

British American Tobacco (Investments) Limited

Registered Number 00074974

Annual report and financial statements

For the year ended 31 December 2015

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Strategic report

The Directors present their strategic report on British American Tobacco (Investments) Limited ("the Company") for the year ended 31 December 2015.

Principal activities

The Company is a holding company of a group of companies which are active in the tobacco industry on behalf of the British American Tobacco p.l.c. Group (the "Group"). The Company, as described below, also undertakes a significant amount of research and development.

Review of the year ended 31 December 2015

The loss for the financial year attributable to British American Tobacco (Investments) Limited shareholders after deduction of all charges and the provision of taxation amounted to £4,307,000 (2014: profit of £70,426,000). The loss for the financial year is shown after deduction of £2,858,000 (2014: £28,192,000) of exceptional operating charges, £843,000 of which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

The Directors expect the Company's activities to continue on a similar basis in the foreseeable future.

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

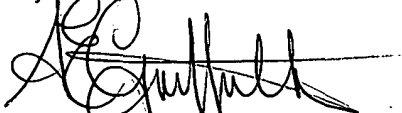
Principal risks and uncertainties

The principal risks and uncertainties of the Company, including financial risk management, are integrated with the principal risks of the Group and are monitored by audit committees to provide a framework for identifying, evaluating and managing risks faced by the Group. Accordingly, the key Group risk factors that may be relevant to the Company are disclosed in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

Auditor

PricewaterhouseCoopers LLP resigned as auditor on 24 September 2015 pursuant to section 516 of the Companies Act 2006. On 24 September 2015 the directors appointed KPMG LLP as auditor of the Company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006.

By Order of the Board



Ms. A.E. Griffiths
Assistant Secretary

31 March 2016

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2015.

Dividends

The Directors do not recommend the payment of a dividend for the year (2014: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2015 to the date of this report are as follows:

	Appointed	Resigned
Jerome Bruce Abelman	1 September 2015	
Tadeu Luiz Marroco	1 September 2015	
David O'Reilly	1 September 2015	
Steven Glyn Dale	14 September 2015	
John Benedict Stevens		
Terrence Donald McConnell		31 August 2015
Kingsley Wheaton		
Giovanni Giordano		
Alan Davy		

Directors' indemnities

Throughout the period 1 January 2014 to the date of this report, a qualifying third party indemnity has been in force under which Mr J.B. Stevens as a Director of the Company, was, 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 a Director on behalf of the Company.

Research and development

The Company's activities are concentrated on the development of toxicant reduced technologies, new products, new processes, quality improvement of existing products and cost reduction programmes in the tobacco industry.

Research is also undertaken into various aspects of the science and behavioural science related to smoking, including continued significant funding of independent studies. The research and development expenditure incurred by the Company in 2015 was £76,580,000 (2014: £51,231,000) including associated depreciation and staffing.

Directors' report (continued)

Employees

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

The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

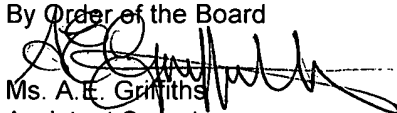
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' declaration in relation to relevant audit information

Having made appropriate enquiries, each of the Directors who held office at the date of approval of this report confirms that:

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

By Order of the Board


Ms. A.E. Griffiths
Assistant Secretary

31 March 2016

Independent auditor's report to the members of British American Tobacco (Investments) Limited

We have audited the financial statements of British American Tobacco (Investments) Limited for the year ended 31 December 2015 set out on pages 7 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope for the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Our opinion

In our opinion, British American Tobacco (Investments) Limited financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

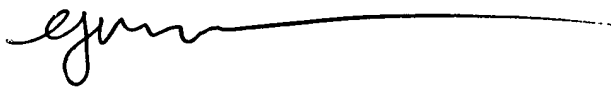
In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Independent auditor's report to the members of British American Tobacco (Investments) Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Christopher Hearn, (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
31 March 2016

Profit and loss account for the year ended 31 December

		2015	Restated 2014
	Note	£'000	£'000
Continuing operations			
Other operating income	2	95,121	81,944
Other operating charges	3	(330,970)	(292,545)
Operating loss		(235,849)	(210,601)
Income from shares in Group undertakings	4	248,640	289,539
Income from other investments at fair value	5	5,620	3,178
Interest receivable and similar income	6	1,236	937
Interest payable and similar charges	7	(4,886)	(791)
Profit on ordinary activities before taxation		14,761	82,262
Tax on profit on ordinary activities	8	(19,068)	(11,836)
(Loss) / profit for the financial year		(4,307)	70,426

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Statement of other comprehensive income for the year ended 31 December

		2015	Restated 2014
	Note	£'000	£'000
(Loss)/profit for the financial year		(4,307)	70,426
Actuarial gain/(loss) arising from defined benefit pension scheme	17	161,400	(83,499)
Deferred taxation on actuarial (gain)/loss	8	(29,052)	-
Net fair value gains on other investments at fair value	11	9,861	9,216
Total other comprehensive income for the year		137,902	(3,857)

Statement of changes in equity for the year ended 31 December 2015

	Called up share capital	Profit and loss account	Fair Value Reserve	Total Equity
	£'000	£'000	£'000	£'000
1 January 2015	134,747	679,681	-	814,428
Effect of changes in accounting policy (note 19)	-	(735,053)	45,332	(689,721)
1 January 2015 Restated	134,747	(55,372)	45,332	124,707
Loss for the financial year	-	(4,307)	-	(4,307)
	134,747	(59,679)	45,332	120,400
Other comprehensive income				
Net fair value gains on other investments at fair value (note 11)	-	-	9,861	9,861
Deferred taxation on actuarial (gain)/ loss (note 8)	-	(29,052)	-	(29,052)
Actuarial gain arising from defined benefit pension scheme (note 17)	-	161,400	-	161,400
31 December 2015	134,747	72,669	55,193	262,609

The accompanying notes are an integral part of the financial statements.

Balance sheet

		31 December 2015 £'000	Restated 31 December 2014 £'000	Restated 1 January 2014 £'000
	Note			
Fixed assets				
Intangible assets	9	38,072	52,020	59,754
Tangible assets	10	137,391	106,771	100,929
Investments in Group undertakings	11	257,105	231,605	211,615
Other investments at fair value	11	56,049	46,188	36,973
Retirement benefits assets	12	311,222	-	-
		799,839	436,584	409,271
Current assets				
Debtors: amounts falling due within one year	13	1,006,410	804,012	715,990
Debtors: amounts falling due after one year		-	-	24,152
Cash at bank and in hand		-	-	39,846
		1,006,410	804,012	779,988
Creditors: amounts falling due within one year	14a	(1,170,147)	(1,042,383)	(899,019)
Net current liabilities		(163,737)	(238,371)	(119,031)
Total assets less current liabilities		636,102	198,213	290,240
Creditors: amounts falling due after more than one year	14b	(273,660)	-	(24,619)
Provisions for liabilities and other charges	15	(30,739)	-	-
Retirement benefits liabilities	17	(69,094)	(73,506)	(137,056)
Net assets including retirement benefits liabilities		262,609	124,707	128,565
Capital and reserves				
Called up share capital	16	134,747	134,747	134,747
Profit and loss account		72,669	(55,372)	(42,299)
Fair value reserve		55,193	45,332	36,117
Total shareholders' funds		262,609	124,707	128,565

The financial statements on pages 7 to 39 were approved by the Directors on 31 March 2016 and signed on behalf of the Board.



J.B. Stevens
Director

Registered number
00074974

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements for the year ended 31 December 2015

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101 have been taken.

The company has taken advantage of the exemption from preparing a cash flow statement, from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group, and from certain disclosures in relation to financial instruments and share schemes where equivalent disclosures are included in the consolidated financial statements of the Company's ultimate parent.

In the transition to FRS 101, the company has applied IFRS 1, whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance, including recognition and measurement exemptions under IFRS 1, is provided in note 19.

The preparation of the financial statements requires the Directors 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 are set out in the accounting policies below, together with the related notes to the accounts.

The most significant items include:

- the review of asset values and impairment testing of non-financial assets;
- the estimation of and accounting for retirement benefits costs;
- the estimation of amounts to be recognised in respect of taxation and legal matters; and
- the exemptions taken under IFRS 1 on the first time adoption of FRS 101 at 1 January 2014.

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

The Company is included in the consolidated financial statements of British American Tobacco p.l.c. which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The accounting policies set out below, have unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing the opening balance sheet at 1 January 2014 for the purpose of the transition to FRS 101.

Cash flow statement

The Company is a wholly owned subsidiary of British American Tobacco p.l.c. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 101.

Foreign currencies

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year.

Notes to the financial statements for the year ended 31 December 2015

Accounting policies (continued)

Income

Income is recognised in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts where there is an expectation that all or a portion of the amount due will not be recovered.

Taxation

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

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date.

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.

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 *Income Taxes*, 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 profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or changes in equity.

The Company has exposures in respect of the payment or recovery of a number of taxes. Liabilities or assets for these payments or recoveries are recognised at such time as an outcome becomes probable and when the amount can reasonably be estimated.

Intangible assets

The intangible assets shown on the Company balance sheet consist mainly of trademarks and similar intangibles and computer software. Intangibles are carried at cost less accumulated amortisation and impairment.

Other intangible assets are amortised on a straight-line basis over their remaining useful lives, consistent with the pattern of economic benefits expected to be received, which do not exceed 20 years.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to five years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding ten years.

Investments in Group undertakings

Investments in Group undertakings are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, where appropriate.

Notes to the financial statements for the year ended 31 December 2015

Accounting policies (continued)

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. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current.

Financial assets and financial liabilities are initially recognised at fair value, plus directly attributable transaction costs where applicable, with subsequent measurement as set out below.

Non-derivative financial assets are classified on initial recognition as other investments at fair value, loans and receivables or cash and cash equivalents as follows:

Loans and receivables: Amounts owed by Group undertakings and Other debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other investments at fair value: Other investments at fair value are accounted for as available-for-sale investments in accordance with IAS 39 with changes in fair value being recognised directly in other comprehensive income. When such investments are derecognised (e.g. through disposal) or become impaired, the accumulated gains and losses, previously recognised in other comprehensive income, are reclassified to the profit and loss statement within 'income from other investments at fair value'. Dividend and interest income on these investments are included within 'income from other investments at fair value' when the Company's right to receive payments is established.

Fair values for quoted investments are based on observable market prices where available. If there is no active market for an investment, the fair value is established by using the discounted cash flows of estimated future dividends.

Operating leases

The annual payments under operating leases are charged to the profit and loss account on a straight line basis over the length of the lease term.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held for sale. Freehold and leasehold property are depreciated at rates between 2.5 per cent and 4 per cent per annum, and plant and equipment at rates between 7 per cent and 25 per cent per annum.

Contingent liabilities and contingent assets

The Company is a defendant in tobacco-related and other litigations. Provision for these litigations (including legal costs) would be made at such time as an unfavourable outcome became probable and the amount could be reasonably estimated. Contingent assets are possible assets whose existence will only be confirmed by future events not wholly within the control of the entity and are not recognised as assets until the realisation of income is virtually certain. Where a provision has not been recognised, the Company records its external legal fees and other external defence costs for tobacco-related and other litigations as these costs are incurred.

Notes to the financial statements for the year ended 31 December 2015

Accounting policies (continued)

Employee share schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group undertaking, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The fellow Group company, which administers the share schemes on behalf of other Group undertakings and calculates and reflects the charge for the share schemes, provides the relevant disclosures required under IFRS 2. As noted above, disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent.

Retirement benefits

The Company operates and participates in both defined benefit and defined contribution schemes. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 Employee Benefits, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements.

Actuarial gains and losses, changes in unrecognised scheme surpluses and minimum funding requirements are recognised in full through other comprehensive income. Past service costs or credits resulting from amendments to benefits are recognised immediately.

For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements.

Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

Research and development

Research expenditure is charged to income in the year in which it is incurred. Development expenditure is charged to income in the year it is incurred, unless it meets the recognition criteria of IAS 38 *Intangible Assets*.

Government grants

Government grants, including tax credits in relation to qualifying research and development expenditure are recognised in the same period as the related expenditure where the Company has complied with the relevant regulations and there is reasonable assurance that the tax credits will be received. These tax credits are presented as deductions from research and development expenditure.

Notes to the financial statements for the year ended 31 December 2015

2 Other operating income

Other operating income comprises technical and advisory fees, commission income and royalties receivable from fellow Group companies.

3 Other operating charges

	2015 £'000	Restated 2014 £'000
Staff costs	96,344	78,102
Research and development	31,297	28,749
Depreciation of tangible assets	7,162	5,053
Amortisation of intangible assets	20,789	12,797
Impairment of tangible assets	105	3,921
Impairment of intangible assets	3,954	3,865
Gain on disposal of tangible assets	(6,250)	-
Operating lease charges - buildings	863	425
Exchange (gains)/ losses	(1,422)	4,101
Exceptional operating charges	2,858	28,192
Impairment of loans to Group undertakings	32,567	-
Write off of loan to Group undertakings	24,580	-
Other	118,123	127,340
	330,970	292,545

Included within research and development is an amount of £664,000 (2014: £859,000) which is a tax credit related to qualifying research and development expenditure incurred during the year. Also, within depreciation and amortisation there is an amount of £6,446,000 (2014: £1,088,000) which relates to research and development activity.

Auditor's fees of £75,000 were borne by a fellow Group undertaking (2014: £75,000).

The exceptional operating charges of £2,858,000 (2014: £28,192,000), are largely related to the closure of a plant in Switzerland. The remaining £843,000 is the result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model. The new operating model includes revised organisation structures, standardised processes and shared back office services underpinned by a global single instance of SAP.

The provision for impairment and write-off totalling £57,147,000 are related to a loan granted to British American Tobacco Egypt LLC, an indirect subsidiary of the Company.

	2015 £'000	Restated 2014 £'000
Staff costs:		
Wages and salaries	66,686	55,737
Social security costs	6,309	5,144
Retirement benefits costs (note 17)	23,855	22,036
Contributions from other Group undertakings	(9,927)	(11,941)
Other pension costs - defined contribution	2,681	2,062
Share scheme charges	6,514	5,005
Other pension costs –administration costs	226	59
	96,344	78,102

Included within total staff costs is an amount of £38,837,000 (2014: £21,394,000) which relates to research and development activity.

Notes to the financial statements for the year ended 31 December 2015

Other operating charges (continued)

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

	2015 Number	2014 Number
By activity		
Administration	550	540

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2014: £nil).

At 31 December, the Company had commitments in respect of non-cancellable operating leases expiring as follows:

	Land and buildings	
	2015 £'000	2014 £'000
Within 1 year	514	532
Between 1-5 years	2,076	2,126
Beyond 5 years	2,140	2,233

Operating leases are related to Cambridge and Guildford office buildings.

4 Income from shares in Group undertakings

	2015 £'000	Restated 2014 £'000
Income from shares in Group undertakings	248,640	289,539

Income from shares in Group undertakings represent mainly dividends received from B.A.T. (U.K. & Export) Limited, Pakistan Tobacco Company Limited and The West Indian Tobacco Company.

5 Income from other investments at fair value

	2015 £'000	Restated 2014 £'000
Income from other investments at fair value	5,620	3,178

Income from other investments at fair value represents dividends received from other investments at fair value.

6 Interest receivable and similar income

	2015 £'000	Restated 2014 £'000
Interest receivable from Group undertakings	1,236	937

7 Interest payable and similar charges

	2015 £'000	Restated 2014 £'000
Interest payable to Group undertakings	2,279	791
Exchange losses on amounts payable to Group undertakings	2,607	-
	4,886	791

Notes to the financial statements for the year ended 31 December 2015

8 Taxation

(a) Recognised in the profit and loss account

	2015 £'000	£'000	2014 £'000	£'000
<i>UK corporation tax</i>				
Current tax on income for the period	134		185	
Adjustments in respect of prior periods	655		-	
	789		185	
<i>Foreign tax</i>				
Current tax on income for the period	18,659		11,651	
Total current tax		19,448		11,836
<i>Deferred tax</i>				
Origination and reversal of temporary differences	(380)		-	
Total deferred tax		(380)		-
Total income tax expense		19,068		11,836

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 21.0% to 20.0% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 20.25%.

The current taxation charge differs from the standard 20.25% (2014: 21.5%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2015 £'000	2014 £'000
(Loss)/profit for the year	(4,307)	70,426
Total tax expense	19,068	11,836
Profit excluding taxation	14,761	82,262
Tax using the UK corporation tax rate of 20.25% (2015: 21.5%)	2,989	17,686
Non-deductible expenses	22,662	12,017
Tax exempt revenues	(51,488)	(62,934)
Depreciation in excess of capital allowances	-	4,551
Group relief surrendered for nil consideration	50,974	26,766
Effect of re-statement of prior year figures	-	1,914
Effect research and development expenditure credit	789	185
Foreign tax suffered	18,659	11,651
Net deferred tax credit	(25,517)	-
	19,068	11,836

An amount of £1,899,000 (2014: £1,924,000) (taxation amount of £385,000 (2014: £414,000)) included in non-deductible expenses above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

As at 31 December 2014 the Company had a deferred taxation asset of £127,189,000 (taxation amount of £22,894,000) relating to capital allowances and defined benefit pension schemes. These were not recognised on the balance sheet due to it not being sufficiently probable that they would be fully utilised in the foreseeable future.

Notes to the financial statements for the year ended 31 December 2015

9 Intangible assets

	Computer software £'000	Patents and trademarks £'000	Under construction £'000	Total £'000
Cost				
1 January 2015 Restated	65,811	15,369	13,462	94,642
Additions	-	-	10,795	10,795
Reallocations	3,226		(3,226)	-
31 December 2015	69,037	15,369	21,031	105,437
Accumulated amortisation and impairment				
1 January 2015 Restated	(39,926)	(2,696)	-	(42,622)
Charge for the year	(18,391)	(2,398)	-	(20,789)
Impairment charge	-	(3,954)	-	(3,954)
31 December 2015	(58,317)	(9,048)	-	(67,365)
Net book value				
1 January 2015	25,885	12,673	13,462	52,020
31 December 2015	10,720	6,321	21,031	38,072
Reconciliation of opening balance				
	Computer software £'000	Patents and trademarks £'000	Under construction £'000	Total £'000
Net book value at 1 January 2015	-	12,673	-	12,673
Effect of changes in accounting policy	25,885	-	13,462	39,347
Net book value at 1 January 2015 Restated (note 19)	25,885	12,673	13,462	52,020

10 Tangible assets

	Freehold property £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Cost				
1 January 2015 Restated	58,684	54,196	48,682	161,562
Additions	-	2,953	51,359	54,312
Reallocations	-	20,792	(20,792)	-
Disposals	-	(25,026)		(25,026)
31 December 2015	58,684	52,915	79,249	190,848
Accumulated depreciation and impairment				
1 January 2015 Restated	(11,978)	(26,876)	(15,937)	(54,791)
Charge for the year	(1,790)	(5,372)	-	(7,162)
Impairment charge	-	(105)	-	(105)
Reallocations	-	(6,197)	6,197	-
Disposals	-	8,601	-	8,601
31 December 2015	(13,768)	(29,949)	(9,740)	(53,457)
Net book value				
1 January 2015	46,706	27,320	32,745	106,771
31 December 2015	44,916	22,966	69,509	137,391

Notes to the financial statements for the year ended 31 December 2015

Tangible assets (continued)

Reconciliation of opening balance

	Freehold property £'000	Plant and equipment £'000	Under construction £'000	Computer software £'000	Total £'000
Net book value at 1 January 2015	46,740	17,602	46,207	36,440	146,989
Effect of changes in accounting policy	(34)	9,718	(13,462)	(36,440)	(40,218)
Net book value at 1 January 2015 Restated (note 19)	46,706	27,320	32,745	-	106,771

11 Investments

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Australia				
B.A.T Australia Pty. Limited	Ordinary	0.00	100.00	100.00
Bahrain				
British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
Benin				
British American Tobacco Benin SA	Issued	0.00	100.00	100.00
Cambodia				
British American Tobacco (Cambodge) International Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (Cambodia) Limited	Ordinary	0.00	71.00	71.00
Chile				
BAT Chile S.A.	Ordinary	0.00	100.00	48.49
Inversiones Casablanca S.A.	Ordinary	99.99	0.01	100.00
Cyprus				
Carreras of Cyprus (Export) Limited	Ordinary	0.00	100.00	100.00
Djibouti				
Tobacco Exporters International (Mer Rouge) SARL	5000 DJF	0.00	100.00	100.00
Egypt				
BETCO for General Services and Marketing LLC	Ordinary	50.00	50.00	100.00
BETCO for Trade and Distribution LLC	Ordinary	50.00	50.00	100.00
British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
English American Company for Importation and Trade LLC	Ordinary	0.00	100.00	100.00
Fiji				
British American Tobacco (Fiji) Marketing Limited	Ordinary	50.00	0.00	50.00
Hong Kong				
American Cigarette Company Limited	Ordinary	100.00	0.00	100.00
British Cigarette Company (1964) Limited	Ordinary	100.00	0.00	100.00
Iran, Islamic Republic of				
B.A.T. Pars Company (Private Joint Stock)	Ordinary	0.00	100.00	100.00
Iraq				
B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	0.00	100.00	100.00

Notes to the financial statements for the year ended 31 December 2015

Investments (continued)

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Isle of Man				
Abbey Investment Company Limited	Ordinary	100.00	0.00	100.00
Tobacco Investments Limited	Ordinary	100.00	0.00	100.00
Mali				
British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
Niger				
British American Tobacco Niger	Ordinary	0.00	100.00	100.00
Pakistan				
Pakistan Tobacco Company Limited (Listed)	Ordinary	94.34	0.00	94.34
Phoenix (Private) Limited	Ordinary	0.00	100.00	94.34
Senegal				
Tobacco Marketing Consultant TMC S.A.R.L	Ordinary	0.00	100.00	100.00
Solomon Islands				
Solomon Islands Tobacco Company Limited	Ordinary	50.00	0.00	50.00
Tanzania, United Republic of				
British American Tobacco (Tanzania) Limited	Ordinary	100.00	0.00	100.00
International Cigarette Distributors Limited (TZA)	Issued	0.00	99.00	99.00
Zanzibar Distribution Company Limited (In liquidation)	Issued	0.00	99.00	99.00
Trinidad and Tobago				
The West Indian Tobacco Company Limited (Listed)	Ordinary	50.13	0.00	50.13
Uganda				
British American Tobacco Uganda Limited	Ordinary	70.00	0.00	70.00
United Arab Emirates				
British American Tobacco GCC DMCC	Ordinary	0.00	100.00	100.00
British American Tobacco ME DMCC	Ordinary	0.00	100.00	100.00
United Kingdom				
Advanced Technologies (Cambridge) Limited	Ordinary	100.00	0.00	100.00
B.A.T (U.K. and Export) Limited	Ordinary	100.00	0.00	100.00
B.A.T Additional Retirement Benefit Scheme Trustee Limited	Ordinary	100.00	0.00	100.00
B.A.T Cambodia (Investments) Limited	Ordinary	100.00	0.00	100.00
B.A.T Portugal Limited	Ordinary	100.00	0.00	100.00
B.A.T Russia Limited	Ordinary	100.00	0.00	100.00
B.A.T Services Limited	Ordinary	0.00	100.00	100.00
B.A.T Uzbekistan (Investments) Limited	Ordinary	100.00	0.00	100.00
B.A.T Vietnam Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (AIT) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (Philippines) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (South America) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco Georgia Limited	Ordinary	100.00	0.00	100.00
British-American Tobacco (Mauritius) p.l.c.	Ordinary	100.00	0.00	100.00
Carreras Rothmans Limited	6% First Pref.	0.00	100.00	100.00
	6% Second Pref.			
Carreras Rothmans Limited	Shares	0.00	100.00	100.00
Carreras Rothmans Limited	Ordinary	0.00	100.00	100.00
East African Tobacco Company (U.K.) Limited	Ordinary	99.00	0.00	99.00
Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
Powhattan Limited	Ordinary	100.00	0.00	100.00
Rothmans Exports Limited	Ordinary	0.00	100.00	100.00
Rothmans International Tobacco (UK) Limited	Ordinary	100.00	0.00	100.00

Notes to the financial statements for the year ended 31 December 2015

Investments (continued)

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Rothmans of Pall Mall (Overseas) Limited	Ordinary	0.00	100.00	100.00
Ryservs (1995) Limited	Ordinary	100.00	0.00	100.00
Ryservs (No.3) Limited	Ordinary	0.00	100.00	100.00
Tobacco Exporters International Limited	Ordinary	0.00	100.00	100.00
Tobacco Marketing Consultants Limited	Ordinary	0.00	100.00	100.00
Westanley Trading & Investment Company Limited	Ordinary	100.00	0.00	100.00
Westminster Tobacco Company Limited	Ordinary	100.00	0.00	100.00
Uzbekistan				
UZBAT A.O.	Ordinary	0.00	97.38	97.38

(2) Indirect Investments in Associated Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Chile				
British American Tobacco Chile Operaciones S.A. (Listed)	Ordinary	2.61	45.88	48.49
Yemen				
Kamaran Industry and Investment Company	Ordinary	0.00	31.00	31.00

The Company does not hold any direct investments in Kamaran Industry and Investment Company, but it would be considered associated undertakings were the Company to prepare consolidated accounts.

(3) Other Investments at fair value

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Fiji				
Central Manufacturing Company Limited	Ordinary	15.00	0.00	15.00
Nepal				
Surya Nepal Pvt. Limited	Ordinary	2.00	0.00	2.00

Other investments at fair value are residual investments in companies which are part of the BAT Group.

Notes to the financial statements for the year ended 31 December 2015

Investments (continued)

(4) Investments in Group Companies

	Investments in Group Companies £'000	Other fixed asset investments £'000	Total £'000
Cost			
1 January 2015	998,417	39	998,456
Additions	25,500	-	25,500
31 December 2015	1,023,917	39	1,023,956
Impairment provisions			
1 January 2015	766,812	39	766,851
Charge in the year	-	-	-
31 December 2015	766,812	39	766,851
Net book value			
1 January 2015	231,605	-	231,605
31 December 2015	257,105	-	257,105

Reconciliation of the opening balance :

	Investments in Group Companies £'000	Other fixed asset investments £'000	Total £'000
Net book value at 1 January 2015	232,461	-	232,461
Effect of changes in accounting policy	(856)	-	(856)
Net book value at 1 January 2015 Restated (note 19)	231,605	-	231,605

During the year the Company made an equity injection of £25,000,000 into British American Tobacco (Philippines) Limited. A further £500,000 of equity injections were also made to other Group companies.

(5) Other investments at fair value

	Other investments at fair value £'000	Total £'000
Cost		
1 January 2015	46,188	46,188
Change in fair value	9,861	9,861
31 December 2015	56,049	56,049

- (6) The Directors are of the opinion that the individual investments in the Group undertakings have a value not less than the amount at which they are shown in the Balance Sheet.

Notes to the financial statements for the year ended 31 December 2015

12 Retirement benefits assets

	2015 £'000	Restated 2014 £'000
Retirement benefits assets	311,222	-

Retirement benefits assets represent the net assets recognised under IAS 19 in respect of the UK Pension Fund (note 17).

13 Debtors

Amounts due from Group undertakings have been reported in the balance sheet net of allowances as follows:

Amounts falling due within one year

	2015 £'000	Restated 2014 £'000
Amounts due from Group undertakings - gross	1,399,735	1,148,618
Allowances account	(396,978)	(346,236)
Amounts due from Group undertakings - net of allowances	1,002,757	802,382
Other debtors	3,653	1,617
Prepayments and accrued income	-	13
	1,006,410	804,012

Included within amounts owed by Group undertakings is an amount of £866,152,000 (2014: £646,330,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured and interest free.

The movement in allowance accounts are as follows

	2015 £'000
1 January 2015	346,236
Provided in the year	70,620
Reversed in the year	(27,288)
Differences in exchange	7,410
31 December 2015	396,978

Amounts due from Group undertakings representing interest free loans and factoring were fully provided during the year. As shown in note 3, an amount of £57,147,000 from the interest free loan was provided and written off during the year.

In the opinion of the Company's Directors the difference between the carrying value and the debtor discounted to present value is not material.

Notes to the financial statements for the year ended 31 December 2015

14 Creditors

(a) Amounts falling due within one year

	2015 £'000	Restated 2014 £'000
Amounts owed to Group undertakings	1,142,709	995,291
Taxation and social security	413	1,260
Accruals and deferred income	27,025	45,832
	1,170,147	1,042,383

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

(b) Amounts falling due after more than one year

	2015 £'000	2014 £'000
Deferred income	273,660	-

Deferred income represents the portion of the receipt related to the Franked Investment Income Global Litigation Order ("FIIGLO") allocated to British American Tobacco (Investments) Limited. The total gross amount received from HM Revenue and Customs ("HMRC") by the Group was £1,224,000,000 in two separate payments. HMRC held back £261,000,000 on the second payment received by the Group, contending that it represents a new 45% tax on the interest component of restitution claims against HMRC. The total cash allocated to the Company was £273,660,000, after an apportioned deduction of £92,597,000 representing the 45% tax described previously.

Actions challenging the legality of the 45% tax have been lodged by both the Group and other participants in FIIGLO.

The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal.

Due to the uncertainty of the amount and eventual outcome the Company has not recognised this receipt in the profit and loss account in the current or prior period.

15 Provisions for liabilities and other charges

	Tax £'000
1 January 2015	-
Deferred tax Liability	28,672
Interest accrued	2,067
31 December 2015	30,739

The deferred tax provision mainly relates to the retirement benefit scheme surplus and capital allowance. An amount of £2,067,000 was raised in the year in respect of interest accrued on the amount received from HM Revenue and Customs related to FIIGLO as described in note 14. This is not expected to be settled within one year.

Notes to the financial statements for the year ended 31 December 2015**16 Called up share capital**

Ordinary shares of £0.25 each	2015	2014
Allotted, called up and fully paid		
- value	£134,747,266	£134,747,266
- number	538,989,062	538,989,062

17 Retirement benefits

The Company operates and participates in several pension schemes, the largest of which, the British American Tobacco UK Pension Fund ("UKPF") provides benefits for employees and ex-employees of several UK subsidiaries of British American Tobacco p.l.c.. The fund as a defined benefit scheme was closed to new members on 1 April 2005, and new members since then have joined the defined contribution scheme.

Under IAS 19, where more than one group company participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the whole net defined benefit cost and liability shall be recognised in the accounts of the group entity that is legally the sponsoring employer with the other group entities recognising a cost equal to their contributions to those costs for the period. The Company is the principal employer of the scheme and as a result, has recognised the balances required by IAS 19 in full in these financial statements. The retirement benefit liabilities and funding obligations in respect of the scheme are cross guaranteed by the principal employer and all of the participating employers, including British American Tobacco p.l.c..

The UKPF is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the Scheme's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pension Act 2004 and all the relevant legislation. Responsibility for the governance of the schemes, including investment decisions and contribution schedules, lies with the trustees. The trustees consist of representatives appointed by both the sponsoring company and the beneficiaries.

The liabilities arising in the defined benefit schemes, including UKPF, are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method, this being formally valued at least every three years. The last full triennial actuarial valuation of UKPF was carried out as at 31 March 2014 by a qualified independent actuary and showed a deficit of £264,000,000.

Contributions to the UKPF have been agreed with the trustee as part of a recovery plan to include £30,000,000 a year to cover on-going service costs and with additional contributions on top of this to eliminate the funding shortfall. Additional contributions were £148,000,000 in 2015 and £140,000,000 in 2014. These are planned to be £78,000,000 in each of 2016, 2017 and 2018. These contributions will be used to achieve the statutory funding objective and thereafter to support attaining a lower risk investment strategy and may be subject to renegotiation, dependent on funding levels. The funding commitment is not considered onerous and in accordance with IFRIC 14 no additional liabilities have been recognised in respect of this commitment.

Total contributions payable up to a maximum of £150,000,000 are secured by a charge over the British American Tobacco Group's Head Office ("Globe House"). The charge would be triggered in the event that the Company or any of the participating employers defaults on agreed contributions due to the Fund or if an insolvency event occurs with respect to the principal employer. The charge is due to be released in 2039 but may be released earlier by negotiation or if the assets of the Fund are sufficient to achieve certain funding levels. Under the rules of the scheme, any future surplus would be returnable to the Company by refund at the end of the life of the scheme.

The Company also sponsors the B.A.T Overseas Pension Fund ("BATOPF"), a funded defined benefit scheme and the Associated Companies Plan ("ACP"), which is partially funded. The schemes are formally valued annually by a qualified independent actuary. The contribution for 2015 from the Company to BATOPF was £1,552,000 and is expected to be similar in future years.

Notes to the financial statements for the year ended 31 December 2015

Retirement benefits (continued)

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Present value of funded scheme liabilities	(2,942,232)	(3,157,446)	(109,397)	(116,292)	(3,051,629)	(3,273,738)
Fair value of funded scheme assets	3,253,454	3,157,164	40,303	43,068	3,293,757	3,200,232
	311,222	(282)	(69,094)	(73,224)	242,128	(73,506)

The above net asset/ (liability) is recognised in the Balance Sheet as follows:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
– retirement benefit scheme liabilities	-	(282)	(69,094)	(73,224)	(69,094)	(73,506)
– retirement benefit scheme assets	311,222	-	-	-	311,222	-
	311,222	(282)	(69,094)	(73,224)	242,128	(73,506)

The amounts recognised in the profit and loss account for the defined benefit schemes are as follows:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Defined benefit schemes						
Service cost						
– current service cost	30,832	27,787	1,760	1,515	32,592	29,302
– past service cost	(7,805)	(9,077)	(698)	-	(8,503)	(9,077)
– settlements and curtailments	-	-	(80)	(146)	(80)	(146)
Net interest on the net defined benefit liability						
– interest on scheme liabilities	106,487	122,636	4,286	4,735	110,773	127,371
– interest on scheme assets	(109,513)	(123,631)	(1,414)	(1,783)	(110,927)	(125,414)
Total amount recognised in the profit and loss account (note 3)	20,001	17,715	3,854	4,321	23,855	22,036

The above charges are recognised within employee staff costs in note 3.

The amounts recognised in other comprehensive income in respect of actuarial gains and losses of the company are as follows:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Actuarial gains/ (losses) on scheme liabilities	214,099	(334,834)	9,524	(9,290)	223,623	(344,124)
Actuarial gains/ (losses) on scheme assets	(60,594)	257,436	(1,629)	3,189	(62,223)	260,625
Net actuarial gains/ (losses) in other comprehensive income	153,505	(77,398)	7,895	(6,101)	161,400	(83,499)

Notes to the financial statements for the year ended 31 December 2015

Retirement benefits (continued)

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Present value at 1 January	3,157,446	2,807,419	116,292	103,958	3,273,738	2,911,377
Exchange differences	-	-	3,172	3,305	3,172	3,305
Current service cost	30,832	27,787	1,760	1,515	32,592	29,302
Past service costs	(7,805)	(9,077)	(698)	-	(8,503)	(9,077)
Settlements and curtailments	-	-	(132)	(611)	(132)	(611)
Interest on scheme liabilities	106,487	122,636	4,286	4,735	110,773	127,371
Benefits paid (cash outflow)	(130,629)	(126,153)	(5,759)	(5,900)	(136,388)	(132,053)
Actuarial losses/(gains)	(214,099)	334,834	(9,524)	9,290	(223,623)	344,124
Present value at 31 December	2,942,232	3,157,446	109,397	116,292	3,051,629	3,273,738

The movements in scheme liabilities are as follows:

Scheme liabilities by scheme membership:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Active members	430,522	529,531	26,773	25,726	457,295	555,257
Deferred members	479,341	552,293	7,930	8,671	487,271	560,964
Retired members	2,032,369	2,075,622	74,694	81,895	2,107,063	2,157,517
Present value at 31 December	2,942,232	3,157,446	109,397	116,292	3,051,629	3,273,738

Scheme liabilities by benefits earned to date:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Guaranteed benefits	2,910,271	3,094,850	96,598	101,810	3,006,869	3,196,660
Future salary increases	31,961	62,596	1,545	1,762	33,506	64,358
Discretionary benefits	-	-	11,254	12,720	11,254	12,720
Present value at 31 December	2,942,232	3,157,446	109,397	116,292	3,051,629	3,273,738

Actuarial (losses)/gains shown above can be analysed as follows:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Actuarial (losses)/gains:						
- arising from changes in demographic assumptions	7,651	93,900	-	3,739	7,651	97,639
- arising from changes in financial assumptions	(187,365)	247,869	(7,665)	5,541	(195,030)	253,410
Experience (losses)/gains	(34,385)	(6,935)	(1,859)	10	(36,244)	(6,926)
Total	(214,099)	334,834	(9,524)	9,290	(223,623)	344,124

Notes to the financial statements for the year ended 31 December 2015

Retirement benefits (continued)

Changes in financial assumptions principally relate to discount rate and inflation rate movements.

The movements in funded scheme assets are as follows:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Fair value at beginning of period	3,157,164	2,732,250	43,068	42,071	3,200,232	2,774,321
Exchange differences	-	-	132	146	132	146
Settlements	-	-	(52)	(465)	(52)	(465)
Interest on scheme assets	109,513	123,631	1,414	1,783	110,927	125,414
Company contributions	178,000	170,000	3,129	2,244	181,129	172,244
Benefits paid (cash outflow)	(130,629)	(126,153)	(5,759)	(5,900)	(136,388)	(132,053)
Actuarial gains/(losses)	(60,594)	257,436	(1,629)	3,189	(62,223)	260,625
Fair value at end of period	3,253,454	3,157,164	40,303	43,068	3,293,757	3,200,232

The fair value of scheme assets by category:

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Equities – listed	827,812	896,036	8,512	13,878	836,324	909,914
Equities – unlisted	165,153	155,338	-	-	165,153	155,338
Bonds – listed	1,877,773	1,398,117	16,823	19,738	1,894,596	1,417,855
Bonds – unlisted	18,357	18,489	-	-	18,357	18,489
Other assets – listed	-	-	11,493	5,915	11,493	5,915
Other assets – unlisted	364,359	689,184	3,475	3,537	367,834	692,721
Fair value of scheme assets at 31 December	3,253,454	3,157,164	40,303	43,068	3,293,757	3,200,232

Scheme assets have been diversified into equities, bonds and other assets and are typically invested via fund investment managers into both pooled and segregated mandates of listed and unlisted equities and bonds. In addition certain scheme assets are further diversified by investing in equities listed on foreign stock exchanges via investment funds. In the above analysis investments via equity-based investment funds are shown under listed equities, and investments via bond-based investment funds are shown under listed bonds.

Other assets include cash and other deposits, derivatives and other hedges (including liability driven investments funds and inflation opportunity funds), recoverable taxes, reinsurance contracts, infrastructure investments and investment property.

The actuarial gains and losses in both years principally relate to movements in the fair values of scheme assets and actual returns are stated net of applicable taxes and fund management fees.

	UKPF		ACP and BATOPF		Total	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Actual return on scheme assets	48,919	381,067	(215)	4,972	48,704	386,039

Notes to the financial statements for the year ended 31 December 2015

Retirement benefits (continued)

All the 2014 numbers are restated following the conversion to FRS101.

The principal actuarial assumptions used, weighted to reflect individual scheme differences are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

	2015	2014
	%	%
Rate of increase in salaries	4.6	4.5
Rate of increase in pensions in payments	3.1	3.0
Rate of increase in deferred pensions	2.3	2.5
Discount rate	3.8	3.4
General inflation	3.1	3.0
Weighted average duration of liabilities	16.7	17.2

Mortality assumptions are subject to regular review. The following table has been used for both years: 91.5% S1NA (year of birth) table with the Continuous Mortality Investigation (2013) model with a 1.75% long-term improvement rate (2013: S1NA (year of birth) table with the Continuous Mortality Investigation).

Based on the above, the weighted average life expectancy, in years, for mortality tables used to determine benefit obligations is as follows:

	2015	2014
	Years	Years
Member age 65 (current life expectancy)		
- male	23.7	23.6
- female	26.2	26.1
Member age 45 (life expectancy at age 65)		
- male	26.4	26.2
- female	29.0	28.9

Valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2015 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

Notes to the financial statements for the year ended 31 December 2015

Retirement benefits (continued)

	1 year increase	1 year decrease	0.25 percentage point increase	0.25 percentage point decrease
	£'000	£'000	£'000	£'000
Average life expectancy – increase/(decrease) of scheme liabilities	84,524	(84,068)		
Rate of inflation – increase/(decrease) of scheme liabilities			129,962	(122,022)
Discount rate – (decrease)/increase of scheme liabilities			(120,378)	128,664

Defined Contribution Scheme Costs

On 1 April 2005, the UK defined benefit schemes were closed to new employees, and new members since then have joined the defined contribution scheme. The cost to the Company was:

	2015 £'000	2014 £'000
Defined contribution schemes recognised in the profit and loss account (note 3)	2,681	2,062

At 31 December 2015, there were amounts of £nil (2014: £nil) outstanding in respect of defined contribution schemes.

18 Related party disclosures

Transactions with related parties have been aggregated by nature of transaction and were as follows:

	2015 £'000	2014 £'000
Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group		
Other charges	-	9,082

The associate referred to is Reynolds American Inc..

As a wholly owned subsidiary the Company has taken advantage of the exemption under FRS 101 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

Notes to the financial statements for the year ended 31 December 2015

19 Transition to Financial Reporting Standards FRS 101

The Financial Reporting Council has issued FRS 100 *Application of Financial Reporting Requirements*, FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Ireland*. These standards are applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups which continue to report under IFRS, for accounting periods beginning on or after 1 January 2015.

FRS 100 sets out the overall financial reporting framework for companies in the UK and Ireland. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting policies as in their listed group accounts, but with fewer disclosures. FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying IFRS, FRS 101 or the FRSSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Company has adopted the accounting requirements of the reduced disclosure framework under FRS 101 in these financial statements, with a transition date of 1 January 2014. The Company's financial statements still meet the requirements of the Companies Act 2006 including giving a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

The Company has informed its shareholders and received no objections to the use of FRS 101.

The company has taken advantage of the exemption from preparing a cash flow statement, from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group, and from certain disclosures in relation to financial instruments and share schemes where equivalent disclosures are included in the consolidated financial statements of the Company's ultimate parent.

The effect of the adoption of FRS 101 has affected the company's position as of 1 January 2014 and a reconciliation of the effect of change in accounting policy is presented on pages 30 to 34

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Statement of balance sheet before and after conversion

		UKGAAP 31 December 2014	Effect of change in accounting policy £'000	FRS 101 31 December 2014	UKGAAP 1 January 2014	Effect of change in accounting policy £'000	FRS 101 1 January 2014
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets							
Intangible assets	a	12,673	39,347	52,020	8,627	51,127	59,754
Tangible assets	a	146,989	(40,218)	106,771	152,056	(51,127)	100,929
Investments in Group undertakings	b	232,461	(856)	231,605	212,471	(856)	211,615
Other investments at fair value	b	-	46,188	46,188	-	36,973	36,973
		392,123	44,461	436,584	373,154	36,117	409,271
Current assets							
Debtors: amounts falling due within one year	a	803,141	871	804,012	715,990	-	715,990
Debtors: amounts falling due after one year		-	-	-	24,152	-	24,152
Cash at bank and in hand		-	-	-	39,846	-	39,846
		803,141	871	804,012	779,988	-	779,988
Creditors: amounts falling due within one year	c	(362,137)	(680,246)	(1,042,383)	(373,894)	(525,125)	(899,019)
Net current assets		441,004	(679,375)	(238,371)	406,094	(525,125)	(119,031)
Total assets less current liabilities		833,127	(634,914)	198,213	779,248	(489,008)	290,240
Creditors: amounts falling due after more than one year		-	-	-	(24,619)	-	(24,619)
Provisions for liabilities and other charges		-	-	-	-	-	-
Retirement benefits liabilities	c	(18,699)	(54,807)	(73,506)	(17,093)	(119,963)	(137,056)
Net assets including retirement benefits liabilities		814,428	(689,721)	124,707	737,536	(608,971)	128,565
Capital and reserves							
Called up share capital		134,747	-	134,747	134,747	-	134,747
Other reserve	c	-	-	-	41,341	(41,341)	-
Profit and loss account		679,681	(735,053)	(55,372)	561,448	(603,747)	(42,299)
Fair value reserve	b	-	45,332	45,332	-	36,117	36,117
Total shareholders' funds		814,428	(689,721)	124,707	737,536	(608,971)	128,565

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Reconciliation of profit and loss for comparative

	Note	UK GAAP 2014 £'000	Effect of change in accounting policy	FRS 101 2014 £'000
Continuing operations				
Other operating income		81,944		81,944
Other operating charges	c	(282,921)	(9,624)	(292,545)
Operating loss		(200,977)	(9,624)	(210,601)
Income from shares in Group undertakings	b	291,851	(2,312)	289,539
Income from other investments at fair value	b	-	3,178	3,178
Investment income from shares in associate undertakings	b	866	(866)	-
Interest receivable and similar income		937	-	937
Interest payable and similar charges		(791)	-	(791)
Other finance expense	c	(723)	723	-
Profit on ordinary activities before taxation		91,163	(8,901)	82,262
Tax on profit on ordinary activities		(11,836)	-	(11,836)
Profit for the financial year		79,327	(8,901)	70,426

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Explanation of reconciling items above

Note a

Amounts representing computer software and assets under construction were not recognised as intangibles under UK GAAP and are reclassified as intangibles under FRS 101. These were £39,347,000 at 31 December 2014 and £51,127,000 as at 1 January 2014. In addition, an amount of £871,000 relating to second hand machinery was not previously recognised in tangible assets. The corrected amount is not material to the overall financial statements of the Company. A summary of the conversion adjustments has been presented below:

	31 December 2014 Reclassification between tangible and intangible £'000	Second Hand Machinery £'000	Total £'000	1 January 2014 Reclassification between tangible and intangible £'000	Total £'000
Intangible assets	39,347		39,347	51,127	51,127
Tangible assets	(39,347)	(871)	(40,218)	(51,127)	(51,127)
Debtors: amounts falling due within one year		871	871		

As an effect of the adoption of FRS 101 depreciation and impairment costs have been reclassified and the effect on the other operating charges notes is presented below:

	31 December 2014 £'000
Depreciation of tangible assets	(10,101)
Amortisation of intangible assets	10,101
Impairment of tangible assets	(3,865)
Impairment of intangible assets	3,865

Note b

Other investments at fair value have been recognised in the financial statements (31 December 2014: £46,188,000 and 1 January 2014: £36,973,000) at fair value according to IAS 39. The impact of this in profit and loss account amounted to £45,332,000 as of 31 December 2014. A reconciliation is provided in the statement of changes in equity.

	31 December 2014 £'000	1 January 2014 £'000
Investments in Group undertakings	(856)	(856)
Other investments at fair value	46,188	36,973
Fair Value reserve	45,332	36,117

As an effect of the adoption of FRS 101 dividends received from other investments at fair value have been reclassified to Income from other investments at fair value as presented on page 33:

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Explanation of reconciling items

	31 December 2014 £'000
Reclassification driven by the change in the presentation of the investments :	
Income from shares in Group undertakings	(2,312)
Income from other investments at fair value	3,178
Investment income from shares in associate undertakings	(866)

Note c

Retirement benefits liabilities not related exclusively to British American Tobacco (Investments) Limited employees, not previously recognised under UK GAAP have been recognised in the financial statements as per FRS 101 accounting requirements. A summary of the amounts recognised in respect of these funds for 31 December 2014 and 1 January 2014 is presented below:

	31 December 2014			1 January 2014		
	UKPF £'000	ACP £'000	Total £'000	UKPF £'000	ACP £'000	Total £'000
Retirements benefits liabilities	(282)	(54,525)	(54,807)	(75,169)	(44,794)	(119,963)
Other comprehensive income	584,440	18,119	602,559	510,672	14,453	525,125
Intercompany creditor	(665,101)	(15,145)	(680,246)	(510,672)	(14,453)	(525,125)
IAS 19 charge	17,715	3,598	21,313	-	-	-
Exchange Differences	-	3,159	3,159	-	-	-
Contributions from Other Group undertakings	(11,941)	-	(11,941)	-	-	-
Profit and loss reserve	75,169	44,794	119,963	75,169	44,794	119,963

The impact of the recognition of UKPF and ACP fund on other operating charges and staff cost (Note 3) is shown on page 34

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Explanation of reconciling items above

	2014	Effect of change in accounting policy	Restated 2014
	£'000		£'000
Staff costs:			
Wages and salaries	55,737		55,737
Social security costs	5,144		5,144
Retirement benefits costs (note 17)	-	22,036	22,036
Contributions from Other Group undertakings	-	(11,941)	(11,941)
Other pension costs	59		59
Other pension costs - defined contribution	2,062		2,062
Share scheme charges	5,005		5,005
Defined benefit scheme treated as defined contribution	3,630	(3,630)	-
	71,637	6,465	78,102

The adjustment of £22,036,000 in retirement benefits costs represents the entire amount of IAS 19 charge to be reflected for UKPF, ACP and BATOPF. Contributions from Group undertakings of £11,941,000 reflect the UKPF charge related to other entities participating in the scheme. Previous amounts of £3,630,000 representing the UKPF IAS 19 charge portion in 2014 of British American Tobacco (Investments) Limited has been reclassified so as to be presented under retirement benefits costs. In addition to the amounts shown above, the exchange difference noted on page 33 of £3,159,000 is included in the restatement of other operating charges of £9,624,000 as shown on page 31.

20 Share-based payments

Employees of the Company participate in the British American Tobacco share schemes arrangements. The group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share (50 per cent of grant), total shareholder return (25 per cent of grant), and net turnover (25 per cent of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to a comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

The Group also has a number of other arrangements which are not material for the Company and these are as follows:

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Share-based payment expense

Please refer to the Annual Report of British American Tobacco p.l.c. for full disclosures under IFRS 2.

Notes to the financial statements for the year ended 31 December 2015

Share-based payments (continued)

The weighted average share price on exercise of LTIP shares in 2015 was £35.39 (2014: £34.40).
The weighted average share price on exercise of DSBS shares in 2015 was £35.05 (2014: £33.70)

The outstanding shares for the year ended 31 December 2015 had an exercise price range of £34.88 - £36.62 (2014: £32.85 - £34.91). The weighted average remaining contractual life are 8.2 years (2014: 8.4 years) for the LTIP shares and are 1.2 years (2014: 1.1 years) for the DSBS shares.

21 Contingent liabilities

United States

The Company has the benefit of an indemnity given by R.J. Reynolds Tobacco Company ("RJRT Indemnification"), a wholly owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., as part of the combination of the assets, liabilities and operations of its US tobacco business with Brown & Williamson, completed in 2004. The terms of this indemnity are set out in the British American Tobacco p.l.c. Annual Report 2015.

As at the date of financial statements, the Company was a party to only one US smoking and health case, Perry. This is an individual action for, amongst other things, fraud, breach of warranties, negligence and conspiracy. The claimant seeks compensatory and punitive damages totalling \$205,000,000. The case has been in abeyance since the claimant's death in 1997, when the case was still at a preliminary stage.

The Company has been named as a defendant in the Daric Smith case in the US. Smith is a class action suit alleging violations of antitrust and consumer protection laws in Kansas. On 26 March 2012, the court entered an order granting defendants' motion for summary judgment dismissing all of plaintiff's claims. Plaintiff filed a notice of appeal on various points. On 18 July 2014, the Court of Appeals of Kansas affirmed the trial court's order granting summary judgment for all the defendants. On 18 August 2014, plaintiff filed a Petition for Review by the Supreme Court of Kansas. On 29 June 2015, the Supreme Court of Kansas denied plaintiff's Petition for Review. Plaintiff has no further route of appeal and this case can therefore be considered closed.

Canada

In Canada there are ten active statutory actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases. These proceedings name various Group companies as defendants, including British American Tobacco p.l.c. ("BAT"), the Company, B.A.T Industries p.l.c. ("Industries") Carreras Rothmans Limited (collectively the "UK Companies") and Imperial Tobacco Canada Limited ("Imperial"), BAT's operating company in Canada. Legislation enabling provincial governments to recover the healthcare costs has been enacted in all ten provinces and two of three territories in Canada and has been proclaimed in force in ten provinces. The Acts have received Royal Assent in Northwest Territories and Nunavut but have yet to be proclaimed into force. Actions have begun against various Group companies, including Imperial, in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island ("PEI"). In Quebec, three Canadian manufacturers, including Imperial, challenged the enabling legislation. This challenge was dismissed. One other manufacturer is seeking leave to appeal to the Supreme Court of Canada.

Notes to the financial statements for the year ended 31 December 2015

Contingent liabilities (continued)

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants and date served	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial Industries The Company Other former Rothmans Group companies	The underlying medical reimbursement action remains at a preliminary case management stage. Damages have not been quantified by the province. The federal government has commenced a cost assessment in connection with the motion and appeals relating to the federal government claim, seeking CAD5,000,000 jointly from all the defendants and an additional CAD5,000,000 from Imperial. No hearing date has been set.
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	Both Imperial and the UK Companies have now filed their defences and document production by the defendants is substantially complete. A first round of oral discoveries of the province began in September 2014 and a second round will continue at least through the end of Q2 of 2016. Damages have been quantified at CAD19,000,000,000. No trial date has been set.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	Following the Supreme Court of Canada's dismissal of the jurisdiction leave application, the case is under case management. Third party notices against the federal government have been discontinued. Claims against several native manufacturers were filed but are in abeyance. Particulars have been provided by the province. Defences are due by 29 April 2016. The province has stated its claim to be worth CAD50,000,000,000. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2006	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	Particulars and other preliminary motions were filed on 16 January 2015, and a case management conference took place on 22 January 2015. The hearing on the preliminary motions took place on 4–6 March 2015 and Particulars have since been provided. Defences are due on 17 May 2016. Damages have not been quantified by the province. No trial date has been set.
Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2012	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	This case is at an early case management stage. A standstill agreement was negotiated under which defences were filed by 27 February 2015 and the matter will remain in abeyance until document production begins in September 2017. Damages have not been quantified by the province.

Notes to the financial statements for the year ended 31 December 2015

Contingent liabilities (continued)

Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial Industries The Company Other former Rothmans Group companies	This case is at an early case management stage. A standstill agreement has been negotiated, under which defences were filed and the matter will remain in abeyance until document production begins in January 2017. Damages have not been quantified by the province. No trial date has been set.
Alberta	Crown's Right of Recovery Act 2009	Imperial and the UK Companies have all been named as defendants and served.	This case is at an early case management stage. Following particulars motions in January 2015, the province provided certain particulars in October 2015. Defences are to be filed by 31 March 2016 and replies and document production are to follow. The next case management hearing is set for 12 April 2016. The province has stated its claim to be worth CAD10,000,000,000. No trial date has been set.
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2005	Industries, Investments, and Carreras Rothmans Limited have been named as defendants. Imperial and the UK Companies have been served.	On 25 August 2009, Imperial and the other Canadian manufacturers filed a constitutional challenge to the Quebec Medicaid Legislation. This claim was dismissed and a further appeal (heard on 18 June 2015) was also dismissed. Another manufacturer has sought leave to appeal to the Supreme Court of Canada. This case is at an early case management stage. Defences have been filed. Motions over admissibility of documents and damages discovery have been filed but not heard. The province is seeking CAD60,000,000,000. No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial and the UK Companies	This case is at an early case management stage. A standstill agreement has been negotiated. Defences were filed in February 2015 and the next step will be document production, which will commence in September 2017. Damages have not been quantified by the province. No trial date has been set.
Nova Scotia	Tobacco Health Care Costs Recovery Act 2005	Imperial and the UK Companies	On 22 January 2015 Imperial and the UK Companies were served with the Nova Scotia Medicaid suit. This case is at an early case management stage. A standstill agreement has been negotiated. Defences were filed in July 2015 and the next step will be document production, which will commence on or before 1 September 2017. Damages have not been quantified by the province. No trial date has been set.

In June 2009, four new smoking and health class actions were filed in Nova Scotia, Manitoba, Saskatchewan and Alberta, against Canadian and foreign manufacturers and foreign companies, including the UK Companies and Imperial. In Saskatchewan, BAT and Carreras Rothmans Limited have been released from the action. No date has been set for the certification motion hearing. There are service issues in relation to the UK Companies in Alberta and Manitoba.

Notes to the financial statements for the year ended 31 December 2015

Contingent liabilities (continued)

In July 2010, two further smoking and health class actions in British Columbia were served on Imperial and the UK Companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have "smoked a minimum of 25,000 cigarettes". The UK Companies objected to jurisdiction. Subsequently, BAT and Carreras Rothmans Limited were released from Bourassa and McDermid. The Company and Industries remain as defendants in both actions. No certification motion hearing date has been set. Plaintiffs were due to deliver certification motion materials by 31 January 2015, but have not yet done so. Once the materials are delivered, the motions regarding abuse of process will be dealt with.

In June 2012, a new smoking and health class action was filed in Ontario against the domestic manufacturers and foreign companies, including Imperial and the UK Companies. Imperial was served on 20 November 2012, and the UK Companies were served on 30 November 2012. The claim is presently in abeyance.

Nigeria

In Nigeria, six medical reimbursement actions filed by the federal government and five Nigerian states (Lagos, Kano, Gombe, Oyo, Ogun) were pending in the Nigerian courts. British American Tobacco (Nigeria) Limited ("BAT Nigeria"), BAT and the Company have been named as defendants in each of the cases. The plaintiffs in the six cases seek a total of approximately £38,000,000,000 in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.

The Company and BAT have made a number of challenges to the jurisdiction of the Nigerian courts. Such challenges are still pending (on appeal) against the federal government and the states of Lagos, Kano, Gombe and Ogun. In the state of Oyo, on 13 November 2015, BAT and the Company's jurisdictional challenge was successful in the Court of Appeal and the issuance of the writ of summons was set aside. The underlying cases are stayed or adjourned pending the final outcome of these jurisdictional challenges.

Conclusion

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

The Directors (i) do not consider it appropriate to make any provision in respect of any pending litigation of the Company and (ii) do not believe that the ultimate outcome of all litigation of the Company will significantly impair the Company's financial position.

Guarantees

The Company's ultimate parent British American Tobacco p.l.c. has guaranteed the liabilities of the British American Tobacco UKPF, on behalf of the Company and the other participating employers of the scheme. In addition, all of the participating employers have cross guaranteed the contributions due to the scheme. The fund had a deficit according to the last triennial actuarial valuation in March 2014, of £264,000,000. As at 31 December 2015 the valuation of the surplus on an IAS 19 basis was £311,222,000 (2014: deficit £282,000).

Notes to the financial statements for the year ended 31 December 2015

Contingent liabilities (continued)

The Company provides guarantees in the normal course of business and as at 31 December 2015 had performance guarantees of up to USD 2,300,000 and EUR 730,000 (2014: USD 2,800,000).

22 Parent undertakings

The Company's 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. The Company's immediate parent undertaking is British-American Tobacco (Holdings) Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

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