

27 July 2011

HALF-YEARLY REPORT TO 30 JUNE 2011

SUMMARY

Six Months Results - unaudited	2011	2010	Change
Revenue	£7,438m	£7,298m	+2%
Profit from operations	£2,691m	£2,271m	+18%
Adjusted profit from operations	£2,760m	£2,460m	+12%
Basic earnings per share	94.5p	76.9p	+23%
Adjusted diluted earnings per share	96.1p	87.1p	+10%
Interim dividend per share	38.1p	33.2p	+15%

- The Group's organic revenue at constant rates of exchange grew by 7 per cent with continued good pricing momentum. Reported Group revenue was up 2 per cent.
- Adjusted Group profit from operations increased by 12 per cent. All the regions contributed to this good profit result. The reported profit from operations was 18 per cent higher at £2,691 million. The adjusting items are explained on pages 23 to 24.
- Group volumes were 344 billion, down 1 per cent as the overall market share of the Group increased and industry volume decline moderated.
- The four Global Drive Brands achieved good overall volume growth of 11 per cent. Dunhill was up 1 per cent, Kent 16 per cent, Lucky Strike 8 per cent and Pall Mall grew by 14 per cent.
- Adjusted diluted earnings per share rose by 10 per cent, principally as a result of the growth in profit from operations, reduced by a higher tax charge. Basic earnings per share were up 23 per cent at 94.5p (2010: 76.9p).
- The Board has declared an interim dividend of 38.1p, a 15 per cent increase on last year, to be paid on 28 September 2011.
- 13 million shares were bought back at a cost of £335 million.
- The Chairman, Richard Burrows, commented "With continued pricing momentum, an increase in market share and the rate of volume decline moderating, we are on track for another very good year."

ENQUIRIES:

INVESTOR RELATIONS:

Ralph Edmondson/ 020 7845 1180
Maya Farhat/ 020 7845 1977
Rachael Brierley 020 7845 1519

PRESS OFFICE:

Kate Matrunola/ 020 7845 2888
Catherine Armstrong

BRITISH AMERICAN TOBACCO p.l.c.
HALF-YEARLY REPORT TO 30 JUNE 2011

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*Non-GAAP measures referred to and used in these condensed consolidated financial statements, such as adjusted profit from operations, organic growth and adjusted diluted earnings per share, are explained on page 19.

CHAIRMAN'S STATEMENT

British American Tobacco has had a very good half-year as a result of continued pricing momentum and an exceptionally strong performance from our Global Drive Brands, driven by the successful roll-out of innovations.

Organic revenue at constant rates of exchange grew by 7 per cent to £7,421 million and organic adjusted profit from operations at constant rates increased by 11 per cent to £2,724 million.

The very strong growth in profit from operations led to a 10 per cent improvement in adjusted diluted earnings per share to 96.1p. Profit from operations benefited from additional shipments to Japan.

The Board has declared an Interim Dividend of 38.1p per share, an increase of 15 per cent. As usual, the Interim Dividend has been set at one third of last year's total dividend and it will be paid on 28 September to shareholders on the Register at 19 August 2011.

In addition, following the resumption of the share buy-back programme, some 13 million shares have been repurchased in the first half of the year at a cost of £335 million and at an average price of £25.76 per share.

The Group is announcing the appointment of Ann Godbehere as a Non-Executive Director with effect from 3 October 2011. She currently serves on the Boards of Rio Tinto plc, UBS AG and Prudential plc.

With continued pricing momentum, an increase in market share and the rate of volume decline moderating, we are on track for another very good year.

Richard Burrows

26 July 2011

REGIONAL REVIEW

The Group's reported revenue increased by 2 per cent to £7,438 million. However, organic revenue at constant rates of exchange grew by 7 per cent to £7,421 million, as a result of continued good pricing momentum. See page 37 for the detail.

The reported Group profit from operations was 18 per cent higher at £2,691 million while the adjusted profit from operations, used as the basis for the discussion of the regional results below, was up 12 per cent at £2,760 million. All the regions contributed to this good profit result. The adjusting items are explained on pages 23 to 24.

As a measure of the Group's underlying performance, the organic adjusted profit from operations at constant rates of exchange, as set out on page 37, increased by 11 per cent to £2,724 million.

Group volumes from subsidiaries were 344 billion, down 1 per cent on last year, as the overall market share of the Group increased and industry volume decline moderated. Organic volumes were also down by 1 per cent.

The four Global Drive Brands achieved very good overall volume growth of 11 per cent following the successful launches of innovations, resulting in the continued improvement in market share. Dunhill increased volumes by 1 per cent as strong growth in Brazil, Taiwan, Russia, Romania and the GCC was partially offset by South Korea, Australia and Malaysia. Kent was 16 per cent higher with strong performances in Japan, South Korea, Russia, Romania and Ukraine.

Lucky Strike volumes increased by 8 per cent with growth in many markets, partially offset by a decline in Spain. Volumes were higher in Japan, Germany, France, Italy, Chile and Argentina. Pall Mall volumes rose by 14 per cent with growth in Pakistan, Turkey, Russia, Ukraine, Germany, Romania, the UK and Canada, partially offset by lower volumes in Mexico, Italy and Spain.

	30.6.11		30.6.10
	Adjusted profit from operations*		Adjusted profit from operations*
	Constant rates	Current rates	
	£m	£m	£m
Asia-Pacific	740	766	651
Americas	751	768	694
Western Europe	568	572	564
EEMEA	665	654	551
	<u>2,724</u>	<u>2,760</u>	<u>2,460</u>

*Adjusted profit from operations (page 11) is derived after excluding adjusting items from profit from operations. Adjusting items include restructuring and integration costs and amortisation of trademarks as explained on pages 23 and 24.

In **Asia-Pacific**, profit was up £115 million to £766 million as a result of strong performances in Japan and Indonesia and favourable exchange rates. At constant rates of exchange, profit would have increased by £89 million or 14 per cent. Volumes at 95 billion were up 1 per cent with increases in Japan, Vietnam and Pakistan, offset by lower volumes in Australia, Malaysia, South Korea, and New Zealand.

In Australia, the steep excise increase during last year adversely impacted industry volumes. Profit was higher as a result of exchange rate movements, cost saving initiatives and higher pricing. Market share grew through strong performances by Vogue and Pall Mall. In New Zealand, volumes were lower despite the strong growth in volume and share by Pall Mall, impacted by an ad-hoc excise increase last year and an excise equalisation of Roll Your Own (RYO) products. Profit was down as a result of lower volumes and down-trading.

Regional review cont...

Total industry volumes declined in Malaysia, following the excise-led price increases. Down-trading to illicit brands selling below the mandatory minimum price impacted both volumes and market share, which was flat.

In Japan, industry volumes were down sharply following a historically high excise increase in October 2010. However, as a result of the disruption to domestic production following the tragic events in March, the Group delivered an exceptionally strong growth in volumes and share. With increased pricing, underlying share growth and higher volumes, profit grew strongly.

Market share grew in Vietnam but profit was impacted by high inflation and exchange rate devaluation, partially offset by higher pricing, cost saving initiatives and the benefit of higher volumes.

In South Korea, the Group's business increased prices at the end of April 2011, for the first time in over six years, to address eroding industry profitability, resulting in an improved profit outlook for the year. Price-based competition led to lower volumes and a reduction in market share while profit was down as a result of reduced volumes and increased marketing spend in the short term.

Market share grew strongly in Pakistan, led by volume growth as a result of a good performance by Pall Mall more than doubling its volumes. Profit was down, impacted by higher excise duties, high inflation and the growth in illicit trade. In Bangladesh, market share grew with consistent strong performance of Benson & Hedges. However, volumes were lower than last year, following the excise-led price increase and inflationary pressures. Profit was down as exchange rate movements more than offset price rises and tight control of costs.

Profit grew strongly in Indonesia due to price increases and synergy savings resulting from the merger of the business units during 2010. Market share declined despite the growth in the mild kretek and the hand-made kretek brands and volumes were lower than last year as a result of the delisting of certain low-price brands.

In **Americas**, profit rose by £74 million to £768 million, mainly attributable to a strong performance from Brazil and Mexico, an improved product mix and exchange rate benefits. At constant rates of exchange, profit would have risen by £57 million or 8 per cent. Volumes were down 5 per cent at 70 billion, with decreases experienced by Brazil, Mexico, Chile and Venezuela as a result of industry declines.

In Brazil, profit growth was driven by higher pricing and an improved product mix. Overall market share was slightly down with the growth of local duty evaded product but share in the premium segment continued to grow due to the solid performance of Lucky Strike and Dunhill.

Profit in Canada improved as a result of further progress in significantly reducing the cost base. Industry volumes were lower after sales tax increases were implemented during July last year. This resulted in increased illicit trade, particularly in Ontario, where the Group has a particularly high market share.

In Mexico, industry volumes declined sharply as a result of excise-led price increases at the beginning of 2011. Market share was flat on last year, while profit was higher, driven by pricing and lower operating expenses.

In Argentina, the growth of Lucky Strike and the successful launch of Dunhill, resulted in a growth in volumes and in market share. Profit was down as a result of the higher marketing investment. Lucky Strike and Pall Mall grew in Chile, but total volumes and profit were lower following the excise driven price increases.

In Venezuela, the profit increase was driven by higher pricing, partially offset by higher costs and lower industry volumes. The Group announced the proposed acquisition of Protabaco, the second largest cigarette company in Colombia, which is still subject to regulatory approval.

Regional review cont...

Profit in **Western Europe** increased by £8 million to £572 million, mainly as a result of strong performances in Germany, Switzerland and Romania, partially offset by declines in Denmark, Italy and Spain. At constant rates of exchange, profit would have increased by £4 million or 1 per cent. Regional volumes were 2 per cent lower at 65 billion as a result of declines in Italy and Spain and the termination of the Gauloises licence agreement in Germany.

In Italy, profit decreased as industry volume declined, partially offset by improved product mix, coupled with a price increase and lower cost. Market share has stabilised in line with last year with the Global Drive Brands performing well.

Profit in Germany increased as a result of higher prices and lower costs and despite the termination of the Gauloises license agreement at the end of March 2010. Volumes decreased but market share was higher, driven by an excellent performance by Pall Mall and growth by Lucky Strike.

Volumes in France rose and together with improved pricing and lower costs, led to increased profit. The higher market share was the result of good performances by Lucky Strike and Vogue. In Spain, market share was up strongly, driven by Pall Mall and Lucky Strike. Volumes were lower, adversely impacted by excise driven price increases at the end of last year while profit deteriorated following the price war.

Profit in Switzerland grew with increased pricing and good cost control. Volumes were lower but market share rose with good performances from Kent and Pall Mall.

In Romania, industry volumes increased following a significant reduction in the level of illicit trade due to the strong action taken by the government. Market share was higher, led by Dunhill, Kent and Vogue. Profit was up strongly, driven by price increases, higher volumes and an improved premium product mix.

In Poland, volumes, market share and profit were higher after strong growth of Viceroy, Lucky Strike and Vogue. Volumes in Greece were higher than last year but profit was impacted by the absorption of some of the excise tax increases. Market share was up as Peter Stuyvesant achieved leadership in the low-price segment. In the United Kingdom, volumes and market share were higher mainly as a result of the good performance of Pall Mall which, coupled with price increases and cost management, led to improved profit.

The strong market position in Denmark was maintained but volumes and profit were adversely affected by the impact of two significant excise driven price increases on the premium segment.

Profit in the **Eastern Europe, Middle East and Africa** (EEMEA) region increased by £103 million to £654 million. This was mainly due to stable volumes and price increases and the absence of the adverse currency restatement in Uzbekistan last year. At constant rates of exchange, profit would have increased by £114 million or 21 per cent. Volumes at 114 billion, were slightly higher than last year with the decline in volumes in Turkey offset by increases in Nigeria, Egypt and Iran.

In Russia, volumes and market share continued to grow on the back of good performances by Kent, supported by the whole portfolio. Profit was higher, driven by price increases, an improved product mix and lower costs.

Market share in Ukraine was up although profits and volumes were lower due to the industry decline. Volumes and market share increased in Kazakhstan, due to strong performances by Dunhill and Pall Mall. Profit grew strongly with higher margins.

In South Africa, market share strengthened and volumes were higher which, combined with exchange rate benefits, resulted in good profit growth.

Regional review cont...

Despite the political upheaval and turbulence in the Middle East area, the Group's overall performance was strong. In the GCC markets, profit and market share increased due to Dunhill's performance in all the markets, especially in Saudi-Arabia. In the rest of the Middle East, volumes were significantly higher due to a strong performance of Kent, resulting in a rise in profit. In Egypt, volumes and market share continued to grow strongly, although profit was adversely impacted by the absorption by the industry of some of the excise increase of July 2010. Rothmans strengthened its leadership position amongst International Brands.

In Turkey, the 2010 excise-driven contraction of the legal market continued with an increase in illicit trade. Volumes were further affected by market share decline as a result of competitor pricing activities. Pall Mall grew strongly and Lucky Strike was launched, partially offsetting the volume losses of tail brands. Profit reduced as the improved product mix and savings initiatives were not sufficient to cover the impact of lower volumes and the price reductions.

Volume growth in Nigeria, coupled with an improved product mix, led to an increase in profit. Market share was higher with a good performance from Dunhill and Rothmans.

Results of Associates

Associates principally comprise Reynolds American and ITC.

The Group's share of the post-tax results of associates increased by £90 million, or 38 per cent, to £329 million. Excluding the adjusting items in 2010 and in 2011, explained on pages 25 and 26, the Group's share of the post-tax results of associates increased by 3 per cent to £315 million, with a rise of 8 per cent at constant rates of exchange.

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

	30.6.11		30.6.10
	Adjusted share of post-tax results*		Adjusted share of post-tax results*
	Constant rates	Current rates	
	£m	£m	£m
Asia-Pacific	117	112	103
Americas	213	201	202
Western Europe	1	1	-
EEMEA	1	1	1
	332	315	306

*Adjusted share of post-tax results of associates and joint ventures is after the adjusting item, as shown on page 11 and explained on pages 25 and 26, have been eliminated from the share of post-tax results of associates and joint ventures.

The contribution from Reynolds American increased by 36 per cent to £181 million. Excluding the amortisation of brands, restructuring costs, the financing of a smoking cessation programme in Louisiana, tax credits and the gain on disposal of Lane, as well as the Canadian settlement in 2010, the contribution was in line with last year at £200 million. At constant rates of exchange the increase would have been 6 per cent.

The Group's associate in India, ITC, contributed £143 million to the Group, up 39 per cent. Excluding the impact of the issue of shares and change in the shareholding, the contribution was 6 per cent higher at £109 million. At constant rates of exchange, the contribution would have been 10 per cent higher than last year.

CIGARETTE VOLUMES

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

3 months to			6 months to		Year to
30.6.11	30.6.10		30.6.11	30.6.10	31.12.10
bns	bns		bns	bns	bns
51	50	Asia-Pacific	95	95	188
34	35	Americas	70	73	149
35	35	Western Europe	65	66	136
60	60	EEMEA	114	114	235
180	180		344	348	708

DIVIDENDS

The Board has declared an Interim Dividend of 38.1 pence per ordinary share of 25p for the six months ended 30 June 2011. The Interim Dividend will be payable on 28 September 2011 to shareholders registered on either the UK main register or the South African branch register on 19 August 2011 (the record date).

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

Last Day to Trade (LDT) cum dividend (JSE):	12 August 2011
Shares commence trading ex dividend (JSE):	15 August 2011
Shares commence trading ex dividend (LSE):	17 August 2011
Record date (JSE and LSE):	19 August 2011
Payment date:	28 September 2011

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 = 11.01700 as at 25 July 2011 (the closing rate on that date as quoted by Bloomberg), results in an equivalent Interim Dividend of 419.74770 SA cents per ordinary share. From the commencement of trading on 27 July 2011 until the close of business on 19 August 2011, no removal requests between the UK main register and the South African branch register will be permitted and no shares may be dematerialised or rematerialised between 15 August 2011 and 19 August 2011, both days inclusive.

The Interim Dividend amounts to £753 million. The comparative dividend for the six months to 30 June 2010 of 33.2 pence per ordinary share amounted to £662 million.

In accordance with IFRS, the Interim Dividend will be charged in the Group results for the third quarter. The condensed consolidated financial information for the six months to 30 June 2011 includes the final dividend paid in respect of the year ended 31 December 2010 of 81.0 pence per share amounting to £1,620 million (30 June 2010: 71.6p amounting to £1,431 million).

RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the business activities of the Group were identified under the heading 'Key Group risk factors', set out on pages 42 to 48 of the Annual Report for the year ended 31 December 2010, a copy of which is available on the Group's website www.bat.com. The key Group risks are summarised under the headings of:

- Illicit trade;
- Excise and tax;
- Financial;
- Marketplace;
- Legal and compliance;
- Regulation; and
- Data risks

In the view of the Board the key risks and uncertainties for the remaining six months of the financial year continue to be those set out in the above section of the 2010 Annual Report. These should be read in the context of the cautionary statement regarding forward looking statements on page 36.

GOING CONCERN

A full 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, is set out in the Regional Review and Financial Review and in the notes to the accounts, all of which are included in the 2010 Annual Report that is available on the Group's website, www.bat.com. This Half-Yearly Report provides updated information regarding the business activities for the six months to 30 June 2011 and of the financial position, cash flow and liquidity position at 30 June 2011.

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

After reviewing the Group's annual budgets, plans, current forecasts and financing arrangements, as well as the current trading activities of the Group, the Directors consider that the Group has adequate resources to continue operating for the foreseeable future. The Annual Report and this Half-Yearly Report have been prepared on a going concern basis.

DIRECTORS' RESPONSIBILITY STATEMENT

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

The Directors of British American Tobacco p.l.c. are as listed on pages 50 and 51 in the British American Tobacco Annual Report for the year ended 31 December 2010, with the following Directors who retired in the six months to 30 June 2011:

Date of retirement

Paul Adams	28 February 2011
Dr Ana Maria Llopis	28 April 2011

Details of all the current Directors of British American Tobacco p.l.c. are maintained on www.bat.com.

For and on behalf of the Board of Directors:

Richard Burrows
Chairman
26 July 2011

Ben Stevens
Finance Director and Chief Information Officer

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

Introduction

We have been engaged by the Company to review the condensed consolidated financial information in the Half-Yearly Report for the six months ended 30 June 2011, which comprises the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group balance sheet, the Group cash flow statement, the accounting policies and basis of preparation and the related notes. We have read the other information contained in the Half-Yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial information.

Directors' responsibilities

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

As disclosed on page 18, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial information in the Half- Yearly Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial information in the Half-Yearly Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information in the Half-Yearly Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
26 July 2011

GROUP INCOME STATEMENT - unaudited

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Gross turnover (including duty, excise and other taxes of £14,838 million (30.6.10: £13,879 million; 31.12.10: £28,972 million))	22,276	21,177	43,855
Revenue	7,438	7,298	14,883
Raw materials and consumables used	(1,716)	(1,964)	(3,695)
Changes in inventories of finished goods and work in progress	50	86	(12)
Employee benefit costs	(1,177)	(1,213)	(2,550)
Depreciation, amortisation and impairment costs	(262)	(323)	(897)
Other operating income	129	103	207
Other operating expenses	(1,771)	(1,716)	(3,618)
Profit from operations	2,691	2,271	4,318
Analysed as:			
– adjusted profit from operations	2,760	2,460	4,984
– restructuring and integration costs	(40)	(158)	(311)
– amortisation of trademarks	(29)	(31)	(62)
– impairment of trademarks	-	-	(44)
– goodwill impairment	-	-	(249)
	2,691	2,271	4,318
Net finance costs	(233)	(231)	(480)
Finance income	57	9	27
Finance costs	(290)	(240)	(507)
Share of post-tax results of associates and joint ventures	329	239	550
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	315	306	622
– issue of shares and change in shareholding	34	-	(9)
– smoking cessation programme	(23)	-	-
– Canadian settlements	-	(60)	(59)
– other (see page 25)	3	(7)	(4)
	329	239	550
Profit before taxation	2,787	2,279	4,388
Taxation on ordinary activities	(781)	(624)	(1,248)
Profit for the period	2,006	1,655	3,140
Attributable to:			
Owners of the parent	1,870	1,525	2,879
Non-controlling interests	136	130	261
	2,006	1,655	3,140
Earnings per share			
Basic	94.5p	76.9p	145.2p
Diluted	94.0p	76.5p	144.4p

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME - unaudited

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Profit for the period (page 11)	2,006	1,655	3,140
Other comprehensive income			
Differences on exchange			
– subsidiaries	(5)	327	502
– associates	(59)	194	105
Differences on exchange reclassified and reported in profit for the period	-	(1)	(3)
Cash flow hedges			
– net fair value gains/(losses)	13	(36)	(106)
– reclassified and reported in profit for the period	(5)	55	55
– reclassified and reported in net assets	(8)	(3)	3
Available-for-sale investments			
– net fair value gains	-	-	4
Net investment hedges			
– net fair value losses	(43)	(6)	(31)
– differences on exchange on borrowings	(48)	79	74
Retirement benefit schemes			
– net actuarial (losses)/gains in respect of subsidiaries	(118)	69	193
– surplus recognition and minimum funding obligations in respect of subsidiaries	(11)	54	58
– actuarial gains/(losses) in respect of associates net of tax	23	(89)	(54)
Tax on items recognised directly in other comprehensive income	(23)	17	1
Total other comprehensive income for the period, net of tax	(284)	660	801
Total comprehensive income for the period, net of tax	<u>1,722</u>	<u>2,315</u>	<u>3,941</u>
Attributable to:			
Owners of the parent	1,588	2,169	3,664
Non-controlling interests	134	146	277
	<u>1,722</u>	<u>2,315</u>	<u>3,941</u>

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited

At 30 June 2011

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non- controlling interests £m	Total equity £m
Balance at 1 January 2011	506	3,910	1,600	3,190	9,206	342	9,548
Total comprehensive income for the period (page 12)	-	-	(172)	1,760	1,588	134	1,722
Employee share options							
– value of employee services	-	-	-	38	38	-	38
– proceeds from shares issued	-	2	-	3	5	-	5
Dividends and other appropriations							
– ordinary shares	-	-	-	(1,620)	(1,620)	-	(1,620)
– to non-controlling interests	-	-	-	-	-	(139)	(139)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(122)	(122)	-	(122)
– share buy-back programme	-	-	-	(410)	(410)	-	(410)
Other movements	-	-	-	20	20	-	20
Balance at 30 June 2011	506	3,912	1,428	2,859	8,705	337	9,042

At 30 June 2010

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non- controlling interests £m	Total equity £m
Balance at 1 January 2010	506	3,907	1,032	2,168	7,613	299	7,912
Total comprehensive income for the period (page 12)	-	-	599	1,570	2,169	146	2,315
Employee share options							
– value of employee services	-	-	-	34	34	-	34
– proceeds from shares issued	-	3	-	3	6	-	6
Dividends and other appropriations							
– ordinary shares	-	-	-	(1,431)	(1,431)	-	(1,431)
– to non-controlling interests	-	-	-	-	-	(107)	(107)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(62)	(62)	-	(62)
Non-controlling interests - acquisitions	-	-	-	(3)	(3)	-	(3)
Other movements	-	-	-	40	40	-	40
Balance at 30 June 2010	506	3,910	1,631	2,319	8,366	338	8,704

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited cont...

At 31 December 2010

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2010	506	3,907	1,032	2,168	7,613	299	7,912
Total comprehensive income for the period (page 12)	-	-	568	3,096	3,664	277	3,941
Employee share options							
– value of employee services	-	-	-	67	67	-	67
– proceeds from shares issued	-	3	-	4	7	-	7
Dividends and other appropriations							
– ordinary shares	-	-	-	(2,093)	(2,093)	-	(2,093)
– to non-controlling interests	-	-	-	-	-	(234)	(234)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(66)	(66)	-	(66)
Non-controlling interests - acquisitions	-	-	-	(12)	(12)	-	(12)
Other movements	-	-	-	26	26	-	26
Balance at 31 December 2010	506	3,910	1,600	3,190	9,206	342	9,548

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

GROUP BALANCE SHEET - unaudited

	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Assets			
Non-current assets			
Intangible assets	12,673	12,209	12,458
Property, plant and equipment	3,064	2,939	3,117
Investments in associates and joint ventures	2,809	2,742	2,666
Retirement benefit assets	113	105	122
Deferred tax assets	366	358	411
Trade and other receivables	311	193	272
Available-for-sale investments	30	23	29
Derivative financial instruments	110	149	128
Total non-current assets	19,476	18,718	19,203
Current assets			
Inventories	3,824	3,522	3,608
Income tax receivable	71	89	73
Trade and other receivables	2,517	2,465	2,409
Available-for-sale investments	46	58	58
Derivative financial instruments	136	312	145
Cash and cash equivalents	1,717	1,497	2,329
	8,311	7,943	8,622
Assets classified as held-for-sale	22	16	35
Total current assets	8,333	7,959	8,657
Total assets	27,809	26,677	27,860

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

GROUP BALANCE SHEET - unaudited cont...

	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Equity			
Capital and reserves			
Share capital	506	506	506
Share premium, capital redemption and merger reserves	3,912	3,910	3,910
Other reserves	1,428	1,631	1,600
Retained earnings	2,859	2,319	3,190
Owners of the parent	8,705	8,366	9,206
after deducting			
– cost of treasury shares	(1,207)	(760)	(750)
Non-controlling interests	337	338	342
Total equity	9,042	8,704	9,548
Liabilities			
Non-current liabilities			
Borrowings	8,713	8,656	8,916
Retirement benefit liabilities	786	886	770
Deferred tax liabilities	527	494	509
Other provisions for liabilities and charges	181	146	187
Trade and other payables	194	184	193
Derivative financial instruments	97	48	92
Total non-current liabilities	10,498	10,414	10,667
Current liabilities			
Borrowings	2,303	2,138	1,334
Income tax payable	465	434	467
Other provisions for liabilities and charges	314	282	282
Trade and other payables	4,937	4,572	5,335
Derivative financial instruments	250	133	227
Total current liabilities	8,269	7,559	7,645
Total equity and liabilities	27,809	26,677	27,860

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

GROUP CASH FLOW STATEMENT - unaudited

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Cash flows from operating activities			
Cash generated from operations (page 31)	2,099	1,956	5,207
Dividends received from associates	159	150	461
Tax paid	(744)	(546)	(1,178)
Net cash from operating activities	1,514	1,560	4,490
Cash flows from investing activities			
Interest received	34	30	59
Dividends received from investments	2	2	2
Purchases of property, plant and equipment	(106)	(140)	(497)
Proceeds on disposal of property, plant and equipment	38	9	61
Purchases of intangibles	(42)	(32)	(87)
Purchases and proceeds on disposals of investments	13	1	(1)
Proceeds on disposal of subsidiaries	-	12	12
Net cash from investing activities	(61)	(118)	(451)
Cash flows from financing activities			
Interest paid	(326)	(334)	(578)
Interest element of finance lease rental payments	(1)	(1)	(2)
Capital element of finance lease rental payments	(7)	(10)	(17)
Proceeds from issue of shares to owners of the parent	2	3	3
Proceeds from the exercise of options over own shares held in employee share ownership trusts	3	3	4
Proceeds from increases in and new borrowings	1,265	820	892
Movements relating to derivative financial instruments	(64)	(200)	(179)
Purchases of own shares	(317)	-	-
Purchases of own shares held in employee share ownership trusts	(122)	(62)	(66)
Purchases of non-controlling interests	-	(3)	(12)
Reductions in and repayments of borrowings	(820)	(704)	(1,582)
Dividends paid to owners of the parent	(1,620)	(1,431)	(2,093)
Dividends paid to non-controlling interests	(139)	(107)	(234)
Net cash from financing activities	(2,146)	(2,026)	(3,864)
Net cash flows from operating, investing and financing activities	(693)	(584)	175
Differences on exchange	7	(23)	29
(Decrease)/Increase in net cash and cash equivalents in the period	(686)	(607)	204
Net cash and cash equivalents at 1 January	2,183	1,979	1,979
Net cash and cash equivalents at period end	1,497	1,372	2,183

The accompanying notes on pages 18 to 33 form an integral part of these condensed consolidated financial statements.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

These condensed consolidated financial statements are comprised of the unaudited interim financial information for the six months to 30 June 2011 and 30 June 2010, together with the audited results for the year ended 31 December 2010. These condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules issued by the Financial Services Authority. These condensed consolidated financial statements are unaudited but have been reviewed by the auditors and their review report is set out on page 10.

These condensed consolidated financial statements do not constitute statutory accounts within the meaning of Section 434 of the UK Companies Act 2006 and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and implemented in the UK. The annual consolidated financial statements for 2010 represent the statutory accounts for that year and have been filed with the Registrar of Companies. The auditors' report on those statements was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

These condensed consolidated 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 2010, with the following amendment, due to certain changes in IFRS, affecting the Group. The Annual Improvements to IFRS (issued in May 2010) have varying application dates commencing with annual periods ending on or after 1 July 2010. The main effect of these amendments is to amend certain disclosures regarding credit and other risks in respect of financial instruments. There is no effect on these condensed consolidated financial statements.

The preparation of these condensed consolidated 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 condensed consolidated 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 condensed consolidated financial statements. The key estimates and assumptions were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010, apart from updating the assumptions used to determine the carrying value of liabilities for retirement benefit schemes. In the future, actual experience may deviate from these estimates and assumptions, which could affect these condensed consolidated financial statements as the original estimates and assumptions are modified, as appropriate, in the period in which the circumstances change.

NON-GAAP MEASURES

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

The principal non-GAAP measure which the Group uses is adjusted diluted earnings per share, which is reconciled to diluted earnings per share. The adjusting items that mainly drive the reconciling items 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 Management Board, as 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 other than in exceptional circumstances, does not adjust for the normal transactional gains and losses in operations which are generated by exchange rate movements.

In the presentation of financial information, the Group also uses another measure, organic growth, to analyse underlying business performance. Organic growth is the growth after adjusting for mergers and acquisitions and discontinued activities. Adjustments are made to current and prior year numbers, based on the current period Group position.

The Group also prepares an alternative cash flow, which includes a measure of 'free cash flow', to illustrate the cash flows before transactions relating to borrowings. The Group also provides gross turnover as an additional disclosure to indicate the impact of duty, excise and other taxes.

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 3/2009 'Headline Earnings' issued by the South African Institute of Chartered Accountants. These are shown on pages 27 and 28.

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 hyper inflationary countries, the financial statements in local currency are adjusted to reflect the impact of local inflation prior to translation to sterling.

The principal exchange rates used were as follows:

	Average			Closing		
	30.6.11	30.6.10	31.12.10	30.6.11	30.6.10	31.12.10
US dollar	1.617	1.525	1.546	1.605	1.496	1.566
Canadian dollar	1.579	1.578	1.592	1.549	1.590	1.556
Euro	1.152	1.150	1.166	1.107	1.221	1.167
South African rand	11.146	11.481	11.300	10.883	11.469	10.358
Brazilian real	2.636	2.741	2.719	2.508	2.697	2.599
Australian dollar	1.564	1.708	1.682	1.500	1.771	1.527
Russian rouble	46.239	45.876	46.945	44.817	46.729	47.795

SEGMENTAL ANALYSES OF REVENUE AND PROFIT - unaudited

As part of the plans to reduce complexity and drive efficiency in management structures and achieve a better balance in the scale of our regions, it was decided to reduce the management structure from five regions to four regions from 1 January 2011. Markets which comprised the Eastern Europe region were merged into the Africa and Middle East region and the Western Europe region. Russia, Ukraine, Moldova, Belarus, Caucasus and Central Asia form part of the new Eastern Europe, Middle East and Africa region (EEMEA) while Romania, Bulgaria, Serbia, Montenegro, Albania and Kosovo have become part of the Western Europe region. The prior year comparatives have been restated according to the new management structure.

The four 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 current and prior year segmental revenue, 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 2011 segmental results are translated using the average rates of exchange for the six months to 30 June 2010. The 2010 comparative figures are also stated at the 2010 actual average rates of exchange for the relevant period.

The analyses of **revenue** for the six months to 30 June 2011, 30 June 2010 and the year to 31 December 2010, based on location of sales, are as follows:

	30.6.11			30.6.10	31.12.10
	Revenue Constant £m	Translation exchange £m	Revenue Current £m	Revenue £m	Revenue £m
Asia-Pacific	1,990	35	2,025	1,811	3,759
Americas	1,709	35	1,744	1,646	3,498
Western Europe	1,702	17	1,719	1,949	3,695
EEMEA	2,020	(70)	1,950	1,892	3,931
Total	7,421	17	7,438	7,298	14,883

Western Europe includes revenue in respect of Lyfra NV and the Gauloises licence agreement in Germany (see page 24) of £215 million and £37 million respectively, for the six months ended 30 June 2010.

Americas includes revenue in respect of the discontinued phone card business (see page 24) of £78 million for the six months ended 30 June 2010.

The analyses of profit from operations and the Group's share of the post-tax results of associates and joint ventures for the six months to 30 June 2011, reconciled to profit before tax, are as follows:

	30.6.11				
	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	740	26	766	(22)	744
Americas	751	17	768	12	780
Western Europe	568	4	572	(49)	523
EEMEA	665	(11)	654	(10)	644
Profit from operations	2,724	36	2,760	(69)	2,691
Net finance costs					(233)
Asia-Pacific	117	(5)	112	34	146
Americas	213	(12)	201	(20)	181
Western Europe	1	-	1	-	1
EEMEA	1	-	1	-	1
Share of post-tax results of associates and joint ventures	332	(17)	315	14	329
Profit before taxation					2,787

*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 to 26.

Segmental analysis of revenue and profit - unaudited cont...

The analyses of profit from operations and the Group's share of the **post-tax results of associates and joint ventures** for the six months to 30 June 2010 and the year to 31 December 2010 are as follows:

	30.6.10			31.12.10		
	Adjusted* Segment result Current rates £m	Adjusting items £m	Segment result Current rates £m	Adjusted* Segment result Current rates £m	Adjusting items £m	Segment result Current rates £m
Asia-Pacific	651	(39)	612	1,332	(56)	1,276
Americas	694	(16)	678	1,382	(36)	1,346
Western Europe	564	(90)	474	1,103	(236)	867
EEMEA	551	(44)	507	1,167	(338)	829
Profit from operations	<u>2,460</u>	<u>(189)</u>	<u>2,271</u>	<u>4,984</u>	<u>(666)</u>	<u>4,318</u>
Net finance costs			<u>(231)</u>			<u>(480)</u>
Asia-Pacific	103	-	103	208	(9)	199
Americas	202	(67)	135	412	(63)	349
EEMEA	1	-	1	2	-	2
Share of post-tax results of associates and joint ventures	<u>306</u>	<u>(67)</u>	<u>239</u>	<u>622</u>	<u>(72)</u>	<u>550</u>
Profit before taxation			<u><u>2,279</u></u>			<u><u>4,388</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 to 26.

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. The Group believes that these items are useful to the users of the Group condensed financial statements in helping them understand the underlying business performance 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 are included in profit from operations under the following headings:

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Employee benefit costs	23	67	163
Impairment of tangible and intangible assets	10	75	100
Other operating expenses	24	16	68
Other operating income	(17)	-	(20)
Total	40	158	311

Restructuring and integration costs in 2011 principally relate to the continuation of: factory closure and downsizing activities in Denmark and Australia respectively; the closure of the Jawornik factory in Poland, the Lecce factory in Italy and Tire factory in Turkey; a voluntary separation scheme and closure of the printing unit in Argentina and the continued integration of Tekel into existing operations. In addition, they also includes separation packages in respect of permanent headcount reductions in the Group.

Other operating income in 2011 includes gains on sale of surplus land and buildings in Argentina.

The £158 million charge for restructuring and integration costs in the six months to 30 June 2010 arose principally in respect of the continuation of factory closure and downsizing activities in Denmark and Australia respectively, the closure of the Jawornik factory in Poland, the Tire factory in Turkey; a voluntary separation scheme and closure of the printing unit in Argentina and the continued integration of Skandinavisk Tobakskompagni (ST), Tekel and 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.

For the year ended 31 December 2010, the charge of £311 million for restructuring and integration costs include the activities referred to in respect of the six months to 30 June 2010, but in addition, the closure of the Lecce factory in Italy, the combining of the Group's businesses in Belgium, Luxembourg and the Netherlands and charges for the repositioning of reward packages in the Group's subsidiary in Canada to bring them in line with the Group's global practices. The Group has also recognised impairment charges as a result of the continued review of its software assets in light of the development of global software solutions.

Restructuring and integration costs in 2010 also include a payment of US\$21 million to Reynolds American relating to the early termination and settlement of all disputes at issue in respect of the Contract Manufacturing Agreement dated 30 July 2004.

Other operating income in 2010 includes gains from sale of surplus land and buildings in Turkey and Croatia as well as the release of deferred income from a disposal in 2007.

Adjusting items included in profit from operations cont...

(b) 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 £29 million is included in depreciation, amortisation and impairment costs in the profit from operations for the six months to 30 June 2011 (30 June 2010: £31 million). For the year to 31 December 2010, the amortisation charge was £62 million.

(c) Impairment of goodwill and trademarks

Goodwill and trademarks recognised as a result of the Tekel acquisition in 2008 were impaired by £249 million and £44 million respectively in the year to 31 December 2010. Turkey remains an important strategic market for the Group. Although cost saving initiatives in the acquisition plan have been delivered successfully, the impairment charge arose from intense pricing competition in 2010 following unforeseen and significant excise increases in Turkey in 2009 and further increases effective from January 2010, which resulted in the growth of illicit trade and a loss of volumes and market share.

OTHER CHANGES IN THE GROUP

(a) Lyfra NV

On 7 April 2010, the Group announced that it had agreed to sell its Belgium distribution business, Lyfra NV, to Landewyck Group S.a.r.l. The transaction was completed on 25 June 2010 for a consideration of €16 million and resulted in a gain of £5 million. Lyfra contributed £215 million to revenue and £1 million to profit from operations to 25 June 2010 in the Western Europe region.

(b) Gauloises licence agreement termination

With effect from the end of the first quarter in 2010, the Gauloises licence agreement applicable in Germany, was terminated. The agreement resulted in a revenue contribution of £37 million and a profit contribution of £5 million to the 2010 results in the Western Europe region.

(c) Phone Card distribution business in Brazil

During 2010, the Group made the decision to withdraw from distributing phone cards in Brazil. For the six months to 30 June 2010, the phone card distribution business contributed £78 million to revenue and £3 million to profit from operations in the Americas region.

NET FINANCE COSTS

Net finance costs comprise:

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Finance costs	(290)	(240)	(507)
Finance income	57	9	27
	(233)	(231)	(480)
Comprising:			
Interest payable	(287)	(286)	(583)
Interest and dividend income	42	31	60
Net impact of fair value and exchange	12	24	43
- fair value changes - derivatives	(88)	(53)	(209)
- exchange differences	100	77	252
	(233)	(231)	(480)

Net finance costs at £233 million were £2 million higher than last year, principally reflecting the net impact of interest related changes in the fair value of derivatives largely offset by increased income on cash and cash equivalents.

The net £12 million gain (2010: £24 million) of fair value changes and exchange differences reflects a £2 million loss (2010: gain of £4 million) from the net impact of exchange rate movements and a gain of £14 million (2010: gain of £20 million) principally due to interest related changes in the fair value of derivatives.

ASSOCIATES AND JOINT VENTURES

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Share of post-tax results of associates and joint ventures	329	239	550
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	315	306	622
– restructuring costs	(2)	(7)	(3)
– issue of shares and change in shareholding	34	-	(9)
– trademark, amortisation and impairments	(1)	-	(1)
– smoking cessation programme	(23)	-	-
– tax credits	5	-	-
– gain on disposal of businesses	1	-	-
– Canadian settlements	-	(60)	(59)
	329	239	550

The Group's share of the post-tax results of associates and joint ventures was £329 million (2010: £239 million) after net adjusting income of £14 million (2010: £67 million charge) and after tax of £157 million (2010: £144 million). For the year to 31 December 2010, the share of post-tax results was £550 million after net adjusting charges of £72 million and after tax of £322 million. In 2011, excluding the adjusting items, the Group's share of the post-tax results increased by 3 per cent to £315 million (2010: £306 million). The Group's share is after the adjusting items explained below, are excluded from the calculation of adjusted diluted earnings per share (page 27).

In the six months to 30 June 2011:

Reynolds American recognised restructuring charges of US\$15 million in respect of a factory closure. The Group's share of the restructuring charges amounted to £2 million (net of tax).

The Group's interest in ITC decreased from 31.43 per cent to 31.18 per cent as a result of ITC issuing ordinary shares under the Company's Employee Stock Option Scheme. This issue of shares and

Associates and joint ventures cont.....

change in the Group's share of ITC resulted in a gain of £34 million, which under IAS 28 Revised (Investment in Associates) is treated as a partial deemed disposal and included in the Income Statement.

Reynolds American recognised a trademark amortisation of US\$2 million. The Group's share of these charges amounted to £1 million (net of tax).

Reynolds American, with other tobacco companies, was refused by the US Supreme Court a request to revoke a 2009 order requiring them to finance a US\$278 million smoking cessation programme in Louisiana (Scott case). The Group's share of this charge amounts to £23 million (net of tax).

Reynolds American reported US\$16 million of tax credits. The Group's share of these tax credits amounts to £5 million (net of tax).

Reynolds American sold Lane Limited for US\$200 million in cash. The Group's share of the gain on disposal of businesses amounts to £1 million (net of tax).

In the six months to 30 June 2010:

A subsidiary of Reynolds American, R.J. Reynolds Tobacco Company Inc. (RJRTC), entered into a comprehensive settlement agreement with the Canadian federal, provincial and territorial governments to resolve all the governments' civil claims related to smuggling in Canada during the 1980s and 1990s. As part of the civil settlement, RJRTC agreed to pay the governments CA\$325 million. In a separate matter, a subsidiary of R.J. Reynolds Tobacco Holdings Inc. Northern Brands International Inc., entered into a plea agreement with the Ministry of the Attorney General of Ontario. As a result of its plea to one count of conspiracy to aid others in the sale and possession of contraband cigarettes in the early 1990s, Northern Brands paid a fine of CA\$75 million. The Group's share of these charges amounted to £60 million (net of tax).

Reynolds American also recognised restructuring charges in respect of the planned closure of two cigarette factories in order to maximise cigarette manufacturing efficiency in light of the declining U.S. cigarette industry and to facilitate cost-effective compliance with new federal regulation of the tobacco industry. The Group's share of these charges amounted to £10 million (net of tax) and is presented as part of the post-tax results of associates and joint ventures in the Group income statement.

RJRTC received a payment of US\$21 million as a result of the agreement to terminate early the Contract Manufacturing Agreement dated 30 July 2004 between RJRTC and BATUS Japan Inc., a wholly owned Group subsidiary, and settle all disputes at issue between the parties. The Group's share of this receipt amounted to £3 million (net of tax) and is treated as an adjusting item. The receipt (net of tax) is presented as part of restructuring costs in the post-tax results of associates and joint ventures in the Group income statement.

For the year ended 31 December 2010:

In addition to the RJRTC comprehensive settlement agreement and the termination of the Contract Manufacturing Agreement referred to above, the following were the adjusting items for the year ended 31 December 2010:

Reynolds American recognised a trademark impairment charge of US\$6 million, as well as trademark amortisation of US\$4 million. The Group's share of these charges amounted to £1 million (net of tax).

Reynolds American also recognised restructuring charges from the closure of one factory in August 2010 and the planned closure of another in the mid 2011. As a result of these actions, Reynolds American has recorded costs mostly relating to asset impairment and, to a lesser extent, severance costs. The Group's share of these charges amounted to £6 million (net of tax).

The Group's interest in ITC decreased from 31.92 per cent to 31.43 per cent as a result of ITC issuing ordinary shares under the Company's Employee Stock Option Scheme. This issue of shares and the change in the Group's share of ITC resulted in a charge of £9 million, which under IAS 28 Revised (Investments in Associates) is treated as a partial deemed disposal and included in the income statement.

TAXATION

The tax rate in the income statement of 28.0 per cent for the six months to 30 June 2011 (30 June 2010: 27.4 per cent; 31 December 2010: 28.4 per cent) is 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 31.4 per cent in 2011 and 30.0 per cent for the six months to 30 June 2010. For the year to 31 December 2010 it was 30.2 per cent. The increase is the result of an increase in the effective tax rate in Brazil and a change in the mix of profits. The charge relates to taxes payable overseas.

EARNINGS PER SHARE

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	pence	pence	pence
Earnings per share			
- basic	94.5	76.9	145.2
- diluted	94.0	76.5	144.4
Adjusted earnings per share			
- basic	96.6	87.6	176.7
- diluted	96.1	87.1	175.7
Headline earnings per share			
- basic	93.0	80.2	160.9
- diluted	92.5	79.7	160.0

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 period (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 3/2009 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

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 pages 25 and 26). For the year to 31 December 2010 earnings were also affected by the write-off of deferred tax assets of £35 million in respect of unutilised losses in Turkey, which has also been treated as an adjusting item. In order to illustrate the impact of these items, the adjusted diluted earnings per share are shown below:

Earnings per share cont...

	Adjusted diluted earnings per share		
	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	pence	pence	pence
Unadjusted earnings per share	94.0	76.5	144.4
Effect of restructuring and integration costs	1.7	6.0	11.8
Effect of impairment of goodwill and trademarks	-	-	11.8
Effect of deferred tax asset written off	-	-	1.8
Effect of amortisation of trademarks	1.1	1.2	2.3
Effect of associates' adjusting items	(0.7)	3.4	3.6
Adjusted diluted earnings per share	96.1	87.1	175.7

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

The earnings per share are based on:

	30.6.11		30.6.10		31.12.10	
	Earnings £m	Shares m	Earnings £m	Shares m	Earnings £m	Shares m
Earnings per share						
- basic	1,870	1,979	1,525	1,982	2,879	1,983
- diluted	1,870	1,990	1,525	1,993	2,879	1,994
Adjusted earnings per share						
- basic	1,912	1,979	1,736	1,982	3,504	1,983
- diluted	1,912	1,990	1,736	1,993	3,504	1,994
Headline earnings per share						
- basic	1,841	1,979	1,589	1,982	3,191	1,983
- diluted	1,841	1,990	1,589	1,993	3,191	1,994

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

	Diluted headline earnings per share		
	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	pence	pence	pence
Unadjusted earnings per share	94.0	76.5	144.4
Effect of impairment of intangibles and property, plant and equipment	0.9	3.0	15.6
Effect of gains on disposal of non-current assets held-for-sale	(0.6)	-	(0.7)
Effect of gains on disposal of businesses and trademarks	-	(0.3)	(0.2)
Effect of share of associates' trademark and other asset impairments and termination of joint venture	-	0.5	0.4
Effect of share of associates' gains on disposal of assets held-for-sale	(0.1)	-	-
Effect of dilution in shareholding in associate	(1.7)	-	0.5
Headline earnings per share	92.5	79.7	160.0

CASH FLOW AND NET DEBT MOVEMENTS

a) Alternative cash flow

The IFRS cash flow statement on page 17 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.

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Adjusted profit from operations (page 11)	2,760	2,460	4,984
Depreciation, amortisation and impairment	223	217	442
Other non-cash items in operating profit	33	23	59
Profit from operations before depreciation and impairment	3,016	2,700	5,485
Increase in working capital	(802)	(635)	(61)
Net capital expenditure	(110)	(163)	(523)
Gross capital expenditure	(148)	(172)	(584)
Sale of fixed assets	38	9	61
Operating cash flow	2,104	1,902	4,901
Net interest paid	(309)	(297)	(491)
Tax paid	(744)	(546)	(1,178)
Dividends paid to non-controlling interests	(139)	(107)	(234)
Restructuring costs	(115)	(109)	(219)
Dividends from associates	159	150	461
Free cash flow	956	993	3,240
Dividends paid to shareholders	(1,620)	(1,431)	(2,093)
Share buy-back	(317)	-	-
Net investment activities	-	9	-
Purchases of subsidiaries and non-controlling interests	-	(3)	(12)
Disposal of subsidiaries and trademarks	-	12	12
Net flow from share schemes and other	(107)	(80)	(77)
Net cash flow	(1,088)	(509)	1,070
External movements on net debt			
Exchange rate effects*	(372)	311	(41)
Net debt disposed	-	11	11
Change in accrued interest and other	40	58	(39)
Change in net debt	(1,420)	(129)	1,001
Opening net debt	(7,841)	(8,842)	(8,842)
Closing net debt	(9,261)	(8,971)	(7,841)

* Including movements in respect of debt related derivatives.

Free cash flow is the Group's cash flow before dividends, share buy-back and investing activities. Operating cash flow increased by £202 million or 11 per cent to £2,104 million, reflecting growth in underlying operating performance partially offset by working capital movements. Taking into account outflows relating to taxation, which were £198 million higher than last year due to higher taxable profits, as well as an increase in dividends to non-controlling interests, the Group's free cash flow was £37 million or 4 per cent lower at £956 million.

Cash flow cont...

The ratio of free cash flow per share to adjusted diluted earnings per share was 50 per cent (2010: 57 per cent), with free cash flow per share decreasing by 4 per cent.

Below free cash flow, the principal cash outflows for 2011 comprise the payment of the prior year final dividend which was £189 million higher at £1,620 million, as well as a £317 million outflow due to the resumption of the on-market share buy-back programme in 2011. Also reflected below free cash flow are cash flows in respect of investing activities. The six months to 30 June 2010 included proceeds on disposal of subsidiaries of £12 million which arose from the sale of the Group's Belgian distribution business, Lyfra NV as explained on page 24.

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

The above flows resulted in net cash outflows of £1,088 million (2010: £509 million). After taking account of exchange rate movements and the charge in accrued interest and other, total net debt was £9,261 million at 30 June 2011 (31 December 2010: £7,841 million).

b) Net debt/financing

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:

	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Net debt due within one year:			
Borrowings	(2,303)	(2,138)	(1,334)
Related derivatives	(34)	179	(29)
Cash and cash equivalents	1,717	1,497	2,329
Current available-for-sale investments	46	58	58
	<u>(574)</u>	<u>(404)</u>	<u>1,024</u>
Net debt due beyond one year:			
Borrowings	(8,713)	(8,656)	(8,916)
Related derivatives	26	89	51
	<u>(8,687)</u>	<u>(8,567)</u>	<u>(8,865)</u>
Total net debt	<u>(9,261)</u>	<u>(8,971)</u>	<u>(7,841)</u>

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

Cash flow cont...

c) IFRS cash generated from operations

The cash generated from operating activities in the IFRS cash flows on page 17 include the following items:

	6 months to		Year to
	30.6.11	30.6.10	31.12.10
	£m	£m	£m
Profit from operations	2,691	2,271	4,318
Adjustments for:			
Amortisation and impairment of trademarks	29	31	106
Amortisation and impairment of other intangible assets	35	39	322
Gains on disposal of businesses	-	(5)	(5)
Depreciation and impairment of property, plant and equipment	198	253	469
Increase in inventories	(171)	(269)	(280)
Increase in trade and other receivables	(85)	(205)	(127)
(Decrease)/increase in trade and other payables	(459)	(14)	497
Decrease in net retirement benefit liabilities	(104)	(148)	(153)
(Decrease)/increase in provisions for liabilities and charges	(64)	(20)	17
Other non-cash items	29	23	43
Cash generated from operations	<u>2,099</u>	<u>1,956</u>	<u>5,207</u>

d) IFRS Investing and financing activities

The investing and financing activities in the IFRS cash flows on page 17 include the following items:

The purchases and proceeds on disposals of investments (which comprise available-for-sale investments and loans and receivables) comprises a net cash inflow in respect of current investments of £13 million for the six months ended 30 June 2011 (30 June 2010: £1 million inflow and 31 December 2010: £1 million outflow).

The proceeds on disposal of subsidiaries in 2010 reflects the consideration received, less cash and cash equivalents disposed of, from the sale of the Group's Belgian distribution business, Lyfra NV, as explained on page 24.

In the six months ended 30 June 2010, a cash outflow of £3 million arose in respect from the acquisition of the non-controlling interests of shareholders who did not wish to participate in the merger of Bentoel and BAT Indonesia. A cash outflow of £9 million in the financing activities in 2010 related to the acquisition of non-controlling interests in the EEMEA 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) IFRS net cash and cash equivalents

The net cash and cash equivalents in the Group cash flow statement comprise:

	30.6.11 £m	30.6.10 £m	31.12.10 £m
Cash and cash equivalents per balance sheet	1,717	1,497	2,329
Accrued interest	-	-	(1)
Overdrafts	(220)	(125)	(145)
Net cash and cash equivalents	<u>1,497</u>	<u>1,372</u>	<u>2,183</u>

f) Liquidity

The Central Treasury Department is responsible for managing, 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.

The Group has a target average centrally managed debt maturity of at least 5 years with no more than 20 per cent of centrally managed debt maturing in a single rolling year. The average centrally managed debt maturity was 7.2 years at 30 June 2011 (30 June 2010: 6.5 years; 31 December 2010: 7.4 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 19.3 per cent (30 June 2010: 17.2 per cent; 31 December 2010: 12.5 per cent).

In June 2011, the Group repaid a €530 million bond. The repayment was financed from Group cash balances.

It is Group policy that short-term sources of funds (including drawings under the £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. At 30 June 2011, £729 million of ECP was outstanding (30 June 2010: £380 million), while at 31 December 2010 the ECP programme was undrawn.

During the period, the Group's subsidiary in Brazil received proceeds of £342 million (30 June 2010: £280 million and 31 December 2010: £410 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £311 million (30 June 2010: £150 million and 31 December 2010: £297 million).

In May 2010, the Group repaid a €525 million bond. The repayment was financed from debt issued in November 2009. On 25 June 2010, the terms of €470 million of the €1 billion bond maturing in 2011 were modified by extending the maturity to 2020; at the same time, the Group issued an additional €130 million bond with a maturity of 2020. In addition, €413 million of the Group's €750 million bond maturing in 2012 was purchased and cancelled. At the same time, the Group issued a new £275 million bond with a maturity of 2040.

In December 2010, the Group negotiated a new central banking facility of £2 billion with a final maturity date of December 2015. The existing central banking facility of £1.75 billion, with a final maturity date of March 2012 was cancelled at the same time. The facility was undrawn as at 30 June 2011, 30 June 2010 and 31 December 2010.

CONTINGENT LIABILITIES

As noted in the 2010 Annual Report for the year ended 31 December 2010, there are contingent liabilities in respect of litigation, overseas taxes and guarantees in various countries.

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

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

RELATED PARTY DISCLOSURES

In the six months to 30 June 2011, there were no material changes in related parties or related party transactions. The Group's related party transactions and relationships for 2010 were disclosed in the British American Tobacco Annual Report for the year ended 31 December 2010.

SHARE BUY-BACK PROGRAMME

The Board has approved the resumption of the on-market share buy-back programme in 2011 with a value of up to £750 million, excluding costs. During the six months to 30 June 2011, 13 million shares were bought at a cost of £335 million (2010: £nil).

'Purchase of own shares' in the Group statement of changes in total equity, includes an amount of £75 million provided for the potential buy-back of shares during July 2011 under an irrevocable non-discretionary contract.

PROPOSED ACQUISITION OF CIGARETTE COMPANY IN COLOMBIA

On 26 May 2011, the Group agreed to acquire 100 per cent of privately owned Productora Tabacalera de Colombia, S.A.S. (Protabaco), the second largest cigarette company in Colombia, for an enterprise value of US\$452 million.

The transaction is subject to competition authority approval which is expected later this year.

FINANCIAL CALENDAR

26 October 2011 Interim Management Statement

23 February 2012 Preliminary Statement

CALENDAR FOR THE INTERIM DIVIDEND 2011

2011

27 July	Dividend announced (including amount of dividend per share in both sterling and rand; applicable exchange rate ⁽¹⁾ and conversion date – 25 July 2011)
27 July to 19 August	From the commencement of trading on 27 July 2011 to 19 August 2011, no removal requests between the UK main register and the South African branch register will be permitted ⁽²⁾
12 August	Last Day to Trade (JSE)
15 August to 19 August	No transfers between the UK main register and the South African branch register will be permitted; no shares may be dematerialised or rematerialised between these inclusive dates
15 August	Ex-dividend date (JSE)
17 August	Ex-dividend date (LSE)
19 August	Record date (LSE and JSE)
28 September	Payment date (sterling and rand)

Notes:

(1) Details of the applicable exchange rate can be found under the heading 'Dividends' on page 8.

(2) Dates amended from those published in the Interim Management Statement dated 28 April 2011.

For holders of American Depositary Receipts (ADRs), the record date for ADRs is also 19 August 2011 with an ADR payment date of 3 October 2011.

CORPORATE INFORMATION

Premium listing

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

Computershare Investor Services PLC

The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, UK

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

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 Amex Equities (Symbol: BTI; CUSIP Number: 110448107)

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

Citibank Shareholder Services

PO Box 43077

Providence, Rhode Island 02940-3077, USA

tel: 1-888-985-2055 (toll-free) or +1 781 575 4555

e-mail enquiries: citibank@shareholders-online.com

website: www.citi.com/dr

Publications

British American Tobacco Publications

Unit 80, London Industrial Park, Roding Road, London E6 6LS, UK

tel: +44 20 7511 7797; facsimile: +44 20 7540 4326

e-mail enquiries: bat@team365.co.uk or

Computershare Investor Services (Pty) Ltd in South Africa using the contact details shown above.

British American Tobacco p.l.c.**Registered office**

Globe House

4 Temple Place

London

WC2R 2PG

tel: +44 20 7845 1000

British American Tobacco p.l.c. is a public limited company which is listed on the London Stock Exchange and the JSE Limited in South Africa. British American Tobacco p.l.c. is incorporated in England and Wales (No. 3407696) and domiciled in the UK.

British American Tobacco p.l.c.**Representative office in South Africa**

34 Alexander Street

Stellenbosch

7600

South Africa

(PO Box 631, Cape Town 8000, South Africa)

tel: +27 21 888 3722

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 REPORT

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

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

Nicola Snook
Secretary
26 July 2011

ANALYSIS OF REVENUE AND PROFIT FROM OPERATIONS

REVENUE

	30.6.11					30.6.10		
	Reported revenue £m	Impact of exchange £m	Revenue at CC ⁽¹⁾ £m	Organic adjust- ments ⁽³⁾ £m	Organic revenue at CC ⁽¹⁾ £m	Reported revenue £m	Organic adjust- ments ⁽³⁾ £m	Organic revenue £m
Asia-Pacific	2,025	35	1,990	-	1,990	1,811	-	1,811
Americas	1,744	35	1,709	-	1,709	1,646	(78)	1,568
Western Europe	1,719	17	1,702	-	1,702	1,949	(252)	1,697
EEMEA	1,950	(70)	2,020	-	2,020	1,892	-	1,892
Total	7,438	17	7,421	-	7,421	7,298	(330)	6,968

PROFIT FROM OPERATIONS

	30.6.11							30.6.10		
	Reported Profit ⁽²⁾ £m	Adjusting items £m	Adjusted Profit ⁽²⁾ £m	Impact of exchange £m	Adjusted Profit ⁽²⁾ at CC ⁽¹⁾ £m	Organic adjust- ments ⁽³⁾ £m	Organic Adjusted Profit ⁽²⁾ at CC ⁽¹⁾ £m	Adjusted Profit ⁽²⁾ £m	Organic adjust- ments ⁽³⁾ £m	Organic Adjusted Profit ⁽²⁾ £m
Asia-Pacific	744	(22)	766	26	740	-	740	651	-	651
Americas	780	12	768	17	751	-	751	694	(3)	691
Western Europe	523	(49)	572	4	568	-	568	564	(6)	558
EEMEA	644	(10)	654	(11)	665	-	665	551	-	551
Total	2,691	(69)	2,760	36	2,724	-	2,724	2,460	(9)	2,451

Notes:

(1) CC: Constant currencies

(2) Profit: Profit from operations

(3) Organic adjustments: Discontinued activities - adjustments are made to the 2010 numbers, based on the 2011 Group position