideration for an initial 85 per cent stake followed by the acquisition of a further 14 per cent from minority shareholders, together with related acquisition costs and the acquired cash and cash equivalents and overdrafts as shown on page 24.

As explained on page 25, the cash outflow of £12 million on the Tekel transaction in 2009 reflects additional cash paid in respect of purchase price adjustments from the conclusion of the Tekel transaction. In 2008, the cash outflow of £873 million reflected the initial purchase price and related acquisition costs.

In 2009 the cash inflow on the ST transaction reflects proceeds of £188 million from the disposal of a small number of ST trademarks in Norway (see page 24), together with the payment of the related disposal costs of £3 million and a £2 million refund of the original purchase price. In 2008, the net cash outflow of £1,243 million comprised the settlement of the purchase consideration, together with related acquisition costs and the acquired cash and cash equivalents and overdrafts.

The purchase of other subsidiaries, associates and minority interests in 2009 principally arises from equity investments in associate companies, while in 2008, the cash outflow arose from the acquisition of minority interests in the Group's subsidiaries in Africa and Middle East and Western Europe.

In 2008, the proceeds on disposal of subsidiaries principally reflected the net proceeds on disposal of a non-core business in the Asia-Pacific region.

Cash flow cont...

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 cash flow statement comprise:

| | 31.12.09 | 31.12.08 |
|---|---------------------|--------------|
| | £m | £m |
| Cash and cash equivalents per balance sheet | 2,161 | 2,309 |
| Accrued interest | (1) | (3) |
| Overdrafts | (181) | (86) |
| Net cash and cash equivalents | <u>1,979</u> | <u>2,220</u> |

f) Liquidity

Central Treasury Department is responsible to manage, within an overall policy framework, the Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risk arising from the Group's underlying operations.

As at 31 December 2009, the average centrally managed debt maturity was 7 years (2008: 5 years) and the highest proportion of centrally managed debt maturing in a single year was 18 per cent (2008: 18 per cent).

In the year ended 31 December 2009, the Group entered into a number of transactions in the capital markets. The first was the repayment of the €900 million maturing debt at the end of February 2009. This was financed from bond issues during 2008 and from cash generated from operations. In May, there was the repayment of a MYR100 million bond, which was subsequently replaced in August by a new MYR250 million bond, due 2014. The additional proceeds were used for the repayment of a MYR150 million bond which matured in November 2009.

In June, the Group issued a £250 million bond with maturity of June 2022. In November 2009, the terms of €481 million of the €1.0 billion bond maturing in 2013 were modified by extending the maturity to 2021. At the same time the Group issued an additional €169 million bond with a maturity of 2021. In addition, £199 million of the £350 million bond maturing in 2013 was purchased and cancelled; at the same time the Group issued a new £500 million bond with a maturity of 2034.

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 of €420 million and €360 million; €395 million and €759 million were outstanding as at 31 December 2008 respectively. The €395 million was repaid in September 2009 and €759 million was repaid in October 2009. The €759 million was refinanced by a new €700 million term loan facility with a maturity date of 31 October 2012 with an option to extend it to October 2013, at the discretion of the banking participants in the syndicated facility.

In mid-2009, the Group also re-established its euro commercial paper (ECP) programme of £1 billion.

At year end 2009, the £1.75 billion revolving credit facility described below, was undrawn. The revolving credit facility acts as a backstop for the ECP programme and £187 million of ECP was outstanding at year end.

In the year ended 31 December 2008, the €1.8 billion revolving acquisition 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.

Cash flow cont...

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.

RETIREMENT BENEFIT SCHEMES

The Group's subsidiaries operate around 160 retirement benefit arrangements worldwide. The majority of the scheme members belong to defined benefit schemes, most of which are funded externally and many are closed to new entrants. The Group also operates a number of defined contribution schemes.

The overall net liability for all pension schemes and healthcare schemes amounted to £1,024 million at the end of 2009, up from £773 million at the end of 2008. The present total value of funded scheme liabilities was £5,250 million (2008: £4,647 million), while unfunded scheme liabilities amounted to £282 million (2008: £248 million).

The increase in the scheme liabilities and deficits in the schemes, were largely due to changes in assumptions, including lower discount rates for liabilities and higher expected inflation.

Contributions to the defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, taking into account the regulatory environment.

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 27 corporate groups 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 the 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. The tentative conclusion reached by the High Court would, if upheld, produce an estimated receivable of about £1.2 billion for British American Tobacco.

The case was heard by the Court of Appeal in October 2009 and the judgement handed down on 23 February 2010. The Court of Appeal has determined that various questions should be referred back to the European Court of Justice for further clarification. In addition the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973. This time restriction would, if upheld, reduce the value of the claim to between zero and £10m. Based on advice received the Company believes it has realistic prospects of success on further appeal and the Company has resolved to seek permission to appeal accordingly.

No potential receipt has been recognised in prior years, nor in the current year, in the results of the Group due to the uncertainty of the amounts and eventual outcome.

CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage, or other sanctions. These matters are inherently difficult to quantify.

In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated, a provision would be recognised based on best estimates and management judgment.

There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions were made.

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with the Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense. In some cases disputes are proceeding to litigation.

While the amounts that may be payable or receivable could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

Product liability litigation

Group companies, notably Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) (B&W) as well as other leading cigarette manufacturers, are defendants, principally in the United States, in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.

Indemnity

In 2004, B&W completed the combination of the assets, liabilities and operations of its US tobacco business with R.J. Reynolds Tobacco Company (RJRT), a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which Reynolds American Inc. was formed (the Business Combination). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its US cigarette and tobacco business, subject to specified exceptions, in exchange for a 42 per cent equity ownership interest in Reynolds American. As a result of the Business Combination:

- B&W discontinued the active conduct of any tobacco business in the United States;
- B&W contributed to RJRT all of its assets other than the capital stock of certain subsidiaries engaged in non-US businesses and other limited categories of assets;
- RJRT assumed all liabilities of B&W (except liabilities to the extent relating to businesses and assets not contributed by B&W to RJRT and other limited categories of liabilities) and contributed subsidiaries or otherwise to the extent related to B&W's tobacco business as conducted in the US on or prior to 30 July 2004; and
- RJRT agreed to indemnify B&W and each of its associates (other than Reynolds American and its subsidiaries) against, among other matters, all losses, liabilities, damages, expenses, judgments, attorneys' fees, etc., to the extent relating to or arising from such assumed liabilities or the assets contributed by B&W to RJRT (the RJRT Indemnification).

Contingent liabilities cont...

The scope of the RJRT Indemnification includes all expenses and contingent liabilities in connection with litigation to the extent relating to or arising from B&W's US tobacco business as conducted on or prior to 30 July 2004, including smoking and health tobacco litigation, whether the litigation is commenced before or after 30 July 2004 (the Tobacco Litigation).

Pursuant to the terms of the RJRT Indemnification, RJRT is liable for any possible judgments, the posting of appeal bonds or security, and all other expenses of and responsibility for managing the defence of the Tobacco Litigation. RJRT has assumed control of the defence of the Tobacco Litigation involving B&W, to which RJRT is also a party in most (but not all) of the same cases. Accordingly, RJRT uses or plans to use the same law firm or firms to represent both B&W and RJRT in any single or similar case (except in certain limited circumstances) as RJRT's interests are typically aligned with B&W's interests, as RJRT has substantial experience in managing recognised external legal counsel in defending the Tobacco Litigation, and external counsel have independent professional responsibilities to represent the interests of B&W. In addition, in accordance with the terms of the RJRT Indemnification, associates of B&W have retained control of the defence in certain Tobacco Litigation cases with respect to which such associates are entitled to indemnification.

US litigation

The total number of US product liability cases pending at 31 December 2009 involving B&W and/or other Group companies was approximately 3,203 (2008: 3,251). These case numbers do not include any cases where RJRT is sued as successor to B&W. At 31 December 2009, UK-based Group companies have been served as co-defendants in six of those cases (2008: six). In 2009, only one case (Lincoln Smith, see below) was tried against B&W. No product liability case in which a UK-based Group company is a defendant was tried in 2009, and no case in which a UK-based Group company is a defendant is currently scheduled for trial in 2010. Four cases naming B&W are currently scheduled for trial in 2010. These four cases include the consolidated proceedings in West Virginia (see below), and three individual smoking and health cases, which are pending in Maryland state court, Missouri state court, and the US District Court for the Central District of California.

Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories:

(a) Medical reimbursement cases

These civil actions seek to recover amounts spent by government entities and other third party providers on health care and welfare costs claimed to result from illnesses associated with smoking. Although B&W continues to be a defendant in health care cost recovery cases involving plaintiffs such as hospitals and Native American tribes (see below), the vast majority of such cases have been dismissed on legal grounds.

At 31 December 2009, two US medical reimbursement suits were pending against B&W. One of these suits was brought by an Indian tribe in an Indian tribal court in South Dakota. The other reimbursement case (City of St. Louis) is pending against B&W, British American Tobacco (Investments) Limited (Investments) and several other defendants in state court in Missouri. In City of St. Louis, plaintiffs consist of more than 50 public and non-profit hospitals in Missouri and seek reimbursement of past and future alleged smoking related health care costs. Plaintiffs have previously filed a motion requesting the court to give collateral estoppel effect to the factual findings of the US Department of Justice case to which certain defendants (including B&W and Investments) filed a memorandum in opposition. This motion remains pending. On 30 June 2009 the court denied defendants' motion for summary judgment based on the plaintiffs' failure to link alleged wrongful conduct to alleged damages. Defendants' motion for reconsideration of the court's 30 June 2009 order remains pending. A provisional trial date is set for 10 January 2011.

(b) Class actions

At 31 December 2009, B&W has been named as a defendant in eight (2008: 10) separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted through smoking or where classes of tobacco claimants have been certified. If the classes are or remain certified and the possibility of class-based liability is eventually established, it is likely that individual trials will be necessary to resolve any claims by individual plaintiffs. Class-action suits have been filed in a number of US state and federal courts against individual cigarette manufacturers and their parent corporations, alleging that the use of terms 'lights' and 'ultralights' constitutes unfair and deceptive trade practices.

A class action complaint (Schwab) was filed in the US District Court for the Eastern District of New York on 11 May 2004 against several defendants, including B&W and certain UK-based Group companies. The complaint challenges the defendants' practices with respect to the marketing, advertising, promotion and sale of 'light' cigarettes, and seeks billions of dollars in economic damages. The district court granted plaintiffs' motion for class certification on 25 September 2006. On 3 April 2008, in a unanimous ruling, the Schwab class was decertified by the US Court of Appeals for the Second Circuit. The Court of Appeals issued the mandate officially returning the case to the district court on 29 May 2008. Defendants have until 5 March 2010 to answer the plaintiffs' Second Amended Complaint.

A class action complaint (Cleary) was filed in state court in Chicago, Illinois on 3 June 1998 against several defendants, including B&W, B.A.T Industries p.l.c. (Industries) and Investments. Industries was dismissed on jurisdictional grounds by an intermediate appellate court on 17 March 2000. The Third Amended Complaint, filed on 3 March 2009, alleges that all defendants fraudulently concealed facts regarding the addictive nature of nicotine, that certain US defendants (but not Investments) marketed tobacco products to underage consumers, and that defendant Philip Morris fraudulently marketed Marlboro Lights cigarettes. Plaintiffs seek disgorgement of profits. The case was removed to federal court on 13 March 2009, and plaintiffs' motion to remand the case back to state court was denied on 1 July 2009. On 15 July 2009, plaintiffs filed a motion for class certification. On 30 October 2009, Investments, along with other defendants, filed motions for summary judgment. On 1 February 2010, the court issued an order that granted summary judgment dismissing plaintiffs' fraudulent concealment of addiction claim, and permitted plaintiffs 45 days (or until 18 March 2010) to seek to reinstate that claim if plaintiffs can identify a new plaintiff to represent the putative class asserting that claim. The court further granted summary judgment dismissing plaintiffs' youth marketing claims and permitted the Marlboro Lights claim to proceed against defendant Philip Morris at this time. To date, the court has not issued any decision on the class certification motion.

Other types of class-action suits assert claims on behalf of classes of individuals who claim to be addicted, injured, or at greater risk of injury by the use of tobacco or exposure to environmental tobacco smoke, or the legal survivors of such persons.

In *Engle* (Florida), filed on 5 May 1994, a jury rendered a punitive damages verdict in favour of the Florida class against all defendants, with US\$17.6 billion (approximately £10.9 billion) in punitive damages assessed against B&W. After various post-trial and appellate proceedings, the Florida Supreme Court, among other things, affirmed an intermediate appellate court's decision to decertify the class, vacated the jury's punitive damages award and permitted putative *Engle* class members to file individual lawsuits against the *Engle* defendants within one year of the court's decision (subsequently extended to 11 January 2008). The court's order precludes defendants from litigating certain issues of liability against the putative *Engle* class members in these individual actions. On 1 October 2007, the United States Supreme Court denied defendants' request for certiorari review of the Florida Supreme Court's decision. As of 31 December 2009, B&W has been named in approximately 53 *Engle* progeny cases in both state and federal courts in Florida. These cases include approximately 109 plaintiffs.

Contingent liabilities cont...

In the first trial of an individual Engle class member (Lukacs), the jury, on 11 June 2002, awarded plaintiff US\$37.5 million (approximately £23.2 million) in compensatory damages (B&W's share: US\$8.4 million (approximately £5.2 million)). After post-trial proceedings, on 12 November 2008, the trial court entered judgment for plaintiff in the amount of US\$24,835,000 (approximately £15.4 million) (plus interest), for which defendants were jointly and severally liable. Defendants filed an appeal from the judgment on 1 December 2008 and B&W served their moving brief on 5 June 2009. On 19 March 2009, pursuant to its indemnification of B&W, RJRT posted a bond (approximately US\$15.2 million (approximately £9.4 million)). Oral argument has been scheduled for 1 March 2010.

In a case filed on 24 May 1996 by a class of Louisiana smokers (Scott) in Louisiana state court against several US cigarette manufacturers (including B&W), the jury, on 28 July 2003, returned a verdict in defendants' favour on a medical monitoring claim, but made findings against defendants with respect to claims relating to fraud, conspiracy, marketing to minors and smoking cessation. On 21 May 2004, the jury returned a verdict in the amount of US\$591 million (approximately £366 million) on the class' claim for a smoking cessation programme. On 7 February 2007, an intermediate appellate court, among other things, affirmed class certification and upheld the smoking cessation programme for certain smokers who began smoking before 1 September 1988, but reduced the US\$591 million jury award by US\$312 million (approximately £193.2 million) and rejected any award of prejudgment interest. On 21 July 2008, the trial court entered judgment in the case, finding that defendants were jointly and severally liable for funding the cost of a court-supervised smoking cessation programme, and ordering defendants to deposit approximately US\$263 million (approximately £162.9 million) together with interest from 30 June 2004 into a trust for the funding of the programme. On 15 December 2008, the trial court entered an order permitting defendants to take a suspensive appeal, thereby staying enforcement of the judgment pending the resolution of defendants' appeal. Oral arguments occurred on 1 September 2009 and a decision remains pending.

(c) Individual cases

Approximately 3,191 cases were pending against B&W at 31 December 2009 (2008: 3,238) filed by or on behalf of individuals in which it is contended that diseases or deaths have been caused by cigarette smoking or by exposure to environmental tobacco smoke (ETS). Of these cases, approximately: (a) 2,595 are ETS cases brought by flight attendants who were members of a class action (Broin) that was settled on terms that allow compensatory but not punitive damages claims by class members; (b) 476 of the individual cases against B&W are cases brought in consolidated proceedings in West Virginia; (c) 53 are Engle progeny cases; and (d) 67 are cases filed by other individuals.

There are 3 verdicts against B&W that remained subject to appeal in 2009:

In December 2003 and January 2004, a New York state court jury (Frankson) awarded an individual plaintiff compensatory and punitive damages against B&W and 2 industry organisations. After post-trial and appellate proceedings, a final judgment was entered by the clerk of court on 26 June 2007 in the amounts of US\$175,000 (approximately £100,000) in compensatory damages and US\$5 million (approximately £3.1 million) in punitive damages. RJRT posted a bond in the approximate amount of \$8.018 million (approximately £5 million) on 3 July 2007. Defendants subsequently appealed from the judgment to an intermediate appellate court and appellate oral argument was heard on 26 January 2009. On 29 September 2009, the appellate court issued a decision modifying the final judgment by deleting the punitive damages award and remanding the case to the trial court on the issue of punitive damages. On 22 December 2009, plaintiff filed a motion for an extension of time to seek leave to reargue the appeal, or in the alternative, to take a further appeal to the New York Court of Appeals. On 15 January 2010, the intermediate appellate court denied plaintiff's motion seeking an extension to file a motion for leave to appeal to the New York Court of Appeals, and granted plaintiff's motion seeking an extension to file a motion for leave to reargue the appeal. Plaintiff filed a motion to reargue on 27 January 2010, which remains pending.

Contingent liabilities cont...

In February 2005, a Missouri state court jury (Smith) awarded the family of a deceased smoker US\$500,000 (approximately £300,000) in compensatory damages and US\$20 million (approximately £12.4 million) in punitive damages against B&W. On 16 December 2008, an intermediate Missouri appellate court affirmed the compensatory damages award, but remanded the case for a new trial on issues relating to punitive damages. Following a new trial, on 20 August 2009, a Missouri jury returned a verdict awarding US\$1.5 million (approximately £900,000) in punitive damages against B&W. On 24 September 2009, B&W filed a motion for a new trial and a motion for judgment notwithstanding the verdict and the plaintiffs filed a motion to increase the punitive damages to US\$20 million (approximately £12.4 million) and to vacate, modify or set aside judgment or alternatively for a new trial. These motions were denied on 21 December 2009. On 30 December 2009, B&W filed a notice of appeal to the intermediate Missouri appellate court. Plaintiffs filed a notice of appeal to the same court on 31 December 2009. Those appeals have been consolidated and remain pending.

On 18 March 2005, a New York jury (Rose) awarded an individual plaintiff US\$1.7 million (approximately £1.1 million) in compensatory damages against B&W. On 10 April 2008, an intermediate state appellate court reversed the judgment and ordered that the case be dismissed. On 16 December 2008, the New York Court of Appeals affirmed the intermediate appellate court's ruling. Plaintiff filed a motion to reargue to the Court of Appeals on 14 January 2009, which was denied on 26 March 2009. In June 2009, plaintiff filed a petition for a writ of certiorari in the US Supreme Court, which was denied on 5 October 2009.

(d) Other claims

The Flintkote Company (Flintkote), a US asbestos production and sales company, was included in the acquisition of Genstar Corporation (Genstar) by Imasco Limited in 1986 and became a Group subsidiary following the restructuring of Imasco Limited (now Imperial Tobacco Canada Limited (ITCAN), the Group's operating company in Canada) in 2000. Soon after this acquisition, and as part of the acquisition plan, Genstar began to sell most of its assets, including the non-asbestos related operations and subsidiaries of Flintkote. The liquidation of Flintkote assets produced cash proceeds and, having obtained advice from the law firm of Sullivan & Cromwell LLP and other advice that sufficient assets would remain to satisfy liabilities, Flintkote and Imasco authorised the payment of a dividend of US\$170.2 million (approximately £105.4 million) in 1986 and a further dividend of US\$355 million (approximately £219.8 million) in 1987. In 2003, ITCAN divested Flintkote and then, in 2004, Flintkote filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. In 2006, Flintkote, representatives of both the present and future asbestos claimants, and individual asbestos claimants were permitted by the bankruptcy court to file a complaint against ITCAN and numerous other defendants including Sullivan & Cromwell LLP, for the recovery of the dividends and other compensation under various legal and equitable theories. Sullivan & Cromwell LLP and ITCAN have since filed cross complaints against each other. The parties are presently engaged in case management discussions to establish the scope and manner of discovery in this case. Although the litigation is at a preliminary stage, the judge has stated an intention to consider two discrete issues for potential early resolution either through evidentiary hearings or trial in an effort to simplify or clarify determinative issues. The first issue the judge is considering in separate proceedings is whether Flintkote's claim for malpractice against Sullivan & Cromwell LLP is time barred. This will include consideration as to whether Sullivan & Cromwell LLP's representation of Flintkote was continuous and the scope of this enquiry may require findings of fact impacting upon ITCAN's involvement in this first issue. The second issue involves an enquiry into the two dividends and whether they were fraudulently transferred. Until these preliminary issues have been resolved, it is difficult to estimate when the remaining issues will be heard.

Contingent liabilities cont...

In Wisconsin, the authorities have identified potentially responsible parties (PRPs) to fund the clean up of the Fox River, Wisconsin. The pollution was caused by the alleged discharges of toxic material from paper mills operating close to the river. The Government's most recent published estimate of the cost of the clean up work is US\$700 million (approximately £433.5 million), although other reports have suggested that the costs are increasing. Among the PRPs are NCR Corporation (NCR) and Appleton Papers Inc. (Appleton) who may be liable for a proportion of the clean up costs. In 1978, Industries purchased what was then NCR's Appleton Papers Division from NCR. In 1978, Industries also incorporated a US entity by the name of BATUS, Inc. (BATUS), which in 1980 became the holding company for all of Industries' US subsidiaries, including Appleton. As the holding company, BATUS obtained insurance policies for itself and its subsidiaries that included coverage for certain environmental liabilities. Industries/BATUS spun off the Appleton business in 1990 to Wiggins Teape Appleton p.l.c. and Wiggins Teape Appleton (Holdings) p.l.c., now known as Arjo Wiggins Appleton Ltd. and Arjo Wiggins US Holdings Ltd. (collectively, the AWA Entities), obtaining full indemnities from AWA Entities for past and future environmental claims. Disputes between NCR, Appleton, the AWA Entities, and Industries as to the indemnities given and received under the purchase agreement in 1978 have been the subject of arbitrations in 1998 and 2005. Under the terms of the arbitration awards, Industries and Appleton/the AWA Entities have an obligation to share the costs of environmental claims with NCR, but Industries has never been required to pay any sums in this regard because Appleton and the AWA Entities have paid any sums demanded to date, and the authorities have not identified Industries or BATUS as PRPs. In 2005, Appleton sued those insurance carriers that remained solvent that had issued the insurance policies to BATUS in the late 1970s and 1980s for a declaratory judgment that the policies provided coverage for Appleton's liability for the Fox River clean up. In 2008, Appleton prevailed in its suit and the court issued a ruling that the insurance policies provided coverage for the Fox River clean up. Further, the court held that Appleton was entitled to select from among the insurance policies an individual policy year and work its way through the policies in that year collecting coverage. Once that year is exhausted, Appleton may select additional policy years, one at a time, and proceed through those years in the same manner. In total, the insurance policies provide general coverage of US\$1,052,300,000. This amount is subject to reduction to reflect insolvent insurance carriers within the BATUS insurance program. The insurance carriers have appealed the trial court's ruling. The ultimate amount of insurance available will depend on whether the trial court's rulings concerning which policies are triggered and how losses may be allocated are disturbed or modified on appeal. If the ruling stands on appeal, it is believed that all future environmental liabilities will continue to be met directly by Appleton and the AWA Entities by self-funding or insurance cover and no demand will be made upon Industries. NCR has recently advised Industries that it believes that it is entitled to call upon Industries for contribution if necessary, while also reaffirming its intent to look to Appleton and the AWA entities in the first instance. If, however, Appleton and the AWA entities are unable to meet their obligations, NCR may look to Industries for contribution. There is a risk that Appleton and the AWA Entities will exhaust insurance policies beyond that which Industries believes Appleton and the AWA Entities are entitled to under the demerger agreement, potentially leaving Industries with no insurance. There is a tolling agreement in place between Appleton, the AWA Entities, Industries and BATUS relating to the demerger agreement, which runs to 31 December 2011 and preserves the parties' rights to litigate the issue. In a separate federal action in Wisconsin, Appleton and NCR sought a contribution towards the contamination clean up costs from various other companies that also operated along the Fox River. On 17 December 2009, the judge dismissed the lawsuit on the basis that Appleton and NCR were responsible for at least 98 per cent of the contamination and that attributing the remaining 2 per cent amongst other companies was not worthwhile. Appleton and NCR are therefore liable for the clean up costs in full. This could potentially increase the amount of insurance sought by Appleton and therefore increases the risk of Appleton exhausting the insurance policies beyond its entitlement. It is open for Appleton and NCR to appeal the 17 December 2009 decision.

UK-based Group companies

At 31 December 2009, Industries was a defendant in the US in one class action, the Schwab case mentioned previously. In that case, Industries was substituted for the Company as a defendant. Investments had been served in one reimbursement case (City of St. Louis), the Department of Justice case (see below), one anti-trust case (Daric Smith, see below), two class actions (Cleary and Schwab) and two individual actions (Eiser and Perry).

Conduct-based claims

On 22 September 1999, the US Department of Justice brought an action in the US District Court for the District of Columbia against various industry members, including B&W, Industries and Investments. Industries was dismissed for lack of personal jurisdiction on 28 September 2000. The Government sought, among other relief, the disgorgement of US\$280 billion (approximately £173.4 billion) in past profits pursuant to the federal Racketeer Influenced and Corrupt Organisations Act (RICO) statute. On 4 February 2005, the DC Circuit Court of Appeals ruled that the Government could not claim disgorgement of profits under RICO. On 17 August 2006, the district court issued its final judgment in favour of the Government, and against certain defendants, including B&W and Investments. The court also ordered a wide array of injunctive relief, including a ban on the use of 'lights' and other similar descriptors. Investments' compliance with the court-ordered remedies may result in potentially significant financial exposure. Defendants, including B&W and Investments, filed notices of appeal to the DC Circuit Court of Appeals on 11 September 2006. On 31 October 2006, the Court of Appeals granted defendants' motion to stay enforcement of the judgment pending the outcome of the appeal. On 22 May 2009, a three-judge appellate panel unanimously affirmed the district court's RICO liability judgment against several defendants, including Investments, and among other things remanded for further factual findings and clarification as to whether liability should be imposed against B&W. The Government's cross-appeal seeking disgorgement of past profits and the funding of smoking education and cessation programmes was denied. Investments' petition for panel rehearing and a rehearing to consider the panel's decision was filed on 31 July 2009 and was denied on 22 September 2009 by the Court of Appeals. Following this, the parties are in a position to file petitions for certiorari with the US Supreme Court. On 11 December 2009, the Court of Appeals entered an order continuing the effective stay of the district court's injunctive remedies pending the US Supreme Court's final disposition of the case.

In the Daric Smith case, filed on 7 February 2000, purchasers of cigarettes in the State of Kansas brought a class action in the Kansas State Court against B&W, Investments and certain other tobacco companies seeking injunctive relief, treble damages, interest and costs. The allegations are that defendants participated in a conspiracy to fix or maintain the price of cigarettes sold in the US, including the State of Kansas, in violation of the Kansas Restraint of Trade Act. Discovery of documents continues with Investments challenging the scope of discovery to which the plaintiff is entitled.

Product liability outside the United States

At 31 December 2009, active claims against the Group's companies existed in 22 (2008: 18) markets outside the US but the only markets with more than five active claims were Argentina, Brazil, Canada, Chile, Italy, Nigeria, and the Republic of Ireland. There has been new litigation in Brazil (individual claims), Italy (individual claims) and Canada (Ontario recoupment claim and class action claims). In 2009, judgments in favour of the defence were rendered in Russia. Significant developments outside the United States fall into four broad categories:

(a) Medical reimbursement cases

Argentina

ATLA (Argentine Tort Law Association) in June 2007 instigated a lawsuit seeking damages and medical recoupment claims against Nobleza-Piccardo S.A.I.C.y F. (Nobleza Piccardo). ATLA sought to have certain public entities joined as plaintiffs. On 23 December 2008, the court allowed intervention by the national Government and declined to accept in full certain defences asserting legal invalidity of the claims. On 2 October 2009, Nobleza Piccardo filed a substantive defence, supplementing its earlier preliminary defences on lack of jurisdiction, lack of standing to sue and the statute of limitations. On 23 December 2009, the civil court issued an order declining to exercise jurisdiction over the case as a result of the national Government's intervention. The case will now be referred to the contentious administrative court.

Brazil

The São Paulo State Public Prosecutor instigated a lawsuit in July 2007 comprising product liability, ETS and medical recoupment claims. On 7 October 2008, Souza Cruz S.A. (Souza Cruz) filed an objection to a motion to intervene as an additional plaintiff by ACTbr, a private anti-tobacco group. On 17 October 2008, the court issued an order to plaintiffs to respond to certain of defendants' procedural requests, as well as certain defences and objections. The court has determined that issues of third party standing will be determined at the main hearing. A similar claim was lodged against Philip Morris and Souza Cruz's motion to consolidate the two claims was rejected, with the case removed to a lower court. Souza Cruz filed a motion to reconsider the refusal for consolidation and an interlocutory appeal against assignment to the lower court. The Public Prosecutor filed a counter motion and the court has ordered the assignment issue to proceed to a final review.

Canada

The Government of the Province of British Columbia brought a claim pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2000 (the Recovery Act) against domestic and foreign manufacturers seeking to recover plaintiff's costs of health care benefits. Investments, Industries, Ryesekks Plc, ITCAN and certain former Rothmans Group companies are named as defendants. The constitutionality of the Recovery Act was challenged by certain defendants. Ultimately, in September 2005, the Supreme Court of Canada declared the Recovery Act to be constitutionally valid. Defendants joined the federal Government of Canada pursuant to a Third Party Notice and the federal Government, in turn, filed a motion to strike the claim. The Supreme Court of British Columbia found in favour of the federal Government, dismissing it from the action. Defendants' subsequent appeal of that order was consolidated with a similar appeal in the Knight case (see below). On 8 December 2009, the British Columbia Court of Appeal handed down its decision in the Medicaid and Knight cases. In the Medicaid case, the appeal was granted in part, with the court holding that it was not plain and obvious that the Federal Government did not owe a duty of care to tobacco manufacturers when it implemented its tobacco control strategy. On 8 February 2010, the Federal Government sought leave to appeal this decision. Non-Canadian defendants, including Investments and Industries, sought to dismiss the underlying Medicaid action on the ground that the British Columbia court lacked personal jurisdiction over them. These motions were subsequently denied, and defendants' appeal of these decisions was ultimately unsuccessful. The case is currently scheduled for trial in September 2011 as a target date.

In another Canadian recoupment case, the Government of the Province of New Brunswick has brought a health care recoupment claim against domestic and foreign tobacco manufacturers, pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2000 passed in that Province in June 2006. The Company, Investments, Industries, ITCAN and certain former Rothmans Group companies have been named as defendants. The Government filed a statement of claim on 13 March 2008. The UK-based Group defendants were served with the Notice of Action and Statement of Claim on 2 June 2008. ITCAN was served on 10 April 2008. In November 2009, the UK-based Group defendants filed notices of motion challenging jurisdiction. Plaintiff filed its material in response. These motions are scheduled for hearing in June 2010.

On 29 September 2009, the Government of the Province of Ontario filed a health care recoupment claim against the Company, Investments, Industries, ITCAN and certain former Rothmans Group companies, pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2009. The UK-based Group defendants served their notices of motion and supporting evidence challenging jurisdiction on 29 January 2010.

Colombia

British American Tobacco (South America) Limited (BAT South America) was served on 18 July 2008 in *Garrido*, a public interest action that has a recoupment component. The case was brought by two Colombian citizens alleging that the defendant violated numerous 'collective' interests and rights of the Colombian population. In addition to equitable and injunctive relief, plaintiffs are seeking 25 per cent of smoking-related health care costs since the time that the Group has been operating in Colombia. BAT South America initially filed preliminary objections to the action with a view to joining the claim to another public interest action brought by Sandra Florez (see below). However, the preliminary objections in *Garrido* are now moot because the *Florez* case was decided in BAT South America's favour in September 2009. BAT South America will submit a full defence in *Garrido* in due course.

Contingent liabilities cont...

Israel

Clalit, one of the main health care providers in Israel, filed a recoupment claim on 28 September 1998 in the Tel Aviv District Court against several local and international tobacco companies. Clalit seeks NIS7.6 billion (approximately £1.2 billion) in damages and injunctive relief. Following a series of procedural negotiations between the parties, the Group companies currently named as defendants in the action are Industries (who is disputing service), B&W, B.A.T (U.K. and Export) Limited (BATUKE) and Investments. On 29 March 2005, B&W, Investments and BATUKE sought leave to appeal the denial of their application to strike out the action on the grounds of remoteness and a decision from the Supreme Court on this issue is still awaited. Plaintiff's motion filed on 30 August 2009 to separate consideration of Clalit from another case (in which no Group company is named) was denied by the Supreme Court.

Nigeria

In 2007, four Nigerian states (Lagos, Kano, Gombe and Oyo) and the Nigerian federal Government filed separate health care recoupment actions, each seeking the equivalent of billions of US dollars for costs allegedly incurred by the state and federal Governments in treating smoking-related illnesses. British American Tobacco (Nigeria) Limited, the Company and Investments were all named as defendants and filed preliminary objections in each of the cases.

On 21 February 2008, the initial Lagos action was voluntarily discontinued by plaintiffs. On 13 March 2008, the Attorney General of Lagos State filed a substantially similar action. British American Tobacco (Nigeria) Limited, the Company and Investments were all served in the new action. On 18 September 2009, the High Court of Lagos State issued a ruling denying the preliminary objections filed by the Company and Investments. On 2 October 2009, the Company and Investments filed notices of appeal from the court's ruling and filed motions to stay all proceedings pending the resolution of their appeals. The stay motions remain pending before the High Court of Lagos State and are to be argued at the next hearing.

On 8 July 2008, the High Court of Gombe State set aside service on all defendants (including the Company, Investments and British American Tobacco (Nigeria) Limited) and struck out the claim. The Attorney General of Gombe State filed and served a renewed action, to which all Group defendants have filed preliminary objections, which remain pending.

In 2008, a health care recoupment claim was filed in the State of Akwa Ibom. The Company and Investments were served with process and filed preliminary objections. British American Tobacco (Nigeria) Limited was not served and on 21 July 2009, was dismissed from the action. On 19 October 2009, following repeated requests for adjournment by counsel for the Attorney General of the State of Akwa Ibom, the court struck out the claim for want of diligent prosecution.

An action was filed by the Attorney General of Ogun State in 2009. In the Ogun State claim, there has been purported service of the proceedings on the Company, Investments and British American Tobacco (Nigeria) Limited. The companies have each filed preliminary objections. The preliminary objections were heard on 14 December 2009 and a decision is awaited.

In 2009, process was also purportedly served on British American Tobacco (Nigeria) Limited in two health care recoupment claims brought by the Attorneys General of the States of Ondo and Ekiti. British American Tobacco (Nigeria) Limited is the only Group company named as a defendant in these actions. In Ondo, British American Tobacco (Nigeria) Limited filed an application to strike out the claim based on defects in the issuance of the writ. While this application was pending, on 17 June 2009, the Attorney General of Ondo State filed a notice of discontinuance, and on 18 June 2009, the court accordingly struck out the action without prejudice and awarded British American Tobacco (Nigeria) Limited costs. In Ekiti, British American Tobacco (Nigeria) Limited filed preliminary objections. On 5 October 2009, following the service of a 2 October 2009 notice of discontinuance filed by the Attorney General of Ekiti State, the court struck out the claim without prejudice.

Contingent liabilities cont...

Saudi Arabia

The Saudi Ministry of Health is pursuing a health care recoupment action in the Riyadh General Court against a number of tobacco distributors and agents, but no Group company has been served with process. The Ministry of Health is reportedly seeking damages of at least 127 billion Saudi Riyals (approximately £21 billion).

Spain

The Junta de Andalucía, together with the Health Service of Andalucía (hereinafter 'Junta') filed, on 20 September 2007, a contentious-administrative claim against the Spanish State and six tobacco companies, including British American Tobacco España, S.A. (BAT España). The Junta seeks the reimbursement of €1,769,964 (approximately £1.6 million) allegedly spent in health care costs for treating patients with smoking-related diseases. The Court upheld the State's preliminary objections to the claim and dismissed the claim on 14 November 2007. On 4 March 2008, the Junta filed a notice of its intention to appeal that decision, and its appeal was dismissed by a Supreme Court Judgment of 30 September 2009. In the interim, however, on 6 May 2009, the Junta filed a new contentious-administrative claim based on the same facts, which proceedings are still progressing.

(b) Class actions

Brazil

In 1995, a class action was filed by the Association for the Defence of the Health of Smokers (ADESF) against Souza Cruz and other tobacco manufacturers in the São Paulo Lower Civil Court alleging that defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. Plaintiffs seek monetary damages and injunctive relief. The case was stayed in 2004 pending defendants' appeal from a decision issued by the lower civil court on 7 April 2004. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, finding that the lower court had failed to provide defendants with an opportunity to produce evidence. The case was returned to the lower court for production of evidence and a new judgment. The matter continues on the issue of sufficiency of court-appointed expert evidence.

The Brazilian Association for the Defence of Consumers' Health (Saudecon) filed a class action against Souza Cruz in the City of Porto Alegre, Brazil on 3 November 2008. Plaintiff purports to represent all Brazilian smokers whom, it alleges, are unable to quit smoking and lack access to cessation treatments. Plaintiff is seeking an order requiring the named defendants to fund, according to their market share, the purchase of cessation treatments for these smokers over a minimum period of two years. On 18 May 2009, the case was dismissed with judgment on the merits. Plaintiffs appealed in August 2009 and Souza Cruz responded. Parties are now awaiting judgment.

A consumer association known as ACODE (Association of Exploited Consumers of the Federal District) instigated an action in essence seeking a court order to stop Souza Cruz from marketing cigarettes in Brazil. In December 2006, the 4th Chamber of the Federal District Court of Appeals confirmed a lower court decision that ruled the claim groundless and unlawful. Plaintiff filed an appeal before the Superior Court of Justice which has been pending final review since May 2007. On 12 March 2009, the Superior Court affirmed the ruling and rejected plaintiff's appeal. Plaintiff issued another appeal which, on 23 March 2009, was unanimously rejected by the Superior Court. An appeal is now pending before the Federal Supreme Court.

The State of Sergipe instigated in 2004 a class action seeking compensation for smokers in Sergipe State who purportedly sought to quit smoking. The lower court denied plaintiffs' request for early relief and determined ANVISA be ordered to join the case as co-defendants. ANVISA is a Federal Agency so the case was removed to the Federal Court where ANVISA successfully argued that it lacked standing to be sued. The claim against ANVISA was dismissed and the Federal Court sent the case back to the lower state court for proceedings to continue, but the action was stayed on 18 December 2009 pending a decision by the Superior Court on which court has jurisdiction.

Bulgaria

In March 2008, a collective claim was filed in the Sofia City Court of Bulgaria against 21 defendants, including British-American Tobacco Polska S.A., British-American Tobacco (Romania) Trading SRL and House of Prince A/S. Plaintiff seeks recovery of roughly 17,000 Leva (approximately £7,700) in damages per class member and injunctive relief. The claim was dismissed twice on procedural deficiencies, but re-instated both times on appeal. On 2 December 2008, the Sofia City Court dismissed the youth advertising claim and required plaintiff to meet various evidentiary and procedural conditions in order to proceed with the claim. Plaintiff's application to appeal was hindered by an expired time period and, on 11 December 2009, the Supreme Court of Cassation held a closed hearing on that issue, and thereafter denied plaintiff's request for a restoration of the expired time period. This latest decision remains subject to appeal.

Canada

In the Knight class action brought against ITCAN in Canada, the Supreme Court of British Columbia certified a class of all consumers of cigarettes bearing 'light' or 'mild' descriptors since 1974 manufactured in British Columbia by ITCAN. The British Columbia Court of Appeal affirmed the certification of the class but has limited any potential financial liability to the period from 1997. This is a 'lights' class action in which plaintiff alleges that the marketing of light and mild cigarettes is deceptive because it conveys a false and misleading message that those cigarettes are less harmful than regular cigarettes. Plaintiff seeks compensation for amounts spent on 'light and mild' products and a disgorgement of profits from ITCAN. ITCAN joined the federal Government of Canada pursuant to a Third Party Claim and the federal Government, in turn, filed a motion to strike the claim. The court subsequently dismissed the federal Government from the action. ITCAN appealed that order, and its appeal was consolidated with a similar appeal in the British Columbia recoupment litigation (see above). On 8 December 2009, the British Columbia Court of Appeal handed down its decision in the Medicaid and Knight cases. In the Knight case, the court held that it was not plain and obvious that firstly, the Federal Government did not owe a duty of care to tobacco manufacturers when it implemented its tobacco control strategy and secondly, that it was not plain and obvious that the Federal Government did not owe a duty of care to the members of the class. On 8 February 2010, the Federal Government sought leave to appeal this decision.

A similar 'lights' and 'mild' class action claim has been filed in Newfoundland against ITCAN, who has filed a third party notice against the Federal Government. The certification hearing took place in September 2007. Certification was denied on 29 December 2008 and ITCAN subsequently received plaintiffs' notice for leave to appeal. Plaintiff's application for leave to appeal was heard in November 2009 and a decision is now awaited.

There are currently two class actions in Quebec against ITCAN. On 21 February 2005, the Quebec Superior Court granted certification. The court certified two classes, which include residents of Quebec who suffered from lung, throat and laryngeal cancer or emphysema, and residents who were addicted to nicotine at the time the proceedings were filed and who have since remained addicted. ITCAN is currently in discovery and case management.

In August 2009, the Ragoonanan proposed class action against ITCAN in Ontario was dismissed. It sought to certify as a class "all persons who suffered bodily damage or property damage as a result of fires commenced by cigarettes that did not automatically extinguish upon being dropped or left unattended". Certification was denied in first instance and leave to appeal was denied in the 12 May 2008 decision. In summary, the court decided that there was no rational relationship between the class definition and the proposed common issues and that a class action was not a preferable procedure. A further appeal was dismissed on 26 August 2009, thus ending the litigation.

Contingent liabilities cont...

In June 2009, four class actions were filed in Nova Scotia, Manitoba, Saskatchewan and Alberta naming Investments, Industries, Ryeseckks Plc, ITCAN and certain former Rothmans Group companies. There are service issues in relation to the UK-based Group companies for Alberta and Manitoba. In Saskatchewan, the UK-based Group companies have served notices of motion challenging jurisdiction and these motions are due to be heard on 11 and 12 March 2010. Proceedings in these four class actions have also been served on ITCAN.

Colombia

On 2 September 2009, a 'consumer popular' ("acción popular") action was brought by Sandra Florez against BAT South America. The ruling held that an "acción popular" is not an action for damages and that BAT neither threatened nor violated any "collective right", but instead acted in accordance with the law without misrepresenting the risks of "light" cigarettes. Plaintiff did not appeal this ruling and the decision is now final.

Israel

In May 2008, nine smokers of low yield cigarettes filed a class action in Israel, known as Numberg, before the Tel Aviv District Court against various defendants including the Group's Israeli distributor, Globrands Agencies 2007 Limited (Globrands Agencies). Plaintiffs allege that since December 2004, defendants have fraudulently marketed and sold low yield cigarettes in Israel, in contravention of what they interpret to be an express ban on the sale of such products following the prohibition on the use of 'lights' descriptors, by using methods such as marking cigarette packages in a special colour, using descriptors such as 'slim' or 'super slim', and displaying text that describes the amount of tar and nicotine yields. In addition to injunctive and declaratory relief, plaintiffs seek NIS78.5 billion (approximately £12.8 billion) in monetary damages. In January 2009, the Tel Aviv District Court denied plaintiffs' motion for a temporary restraining order prohibiting defendants from marketing and selling low-yield products in Israel. On 3 December 2009, Globrands Agencies sought an order from the court requiring the three plaintiffs who smoked British American Tobacco brand cigarettes to deposit NIS 200,000 (approximately £33,000) each as a guarantee against trial costs. On 28 December 2009, the judge granted this motion, requiring the three plaintiffs to deposit jointly the amount of NIS100,000 (approximately £16,000) by 19 January 2010. As a result of this decision, the remaining defendants filed similar applications. A pre-trial hearing was scheduled for 20 January 2010, to resolve all outstanding preliminary issues and discuss the schedule for a hearing on class certification. Since the three plaintiffs did not deposit the guarantee, the court ordered, during the pre-trial hearing on 20 January 2010, that the action against Globrands Agencies be dismissed without prejudice. The three plaintiffs that smoked British American Tobacco brand cigarettes are seeking leave to appeal the deposit decision to the Israeli Supreme Court, a motion that remains pending.

Venezuela

FEVACU (Venezuelan Federation of Associations of Users and Consumers) instigated a purported class action that was admitted by the court on 22 October 2008 seeking, among other relief, that defendant be required to fund a trust for the treatment of alleged smoking-related diseases. On 19 January 2009, C.A. Cigarrera Bigott Sucs. notified the court of its intention to appear as a third party whose rights may be affected by the proceedings, as provided under the procedural law. A public hearing to determine its status as a third party has yet to be scheduled.

(c) Individual cases

Australia

In 2006, proceedings were instituted by Donald Laurie in the Dust Diseases Tribunal (DDT) against British American Tobacco Australia Services Limited (BATAS), the Commonwealth of Australia and an asbestos manufacturer, alleging tobacco and asbestos related illness. In November 2009, BATAS sought an order in the New South Wales Court of Appeal for the recusal of the judge appointed to hear the matter, having been unsuccessful at obtaining such relief from the DDT. On 17 December 2009, the Court of Appeal delivered its judgement against BATAS, denying its bid to recuse the trial judge. BATAS has now made an application for special leave to appeal the recusal decision to the High Court of Australia. While BATAS's appeals have been pending, plaintiff has chosen not to prosecute the underlying claims in the DDT.

In January 2009, proceedings were commenced by Terry Gottlieb in the Supreme Court of Victoria against various BAT Group companies and other tobacco companies alleging smoking and passive smoking-related illness. These proceedings were discontinued on 27 October 2009.

In 2001, proceedings were instituted by Rolah Ann McCabe in the Supreme Court of Victoria against BATAS. Findings were made against BATAS in March, April and May 2002 by the trial court. These findings were overturned by the Victorian Court of Appeal in December 2002 and March 2003. An application for special leave to appeal to the High Court of Australia by the McCabe estate was refused in October 2003. Since that time, the case has largely been dormant. As of 19 November 2009, BATAS has been awarded AUS\$1,102,378.45 (approximately £600,000) in costs (out of AUS\$2,098,693 claimed (approximately £1.2 million)) arising out of the trial and the appeals before the Victorian Court of Appeal.

In November 2006, BATAS commenced proceedings against Slater & Gordon (an Australian plaintiff law firm who represented the plaintiff in the McCabe case (see above)) in a matter relating to the leaking of legal documents to the press and public. British American Tobacco Australia Limited commenced parallel proceedings against Slater & Gordon and Peter Gordon (a partner of the firm) regarding the same matter. In early 2007, Roxanne Cowell (executrix of the McCabe estate) was joined as a defendant in each proceeding. The proceedings are before the Victorian Supreme Court. On 15 December 2009, the respective proceedings against Slater & Gordon and Peter Gordon were resolved in favour of BATAS and British American Tobacco Australia Limited, with costs to be determined after the proceedings against Roxanne Cowell are resolved.

Brazil

As of 31 December 2009, there were approximately 312 (2008: 310) individual cases that remain pending in Brazil against Souza Cruz in which it is contended that the smokers' diseases or deaths were caused by cigarette smoking. Since 1995, approximately 598 individual cases have been filed in Brazil against Souza Cruz. Approximately 16 of these cases have resulted in court decisions favourable to plaintiffs in either the civil court or court of appeal, all of which remain on appeal.

Canada

Four individual smoking and health cases have been filed in Canada. Of these, two (Battaglia and Landry) have been in abeyance since 2004 and 2003 respectively. A third (Spasic) is active and currently at a preliminary stage. One smoking and health case (Stright) has been filed in Nova Scotia but had previously been in abeyance since 2005. The parties have been summoned to appear before the court where it is anticipated that the plaintiff will advance its case to avoid the claim being quashed.

Contingent liabilities cont...

Chile

On 16 December 2008, the Civil Court of Santiago dismissed an individual smoking and health action filed by Mr Andres Javier Rada Meza against Compania Chilena de Tabacos S.A. (Chiletabacos) and other tobacco manufacturers in 2006. In March 2009, plaintiff's appeal period lapsed, making the Civil Court of Santiago's decision final. There are eight smoking and health claims pending against Chiletabacos that have not been decided yet. The most recent smoking and health claim against Chiletabacos was purportedly served on 15 January 2010 and was brought by the estate of a smoker who allegedly died as a result of lung cancer.

Costa Rica

In February 2006, Mr Jorge Enrique Guerra Ruiz filed a claim against, among others, British American Tobacco Central America S.A. (Costa Rica branch) (BAT Costa Rica), alleging improper use of terms in language other than the official country language (Spanish) on cigarette packs. BAT Costa Rica was cleared of Mr Ruiz's allegations in October 2009, except for the Consumer Defence Commission's finding that it was liable to a fine for the use of 'light'. This decision has been challenged by BAT Costa Rica.

Denmark

In 2003, a claim was filed against House of Prince A/S and Skandinavisk Tobakskompagni A/S claiming €65,000 (approximately £58,000) (plus damages and costs) for damages to health including addiction, arising from allegations of failure to warn, defective design, and product manipulation. The trial has been postponed until at least late 2010.

Finland

On 10 October 2008, following a consolidated trial, the Helsinki District Court dismissed three individual smoking and health actions that were brought against British American Tobacco Nordic Oy (BAT Nordic), amongst others, and ordered each plaintiff to pay BAT Nordic costs of €125,000 (approximately £100,000). In December 2008, plaintiffs appealed the District Court's decisions in their entirety but one plaintiff (Lindroos) has subsequently withdrawn her appeal. Trial of the action before the Court of Appeal began on 31 August 2009 and concluded on 7 December 2009. A decision of the court is expected from the Court of Appeal in May 2010.

Ireland

Fifteen individual smoking and health cases are ongoing in the Republic of Ireland, in which plaintiffs seek compensation for various alleged tobacco-related injuries. The Group defendants involved in these claims are PJ Carroll & Co. Ltd and Rothmans of Pall Mall (Ireland) Ltd, although both Group companies are not named in every action. One case (McCormack) was dismissed by judgment perfected on 17 July 2007, but plaintiff has filed a notice of appeal and no date for the appeal has yet been set. Dismissal motions in 13 other cases are pending the decision of the Supreme Court in McCormack. The fifteenth case is currently dormant.

Italy

As of 31 December 2009, there were approximately 226 individual 'lights' cases in Italy pending against British American Tobacco Italia S.p.A. (2008: 1,672). Almost 75 per cent of the individual 'lights' cases filed in Italy are pending before lower level (Justices of the Peace) courts, with the remainder on appeal. Because of the type of court involved, the maximum possible recovery in damages is €1,033 (approximately £900) (plus legal fees and costs). In 2007, 2,230 'lights' cases were filed by a single plaintiffs' counsel in the jurisdiction of Pescopagano. In 2008, all of these claims were withdrawn. As of 31 December 2009, approximately 1,128 cases (not including the Pescopagano cases) have been suspended or dismissed. There are 38 individual smoking and health cases pending before Italian Civil Courts (including eight cases on appeal, which includes both the seven cases pending before the Court of Appeal and the one case pending before the Supreme Court), in which it is contended that the smokers' diseases or deaths were caused by cigarette smoking.

Contingent liabilities cont...

Kenya

In October 2002, a plaintiff commenced a smoking and health case against British American Tobacco Kenya Limited. Since November 2007, the parties have been engaged in a dispute over plaintiff's failure to produce requested discovery.

Netherlands

On 17 December 2008, the District Court of Amsterdam dismissed an individual smoking and health action filed in June 2005 by Peter Josef Romer against British American Tobacco Western Europe Area II B. V. and British American Tobacco Manufacturing B.V. Plaintiff had until 18 March 2009 to appeal the dismissal but failed to do so. Therefore the decision is now final.

Poland

A claim for PLN 50,000 (approximately £11,000) was brought by an incarcerated plaintiff and served on British American Tobacco Polska S.A. in March 2009, alleging addiction and unspecified health losses. The plaintiff moved to voluntarily withdraw the claim in November 2009 and a decision from the court regarding costs and discontinuation of proceedings is currently pending.

Sri Lanka

In 2003, a plaintiff filed a smoking and health claim against Ceylon Tobacco Company Limited (CTC). CTC filed preliminary objections which were rejected by the District Court and Court of Appeal. Leave to appeal to the Supreme Court was granted and the appeal will be heard on 11 May 2010.

(d) Consumer protection litigation

Russia

On 8 September 2008, a consumer fraud action was filed in the Savelovsky District Court of Moscow by the Ministry of Health and Social Development in Russia against OJSC British American Tobacco – Yava (Yava) and its retail distributor, CJSC International Tobacco Marketing Services. The claim seeks a declaration from the court that the use of the words 'light, superlight, and 1mg light' on cigarette packets of Yava's low tar cigarettes are misleading and unlawful, and further seeks the removal of these descriptors. In November 2008, the action was dismissed for lack of jurisdiction, but on 13 January 2009 the dismissal was reversed on appeal. Leave to appeal this decision was refused but the case was remitted to the district court for a hearing on the merits and on 25 March 2009 was dismissed in full. Plaintiff's appeal, heard on 16 June 2009, upheld the first instance decision and plaintiff had until 16 December 2009 to lodge a further appeal. No appeal was filed.

Other litigation outside the US

Regulatory and Constitutional Challenges

In 2009, there were regulatory and constitutional challenges in Brazil, Canada (Quebec), South Africa, Paraguay, Turkey and Uruguay. In Brazil, a regulatory challenge was brought by Souza Cruz against the National Surveillance Health Agency (ANVISA). This action mainly challenged the legality of the images of new health warnings and sought an injunction to suspend the effects of the resolution that established these images until a final decision is issued on the merit of the case. Although initially granted, the injunction was later disregarded by the Court of Appeal. A first instance decision is pending. In Quebec, ITCAN and other Canadian manufacturers filed a constitutional challenge of the Quebec Medicaid Legislation. The Attorney-General of Quebec has filed a motion to dismiss the challenge and this motion will be heard on 8 to 9 April 2010. In South Africa, in September 2009, a constitutional challenge was commenced by British American Tobacco South Africa (Pty) Ltd against the Ministry of Health. This challenge relates to one to one communications between tobacco manufacturers (together with importers, wholesalers and retailers) and consenting adult tobacco consumers. Further regulatory challenges in Turkey, Paraguay and Uruguay have also been instituted to challenge certain health warning, and tobacco product packaging and labelling requirements.

Contingent liabilities cont...

Canada

On 9 December 2009, ITCAN was served with a class action filed by Ontario tobacco farmers and the Provincial Marketing Board, which alleges that between 1989 and 1994 ITCAN improperly paid lower prices for tobacco leaf destined for duty-free products, as opposed to the higher domestic leaf price.

Russia

In September 2008, a new action was commenced by a minority shareholder of Yava in relation to approval of interested-party transactions. The claim was filed by Branston Holdings Ltd. and its value was 4,362,537,236 roubles (approximately £89.1 million). The claim was filed against British American Tobacco Holdings (Russia) BV, whereas Yava was a third party to the case. We have been informed that Branston has filed an application with the court to withdraw its claims in full. The next hearing is currently planned for 22 April 2010, at which the issue of withdrawal of the claim and consequent termination of the proceedings will be examined by the court.

Conclusion

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere. If an adverse judgment is entered against any of the Group's companies, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. In any event, with regard to US litigation, the Group has the benefit of the RJRT Indemnification. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in particular quarterly or annual periods could be materially affected by the final outcome of any particular litigation.

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

Guarantees

Performance guarantees given to third parties in respect of Group companies were £nil (2008: £1 million).

SHARE BUY-BACK PROGRAMME

In 2008, the Board decided to suspend the on-market share buy-back programme that the Group initiated in 2003, in order to preserve the Group's financial flexibility during the period of economic uncertainty. No shares were bought-back during 2009.

RELATED PARTY DISCLOSURES

The Group's related party transactions and relationships for 2008 and 2009 are disclosed as Appendix 2 to this announcement.

POST BALANCE SHEET EVENTS

On 22 January 2010, the Group announced the closure of the Tire factory in Turkey and the consolidation of all manufacturing in Turkey in the Samsun factory. The estimated costs of the closure are £37 million and closure of the Tire factory is expected to be completed by 31 December 2010.

In respect of the Franked Investment Income Group Litigation Order, the Court of Appeal handed down its judgment on 23 February 2010 and further details have been provided on page 34.

ANNUAL REPORT

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's Annual General Meeting. The auditor's reports on both the 2008 and 2009 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006 or equivalent preceding legislation.

The Annual Report will be published on bat.com on 26 March 2010. At that time, a printed copy will be mailed to shareholders on the UK main register who have elected to receive it. Otherwise, such shareholders will be notified that the Annual Report is available on the website and will, at the time of that notification, receive a Performance Summary (which sets out an overview of the Group's performance, headline facts and figures and key dates in the Company's financial calendar) together with a Proxy Form and Notice of Annual General Meeting. Specific local mailing and/or notification requirements will apply to shareholders on the South African branch register.

FINANCIAL CALENDAR 2010

| | |
|------------|--|
| 28 April | Interim Management Statement |
| 28 April | Annual General Meeting The Mermaid Conference & Events Centre London EC4V 3DB |
| 28 July | Half-Yearly Report |
| 27 October | Interim Management Statement |

CALENDAR FOR THE FINAL DIVIDEND 2009

2010

| | |
|------------------------|---|
| 25 February | Dividend announced (including amount of dividend per share in both sterling and rand; applicable exchange rate and conversion date) |
| 5 March | Last day to trade (JSE) |
| 8 March to 12 March | No transfers between UK main register and South African branch register; no shares may be dematerialised or rematerialised. |
| 8 March | Ex-dividend date (JSE) |
| 10 March | Ex-dividend date (LSE) |
| 12 March | Record date (LSE and JSE) |
| 6 May | Payment date (sterling and rand) |

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

For holders of American Depository Receipts (ADRs), the record date is also 12 March 2010 with an ADR payment date of 11 May 2010.

For the Dividend Reinvestment Plan (DRIP), the last date for elections is 14 April 2010.

CORPORATE INFORMATION

Primary listing

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

Computershare Investor Services PLC
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tel: 0800 408 0094; +44 870 889 3159
share dealing tel: 0870 703 0084 (UK only)
your account: www.computershare.com/uk/investor/bri
share dealing: www.computershare.com/dealing/uk
web-based enquiries: www.investorcentre.co.uk/contactus

Corporate information cont...

Secondary listing

JSE (Share Code: BTI)

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

Computershare Investor Services (Pty) Ltd

PO Box 61051, Marshalltown 2107, South Africa

tel: 0861 100 925; +27 11 870 8222

e-mail enquiries: web.queries@computershare.co.za

American Depositary Receipts (ADRs)

NYSE Alternext U.S. (Symbol: BTI; CUSIP No. 110448107)

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

Citibank Shareholder Services

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website: www.citi.com/dr

Publications

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DISCLAIMERS

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any British American Tobacco p.l.c. shares or other securities.

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 ANNOUNCEMENT

This announcement 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 this announcement 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
24 February 2010

KEY GROUP RISK FACTORS

This section identifies the main risk factors that may affect the British American Tobacco Group's business. It provides a brief description of the key risks to which the Group's operations are exposed and identifies, in each case, their potential impact on the Group and the principal activities in place to manage the risk. Each risk is considered in the context of the Group strategy by identifying the principal strategic element to which it relates, although other elements may also be relevant.

It is not the intention to provide an extensive analysis of all risks affecting the Group. Not all of the factors listed are within the control of the Group and other factors besides those listed may affect the performance of its businesses. Some risks may be unknown at present and other risks, currently regarded as immaterial, could turn out to be material in the future.

The risk factors listed in this section and the specific activities in place to manage them should be considered in the context of the Group's internal control framework, which is addressed in detail annually in the internal control section of the Corporate governance statement in the Annual Report. This section should also be read in the context of the cautionary statement regarding forward-looking statements at the end of this section.

Risk registers are used at Group, regional, area and individual market levels. The Group risk register is reviewed by the Audit Committee at six monthly intervals and provides the basis for the assessment of the key Group risk factors identified below.

Illicit trade

Illicit trade in the form of counterfeit products, smuggled genuine products and locally manufactured products on which applicable taxes are evaded, represents a significant and growing threat to the legitimate tobacco industry. Increasing excise rates can encourage more consumers to switch to illegal cheaper tobacco products and provide greater rewards for smugglers. The risk is exacerbated by the current economic downturn.

Competition from Illicit trade

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Sudden and disproportionate excise increases and widening excise differentials between markets.
- Ineffective regulatory environment.
- Lack of law enforcement and weak border controls.

Potential impact on Group

- Erosion of brand equity.
- Investment in trade marketing and distribution is undermined.
- Product is commoditised.
- Lower volumes and reduced profits.

Principal activities in place to address risk

- Dedicated Anti-Illicit Trade (AIT) teams operating at global, regional, area and key market levels.
- Active engagement with key stakeholders.
- Global AIT strategy development supported by a research programme to further the understanding of the size and scope of the problem.
- AIT Intelligence Unit (including a dedicated analytical laboratory) cooperates with law enforcement agencies in pursuit of priority targets and capacity building.
- Strong internal business conduct and customer approval policies.

Excise and tax

Tobacco products are subject to substantial excise and sales taxes in most countries in which the Group operates. In many of these countries, taxes are generally increasing but the rate of increase varies between countries and between different types of tobacco products.

Excise shocks from tax rate increases or structure changes

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Government initiatives to raise revenues.
- Increases advocated within context of national health policies.

Potential impact on Group

- Consumers reject the Group's legitimate tax-paid products for products from illicit sources.
- Lower sales volume or alteration of sales mix.

Principal activities in place to address risk

- Requirement for Group companies to have in place formal pricing and excise strategies and contingency plans to manage significant excise changes.
- Annual review of brand portfolio, brand health and equity.

Financial

The Group's underlying operations give rise to certain financial risks. The principal risks in this regard, and the controls in place to address them, are identified below and further details about the Group's financial management and treasury operations can be found within the Financial review.

Liquidity risks, including capital structure and leverage

Principal relevance to Group strategy: Potential impact on **Productivity** (capital effectiveness)

Principal potential causes

- Downturn in macroeconomic climate and/or failures in financial systems – global or in individual markets.
- Limited liquidity, access to cash and sources of finance.
- Fluctuations in interest rates due to movements in international capital markets.

Potential impact on Group

- Increased funding costs and requirement to raise or issue equity or seek new sources of capital.
- Inability to fund strategic opportunities or respond to threats.
- Underperforming share price and erosion of shareholder value.
- Damage to corporate reputation.

Key Group risk factors cont...

Principal activities in place to address risk

- Established and conservative financing principles, which target a minimum level of liquidity, a minimum average maturity for the total debt portfolio and a maximum allowable proportion of total debt maturing in any 1 year, with regular reporting against those principles.
- Targeted investment grade rating.
- Retained cash flow spread across a wide banking group.
- Maintenance of a substantial committed bank facility which may be drawn at short notice and illiquidity pooling structures to access operating company cash balances.

Management of cost base

Principal relevance to Group strategy: Potential impact on **Productivity** (cost management)

Principal potential causes

- Macroeconomic conditions lead to high inflation of key commodities (leaf, wood pulp, energy) and/or wage inflation.
- Productivity programmes and above market projects do not achieve objectives due to lack of alignment and/or insufficient resources.
- Incomplete, inefficient or misaligned organisational changes.

Potential impact on Group

- Higher product costs and/or increased salary costs, with impact on profit and cash flow.
- Inability to manage cost savings leads to lower profits and reduced funds for investment in long term growth.
- Ineffective structural changes restrict future growth potential, increase short term cost base and result in short term loss of business focus.
- Reduced shareholder confidence.

Principal controls in place to address risk

- Multiple sources of key commodities and development of new sources in low-cost countries.
- Harmonisation of product specifications and production efficiencies to reduce variable costs.
- Wage inflation is monitored globally via established compensation committee structures; in areas of high inflation, salary increases are staggered to mitigate impact.
- Programme in place to achieve costs savings of £800 million by 2012.
- Regular tracking of actual productivity savings and forecast improvements in operating margin and supply chain, overheads and indirects projects and above market projects; periodic reviews of long term savings.
- For 2009, costs have been one of the performance measures for payments under the International Executive Incentive Scheme.

Counterparty risks

Principal relevance to Group strategy: Potential impact on **Productivity** (capital effectiveness)

Principal potential causes

- Failure of counterparties with whom the Group has dealings.

Potential impact on Group

- Significant financial loss reflected in adverse impact on Group assets, financial risk profile and liquidity.
- Disruption to operations due to failure of a transactional banking counterparty.

Key Group risk factors cont...

Principal activities in place to address risk

- Risk is spread through a wide banking group focused on strong counterparties across the globe; exposure to each financial counterparty is monitored and risk is limited according to the counterparty's credit rating.
- Financing principles and treasury policy compliance/monitoring reflect global counterparty risk strategy.

Foreign exchange rate exposures

Principal relevance to Group strategy: Potential impact on **Productivity** (capital effectiveness)

Principal potential causes

- Translational foreign exchange (FX) rate exposures for earnings/cash flows from the Group's global business, from exchange rate movements against sterling, the Group's reporting currency.
- Transactional FX rate exposures generated from underlying operations across the Group's global business due to receipts and payments in non-domestic currencies.

Potential impact on Group

- Fluctuations in translational FX rates of key currencies against sterling introduce volatility in reported results.
- Fluctuations in transactional FX rates introduce volatility in costs of operations, with a potential adverse impact on financial performance.

Principal activities in place to address risk

- While translational FX exposure is not hedged, its impact is identified in results presentations and financial disclosures and earnings are restated at constant rates for comparability.
- Debt and interest are matched to assets and cash flows to mitigate volatility where possible.
- Transactional FX exposures from the Group's underlying operations are monitored and hedged under defined policies, procedures and limits; illiquid currencies, where hedging is not possible or uneconomic, are regularly reviewed.

Wrongly valued acquisition opportunities

Principal relevance to Group strategy: Potential impact on **Growth** (mergers and acquisitions)

Principal potential causes

- Lack of market intelligence.
- Overvaluation of assets or understatement of liabilities.

Potential impact on Group

- Loss of opportunity.
- Loss of volume, market share and profit.
- Damage to corporate reputation.

Principal activities in place to address risk

- Specialist and properly resourced mergers and acquisitions department.
- Contacts at all major investment banks to monitor opportunities.
- Transactions must meet defined financial investment criteria.
- Oversight by senior management or Board where appropriate.

Key Group risk factors cont...

Retirement benefits

Principal relevance to Group strategy: Potential impact on **Productivity** (capital effectiveness)

Principal potential causes

- The Group operates a number of defined benefit pension schemes.
- These create risk through their exposure to the volatility in financial markets and shifting actuarial assumptions.

Potential impact on Group

- Increased deficits force higher contributions and profit & loss charges.
- Increased net liabilities impact on the Group's credit worthiness and put pressure on its credit rating.

Principal activities in place to address risk

- Established limits on the proportion assets that can be held in riskier investment classes.
- Regular actuarial valuations and agreed funding plans.
- Defined benefit schemes are now closed to new entrants.

Marketplace

The Group has substantial operations in over 180 countries. Its results are influenced by the economic, regulatory and political situations in the countries and regions in which it has operations, as well as by the actions of competitors.

Inability to obtain adequate supplies of leaf

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Natural disasters, including major impact of climate change.
- Competition for land use from other agricultural products.
- Government initiatives to move farmers away from tobacco.

Potential impact on Group

- Increased blend costs through lack of supply.
- Potential deterioration in smoke quality impacting consumer.
- Loss of market share in one or more markets.

Principal activities in place to address risk

- Global sourcing and globally integrated management of leaf supply chain.
- On average, two thirds of tobacco requirements met from within Group.
- 3 year planning cycle to identify and manage potential shortages.
- Scenario planning and contingency plans.

Economic crisis impact on secondary supply chain

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Collapse of economic environment in key geographic area.
- Trading partners in secondary supply chain fail or suffer lack of capital.

Potential impact on Group

- One time loss of revenue led by reduction in inventories within the secondary supply chain.
- Significant increase in bad debts and/or write-offs.
- Significant supply disruptions causing material consumer out-of-stocks.

Key Group risk factors cont...

Principal activities in place to address risk

- Established route-to-market strategy, involving direct distribution to retail where appropriate and effective relationships with distributors/wholesalers.
- Monitoring of retail stocks, distributors/wholesalers inventories and reordering patterns, to identify potentially adverse trends.
- Strict adherence to established trading terms and conditions

Trading environment

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Downturn in macroeconomic climate reduces consumers' disposable incomes and may lead to consumer downtrading.
- Competitors seek volume growth by price discounts.

Potential impact on Group

- Price increases to cover cost rises are not achieved.
- Profit growth in short term falls below shareholders' expectations.
- Reduction in funds for investment in long-term growth.

Principal activities in place to address risk

- Regular regional and management reviews of budgeted pricing scenarios.
- Close monitoring of sales to detect changes in consumer purchasing patterns.
- Development of strong brands and brand portfolios.
- Price war simulations.

Trading performance in key markets

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Inability to predict consumers' changing behaviours through lack of market insights.
- Insufficient internal resources committed to develop, launch and maintain innovative products.
- Inability to capture growth opportunities in individual markets and/or synergistic benefits from strong brand portfolio.

Potential impact on Group

- Reduction in market share and volume.
- Profit growth in the short term fails to meet shareholders' expectations.
- Reduction in funds for investment in long-term growth.
- Diminished shareholder confidence in the Group's growth prospects.
- Erosion of consumer base.
- Weakened brand portfolio.

Principal activities in place to address risk

- Established innovations process and strategy.
- Standard methodology to address consumer surveys and brand value segmentation.
- Regular reviews of key markets, levels of investment, brand focus, industry outlook and competitor activity.

Key Group risk factors cont...

Regulation

The Group's businesses operate under increasingly stringent regulatory regimes around the world. Further regulation is expected, particularly as a result of the World Health Organisation's Framework Convention on Tobacco Control (FCTC) and increasingly active tobacco control activities outside the FCTC.

Regulation risks covering: packaging and labelling; advertising and promotion; design, contents and emissions of products; testing and measuring; public place smoking; and industry participation.

Principal relevance to Group strategy: Potential impact on **Growth** (organic revenue growth)

Principal potential causes

- Adoption of differing regulatory regimes in different countries/groups of countries and/or lack of consensus on interpretation/application.
- Adoption of more stringent regulations on communications, such as point of sale display bans and plain packaging.
- Exclusion of industry from participating in engagement with regulators.
- Contribution to denormalisation of smoking.

Potential impact on Group

- Cost complexity of meeting regulations.
- Generic or plain packaging leads to loss of brand equity and commoditisation.
- Reduced ability to communicate brand portfolio and innovations, contributing to an increase in illicit trade.
- Reduced consumer acceptability of new product specifications, leading to loss of volume.
- Restriction of industry participation leads to inability to mitigate other regulatory risks.

Principal activities in place to address risk

- Group companies have regulatory strategies in place in order to identify issues material to their operating environment and develop plans to address them in a manner consistent with local law and Group policy.
- Engagement is sought with scientific and regulatory communities and stakeholder engagement takes place at global, regional and individual market levels.
- Global monitoring of regulatory trends and developments and analysis of regulatory proposals to determine impacts, if any, on business.
- Development of corporate positions and best practice examples for markets to address regulation.

Litigation

The Group is involved in a number of legal and regulatory court proceedings in a number of countries, including the US. These proceedings may be characterised as covering smoking and health issues and include claims for personal injury and claims for economic loss arising from the treatment of smoking and health related diseases. Regulatory proceedings may result in a challenge to new regulations. A fuller analysis of current legal proceedings to which the Group is subject is set out on page 35.

Loss of a smoking and health related court case

Principal relevance to Group strategy: Potential impact on **Productivity** (capital effectiveness)

Principal potential causes

- Continuing exposure to new litigation.
- Outcomes of legal and regulatory court proceedings in various jurisdictions.

Key Group risk factors cont...

Potential impact on Group

- Unfavourable outcome or settlement of pending or future litigation.
- Material impact on consolidated results of operations, cash flows and financial position in a particular fiscal quarter or fiscal year.

Principal activities in place to address risk

- A specialist centre of expertise, the Strategic Litigation Team (SLT), has responsibility for directing and managing the litigation risk globally.
- Group companies are required to assess their litigation exposure and liaise with the SLT in connection with specific claims.

Data risks

The Group is increasingly reliant on information technology systems for its internal communications, controls, reporting and relations with customers and suppliers, as well as for the management of business information. The loss or misuse of sensitive information, or its disclosure to outsiders, including competitors and trading partners, could potentially have a significant adverse impact on the Group's business operations and/or give rise to legal liability.

Disruption to the Group's information technology systems

Principal relevance to Group strategy: Potential impact on **Productivity** (cost management)

Principal potential causes

- Loss of wide area of communications.
- Effects of a computer virus attack.
- Loss of operations in a major data centre.
- Group data processed stored or transported by IT systems (Group or third party) is corrupted, lost or disclosed.

Potential impact on Group

- Loss or delay in sales or cash collections and/or inability to pay suppliers or staff.
- Goods unable to be shipped.
- Loss of telephony or email systems.
- Loss or corruption of data.
- Delays in meeting statutory or internal reporting requirements.
- Reputational loss or legal liability.

Principal activities in place to address risk

- Information technology architecture based on established solutions from leading suppliers, with contingency plans in the event of counterparty failure.
- All critical financial and planning systems have secure backup systems and disaster recovery plans; largest systems have full failover designs with dual-site hosting.
- Comprehensive anti-virus protection in place Group-wide, with external testing to confirm protection.
- Back-up communication links in place for data centres and major sites.
- Strict security standards and firewall protection for external links.

Loss of confidential information or malicious manipulation of data

Principal relevance to Group strategy: Potential impact on **Productivity** (cost management)

Principal potential causes

- Inadequate controls regarding the creation, storage and sharing of confidential information.
- Inadequate access controls to key systems and data.

Key Group risk factors cont...

Potential impact on Group

- Loss of revenue and/or profit due to use of inaccurate data, loss of trade secrets and/or competitors gaining advantage.
- Increased costs in restoring lost data and/or reversing inaccurate transactions.
- Regulatory action, civil action and/or criminal prosecution for breach of legal obligations.
- Damage to corporate reputation and loss of shareholder confidence.
- Negative impact on share price.

Principal activities in place to address risk

- Information technology controls (see above).
- Established information security and information technology policies and procedures.
- Promotion of awareness and understanding of information security issues.

Cautionary statement

The Business Review and certain other sections of this document contain 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 these statements 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.

RELATED PARTY DISCLOSURES

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 (Related Party Disclosures), all of which are undertaken in the normal course of business.

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. Amounts receivable from associates in respect of dividends included in the table below were £68 million (2008: £72 million). The Group's share of dividends from associates included in other net income in the table below, was £331 million (2008: £326 million). Legal fees recovered from Reynolds American Inc. included in other net income amounted to £nil (2008: £1 million).

In 2008, proceeds of £41 million were received from the Group's participation in the Reynolds American Inc. share buy-back programme and a further £1 million from the repurchase of shares by Procesadora Unitab.

| | 2009 | 2008 |
|-----------------------------------|--------------|-------|
| | £m | £m |
| Transactions | | |
| - revenue | 47 | 29 |
| - purchases | (365) | (298) |
| - other net income | 329 | 325 |
| Amounts receivable at 31 December | 78 | 79 |
| Amounts payable at 31 December | (34) | (59) |

In 2008, the Group realised a gain of £139 million on the disposal of its 32.35 per cent holding in the non-cigarette and snus businesses of ST. The gain on disposal is not included in the above table.

A capital injection was made into BAT Algeria where the minority shareholder Socalta (Societe Algerienne de Trading Alimentaire) contributed £16 million. This minority contribution was assisted by a loan from another Group subsidiary of £4 million.

The key management personnel of British American Tobacco consist of the members of the Board of Directors of British American Tobacco p.l.c. and the members of the Management Board. No such person had any material interest during the year in a contract of significance (other than a service contract) with the Company or any subsidiary company. The term key management personnel in this context includes the respective members of their households.

| | 2009 | 2008 |
|--|------------------|-----------|
| | £m | £m |
| The total compensation for key management personnel, including Directors, was: | | |
| - salaries and other short term employee benefits | 18 | 18 |
| - post-employment benefits | 3 | 3 |
| - share based payments | 9 | 7 |
| | <u>30</u> | <u>28</u> |

There were no other long term benefits applicable in respect of key personnel other than those disclosed in the Remuneration Report in the Annual Report.

In November 2008, the controlling companies of R&R Holdings S.A., Richemont and Remgro, distributed the 30 per cent of the shares of British American Tobacco that they indirectly held to their shareholders. A new subsidiary of Richemont and Remgro, Reinet Investments S.C.A, now owns 4 per cent (2008: 4 per cent) of the shares of British American Tobacco, while the rest are owned by non-related individuals and institutions.