B.A.T. INTERNATIONAL FINANCE p.l.c.

2008
Annual Report

B.A.T. INTERNATIONAL FINANCE p.l.c.

ANNUAL REPORT 31 DECEMBER 2008

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Notice of meeting

Notice is hereby given that the Annual General Meeting of B.A.T. International Finance p.l.c. will be held at Globe House, 4 Temple Place, London, WC2R 2PG on 15 May 2009 for the transaction of the following business:

1. To receive the accounts for the year ended 31 December 2008 and the reports of the Directors and the Auditors thereon.

2. To reappoint Directors.

3. To reappoint the Auditors.

4. To authorise the Directors to determine the Auditors' remuneration.

By order of the Board

Nicola Snook, Secretary
15 April 2009

Note:
A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. Such proxy need not be a member of the Company.

Secretary and Registered Office
Nicola Snook
Globe House
4 Temple Place
London WC2R 2PG

Registered Number 1060930

Registered Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London WC2N 6RH

Directors' Report for the year ended 31 December 2008

Introduction

The Directors present their Annual Report and the audited Financial Statements for B.A.T. International Finance p.l.c. ('Company') and its subsidiaries ('Group') for the year ended 31 December 2008.

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2008 to the date of this report are as follows:

John Benedict Stevens (appointed 01/05/2008)
Paul Ashley Rayner (resigned 30/04/2008)
Kenneth John Hardman
Robert Lee Allen (appointed 01/08/2008)
David Andrew Swann (resigned 01/08/2008)
Gary Richard Armstrong (appointed 12/02/2008)
Brian Christopher Barrow (resigned 21/11/2008)
David Cameron Potter (resigned 05/08/2008)
Dante Joao Letti (resigned 12/02/2008)

In accordance with the Articles of Association, Mr R. L. Allen, having been appointed since the date of the last Annual General Meeting, resigns from the Board at the forthcoming Annual General Meeting and together with Mr K.J.Hardman, who is subject to retirement by rotation, and, being eligible, offer themselves for reappointment.

Business Review for the year to 31 December 2008

The Group's loss for the year amounted to **£288 million** (2007: £41 million profit). Total equity has increased by **£169 million** (2007: increased by £20 million). The Directors do not recommend payment of a dividend for the year (2007: £nil).

The Company is a borrower under the British American Tobacco p.l.c. Group ('BAT Group') central banking facility. In March 2007, this central banking facility at £1.75 billion was extended on existing terms under a one year bank extension option with final maturity dates between March 2011 and March 2012, and was undrawn as at 31 December 2008.

On 13 February 2008, and as amended on 1 May 2008, the Company and its subsidiary BATIF Dollar Limited (as borrowers) entered into a revolving credit facility agreement with Barclays Capital and J.P. Morgan plc (as mandated lead arrangers), Barclays Bank PLC (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers €420 million to finance certain acquisition activities and other associated costs. As at 31 December 2008, €395 million had been drawn under the facility and the period of availability for draw down on this facility lapsed in August 2008.

On 12 March 2008, €1.25 billion and GBP 500m bonds were issued maturing in 2015 and 2024 respectively. The bonds replaced the €1.8 billion revolving credit facility arranged last year and cancelled in 2008. In addition, the €1 billion 5.375 per cent bond maturing in 2017 was increased by an additional €250 million, bringing the size of the bond to €1.25 billion. The funds obtained from these bond issuances were mainly used to fund the acquisition activities of BAT Group as well as the repayment of maturing bonds in the Company and elsewhere in BAT Group.

On 1 May 2008, British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi (as borrower), British American Tobacco p.l.c and the Company (as guarantors) entered into a term credit facility agreement with Barclays Capital and J.P. Morgan plc (as mandated lead arrangers), Barclays Bank PLC (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers €860 million to finance certain acquisition activities and other associated costs. As at 31 December 2008, €759 million had been drawn under the facility and and the period of availability for draw down on this facility lapsed in August 2008.

On 21 November 2008, US$300 million and US$700 million bonds were issued, maturing in 2013 and 2018 respectively, pursuant to Rule 144A and RegS under the US Securities Act. The proceeds were used to terminate cross currency swaps where the Group received €750 million at a fixed rate of interest and paid US$907 million at floating interest rates. The euro funds obtained from termination of the cross currency swaps were used to settle forward currency contracts where the Company had contracted to purchase £477 million and sell €615 million. The funds obtained from these transactions were used to repay the Company's £217 million fixed rate bond in November 2008 and to part finance the maturity of a €900m fixed rate bond in February 2009.

Principal activities, risks and uncertainties

The role of the Group is to raise finance for the BAT Group, managing the financial risks arising from underlying operations and managing BAT Group's cash resources. All these activities are carried out under defined policies, procedures and limits. The Company acts as the entity hosting the BAT Group European and Asia Pacific Treasury Service Centres. It is intended that the Group will continue to undertake business relating to these activities.

Given the nature of the Group's activities, the Group's capital base is managed within the overall framework of BAT Group and the Company's directors consider that key performance indicators based solely on the Group's results are not necessary or appropriate for an understanding of the Group's specific development, performance or position of its business. However, key performance indicators relevant to BAT Group, and which may be relevant to the Group, are disclosed in Measuring our performance in the Business Review of British American Tobacco p.l.c. and do not form part of this report.

The Board of British American Tobacco p.l.c. reviews and agrees the overall treasury policies and procedures, delegating appropriate authority to the Company. The British American Tobacco p.l.c. Finance Director is a member of the Board of the Company and any significant change to agreed policies is subject to prior approval by the Board of British American Tobacco p.l.c..

Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group. Such instruments are only transacted if they relate to an underlying exposure; speculative transactions are expressly forbidden under the Group's treasury policy. The Group's treasury position is monitored by the BAT Group Corporate Finance Committee, which meets regularly and is chaired by the British American Tobacco p.l.c. Finance Director. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and audits, both internal and external.

The Group's treasury operations and management of financial risks are more fully described in note 12 on pages 20-23.

Post balance sheet events

On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to £231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 and to disapply pre-emption rights under section 89(1) of the Act. Following the conclusion of the EGM, £230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c (BAT p.l.c.) at par.

The additional funding of £230 million resolves the net deficit in the Parent Company Balance Sheet at 31 December 2008 caused by significant fair value losses in 2008 on forward currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of BAT p.l.c..

Directors' indemnities

As at the date of this report, an indemnity is in force under which Mr J. B. Stevens, as a Director of the Company, is, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which he may incur in or about the execution of his duties to the Company or as a result of things done by him as Director on behalf of the Company.

Directors' responsibilities in relation to the Financial Statements

The following statement sets out the responsibilities of the Directors in relation to the Financial Statements of both the Group and the Company. The reports of the independent auditors for the Group and the Company shown on pages 31 and 40 set out their responsibilities in relation to those Financial Statements.

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

(1) select appropriate accounting policies and apply them consistently;

(2) make judgements and estimates that are reasonable and prudent;

(3) state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; and

(4) prepare the Financial Statements on the going concern basis, unless they consider that to be inappropriate.

The applicable accounting standards referred to above are: (a) United Kingdom Generally Accepted Accounting Principles (UK GAAP) for the Company; and (b) International Financial Reporting Standards (IFRS) as adopted by the European Union for the Group.

The Directors are responsible for ensuring that the Company keeps proper accounting records to disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the Group Financial Statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company Financial Statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and, in that context, having proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

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

The Directors, as listed on page 2, consider that they have pursued the actions necessary to meet their responsibilities as set out in this Statement.

Directors' declaration in relation to relevant audit information
Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

(1) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and

(2) he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Going concern
After reviewing the Group's annual budget and plans, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the accounts.

On 10 February 2009, additional funding of £230 million was made in the Company to continue to finance fellow subsidiary companies in the BAT Group and resolve the net deficit in the Parent Company Balance Sheet at 31 December 2008 caused by significant fair value losses in 2008 on forward currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of BAT p.l.c.

On behalf of the Board

N. Snook

Nicola Snook, Secretary
15 April 2009

Group Income Statement

for the year ended 31 December

	2008	2007
	£m	£m
Interest income (note 3)	**995**	802
Interest expense (note 4)	**(878)**	(748)
Net fee income (note 5)	**1**	1
Net losses on fair value of derivatives and exchange differences (note 6)	**(394)**	(4)
Net finance (expense)/income	**(276)**	51
Other operating charges (note 7)	**(2)**	(1)
(Loss)/profit before taxation	**(278)**	50
Tax expense (note 8)	**(10)**	(9)
(Loss)/profit for the financial year	**(288)**	41

All the activities during both years are in respect of continuing operations.

Group Statement of Changes in Total Equity

for the year ended 31 December

	2008	2007
	£m	£m
Differences on exchange	**565**	(23)
Cash flow hedges		
- net fair value gains	**114**	23
- reclassified and reported in profit and loss	**(116)**	(27)
Net investment hedges		
- net fair value (losses)/gains	**(106)**	6
Net gains/(losses) recognised directly in equity	**457**	(21)
(Loss)/profit for the financial year	**(288)**	41
Total recognised income for the year	**169**	20
At 1 January (note 19)	**263**	243
At 31 December (note 19)	**432**	263

Notes are shown on pages 8 to 30.

Group Balance Sheet

31 December

	2008 £m	2007 £m
Assets		
Cash and cash equivalents (note 9)	**495**	265
Amounts due on demand from fellow subsidiaries (note 10)	**1,053**	683
Derivative financial instruments (note 11)	**744**	342
Other receivables (note 13)	**6**	3
Loans due from parent undertaking (note 14a)	**3,661**	3,668
Loans due from fellow subsidiaries (note 14b)	**14,490**	9,980
Total assets	**20,449**	14,941
Liabilities		
Bank overdrafts (note 15)	**15**	11
Amounts repayable on demand to parent undertaking (note 16a)	**2,413**	1,394
Amounts repayable on demand to fellow subsidiaries (note 16b)	**5,112**	4,952
Derivative financial instruments (note 11)	**1,139**	321
Other payables (note 17)	**7**	10
Term deposit repayable to parent undertaking (note 18a)		810
Term deposits repayable to fellow subsidiaries (note 18b)	**3,653**	3,390
Issued debt (note 15)	**7,678**	3,790
Total liabilities	**20,017**	14,678
Shareholders' equity		
Share capital (note 19)	**1**	1
Hedging reserve (note 19)	**(13)**	(11)
Translation reserve (note 19)	**344**	(115)
Retained earnings (note 19)	**100**	388
Total shareholders' equity	**432**	263
Total funds employed	**20,449**	14,941

On behalf of the Board

R. L. Allen
15 April 2009

Notes are shown on pages 8 to 30.

Group Cash Flow Statement

for the year ended 31 December

	2008	2007
	£m	£m
Cash flows from operating activities		
Interest receipts	**336**	224
Interest payments	**(231)**	(209)
Net inflow on fees	**1**	3
	106	18
Increase / (decrease) in operating assets and liabilities:		
Net short term funds inflow/(outflow) from fellow subsidiaries and parent undertaking	**268**	(176)
Proceeds from external debt	**2,611**	131
Repayment of external debt	**(217)**	
Movements relating to derivative financial instruments	**(479)**	(35)
Net cash outflow on loans to fellow subsidiaries	**(1,700)**	(303)
Net cash (outflow)/inflow on borrowings from fellow subsidiaries	**(494)**	350
Net cash inflow/(outflow) from operating activities	**95**	(15)
Effects of exchange rate changes on cash and cash equivalents	**130**	21
Net increase in cash and cash equivalents	**225**	6
Net cash and cash equivalents at beginning of year	**254**	248
Net cash and cash equivalents at end of year (note 9)	**479**	254

Notes are shown on pages 8 to 30.

Group Notes on the Accounts

1. Accounting policies

Basis of accounting
The Group accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Financial Statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments. The presentation of the Group balance sheet is based on liquidity.

The preparation of the Group accounts requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the Financial Statements. The key estimates and assumptions relate to calculation of fair value assets and liabilities using exchange rates and market expectations of future interest rates as at the balance sheet date. These are set out in the accounting policies below, together with the related notes to the accounts.

Basis of consolidation
The consolidated financial information includes the accounts of B.A.T. International Finance p.l.c. (the Company) and its subsidiary undertakings.

A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated in preparing the Group Financial Statements.

Foreign currencies
The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling at average rates of exchange in each year provided that the average rate approximates the exchange rate at the date of the underlying transactions. Assets and liabilities of these undertakings are translated at rates of exchange at the end of each year.

The differences between retained profits of foreign currency subsidiary undertakings translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of foreign currency net assets at the beginning of the year.

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end rates of exchange are recognised in the income statement, except when deferred as qualifying cash flow hedges in the hedging reserve and as qualifying net investment hedges and on intercompany quasi-equity loans in the translation reserve.

Taxation
Taxation is chargeable on the profits for the period, together with deferred taxation.

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is provided on temporary differences arising on investments in Group undertakings, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

1. **Accounting policies** continued

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Non-derivative financial assets are classified on initial recognition as either loans and receivables or cash and cash equivalents as follows:

- Loans and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- Cash and cash equivalents: cash and cash equivalents include cash in hand and deposits held on call, together with other short term highly liquid investments. Cash equivalents normally comprise instruments with maturities of three months or less at date of acquisition. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are shown as a separate category in liabilities on the balance sheet.

Non derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. Financial assets measured at amortised cost are reviewed for impairment at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. An impairment for irrecoverable amounts is recognised when there is objective evidence that the full amount receivable will not be collected according to the original terms of the asset. Such evidence might include financial difficulties of the counterparty, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable.

Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- For derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement. The accumulated gains and losses are recognised in the income statement in the same period as the hedged item.

- For derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement.

- For derivatives that are designated as hedges of net investments in foreign operations, the changes in their fair values are recognised directly in equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement. The accumulated gains and losses are recognised in the income statement when the foreign currency operation is disposed of; and

- For derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the income statement in the period in which they arise.

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained and is expected to remain highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (for example through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are removed from equity in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in equity, are immediately recognised in the income statement.

1. Accounting policies continued

Segmental analysis
Based on risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment being the provision of financial services. The Group's internal reporting systems are not arranged on a geographical basis. As IAS 14 requires a segmental analysis, geographical segmentation based on location of counterparty has been provided.

The prices agreed between Group companies, and with BAT Group entities, for intra-BAT Group loans and borrowings, and charges for such, are based on normal commercial practices which would apply between independent businesses.

Dividends
Dividend distributions are recognised as a liability in the Financial Statements in the period in which the dividends are approved.

Future changes to Group accounting policies
Certain changes to IFRS will be applicable for the Group Financial Statements in future years and set out below are those which are considered to affect the Group:

IFRS8 (Operating Segments) has been endorsed by the EU. This standard requires segmental reporting in the Financial Statements to be on the same basis as is used for internal management reporting. The Group does not report segmental information internally. As the central financing vehicle for the BAT Group, all income other than interest on cash and cash equivalents is earned from counterparties within the BAT Group and therefore a segmental analysis of the Group's performance and financial position is not reported to the Board of the Company. However, under IFRS8 segmental information will be reported in respect of revenues from external customers.

The revised IAS1 (Presentation of Financial Instruments) has been endorsed by the EU. This standard will require some changes in the format of the Financial Statements and permit some changes in terminology, but it will not affect the measurement of reported profit or equity.

The annual improvements to IFRS have been endorsed by the EU, and have varying application dates on or after 1 January 2009. The main effect will be a reclassification of certain derivative balances between current and non-current on the Balance Sheet.

IFRIC 16 (Hedges of a Net Investment in a Foreign Operation) is awaiting EU endorsement. This interpretation clarifies the specific hedge accounting requirements for net investment hedges. It is not expected that this change would materially affect the Group's reported profit or equity.

2. Segmental reporting

	Total		Europe		Americas		Asia Pacific	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Interest income	**995**	802	**883**	694	**75**	74	**37**	34
Interest expense	**(878)**	(748)	**(867)**	(742)	**(9)**	(4)	**(2)**	(2)
Net fee income/(expense)	**1**	1	**(1)**	(1)	**1**	2	**1**	
Other operating charges	**(5)**	(1)	**(5)**	(1)				
Net fair value (losses) / gains on derivatives and exchange differences	**(391)**	(4)	**(325)**	(168)	**16**	153	**(82)**	11
(Loss)/profit before taxation	**(278)**	50	**(315)**	(218)	**83**	225	**(46)**	43
Taxation	**(10)**	(9)						
(Loss)/profit for the financial year	**(288)**	41						
Assets								
Segment assets	**20,449**	14,941	**18,201**	13,046	**1,173**	1,234	**1,075**	661
Liabilities								
Segment liabilities	**20,017**	14,678	**19,562**	14,308	**180**	298	**275**	72

The segmental analysis is based on the location of the counterparty.

3. Interest income

	2008	2007
	£m	£m
Interest income		
From the parent undertaking	**239**	223
From fellow subsidiaries	**722**	564
Cash and cash equivalents	**34**	15
	995	802

4. Interest expense

	2008	2007
	£m	£m
Interest expense		
Bank borrowings	**10**	6
Issued debt	**335**	189
	345	195
To the parent undertaking	**62**	85
To fellow subsidiaries	**471**	468
	878	748

5. Net fee income

	2008	2007
	£m	£m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**4**	2
Fee expense		
Fees charged on committed borrowing facilities	**(3)**	(1)
	1	1

Prior to 30 September 2007, one third of the fees charged on BAT Group's £1.75 billion central committed banking facility were borne by the Company. From 30 September 2007, two thirds of the fees charged on the facility are borne by the Company.

6. Net losses on fair value of derivatives and exchange differences

	2008	2007
	£m	£m
Fair value changes on derivatives comprise:		
Cash flow hedges transferred from equity	**116**	27
Fair value changes on hedged items	**(129)**	2
Fair value hedges		
- interest on interest rate and cross currency swaps	**(7)**	(16)
- fair value movement on interest rate and cross currency swaps	**111**	56
Instruments not designated as hedges	**(1,006)**	(192)
Net fair value losses on derivatives	**(915)**	(123)
Exchange differences	**521**	119
	(394)	(4)

The £390 million movement in 2008 from prior year is mainly due to significant changes in exchange rates impacting the fair value of foreign exchange forward contracts used to manage currency risk on behalf of British American Tobacco p.l.c. where the contracts do not qualify for hedge accounting under the terms of IAS 39 in these Financial Statements. The movement in the year is also explained in part by the impact of interest rate movements on the fair value of derivatives recognised in the Financial Statements.

Included within exchange differences above is a gain of **£23 million** (2007: loss of £64 million) in respect of items subject to fair value hedges.

The interest expense on issued debt of **£335 million** (2007: £189 million) in note 4 includes **£89 million** (2007: £107 million) subject to fair value hedges.

The ineffective portion recognised within the net £394 million loss above (2007: £4 million loss) for fair value hedges amounts to a gain of **£5 million** (2007: loss of £6 million).

Most foreign currency assets and liabilities are maintained in US dollars and euros, which at 31 December 2008 have been translated to sterling at **US$1.43775** and **€1.03435** (2007: US$1.9906 and €1.3615).

7. Other operating charges and employee information

	2008	2007
	£m	£m
Other operating charges	**2**	1

Other operating charges include remuneration of **£110,000** (2007: £100,000) in respect of the Company's auditors for the audit of the annual accounts and £252,000 (2007: £nil) for the supply of other services to the Company by them.

The Group utilises the services of a number of employees whose contracts of service are with fellow subsidiaries and their remuneration is included in the financial statements of these subsidiaries. An annual management charge is levied from one of these fellow subsidiaries in respect of the cost of employees in the Asia Pacific Treasury Service Centre and this charge is included in 'other operating charges' above.

8. Tax expense

a) Summary of tax

	2008 £m	2007 £m
UK corporation tax		
Comprising:		
- current tax at 28.5% (2007: 30%)	**2**	2
- double tax relief	**(2)**	(2)
Overseas tax comprising:		
- tax on current income	**10**	9
Total current tax expense (*note 8b)*	**10**	9
Deferred tax		
	10	9

b) Factors affecting the tax charge

The taxation charge differs from the standard 28.5 per cent rate of corporation tax in the UK. The major causes of this difference are listed below:

	2008 £m	2007 £m
(Loss)/profit before taxation	**(278)**	50
UK corporation tax at **28.5%** (2007: 30%)	**(79)**	15
Factors affecting the tax rate:		
Permanent differences	81	(3)
Timing differences		
Losses not previously recognised		
Overseas taxation	10	9
Double tax relief	(2)	(2)
BAT Group loss relief claimed for no consideration		(10)
Total current tax expense (*note 8a)*	**10**	9

At the balance sheet date the Group has unused tax losses of £336 million (2007: £nil). The Group has not recognised deferred tax assets in respect of deductible temporary differences of £8 million (2007: £9 million).

9. Cash and cash equivalents

	31 December 2008 £m	31 December 2007 £m
Cash and bank balances	**26**	34
Cash equivalents	**469**	231
	495	265

Cash equivalents comprise short term deposits with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates to fair value.

The currency in which cash and cash equivalents are held, together with the effective interest rates applicable to cash and cash equivalents are as follows:

	31 December 2008 £m	31 December 2007 £m	31 December 2008 %	31 December 2007 %
Functional currency (UK sterling)	**207**	135	**2.4**	5.3
US dollar	**51**	31	**0.9**	4.3
Euro	**224**	87	**2.8**	3.9
Other	**13**	12	**0.6**	2.5
	495	265		

In the Group Cash Flow Statement, net cash and cash equivalents are shown after deducting bank overdrafts (note 15) and accrued interest as follows:

	31 December 2008 £m	31 December 2007 £m
Cash and cash equivalents as above	**495**	265
Less: interest accruals	**(1)**	
Less: bank overdrafts and accrued interest	**(15)**	(11)
Net cash and cash equivalents	**479**	254

10. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts between fellow subsidiaries and the Group. These are denominated in the following currencies, and have the following effective interest rates:

	31 December 2008 £m	31 December 2007 £m	31 December 2008 %	31 December 2007 %
Functional currency (UK sterling)	**732**	565	**2.3**	6.0
US dollar	**16**	31	**0.2**	4.9
Euro	**291**	82	**2.6**	4.1
Swiss franc	**14**	2	**0.3**	2.2
Other		3		8.4
	1,053	683		

Amounts due on demand from fellow subsidiaries include amounts less than **£1 million** (2007: less than £1 million) of interest receivable. There is no material difference between the book value and fair value for amounts due on demand from fellow subsidiaries.

11. Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted price of similar derivatives.

	31 December 2008		31 December 2007	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Fair value hedges				
Interest rate swaps	92		14	14
Cross currency swaps	53	3	85	
Cash flow hedges				
Cross-currency swaps	230	85	29	
Net investment hedges				
Cross currency swaps		50	57	
Trading				
Cross currency swaps	109	188	97	87
Interest rate swaps	13			
Forward foreign currency contracts	216	805	33	212
Others	31	8	27	8
	744	1,139	342	321

All balances above relate to derivatives with external parties other than those disclosed in note 21.

Some derivative financial instruments are not designated as hedges and have been classified as trading derivatives.

The maturity dates of all derivative financial instruments as recognised in the balance sheet are as follows:

	31 December 2008		31 December 2007	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Within one year	448	824	156	187
Between one and two years	13	38	81	3
Between two and three years	78	164	2	73
Between three and four years	5			3
Between four and five years	40	7	64	
Beyond five years	160	106	39	55
	744	1,139	342	321

Included in the liabilities column above are certain cross currency swaps maturing in 2016 with a combined fair value of £92m (2007: £26m), where the contracted parties hold the right to exercise mutual break-up clauses on 15 March 2011 which falls between two and three years in the table above as at 31 December 2008.

For all cash flow hedges, the timing of expected cash flows is as follows:

	31 December 2008		31 December 2007	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Within one year	153	(5)	(3)	
Between one and two years	1	(3)	32	
Between two and three years	76	(77)		
	230	(85)	29	

The Group's cash flow hedges are in respect of certain debt instruments and a loan to a fellow subsidiary. The timing of the expected cash flows in respect of derivatives designated as cash flow hedges is broadly expected to be comparable to the timing of when the hedged item will affect profit or loss.

11. Derivative financial instruments continued

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross settled derivative financial instruments are as follows:

	31 December 2008			
	Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m
Within one year				
- Cross currency swaps	706	(520)	457	(495)
- Forward foreign exchange contracts	2,561	(2,368)	6,875	(7,650)
- Other	1,604	(1,553)		
Between one and two years				
- Cross currency swaps	56	(52)	95	(84)
- Forward foreign exchange contracts	293	(282)	958	(986)
Between two and three years				
- Cross currency swaps	665	(562)	1,121	(1,275)
- Forward foreign exchange contracts				
Between three and four years				
- Cross currency swaps	21	(18)	19	(21)
- Forward foreign exchange contracts				
Between four and five years				
- Cross currency swaps	22	(18)	18	(21)
- Forward foreign exchange contracts				
Beyond five years				
- Cross currency swaps	545	(395)	395	(539)
- Forward foreign exchange contracts				
	6,473	(5,768)	9,938	(11,071)

	31 December 2007			
	Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m
Within one year				
- Cross currency swaps	693	(620)	273	(325)
- Forward foreign exchange contracts	1,344	(1,315)	4,370	(4,500)
- Other	1,452	(1,397)		
Between one and two years				
- Cross currency swaps	894	(791)	42	(33)
- Forward foreign exchange contracts	23	(22)	70	(73)
Between two and three years				
- Cross currency swaps	39	(40)	42	(33)
- Forward foreign exchange contracts	135	(135)	392	(471)
Between three and four years				
- Cross currency swaps	39	(42)	378	(352)
- Forward foreign exchange contracts				
Between four and five years				
- Cross currency swaps	590	(486)	18	(19)
- Forward foreign exchange contracts				
Beyond five years				
- Cross currency swaps	440	(412)	397	(421)
- Forward foreign exchange contracts				
	5,649	(5,260)	5,982	(6,227)

11. Derivative financial instruments continued

The maturity dates of net settled derivative financial instruments are as follows:

	31 December 2008 Assets £m	31 December 2008 Liabilities £m	31 December 2007 Assets £m	31 December 2007 Liabilities £m
Within one year	**34**	**7**	(4)	7
Between one and two years	**26**	**2**	14	3
Between two and three years	**8**	**2**	1	3
Between three and four years	**22**	**2**		3
Between four and five years	**13**	**1**		4
Beyond five years	**21**		11	3
	124	**14**	22	23

The above analysis relates primarily to the Group's interest rate swaps.

In summary by type, the fair values of derivative financial instruments are as follows:

	31 December 2008 Assets £m	31 December 2008 Liabilities £m	31 December 2007 Assets £m	31 December 2007 Liabilities £m
Interest rate swaps	**105**		14	14
Cross-currency swaps	**392**	**326**	268	87
Forward foreign currency contracts	**216**	**805**	33	212
Other	**31**	**8**	27	8
	744	**1,139**	342	321

(a) Interest rate swaps

	Maturity date	Currency	Principal m	£m	Interest rate Original	Interest rate Swapped	31 December 2008 Assets £m	31 December 2008 Liabilities £m
Fixed - floating								
1	2009	EUR	550	532	4.9	*Note (a)*	**10**	
2	2009	EUR	250	242	4.1	*Note (a)*	**3**	
3	2012	EUR	750	725	3.6	*Note (a)*	**8**	
4	2013	EUR	400	387	5.1	*Note (a)*	**24**	
5	2013	GBP	350	350	5.8	*Note (a)*	**20**	
6	2019	GBP	250	250	6.4	*Note (a)*	**40**	
							105	

	Maturity date	Currency	Principal m	£m	Interest rate Original	Interest rate Swapped	31 December 2007 Assets £m	31 December 2007 Liabilities £m
Fixed - floating								
1	2009	EUR	550	404	4.9	*Note (a)*	7	
2	2009	EUR	250	184	4.1	*Note (a)*	2	
3	2013	EUR	400	294	5.1	*Note (a)*		
4	2013	GBP	350	350	5.8	*Note (a)*		14
5	2019	GBP	250	250	6.4	*Note (a)*	5	
							14	14

Note (a): The floating rate interest rates are based on LIBOR or EURIBOR plus a margin ranging between nil and 137 basis points.

All the above fixed to floating swaps have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 26.

The Group has no floating to fixed interest rate swaps at 31 December 2008 and 31 December 2007.

11. Derivative financial instruments continued

(b) Cross-currency swaps

	Maturity date	Interest rate	Principal Original Currency m	Principal £m	Interest rate	Principal Swapped Currency m	Principal £m	31 December 2008 Assets £m	31 December 2008 Liabilities £m
Fixed - fixed									
1	2009	4.9	EUR 500	483	6.5	USD 564	392	**151**	**51**
2	2011	6.9	AUD 800	388	4.5	SGD 944	455		**72**
3	2011	5.9	EUR 465	450	6.2	DKK 3,468	450	**79**	**85**
Fixed – floating									
4	2009	4.9	EUR 150	145	*Note (b)*	GBP 104	104	**45**	
5	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	457		**108**
6	2019	4.6	EUR 20	19	*Note (b)*	USD 22	15	**8**	**3**
Floating – fixed									
7	2016	*Note (b)*	EUR 473	458	5.5	GBP 325	325	**108**	
Floating-floating									
8	2011	*Note (b)*	AUD 300	145	Note (b)	SGD 301	145	**1**	
9	2011	*Note (b)*	AUD 600	580	Note (b)	SGD 619	299		**7**
								392	**326**

	Maturity date	Interest rate	Principal Original Currency m	Principal £m	Interest rate	Principal Swapped Currency m	Principal £m	31 December 2007 Assets £m	31 December 2007 Liabilities £m
Fixed - fixed									
1	2008	7.1	AUD 200	88	4.1	SGD 240	84	4	
2	2008	6.9	AUD 800	353	4.5	SGD 944	329		3
3	2009	4.9	EUR 500	367	6.5	USD 564	283	86	
Fixed - floating									
4	2008	6.5	GBP 217	217	*Note (b)*	AUD 607	268		53
5	2009	4.9	EUR 150	110	*Note (b)*	GBP 104	104	8	
6	2012	3.6	EUR 750	551	*Note (b)*	USD 907	456	74	
7	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	348		31
8	2019	4.6	EUR 20	15	*Note (b)*	USD 22	11	3	
Floating – fixed									
9	2008	*Note (b)*	EUR 303	222	6.9	USD 330	166	51	
10	2008	*Note (b)*	AUD 607	268	6.8	CAD 484	246	11	
11	2016	*Note (b)*	EUR 473	348	5.5	GBP 325	325	31	
								268	87

Note (b): The floating interest rates are based on LIBOR or EURIBOR plus a margin ranging between nil and 508 basis points.

Swaps 4 and 6 in the current year have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in Note 15 on page 26.

Swaps 4, 5, 6, 8 and 10 in the prior year have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 26.

All other swaps have been entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 on page 26.

11. Derivative financial instruments continued

(c) Forward foreign currency contracts

Forward foreign currency contracts are denominated in the following currencies:

Fair value of assets

Currencies sold forward	31 December 2008 Currencies purchased forward										
	CHF £m	**DKK £m**	**EUR £m**	**GBP £m**	**JPY £m**	**MUR £m**	**SAR £m**	**USD £m**	**ZAR £m**	**Other £m**	**Total £m**
AUD								12		1	**13**
CAD								2			**2**
CZK			2	1							**3**
DKK								1			**1**
EUR	5			1				24			**30**
GBP	16	1	29			3	16	21	6	2	**94**
HUF			2								**2**
JPY								1			**1**
KRW			5								**5**
NOK		1	22							1	**24**
PLN			2					1			**3**
RUB				1							**1**
SEK			7								**7**
SGD								1			**1**
USD		1	7		20					1	**29**
	21	**3**	**76**	**3**	**20**	**3**	**16**	**63**	**6**	**5**	**216**

Fair value of liabilities

Currencies sold forward	31 December 2008 Currencies purchased forward										
	AUD £m	**CAD £m**	**CZK £m**	**EUR £m**	**GBP £m**	**KRW £m**	**NOK £m**	**PLN £m**	**USD £m**	**Other £m**	**Total £m**
AUD					81				1		**82**
CAD				12	27						**39**
CHF				5	97						**102**
DKK				1	5		1		1		**8**
EUR			2		186	5		2	7	2	**204**
HKD					13						**13**
HUF					7						**7**
JPY									21		**21**
MUR					3						**3**
NOK					1						**1**
NZD	1										**1**
PLN					2		1				**3**
SAR					16						**16**
SGD					11						**11**
USD	12	2		24	226			1		3	**268**
ZAR					26						**26**
	13	**2**	**2**	**42**	**701**	**5**	**2**	**3**	**30**	**5**	**805**

Fair value of assets

Currencies sold forward	31 December 2007 Currencies purchased forward									
	AUD £m	CAD £m	CHF £m	EUR £m	GBP £m	PLN £m	SGD £m	USD £m	ZAR £m	Total £m
AUD					1					1
CHF				1						1
EUR								1		1
GBP			10	3		2		1	1	17
KRW				1						1
NZD	2									2
USD		1		6	2		1			10
	2	1	10	11	3	2	1	2	1	33

11. Derivative financial instruments continued

(c) Forward foreign currency contracts continued

Fair value of liabilities

	31 December 2007 Currencies purchased forward					
Currencies sold forward	CHF £m	EUR £m	GBP £m	KRW £m	USD £m	Total £m
AUD			17			17
CAD		72	25		1	98
CZK			15			15
DKK			1			1
EUR			1			1
HKD	1		42	1	6	50
HUF			6			6
PLN			1			1
SGD			3			3
USD			1		1	2
ZAR		1	11			12
			6			6
	1	73	129	1	8	212

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions as well as the hedging of internal and external assets and liabilities. Certain contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 15 page 26, and their nominal values are as follows:

	31 December 2008		31 December 2007	
	Sell £m	**Buy £m**	Sell £m	Buy £m
Forward contracts to purchase GBP, sell CHF	**182**	**(142)**	122	(115)
Forward contracts to purchase GBP, sell AUD	**824**	**(761)**	579	(568)
Forward contracts to purchase GBP, sell CAD	**394**	**(377)**	356	(338)
Forward contracts to purchase EUR, sell DKK	**452**	**(451)**		
Forward contracts to purchase EUR, sell NOK	**339**	**(360)**		
Forward contracts to purchase EUR, sell SEK	**181**	**(189)**		

(d) Others

	31 December 2008		31 December 2007	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Bund forwards (note i)	**31**		26	
Interest derivative (note ii)		**8**		7
Coupon swap (note iii)			1	
	31	**8**	27	7

Notes:

i) Forward contracts to purchase and sell German government securities with a nominal value of €1.6 billion (2007: €1.9 billion), taken out to manage BAT Group financing arrangements and maturing within one year.

ii) Remaining impact of an interest derivative with a nominal value of €1 billion maturing in 2013.

iii) Coupon swap receiving 0.4 per cent annually on a nominal value of CAD 484 million and paying 0.4 per cent quarterly on a nominal value of AUD 607m, which matured in 2008.

12. Management of financial risks

One of the principal responsibilities of the Company is to manage the financial risks arising from the BAT Group's underlying operations. Specifically, the Company manages, within an overall policy framework, the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks.

Given the nature of the Group's activities, the Group is managed in accordance with BAT Group treasury policies and procedures. These policies and procedures include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed. The Group defines capital as equity (see note 19) and net debt which is defined as borrowings, including derivatives, less cash and cash equivalents.

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's balance sheet and related notes.

The Group's management of specific risks is dealt with as follows:

Liquidity risk
It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group, and obtaining this financing from a wide range of providers. BAT Group has a target average centrally managed debt maturity of 5 years with no more than 20 per cent of centrally managed debt maturing in a single year. The debt held by the Group is part of BAT Group's centrally managed debt and is therefore not managed to separate targets. As at 31 December 2008, the average debt to maturity of the Group was **6.2 years** (2007: 6.0 years) and the highest proportion of total issued debt maturing in a single year was **20.5 per cent** (2007: 28.8 per cent). It is Group policy that short term sources of funds are backed by undrawn committed lines of credit and cash.

The Group ensures that there is flexibility in funding arrangements with fellow subsidiaries by providing short term facilities or early prepayment rights. To ensure that the Group can maintain its liquidity at all times, the Group is a borrower under BAT Group's central banking facility of £1.75 billion. In 2007, this facility was extended on existing terms under a one year bank extension option with final maturity dates between March 2011 and March 2012, and was undrawn at 31 December 2008.

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

On 13 February 2008, and as amended on 1 May 2008, the Company and its subsidiary BATIF Dollar Limited (as borrowers) entered into a revolving credit facility agreement with Barclays Capital and J.P. Morgan plc (as mandated lead arrangers), Barclays Bank PLC (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers €420 million to finance certain acquisition activities and other associated costs. As at 31 December 2008, €395 million had been drawn under the facility and the period of availability for draw down on this facility lapsed in August 2008.

On 21 November 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 its £217 million bond on maturity in November 2008.

As the Group is the principal central financing vehicle for BAT Group, it is used to mobilise cash for BAT Group through participation in cash pooling and zero balancing bank account structures with fellow subsidiaries. Although term deposits repayable to fellow subsidiaries as shown in note 18b fall due within one year, these are typically renewed subject to the funding requirements of the counterparty. Loans to fellow subsidiaries, subsidiary companies and the parent undertaking are made on commercial terms. All contractual borrowing covenants have been met and none of them are expected to inhibit the Group's operations or funding plans.

Currency risk
The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, sterling. Lending and borrowing activity with fellow subsidiaries is usually in the currency of the counterparty resulting in primary balance sheet translation exposures to the US dollar, euro, Canadian dollar, Australian dollar, Singapore dollar, Danish krone, Norwegian krone and Swedish krona. These exposures are kept under continuous review and the Group's policy is to minimise all balance sheet translation exposure where it is practicable and cost effective to do so through matching of currency assets with currency borrowings. At 31 December 2008, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **15 per cent** (2007: 20 per cent) US dollar, **45 per cent** (2007: 45 per cent) euro, **3 per cent** (2007: nil per cent) sterling, **5 per cent** (2007: 16 per cent) Canadian dollar, **11 per cent** (2007: 16 per cent) Australian dollar, **12 per cent** Danish krone (2007: nil per cent), **4 per cent** Norwegian krone (2007: nil per cent), **2 per cent** Swedish krona (2007: nil per cent), and **3 per cent** (2007: 3 per cent) other currencies.

12. Management of financial risks continued

Currency risk continued

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries; these exposures are not normally hedged.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held across the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. All financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analyses. The Group considers a 10 per cent strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 10 per cent strengthening and a 10 per cent weakening of functional currencies against non-functional currencies would have the following impact on pre-tax profit and equity:

	Impact on pre-tax profit				**Impact on equity**			
	31 December 2008		31 December 2007		**31 December 2008**		31 December 2007	
	10% Increase £m	**10% Decrease £m**	10% Increase £m	10% Decrease £m	**10% Increase £m**	**10% Decrease £m**	10% Increase £m	10% Decrease £m
US dollar	**99**	**(122)**	49	(60)	**1**	**(1)**	1	(2)
Euro	**10**	**(13)**	29	(35)				
Canadian dollar	**15**	**(18)**	9	(11)				
Australian dollar	**12**	**(14)**	23	(28)				
Swiss franc	**30**	**(36)**	16	(20)				
Singapore dollar	**11**	**(13)**	1	(2)				
South African rand	**16**	**(20)**	11	(13)				
Other	**10**	**(13)**	1	(1)				
	203	**(249)**	139	(170)	**1**	**(1)**	**1**	**(2)**

The currency sensitivity of pre-tax profit is principally due to the impact from forward foreign currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of British American Tobacco p.l.c.. These contracts provide cash flow certainty and are designated as net investment hedges in the Group financial statements of British American Tobacco p.l.c.. As the Group does not have the underlying investments, the contracts are not designated as hedges in these financial statements and changes in their fair value are recognised through the income statement. Excluding the impact of these contracts, a 10 per cent strengthening and a 10 per cent weakening of functional currencies against non-functional currencies would have the following impact on pre-tax profit and equity:

	Impact on pre-tax profit				**Impact on equity**			
	31 December 2008		31 December 2007		**31 December 2008**		31 December 2007	
	10% Increase £m	**10% Decrease £m**	10% Increase £m	10% Decrease £m	**10% Increase £m**	**10% Decrease £m**	10% Increase £m	10% Decrease £m
US dollar	**1**	**(1)**	3	(4)	**1**	**(1)**	**1**	**(2)**
Euro	**(13)**	**15**	(2)	3				
Canadian dollar		**1**	(3)	3				
Australian dollar	**(9)**	**11**	3	(3)				
Swiss franc	**14**	**(17)**	9	(12)				
Singapore dollar	**9**	**(11)**	1	(2)				
South African rand								
Other	**5**	**(7)**	(1)	3				
	7	**(9)**	10	(12)	**1**	**(1)**	**1**	**(2)**

The exchange sensitivities on items recognised directly in equity relate to derivatives designated as net investment hedges and a financial instrument designated as quasi-equity.

Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group and to safeguard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

12. Management of financial risks continued

Interest rate risk continued

BAT Group has an externally imposed capital requirement in respect of its centrally managed banking facilities, which requires a gross interest cover of 4.5 times. Although the Company is a joint borrower under these central banking facilities, the requirement is based on the audited Group financial statements of British American Tobacco p.l.c..

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group's ratio of fixed to floating rate debt forms part of overall BAT Group debt for which targets are set for the desired ratio of floating to fixed rate debt on both a gross basis (50:50 +/- 10) and net (at least 50 per cent fixed in the short to medium term) basis as a result of regular reviews of market conditions and strategy by Treasury and the Board of the Company. At 31 December 2008, the ratio of the Group's floating to fixed rate gross issued debt was **38:62** (2007: 57:43) and **32:68** (2007: 49:51) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of interest rates in respect of interest-bearing financial assets and financial liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analyses, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis point change in currency interest rates would have the following impact on pre-tax profit:

	31 December 2008		31 December 2007	
	100 bps Increase £m	**100 bps Decrease £m**	100 bps Increase £m	100 bps Decrease £m
US dollar	**32**	**(33)**	19	(19)
Sterling	**(45)**	**45**	(41)	41
Euro	**(17)**	**18**	(15)	15
Canadian dollar	**8**	**(8)**	11	(11)
Australian dollar	**7**	**(7)**		
Other	**18**	**(18)**	8	(8)
	3	**(3)**	(18)	18

A 100 basis point change in interest rates would have no impact on items recognised directly in equity for the current and prior year.

Credit risk

The Group has no significant concentrations of counterparty credit risk in respect of its external financial assets. As the central financing vehicle for BAT Group, concentrations of credit risk arise from financial assets due from fellow subsidiaries and the parent undertaking. All loans to fellow subsidiaries, subsidiary companies and the parent are priced on an arm's length basis. To determine the appropriate risk premium, the Group consults, where appropriate, with independent financial institutions who assess the asset base and sovereign risk specific to the relevant counterparty.

Intercompany counterparties have appropriate capital structures to meet their obligations as they fall due. All loans to fellow subsidiaries, subsidiary companies and the parent undertaking are therefore between parties which have been individually reviewed and are considered to be in a position to continue to meet their obligations. The Group recognises that the sovereign risk of a fellow subsidiary can be the determining factor of default.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group targets a long term counterparty credit rating of at least A/A2. From time to time, the Group may invest in short dated corporate commercial paper. For this, the Group has identified specific counterparties with a minimum short term rating of A1/P1.

External counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of bank counterparties are reviewed regularly. The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions.

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group balance sheet. In addition, the Group provides committed credit facilities to certain fellow subsidiaries. The

12. Management of financial risks continued

undrawn portion of these committed facilities at 31 December 2008 is **£970 million** (2007: £964 million). Guarantees provided to third parties are shown in note 20 on page 29.

Price risk

At 31 December 2008 and 31 December 2007, the Group's financial instruments are not sensitive to price risk.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained and is expected to remain highly effective.

Fair value estimation

Derivative financial instruments
The fair value of derivatives are determined based on market data (primarily yield curves and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data fair values would be based on the quoted market price of similar derivatives.

Other financial instruments
The fair values of financial assets and liabilities with maturities of less than one year are assumed to approximate to their book values due to their short term nature. For financial assets and liabilities with maturities of more than one year, fair values are based on quoted market prices or discounted cash flow analysis. Disclosures on fair values are invaded in relevant notes.

13. Other receivables

	31 December 2008 £m	31 December 2007 £m
Prepayments and accrued income:		
Due from fellow subsidiaries	**4**	2
Other	**2**	1
	6	3

Within the 'other' category of other receivables are amounts due in more than 1 year of **£2 million** (2007: £1 million).

The currency profile of other receivables is **£2 million** (2007: £1 million) sterling, **£2 million** (2007: £nil million) euros, **£1 million** (2007: £1 million) US dollar, **£1 million** (2007: £1 million) in other currencies.

There is no material difference between the book values for other receivables and their fair values.

14a). Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2008 of **£3,661 million** fall due within four years (2007: £3,668 million within five years) and reprice within one year (2007: £3,668 million within one year). The effective interest rate is **5.6 per cent** (2007: 7.1 per cent).

Loans due from parent undertaking include **£44 million** of interest receivable at 31 December 2008 (2007: £51 million). The fair value of loans to parent is **£3,683 million** (2007: £3,774 million).

14b). Loans due from fellow subsidiaries

Loans due from fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates:

	31 December 2008 £m	31 December 2007 £m	**31 December 2008 %**	31 December 2007 %
Functional currency (UK sterling)	**2,723**	2,690	**6.2**	7.4
Euro	**4,452**	2,737	**6.7**	5.8
US dollar	**3,332**	2,541	**4.0**	6.0
Singapore dollar	**992**	465	**4.9**	4.3
Danish krone	**935**		**7.1**	
Canadian dollar	**920**	1,100	**6.0**	5.9
Norwegian krone	**343**		**8.3**	
Hong Kong dollar	**227**	162	**3.1**	4.6
Swedish krona	**185**		**6.7**	
Swiss franc	**181**		**4.2**	
Hungarian forint	**70**	56	**11.6**	8.6
Australian dollar	**49**	9	**6.7**	8.5
Polish zloty	**43**	23	**7.9**	6.0
Czech krona	**38**	63	**6.7**	7.4
New Zealand dollar		134		10.3
	14,490	9,980		

There is no material difference between the book value and fair value for loans due from fellow subsidiaries.

The maturity dates of loans to fellow subsidiaries as recognised in the balance sheet are as follows:

	31 December 2008 £m	31 December 2007 £m
Within one year	**4,240**	3,391
Between one and two years	**1,286**	382
Between two and three years	**5,977**	1,067
Between three and four years	**2,358**	2,801
Between four and five years	**532**	2,339
Beyond five years	**97**	
Total	**14,490**	9,980

The exposure to interest rate changes when loans reprice is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Greater than 5 years
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2008	**14,490**	**12,295**	**592**	**1,343**	**65**	**98**	**97**
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2007	9,980	8,283	149	521	979	48	

Interest rate risk on loans due from fellow subsidiaries is not hedged by the Group.

Loans due from fellow subsidiaries include **£183 million** of interest receivable (2007: £109 million).

Loans totalling **€1.6 billion** (2007: €1.9 billion) due from a fellow subsidiary will be settled by delivery of German government securities. Forward sale contracts are in place to hedge the value of these securities (note 11).

15. Borrowings - bank overdrafts and issued debt

	Currency	Maturity dates	Interest rates	31 December 2008 £m	31 December 2007 £m
Issued debt					
Eurobonds	Euro	2009-2019	3.6 to 5.9%	**5,177**	2,731
	UK sterling	2008-2019	5.5 to 7.3%	**1,427**	1,059
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act	US dollar	2013-2018	8.1 to 9.5%	**694**	
Syndicated bank loans	Euro	2009	floating rate	**382**	
				7,680	3,790
Premium on novated bonds					2
Premium on repurchase of debt				**(2)**	(2)
				7,678	3,790
Bank overdrafts				**15**	11
				7,693	3,801

On 13 February 2008, and as amended on 1 May 2008, the Company and its subsidiary BATIF Dollar Limited (as borrowers) entered into a revolving credit facility agreement with Barclays Capital and J.P. Morgan plc (as mandated lead arrangers), Barclays Bank PLC (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers €420 million to finance certain acquisition activities and other associated costs. As at 31 December 2008, €395 million had been drawn under the facility and the period of availability for draw down on this facility lapsed in August 2008.

On 12 March 2008, €1.25 billion and GBP 500m bonds were issued maturing in 2015 and 2024 respectively. The bonds replaced the €1.8 billion revolving credit facility arranged in December 2007 and cancelled in 2008. In addition, the €1 billion 5.375 per cent bond maturing in 2017 was increased by an additional €250 million, bringing the size of the bond to €1.25 billion. The funds obtained from these bond issuances were mainly used to fund the acquisition activities of BAT Group as well as the repayment of maturing bonds in the Company and elsewhere in BAT Group.

In November 2008, US$300 million and US$700 million bonds were issued, maturing in 2013 and 2018 respectively, pursuant to Rule 144A and RegS under the US Securities Act. The Company repaid its £217 million fixed rate bond in November 2008.

Included within borrowings of £7,678 million (2007: £3,790 million) above are £2,632 million (2007: £2,140 million) of borrowings where the amortised cost has been adjusted as part of a fair value hedge. The carrying value of borrowings subject to fair value hedges has been increased by £89 million at 31 December 2008 (2007: decreased by £40 million) in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Euro at 31 December 2008 and US dollars at 31 December 2007.

Issued debt is repayable as follows:

	Per balance sheet 31 December 2008 £m	Per balance sheet 31 December 2007 £m	Contractual gross maturities 31 December 2008 £m	Contractual gross maturities 31 December 2007 £m
Within one year	**1,477**	309	**1,662**	410
Between one and two years		659	**364**	843
Between two and three years			**364**	150
Between three and four years	**734**		**1,089**	150
Between four and five years	**1,556**	520	**1,863**	700
Beyond five years	**3,911**	2,302	**5,173**	2,830
Total	**7,678**	3,790	**10,515**	5,083

The contractual gross maturities in each year include the borrowings maturing in that year together with forecast interest payments on all borrowings which are outstanding for all or part of the year.

Issued debt repayable within one year includes interest payable of **£225 million** (2007: £91 million).

15. Borrowings - bank overdrafts and issued debt continued

Issued debt is denominated in the following currencies:

	Total £m	GBP £m	USD £m	EUR £m	CHF £m	AUD £m	CAD £m	DKK £m	SEK £m	NOK £m
As at 31 December 2008										
Total issued debt	7,678	1,427	694	5,557						
Effect of derivative financial instruments										
Cross-currency swaps	(135)	104	408	(1,097)				450		
Forward foreign exchange contracts	90	(1,281)		(1,000)	182	824	394	452	181	338
	7,633	250	1,102	3,460	182	824	394	902	181	338
As at 31 December 2007										
Total issued debt	3,790	1,057		2,733						
Effect of derivative financial instruments										
Cross-currency swaps	(160)	(113)	750	(1,043)			246			
Forward foreign exchange contracts	35	(1,022)			122	579	356			
	3,665	(78)	750	1,690	122	579	602			

Details of the derivative financial instruments included in these tables is given in note 11 on pages 14-19.

The exposure to interest rate changes when borrowings are repriced is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years
At 31 December 2008	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total issued debt	7,678	1,477			734	1,556	3,911
Effect of derivative financial instruments							
Interest rate swaps		1,712			(725)	(737)	(250)
Cross-currency swaps	(4)	15					(19)
	7,674	3,204			9	819	3,642
At 31 December 2007	£m	£m	£m	£m	£m	£m	£m
Total issued debt	3,790	309	659			520	2,302
Effect of derivative financial instruments							
Interest rate swaps		1,482	(588)				(894)
Cross-currency swaps	(76)	600	(110)			(551)	(15)
	3,714	2,391	(39)			(31)	1,393

Details of the derivative financial instruments included in these tables is given in note 11 on pages 14-19.

British American Tobacco p.l.c. has provided guarantees for all of the Company's public indebtedness. As at 31 December 2008, the amount of these guarantees was **£7,772 million** (2007: £3,763 million).

The fair value of issued debt is **£7,437 million** (2007: £3,784 million) and has been determined using quoted market prices.

Effective interest rates of issued debt and bank overdrafts are as follows:

	31 December 2008 £m	31 December 2007 £m	**31 December 2008 %**	31 December 2007 %
Functional currency (UK sterling)	**1,427**	1,061	**6.6**	6.3
US dollar	**694**	11	**9.4**	4.8
Euro	**5,572**	2,729	**5.0**	4.5
	7,693	3,801		

15. Borrowings - bank overdrafts and issued debt continued

The values and rates above do not reflect the effect of interest rate and cross-currency swaps detailed in note 11 on pages 14-19.

16a) Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking of **£2,413 million** (2007: £1,394 million) comprise current account borrowings from the parent. These are denominated in sterling and have an effective interest rate of **2.0 per cent** (2007: 5.7 per cent). There is no accrued interest repayable in the current or prior year.

There is no material difference between the book value and fair value for amounts repayable on demand to parent undertaking.

16b) Amounts repayable on demand to fellow subsidiaries

Amounts repayable on demand to fellow subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts held with the Group. These are denominated in the following currencies and have the following effective interest rates:

	31 December 2008 £m	31 December 2007 £m	**31 December 2008 %**	31 December 2007 %
Functional currency (UK sterling)	**4,446**	4,573	**2.0**	5.7
Euro	**482**	278	**2.3**	3.8
US dollar	**87**	56		4.6
Swiss franc	**70**	37		1.9
Polish zloty	**11**	4	**6.1**	6.1
Romanian leu	**7**		**14.3**	
Other	**9**	4	**7.7**	8.2
	5,112	4,952		

Amounts repayable on demand to fellow subsidiaries include **£1.1 million** of interest repayable at 31 December 2008 (2007: £1.6 million). There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries.

17. Other payables

	31 December 2008 £m	31 December 2007 £m
Accrued charges and deferred income:		
Due to fellow subsidiaries		2
Other	**7**	8
	7	10

The currency split of other payables is **£7 million** in sterling (2007: £9 million) and **£nil** in US dollars (2007: £1 million). Other payables all fall due within one year.

There is no material difference between the book values of other payables and their fair values.

18a) Term deposit repayable to parent undertaking

The term deposit of £810 million in the prior year matured in May 2008 and was therefore due within one year at 31 December 2007. The balance of £810 million at 31 December 2007 included interest receivable of £0.5m. The contractual gross maturity of the prior year balance was £813 million due within one year.

There was no material difference between the book value and fair value of the term deposit repayable to parent undertaking at 31 December 2007.

18b) Term deposits repayable to fellow subsidiaries

Term deposits repayable to fellow subsidiaries are denominated in the following currencies and have the following effective interest rates:

	31 December 2008 £m	31 December 2007 £m	**31 December 2008 %**	31 December 2007 %
Functional currency (UK sterling)	**2,750**	2,418	**3.1**	6.1
US dollar	**188**	295	**1.3**	4.9
Euro	**590**	620	**4.5**	4.6
Swiss franc	**70**	37	**0.7**	2.7
Norwegian krone	**30**		**3.3**	
Hong Kong dollar	**25**	17	**1.7**	3.6
Singapore dollar		3		2.3
	3,653	3,390		

Term deposits repayable to fellow subsidiaries include **£7.4 million** of interest payable at 31 December 2008 (2007: £6.8 million) and reprice within one year (2007: £3,390 million within one year).

Term deposits repayable to fellow subsidiaries fall due as follows:

	Per balance sheet		**Contractual gross maturities**	
	31 December 2008 £m	31 December 2007 £m	**31 December 2008 £m**	31 December 2007 £m
Within one year	**3,653**	3,379	**3,673**	3,419
Between one and two years		11		11
	3,653	3,390	**3,673**	3,430

There is no material difference between the above amounts for term deposits repayable to fellow subsidiaries and their fair values.

19. Total shareholders' equity

	Share capital £m	**Hedging reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2008	**1**	**(11)**	**(115)**	**388**	**263**
Differences on exchange			565		565
Cash flow hedges					
net fair value gains		114			114
reclassified and reported in profit and loss		(116)			(116)
Net investment hedges					
net fair value losses			(106)		(106)
Loss for the financial year				(288)	(288)
31 December 2008	**1**	**(13)**	**344**	**100**	**432**

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2007	1	(7)	(98)	347	243
Differences on exchange			(23)		(23)
Cash flow hedges					
net fair value gains		23			23
reclassified and reported in net profit		(27)			(27)
Net investment hedges					
net fair value gains			6		6
Profit for the financial year				41	41
31 December 2007	1	(11)	(115)	388	263

Details relating to the authorised and allotted share capital, and movements therein, is included on page 38, note 15 to the parent company Financial Statements.

The translation reserve is as explained in the accounting policy on foreign currencies on page 8. The hedging reserve is as explained in the accounting policy on financial instruments on page 9.

19. Total shareholders' equity continued

On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to £231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 and to disapply pre-emption rights under section 89(1) of the Act. Following the conclusion of the EGM, £230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c. at par.

20. Contingent liabilities

The Group is one of the three entities in the BAT Group which have jointly guaranteed borrowing facilities available to British American Tobacco Mexico, S.A. de C.V. of **£480 million** (US$690 million), to B.A.T. Capital Corporation of **£28 million** (US$40 million) and to B.A.T. Holdings (The Netherlands) B.V. of **£2,379 million** (€2,125 million and £325 million). All such facilities have been utilised at the balance sheet date.

Additionally, the Company is one of the two entities in the BAT Group which have jointly guaranteed a borrowing facility available to British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi of **£734 million** (€759 million). No further drawings are available under this facility.

21. Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24, all of which are undertaken in the normal course of the Group's business as a primary financing vehicle for the BAT Group.

Transactions and balances with fellow subsidiaries and the parent undertaking relate mainly to the provision of finance to companies within the BAT Group.

Details of these transactions in the Group Balance Sheet are set out in notes 10, 13, 14, 16, 17, and 18. In addition, outstanding balances with fellow subsidiaries are included within note 11 as follows:

	31 December 2008		31 December 2007	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Derivative financial instruments				
Cross-currency swaps	**109**	**79**	97	3
Forward foreign currency contracts	**86**	**66**	21	78
	195	**145**	118	81

Details of these transactions in the Group Income Statement are set out in notes 3, 4 and 5. In addition, balances with fellow subsidiaries are included within note 6 as follows:

	2008	2007
	£m	£m
Derivative financial instruments	**Income/(Expense)**	Income/(Expense)
Cross-currency swaps	**34**	58
Forward foreign currency contracts	**116**	(30)
	150	28

The key management of the Company consist of the members of the Board of Directors and no such person had any material interest during the year in a contract of significance with the Group. The term key management in this context includes the respective members of their households.

22. Post balance sheet events

On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to £231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 and to disapply pre-emption rights under section 89(1) of the Act. Following the conclusion of the EGM, £230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c. at par.

The additional funding of £230 million resolves the net deficit in the Parent Company Balance Sheet at 31 December 2008 caused by significant fair value losses in 2008 on forward currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of BAT p.l.c..

23. Principal subsidiary undertakings

The Company holds the entire issued share capital of BATIF Dollar Limited, and of B.A.T Finance B.V., finance companies incorporated in England and Wales and the Netherlands respectively.

24. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2007: £nil).

25. Parent undertaking

The Company's immediate and ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c., being incorporated in the United Kingdom and registered in England and Wales and registered as an external Company in Republic of South Africa. Consolidated group accounts are prepared by British American Tobacco p.l.c. and are publicly available.

26. Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Report of the Independent Auditors - Group Financial Statements

We have audited the Group Financial Statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2008, which comprise the Group Income Statement, the Group Statement of Changes in Total Equity, the Group Balance Sheet, the Group Cash Flow Statement and the related notes. These Group Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company Financial Statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2008.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' responsibilities in relation to the Financial Statements, included in the Directors' Report.

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

We report to you our opinion as to whether the Group Financial Statements give a true and fair view and whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group Financial Statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group Financial Statements. The other information comprises the Directors' Report and the Parent Company Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group Financial Statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London
15 April 2009

Balance Sheet – B.A.T. International Finance p.l.c.

31 December

	2008 £m	2007 £m
Assets		
Fixed assets		
Investments in subsidiaries (note 2)	**1,160**	1,160
Loans due from parent undertaking (note 3a)	**3,661**	3,668
Loans due from fellow subsidiaries (note 3b)	**11,167**	7,472
	15,988	12,300
Current assets		
Amounts due on demand from subsidiaries (note 4)	**1,660**	1,392
Amounts due on demand from fellow subsidiaries (note 5)	**1,053**	683
Prepayments and accrued income (note 6)	**5**	2
Derivative financial instruments (note 7)	**744**	342
Short term deposits and cash (note 9)	**495**	265
	3,957	2,684
Total assets	**19,945**	14,984
Liabilities		
Creditors		
Issued debt (note 10)	**7,678**	3,790
Bank overdrafts (note 10)	**15**	11
Amounts payable on demand to parent undertaking (note 11a)	**2,413**	1,394
Amounts payable on demand to fellow subsidiaries (note 11b)	**5,112**	4,952
Borrowings from parent undertaking (note 12)		810
Borrowings from fellow subsidiaries (note 13)	**3,653**	3,390
Derivative financial instruments (note 7)	**1,139**	321
Accruals and deferred income (note 14)	**7**	10
	20,017	14,678
Capital and reserves		
Called up share capital (note 15)	**1**	1
Hedging reserve (note 15)	**(6)**	(2)
Retained earnings (note 15)	**(67)**	307
Total shareholders' (deficit)/equity	**(72)**	306
Total funds employed	**19,945**	14,984

On behalf of the Board

R. L. Allen
15 April 2009

Notes are shown on pages 33-39

1. Accounting policies

Basis of accounting
The Parent Company Financial Statements have been prepared on the going concern basis under the historical cost convention except as described in the accounting policy below on financial instruments and in accordance with the Companies Act 1985 / 2006 and UK Generally Accepted Accounting Principles.

The adoption of International Financial Reporting Standards for the Group's consolidated accounts has led to the use of the 'liquidity format' for the balance sheet in those accounts. In order to aid comparability between the Group and Company, the format of the Company balance sheet has been presented within the limits of Schedule 4 of the Companies Act 1985, to match as closely as possible the 'liquidity format'.

Cash flow statement
The cash flows of the Company are included in the Group cash flow statement on page seven. Consequently the Company is exempt under the terms of FRS 1 (Revised) from publishing a cash flow statement.

Foreign currencies
Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences, including unrealised gains and losses on the currency translation of long term monetary items, arising from this treatment are taken to the profit and loss account in the year.

Taxation
Taxation provided is that chargeable on the profits of the period, together with deferred taxation. Deferred taxation is provided in full on timing differences between the recognition of gains and losses in the Parent Company Financial Statements and their recognition in tax computations. The Company does not discount deferred tax assets and liabilities.

Investments in subsidiaries
Investments in subsidiaries are stated at cost, together with subsequent capital contributions, less provision for any impairment in value.

Financial instruments
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. Financial assets measured at amortised cost are reviewed for impairment at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. An impairment for irrecoverable amounts is recognised when there is objective evidence that the full amount receivable will not be collected according to the original terms of the asset. Such evidence might include financial difficulties of the counterparty, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable.

Short term deposits and cash include cash in hand and deposits held on call, together with other short term highly liquid investments. Short term deposits normally comprise instruments with maturities of three months or less at date of acquisition.

Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value include accrued interest payable, as well as unamortised issue costs.

Derivative financial assets and liabilities are stated at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- For derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement. The accumulated gains and losses are recognised in the income statement in the same period as the hedged item.

1. **Accounting policies** continued

Financial instruments continued

- For derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement.

For derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the income statement in the period in which they arise.

In order to qualify for hedge accounting, the Company is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained and is expected to remain highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (for example through expiry or disposal), or no longer qualifies for hedge accounting.

Segmental analysis
The Company's internal reporting systems are not arranged on a geographical basis. As SSAP25 requires a segmental analysis, geographical segmentation based on location of counterparty has been provided in note 16. The Company is a single product business providing finance services.

Related parties
The Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are part of the BAT Group.

Dividends
Dividend distributions are recognised as a liability in the Financial Statements in the period in which the dividends are declared and approved.

2. **Investments in subsidiaries**

The Company holds the entire issued share capital of BATIF Dollar Limited, and of B.A.T Finance B.V., finance companies incorporated in England and Wales and the Netherlands respectively. The cost of these investments as at 31 December 2008 was **£1,160 million** (2007: £1,160 million).

The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value of not less than the amount at which they are shown in the balance sheet.

3a) **Loans due from parent undertaking**

Loans due from parent undertaking of **£3,661 million** (2007: 3,668 million) comprise exactly the same balances and disclosures as Loans due from parent undertaking, detailed in Group note 14a.

The difference between the current and prior year balances is analysed as follows:

	£m
1 January 2008	**3,668**
Movement in interest accruals	**(7)**
31 December 2008	**3,661**

3b) **Loans due from fellow subsidiaries**

The difference between the current and prior year balances is analysed as follows:

	£m
1 January 2008	**7,472**
Differences on exchange	**1,652**
Movement in interest accruals	**74**
Advances	**7,807**
Repayments	**(5,838)**
31 December 2008	**11,167**

3b) Loans due from fellow subsidiaries continued

Loans due from fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates:

	31 December 2008 £m	31 December 2007 £m	**31 December 2008 %**	31 Decemeber 2007 %
Functional currency (UK sterling)	**2,723**	2,690	**6.2**	7.4
Euro	**4,452**	2,737	**6.7**	5.8
US dollar	**9**	33	**2.9**	5.6
Singapore dollar	**992**	465	**4.9**	4.3
Danish krone	**935**		**7.1**	
Canadian dollar	**920**	1,100	**6.0**	5.9
Norwegian krone	**343**		**8.3**	
Hong Kong dollar	**227**	162	**3.1**	4.6
Swedish krona	**185**		**6.7**	
Swiss franc	**181**		**4.2**	
Hungarian forint	**70**	56	**11.6**	8.6
Australian dollar	**49**	9	**6.7**	8.5
Polish zloty	**43**	23	**7.9**	6.0
Czech krona	**38**	63	**6.7**	7.4
New Zealand dollar		134		10.3
	11,167	7,472		

There is no material difference between the book value and fair value for loans due from fellow subsidiaries.

The maturity dates of loans due from fellow subsidiaries as recognised in the balance sheet are as follows:

	31 December 2008 £m	31 December 2007 £m
Within one year	**4,006**	2,936
Between one and two years	**1,021**	233
Between two and three years	**3,319**	793
Between three and four years	**2,320**	1,198
Between four and five years	**501**	2,312
Total	**11,167**	7,472

The exposure to interest rate changes when loans reprice is as follows:

	Total £m	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m
As at 31 December 2008	**11,167**	**9,113**	**586**	**1,343**	**27**	**98**
	£m	£m	£m	£m	£m	£m
As at 31 December 2007	7,472	5,956		516	979	21

Interest rate risk of loans to fellow subsidiaries is not hedged.

Loans to fellow subsidiaries include **£174 million** of interest receivable at 31 December 2008 (2007: £100 million).

Loans totalling **€1.6 billion** (2007: €1.9 billion) due from a fellow subsidiary will be settled by delivery of German government securities. Forward sale contracts are in place to hedge the value of these securities (Group note 11).

4. Amounts due on demand from subsidiaries

Amounts due on demand from subsidiaries of **£1,660 million** (2007: £1,392 million) comprise current accounts held with the Company. These are denominated in US dollars and the effective interest rate is **1.3 per cent** (2007: 5.4 per cent).

There is no material difference between the book value and fair value for amounts due on demand from subsidiaries.

5. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries of **£1,053 million** (2007: 683 million) comprise the same balances and disclosures as Amounts due on demand from fellow subsidiaries for the Group, detailed in Group note 10. Consequently no additional information is presented here.

6. Prepayments and accrued income

	31 December 2008 £m	31 December 2007 £m
Prepayments and accrued income:		
Due from fellow subsidiaries	**3**	2
Other	**2**	1
	5	3

Within the category 'other' of prepayments and accrued income are amounts due in more than one year of **£2 million** (2007: £1 million).

The currency profile of prepayments and accrued income is denominated as **£2 million** (2007: £1 million) in sterling, **£2 million** (2007: £nil) euro, **£nil million** (2007: £1 million) in US dollar and **£1 million** (2007: £1 million) in other currencies. There is no material difference between the book values for prepayments and accrued income and their fair values.

7. Derivative financial instruments

Derivative financial instruments comprise the same balances as derivative financial instruments, detailed in Group note 11.

Group cash flow hedge cross-currency swaps of fair value **£151 million asset** (2007: £29 million asset) and Group net investment hedge cross currency swaps of fair value **£51 million liability** (2007: £57 million asset) are not designated as hedges by the Company and are classified as derivatives held for trading. Under FRS 29 the disclosures required are the same as under IFRS7. Consequently no additional information is presented here.

8. Management of financial risks

The disclosures provided by Group note 12 under IFRS 7 are the same as the disclosures required by FRS 29. Consequently no additional information is presented here except for currency risk, interest rate risk and credit risk.

Currency risk

FRS 29 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held by the Company. All other variables are held constant although, in practice, market rates rarely change in isolation. The Company considers a 10 per cent strengthening or weakening of its functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 10 per cent increase (strengthening) and a 10 per cent decrease (weakening) of the Company's functional currency against non-functional currencies would have the following impact on pre-tax profit:

	31 December 2008		31 December 2007	
	10% Increase £m	**10% Decrease £m**	10% Increase £m	10% Decrease £m
US dollar	**100**	**(123)**	50	(62)
Euro	**10**	**(13)**	29	(35)
Canadian dollar	**15**	**(18)**	9	(11)
Australian dollar	**12**	**(14)**	23	(28)
Swiss franc	**30**	**(36)**	16	(20)
Singapore dollar	**11**	**(13)**	1	(2)
South African rand	**16**	**(20)**	11	(13)
Other	**10**	**(13)**	1	(1)
	204	**(250)**	140	(172)

A 10 per cent increase (strengthening) and a 10 per cent decrease (weakening) of the Company's functional currency against non-functional currencies would have no impact on items recognised directly in equity for the current and prior year.

8. Management of financial risks continued

Currency risk continued

The currency sensitivity of pre-tax profit is principally due to the impact from forward foreign currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of BAT Group . These contracts provide cash flow certainty and are designated as net investment hedges in the Group financial statements of British American Tobacco p.l.c. As the Company does not have the underlying investments, the contracts are not designated as hedges in these accounts and changes in their fair value are recognised through the income statement. Excluding the impact of these contracts, a 10 per cent increase (strengthening) and a 10 per cent decrease (weakening) of functional currencies against non-functional currencies would have the following impact on pre-tax profit:

	31 December 2008		31 December 2007	
	10% Increase £m	**10% Decrease £m**	10% Increase £m	10% Decrease £m
US dollar	**2**	**(2)**	4	(5)
Euro	**(13)**	**15**	(2)	3
Canadian dollar		**1**	(3)	3
Australian dollar	**(9)**	**11**	3	(3)
Swiss franc	**14**	**(17)**	9	(12)
Singapore dollar	**9**	**(11)**	1	(2)
South African rand				
Other	**5**	**(7)**	(1)	3
	8	**(10)**	11	(13)

Interest rate risk

FRS 29 requires a sensitivity analyses that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of interest rates in respect of interest-bearing financial instruments recognised in the balance sheet at 31 December 2008. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of the sensitivity analyses, financial assets and liabilities with fixed interest rates are not included. The Company considers a 100 basis point change in interest rates as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis point change in currency interest rates would have the following impact on pre-tax profit:

	31 December 2008		31 December 2007	
	100 bps Increase £m	**100 bps Decrease £m**	100 bps Increase £m	100 bps Decrease £m
US dollar	**19**	**(20)**	9	(9)
Sterling	**(45)**	**45**	(40)	40
Euro	**(17)**	**18**	(15)	15
Canadian dollar	**8**	**(8)**	11	(11)
Australian dollar	**7**	**(7)**		
Other	**18**	**(18)**	8	(8)
	(10)	**10**	(27)	27

A 100 basis point change in interest rates would have no impact on items recognised directly in equity for the current and prior year.

Credit risk

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Company balance sheet. In addition, the Company provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2008 is **£807 million** (2007: £878 million). Guarantees provided to third parties are shown in note 18 page 39.

9. Short term deposits and cash

Short term deposits and cash for the Company comprise the same balances and disclosures as Cash and cash equivalents, detailed in Group note 9. Consequently no additional information is presented here.

10. Borrowings - bank overdrafts and issued debt

Bank overdrafts and issued debt for the Company comprise the same balances and disclosures as Bank overdrafts and Issued debt, detailed in Group note 15. Consequently no additional information is presented here.

11a) Amounts payable on demand to parent undertaking

Amounts payable on demand to parent undertaking of **£2,413 million** (2007: £1,394 million) comprise the same balances and disclosures as Amounts repayable to parent, detailed in Group note 16a. Consequently no additional information is presented here.

11b) Amounts payable on demand to fellow subsidiaries

Amounts payable on demand to fellow subsidiaries of **£5,112 million** (2007: £4,952 million) comprise the same balances and disclosures as Amounts repayable on demand to fellow subsidiaries, detailed in Group note 16b. Consequently no additional information is presented here.

12. Borrowings from parent undertaking

Borrowings from parent undertaking for the Company of **£nil** (2007: £810 million) comprise the same balances and disclosures as Term deposit repayable to parent undertaking, detailed in Group note 18a. Consequently no additional information is presented here.

13. Borrowings from fellow subsidiaries

Borrowings from fellow subsidiaries for the Company of **£3,653 million** (2007: £3,390 million) comprise the same balances and disclosures as Term deposits repayable to fellow subsidiaries, detailed in Group note 18b. Consequently no additional information is presented here.

14. Accruals and deferred income

Accruals and deferred income of **£7 million** (2007: £10 million) for the Company comprise the same balances and disclosures as Other payables, detailed in Group note 17. Consequently no additional information is presented here.

15. Total shareholders' equity

	Called up share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
1 January 2008	1	(2)	307	306
Cash flow hedges				
net fair value losses		(6)		(6)
reclassified and reported in profit and loss		2		2
Loss for the year			(374)	(374)
31 December 2008	1	(6)	(67)	(72)

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been presented in these Parent Company Financial Statements. The loss for the year ended 31 December 2008 was **£374 million** (2007: profit of £9 million).

Share capital consists of 1 million ordinary shares of £1 each, authorised, allotted, issued and fully paid. On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to £231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 and to disapply pre-emption rights under section 89(1) of the Act. Following the conclusion of the EGM, £230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c. at par.

The hedging reserve is explained in the accounting policy on financial instruments on page 33.

16. Segmental reporting

	Total		Europe		Americas		Asia Pacific	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Net (liabilities)/ assets	**(72)**	306	**(1,631)**	(1,088)	**761**	804	**798**	590

The segmental analysis is based on location of the counterparty.

17. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2007: £nil).

18. Contingent liabilities

The Company is one of the three entities in the BAT Group which have jointly guaranteed borrowings facilities available to British American Tobacco Mexico, S.A. de C.V. of **£480 million** (US$690 million), to B.A.T. Capital Corporation of **£28 million** (US$40 million) and to B.A.T. Holdings (The Netherlands) B.V. of **£2,379 million** (€2,125 million and £325 million). All such facilities have been utilised at the balance sheet date.

Additionally, the Company is one of the two entities in the BAT Group which have jointly guaranteed a borrowing facility available to British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi of **£734 million** (€759 million). This facility has been utilised at the balance sheet date.

19. Post balance sheet events

On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to £231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 and to disapply pre-emption rights under section 89(1) of the Act. Following the conclusion of the EGM, £230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c. at par.

The additional funding of £230 million enables the Company to continue to finance fellow subsidiary companies in the BAT Group and resolves the net deficit at 31 December 2008 caused by significant fair value losses in 2008 on forward currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of BAT p.l.c..

20. Parent undertaking

The Company's immediate and ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c., being incorporated in the United Kingdom and registered in England and Wales and registered as an external Company in the Republic of South Africa. Consolidated Group accounts are prepared by British American Tobacco p.l.c. and are publicly available.

21. Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Report of the Independent Auditors – Parent Company Financial Statements

We have audited the Parent Company Financial Statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2008 which comprise the Balance Sheet and the related notes. These Parent Company Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group Financial Statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2008.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report, including the Parent Company Financial Statements, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities, included in the Directors' Report.

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

We report to you our opinion as to whether the Parent Company Financial Statements give a true and fair view and whether the Parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Parent Company Financial Statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company Financial Statements. The other information comprises the Directors' Report and the Group Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company Financial Statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:

- the Parent Company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the Parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company Financial Statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London
15 April 2009