

British American Tobacco (Investments) Limited

Registered Number 00074974

Directors' report and financial statements

For the year ended 31 December 2013

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Strategic report

The Directors present their strategic report on the Company for the year ended 31 December 2013.

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 2013

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 £218,838,000 (2012: £219,599,000). The loss for the financial year is shown after deduction of £6,606,000 (2012: £5,539,000) of exceptional costs, 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.

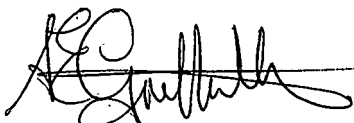
Key performance indicators

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.

By Order of the Board



Ms A.E. Griffiths
Assistant Secretary

18 July 2014

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2013.

Dividends

The Directors do not recommend the payment of a dividend for the year (2012: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2013 to the date of this report are as follows:

	Appointed	Resigned
John Benedict Stevens		
Terrence Donald McConnell		
Desmond John Naughton		20 March 2013
John Patrick Daly		06 April 2014
Giovanni Giordano		
Alan Davy	20 March 2013	

Directors' indemnities

Throughout the period 1 January 2013 to the date of this report, a qualifying third party indemnity has been in force under which Messrs J.B. Stevens and J. P. Daly, as Directors of the Company, were, 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 they may incur in or about the execution of their duties to the Company or as a result of things done by them as Directors 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 2013 was £68,640,000 (2012: £61,821,000) including associated depreciation and staffing.

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.

Directors' report

Creditor payment policy

The Company follows the Better Payment Practice Code* and therefore for both the current and the next financial year aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction and also aims to pay all of its suppliers within a reasonable period of their invoices being received.

In respect of all of its suppliers, it is the Company's policy to:

- agree the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment;
- abide by the terms of payment; and
- avoid any delays when legitimately questioning invoices.

Payment of creditors is carried out by a fellow Group undertaking.

* Details of the Better Payment Practice Code are available on the website <http://www.payontime.co.uk>.

Statement of Directors' responsibilities

The Directors are responsible for preparing the 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 the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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.

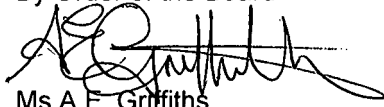
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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 enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- (a) to the best of his knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all steps that a Director might reasonably be expected to have taken in order to make himself 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

18 July 2014

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

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by British American Tobacco (Investments) Limited, comprise:

- the Profit and loss account;
- the Statement of total recognised gains and losses;
- the Balance sheet; and
- the related notes.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion on 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 for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.



Sotiris Kroustis (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

18 July 2014

Profit and loss account for the year ended 31 December 2013

		2013	2012
	Note	£'000	£'000
Continuing operations			
Turnover	2	100,505	54,129
Other operating charges	3	(367,196)	(303,444)
Operating loss		(266,691)	(249,315)
Income from shares in Group undertakings		58,344	42,871
Investment income from shares in associate undertakings		399	347
Interest receivable and similar income	4	1,424	3,363
Interest payable and similar charges	5	(674)	(285)
Other finance expense	15	(635)	(571)
Loss on ordinary activities before taxation		(207,833)	(203,590)
Tax on loss on ordinary activities	6	(11,005)	(16,009)
Loss for the financial year	13	(218,838)	(219,599)

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

Statement of total recognised gains and losses for the year ended 31 December 2013


		2013	2012
	Note	£'000	£'000
Loss for the financial year		(218,838)	(219,599)
Actuarial loss arising on defined benefit pension scheme	14	(1,645)	(739)
Difference on exchange arising on the retranslation to sterling of the (loss)/profit for the financial year from average to closing rates	14	-	(36)
Total recognised losses relating to the financial year		(220,483)	(220,374)

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

Balance sheet at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	7	8,627	-
Tangible assets	8	152,056	167,954
Investments	9	212,471	217,497
		373,154	385,451
Current assets			
Debtors: amounts falling due within one year	10a	715,990	1,158,082
Debtors: amounts falling due after one year	10b	24,152	197,380
Cash at bank and in hand		39,846	2,616
Creditors: amounts falling due within one year	11a	(373,894)	(753,769)
Net current assets		406,094	604,309
Total assets less current liabilities		779,248	989,760
Creditors: amounts falling due after more than one year	11b	(24,619)	(15,380)
Net assets excluding pensions deficit		754,629	974,380
Pensions deficit	15	(17,093)	(16,361)
Net assets including pensions deficit		737,536	958,019
Capital and reserves			
Called up share capital	12	134,747	134,747
Other reserves	13	41,341	41,341
Profit and loss account	13	561,448	781,931
Total shareholders' funds	14	737,536	958,019

The financial statements on pages 7 to 26 were approved by the Directors on 18 July 2014 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 2013

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 the Companies Act 2006 and applicable accounting standards in the United Kingdom.

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 principal accounting policies have been applied consistently throughout the year and a summary is set out below.

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 FRS1 (revised 1996) 'Cash flow statements'.

Foreign currencies

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. The difference between the retained profit of the overseas branch translated to sterling at the average and closing rates of exchange is taken to reserves, as are differences on exchange arising on the retranslation to sterling of foreign currency net assets at the beginning of the year. Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange. Other exchange differences are taken to the profit and loss account in the year.

Accounting for turnover

Turnover is included 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 provided is that chargeable on the profits of the year, together with deferred taxation.

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

Notes to the financial statements for the year ended 31 December 2013

Accounting policies (continued)

Taxation (continued)

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on an undiscounted basis.

Intangible assets

Patents are stated at cost, less any amounts provided for impairment in value. No annual amortisation is charged in respect of these assets except where the end of the useful economic lives of the assets can be foreseen. The useful economic lives and the carrying value are reviewed annually and any amortisation or provision for impairment in value charged in the profit and loss account.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis to write off the cost of tangible assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal.

The rates of depreciation used are:

	%
Freehold land	nil
Buildings	2.25 - 10
Computer equipment	10 - 33.33
Plant, machinery and equipment	6.53 - 20
Short leasehold land	Over the period of the lease

Assets in the course of construction are not depreciated until brought into operational use.

Fixed asset investments

Fixed asset investments are stated at cost less provisions for any impairment in value. Any impairment is recognised in the profit and loss account in the period in which it arises.

Other investments

Other investments are stated at cost less provisions for any impairment in value.

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.

Notes to the financial statements for the year ended 31 December 2013

Accounting policies (continued)

Employee share schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow group company, 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 companies calculates and reflects the charge for the share schemes, provides the relevant disclosures required under FRS 20.

Dividends

Dividends payable that are unapproved at the year end are not recognised as a liability. Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

Retirement benefits

The Company sponsors the B.A.T Overseas Pension fund a defined benefit scheme where the Company is the major participant. Pension surpluses/deficits as at the balance sheet date are recognised in full as an asset/liability for all defined benefit pension schemes where the Company is the major participant or where it is possible to identify the Company's individual share of the underlying assets and liabilities in the scheme. The net deficit or surplus for these schemes is based on the present value of defined benefit scheme obligations at the balance sheet date less the fair value of the scheme assets.

Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses.

Past service costs resulting from enhanced benefits are expensed over the period to vesting and if vested immediately they are recognised at that time in the profit and loss account.

The actuarial cost charged to operating profit consists of current service cost, past service costs and gains or losses on settlements and curtailments. The interest cost and expected return on plan assets are recognised in other financing costs.

The Company also participates in the British American Tobacco UK Pension Fund, which is a multi-employer defined benefit scheme. Under FRS 17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme.

The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer British American Tobacco Group funded defined benefit scheme and, therefore, does not recognise any share of any surplus or deficit in respect of this scheme.

In addition the Company operates a defined contribution scheme. Payments in respect of defined contribution schemes are charged to the profit and loss account as they fall due.

Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

Notes to the financial statements for the year ended 31 December 2013

Accounting policies (continued)

Future changes to accounting policies

On 22 November 2012, the Financial Reporting Council issued FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework. These were followed on 14 March 2013 by the publication of FRS 102 The Financial Reporting Standard applicable in the UK and Ireland. These standards will be applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups, for accounting periods beginning on or after 1 January 2015. Early adoption is permissible.

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 EU-adopted IFRS, FRS 101 or the FRSSSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Directors are evaluating the impact of these requirements for the Company, and are likely to adopt the accounting requirements of the reduced disclosure framework under FRS 101 in the Company's reporting for 2015, but do not currently anticipate any material impact from doing so.

2 Turnover

Turnover comprises technical, advisory fees and commission income receivable from fellow Group companies.

3 Other operating charges

	2013 £'000	2012 £'000
Staff costs	84,971	73,481
Research and development	40,504	35,735
Depreciation of tangible assets	14,422	12,756
Impairment of intangible assets	-	674
Impairment of tangible assets	18,536	-
Loss on disposal of tangible assets	2	1,072
Operating lease charges:		
- buildings	425	84
Exchange losses	118	661
Exceptional operating charges	6,606	5,539
Other	201,612	173,442
	367,196	303,444

Included within research and development is an amount of £721,000 (2012: £nil) which is a tax credit.

Auditors' fees of £75,000 were borne by a fellow Group undertaking (2012: £75,000).

Exceptional costs of £6,606,000 (2012: £5,539,000) are the result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

Included within depreciation is an amount of £3,961,000 (2012: £5,043,000) which relates to research and development expenditure.

Notes to the financial statements for the year ended 31 December 2013

Other operating charges (continued)

	2013 £'000	2012 £'000
Staff costs:		
Wages and salaries	66,049	55,444
Social security costs	6,616	5,580
Unfunded defined benefit scheme pension costs (note 15)	3	(838)
Other pension costs	73	884
Defined contribution scheme costs	1,907	1,482
Defined benefit scheme treated as defined contribution scheme	3,872	3,255
Share scheme charges	6,451	7,674
	84,971	73,481

Included within total staff costs is an amount of £23,454,000 (2012: £21,043,000) which relates to research and development expenditure.

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

	2013 Number	2012 Number
By activity		
Administration	513	491

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2012: £nil).

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

	Land and buildings	
	2013 £'000	2012 £'000
Beyond 5 years	425	84

4 Interest receivable and similar income

	2013 £'000	2012 £'000
Interest receivable from Group undertakings	1,424	3,363

5 Interest payable and similar charges

	2013 £'000	2012 £'000
Interest payable to Group undertakings	674	285

Notes to the financial statements for the year ended 31 December 2013

6 Tax on losses on ordinary activities**(a) Summary of taxation on losses on ordinary activities**

	2013 £'000	2012 £'000
Current taxation:		
UK corporation taxation on losses of the year		
Comprising:		
- current taxation at 23.25% (2012: 24.5%)	168	-
	168	-
Overseas taxation	10,837	16,009
Total current taxation note 6(b)	11,005	16,009

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 24.0% to 23.0% with effect from 1 April 2013. Accordingly the Company's loss for this accounting period is taxed at an effective rate of 23.25%.

The current taxation charge differs from the standard 23.25% (2012: 24.5%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2013 £'000	2012 £'000
Loss on ordinary activities before taxation	(207,833)	(203,590)
Corporation taxation at 23.25% (2012: 24.5%) on loss on ordinary activities	(48,321)	(49,880)
Factors affecting the taxation rate:		
Permanent differences	25,649	35,590
Other timing differences	6,030	2,615
Group loss relief surrendered at less than full consideration	30,468	22,264
Overseas taxation	10,837	16,009
Corporate income taxation relief on intra-group dividends	(13,658)	(10,589)
Total current taxation note 6(a)	11,005	16,009

An amount of £1,993,000 (2012: £36,786,000) (taxation amount of £463,000 (2012: £9,013,000)) included in permanent differences above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

Notes to the financial statements for the year ended 31 December 2013

7 Intangible assets

	£'000
Cost	
1 January 2013	674
Additions	8,627
31 December 2013	9,301
Accumulated amortisation	
1 January 2013	674
31 December 2013	674
Net book value	
1 January 2013	-
31 December 2013	8,627

Intangible assets comprise costs of a patent acquired.

8 Tangible assets

	Short leasehold land and buildings £'000	Plant, machinery and equipment £'000	Computer equipment £'000	Assets in the course of construction £'000	Total £'000
Cost					
1 January 2013	55,792	62,675	74,252	55,387	248,106
Additions	-	6,288	4,344	32,255	42,887
Reallocation	-	22,467	1,147	(23,614)	-
Disposals	(757)	(37,025)	(7,474)	-	(45,256)
Transfer (to)/from fellow Group undertakings	-	(424)	(623)	(3,898)	(4,945)
31 December 2013	55,035	53,981	71,646	60,130	240,792
Accumulated depreciation					
1 January 2013	9,726	41,934	28,492	-	80,152
Charge for the year	1,132	2,860	10,430	-	14,422
Impairment charge	-	18,378	158	-	18,536
Disposals	(685)	(16,215)	(7,474)	-	(24,374)
31 December 2013	10,173	46,957	31,606	-	88,736
Net book value					
1 January 2013	46,066	20,741	45,760	55,387	167,954
31 December 2013	44,862	7,024	40,040	60,130	152,056

Notes to the financial statements for the year ended 31 December 2013

9 Investments

(1) Shares in Group undertakings

<u>Listed - registered in Chile</u>	% equity shares held
British American Tobacco Chile Operaciones S.A. 1,830,000 ordinary shares of no par value (Stock exchange valuation at 31 December 2013 £10,690,000 (2012: £15,761,000))	2.614
<u>Listed - registered in Pakistan</u>	
Pakistan Tobacco Company Limited 241,045,141 ordinary shares of PKR10 each (Stock exchange valuation at 31 December 2013: £786,006,000 (2012: £103,065,000))	94.345
<u>Listed - registered in Trinidad and Tobago</u>	
The West Indian Tobacco Company Limited 42,227,652 ordinary shares of no par value (Stock exchange valuation at 31 December 2013 £478,193,000 (2012: £343,973,000))	50.128
<u>Listed - registered in Uganda</u>	
British American Tobacco Uganda Limited 34,356,000 ordinary shares of UGX 1.25 each (Stock exchange valuation at 31 December 2013 £33,298,000 (2012: £17,993,000))	70
<u>Unlisted - registered in Chile</u>	
Inversiones Casablanca S.A. 9,999 ordinary shares of no par value	100 *
<u>Unlisted - registered in England and Wales</u>	
Advanced Technologies (Cambridge) Limited 99 ordinary shares of £1.00 each	100 *
B.A.T Additional Retirement Benefit Scheme Trustee Limited 1 ordinary share of £1.00	100 *
B.A.T Cambodia (Investments) Limited 8,000,001 ordinary shares of £1.00 each	100
B.A.T Portugal Limited 99 ordinary shares of £1.00 each	100 *
B.A.T Russia Limited 1 ordinary share of £1.00	100 *
B.A.T (U.K. and Export) Limited 999,999 ordinary shares of £1.00 each	100
B.A.T Uzbekistan (Investments) Limited 153,000,001 ordinary share of £1.00 each	100

Notes to the financial statements for the year ended 31 December 2013

Investments (continued)

B.A.T Vietnam Limited 1 ordinary share of £1.00	100 *
British American Tobacco (Philippines) Limited 108,000,099 ordinary shares of £1.00 each	100 *
British American Tobacco Georgia Limited 1 ordinary share of £1.00	100 *
British-American Tobacco (Mauritius) p.l.c. 299,998 ordinary shares of £1.00 each	100 *
British American Tobacco (South America) Limited 1 ordinary share of £1.00	100 *
East African Tobacco Company (U.K.) Limited 99 ordinary shares of £1.00 each	100 *
Millbank Nominees Limited 19 ordinary shares of £1.00 each	100 *
Powhattan Limited 100,000 ordinary shares of £1.00 each	100
Rothmans International Tobacco (UK) Limited 1 ordinary share of £1.00	100
Ryservs (1995) Limited 663,600,465 ordinary shares of £0.10 each	100
Thomas Bear & Sons Limited (liquidated 4 February 2014) 59,999 ordinary shares of £1.00 each	100 *
Westanley Trading & Investment Company Limited 999 ordinary share of £1.00 each	100 *
Westminster Tobacco Company Limited 9,999 ordinary shares of £1.00 each	100 *
<u>Unlisted - registered in Isle of Man</u>	
Abbey Investment Company Limited 1,499,998 ordinary shares of £1 each	100
Tobacco Investments Limited 1 ordinary share of £1.00	100

Notes to the financial statements for the year ended 31 December 2013

Investments (continued)

Unlisted - registered in Sierra Leone

Aureol Tobacco Company Limited	86.957
32,000,000 ordinary shares of US\$10.00 each	

Unlisted - registered in Barbados

BAT Caribbean Island Marketing Services Company Ltd.	100
1 BBD ordinary share of no par value	

British-American Tobacco Company (Barbados) Limited	100
2,999,999 BBD ordinary shares of no par value	

Unlisted - registered in Belgium

British American Tobacco Belgium S.A.	0.00
1 € ordinary share of no par value	

Unlisted - registered in Egypt

BETCO for General Services and Marketing LLC	100 *
25 ordinary shares of EGP 1,000.00 each	

BETCO for Trade and Distribution LLC	100 *
25 ordinary shares of EGP 1,000.00 each	

Unlisted - registered in Fiji

British American Tobacco (Fiji) Marketing Limited	50
12,500 ordinary shares of FJD 2.00 each	

Central Manufacturing Company Limited	15
495,000 ordinary shares of FJD 2 each	

Unlisted - registered in Hong Kong

American Cigarette Company Limited	100 *
998 ordinary shares of HKD 1.00 each	

British Cigarette Company (1964) Limited	100 *
3 ordinary shares of HKD 1.00 each	

Unlisted - registered in Liberia

The Monrovia Tobacco Corporation (in liquidation)	95.249
93,725 ordinary shares of LRD 10.00 each	

Unlisted - registered in Nepal

Surya Nepal Pvt. Limited	2
67,200 ordinary shares of NPR 100.00 each	

Unlisted - registered in Solomon Islands

Solomon Islands Tobacco Company Limited	100 *
255,481 ordinary shares of SBD 1.00 each	

Unlisted - registered in Tanzania

British American Tobacco (Tanzania) Limited	100 *
999 ordinary shares of TZS 10,000.00 each	

Notes to the financial statements for the year ended 31 December 2013

Investments (continued)

Unlisted - registered in Cambodia

British American Tobacco (Cambodge) International Limited

100

2,500,000 ordinary shares of KHR 4,000.00 each

*Beneficial ownership: in each case the balance of shares are held by (a) fellow Group subsidiary/(ies) as nominee for the Company.

The subsidiary undertakings that principally affect the Company's financial position are B.A.T Uzbekistan (Investments) Limited, British American Tobacco (Philippines) Limited and Ryservs (1995) Limited. The principal activities of these undertakings are holding companies and tobacco operations.

(2) Shareholdings at cost less provisions

	Shareholdings at cost less provisions £'000	Other fixed asset investments £'000	Total £'000
Cost			
1 January 2013	501,729	39	501,768
Additions	249,974	-	249,974
Return of investment	(102,000)	-	(102,000)
31 December 2013	649,703	39	649,742
Impairment provisions			
1 January 2013	284,271	-	284,271
Provision reclassification	153,000		153,000
31 December 2013	437,271	-	437,271
Net book value			
1 January 2013	217,458	39	217,497
31 December 2013	212,432	39	212,471

During the year the Company subscribed for 153,000,000 ordinary shares of £1 each in B.A.T Uzbekistan (Investments) Limited, 88,000,000 ordinary shares of £1 each in British American Tobacco (Philippines) Limited, 8,000,000 ordinary shares of £1 each in B.A.T Cambodia (Investments) Limited, and 1,500,000 ordinary shares of KHR 4,000 (equivalent to USD 1) each in British American Tobacco (Cambodge) International Limited.

The Company's wholly owned subsidiary, Rothmans International Tobacco (UK) Limited, performed a share capital reduction under section 642 of the Companies Act 2006 through the cancellation of 99,999,999 shares. A dividend amounting to £99,999,999 was subsequently received from the subsidiary's distributable reserve which is accounted for as a return of investment by the Company.

Another of the Company's wholly owned subsidiaries, Tobacco Investments Limited, also performed a share capital reduction under section 58 of the Isle of Man Companies Act 2006 through the cancellation of 1,999,999 shares. A dividend amounting to £1,999,999 was subsequently received from the subsidiary's distributable reserve which is accounted for as a return of investment by the Company.

In 2013 the Company held a provision under creditors against a loan to a subsidiary undertaking. During the year the Company recapitalised its subsidiary and therefore the provision held in the prior year against the loan has been reclassified against the value of investment.

Notes to the financial statements for the year ended 31 December 2013

Investments (continued)

- (3) 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.

10 Debtors

(a) Amounts falling due within one year

	2013 £'000	2012 £'000
Amounts owed by Group undertakings	712,682	1,151,251
Other debtors	3,288	6,793
Prepayments and accrued income	20	38
	715,990	1,158,082

Included within amounts owed by Group undertakings is an amount of £592,856,000 (2012: £763,682,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

(b) Amounts falling due after more than one year

	2013 £'000	2012 £'000
Amounts owed by Group undertakings	24,152	197,380

Included within amounts owed by Group undertakings is £24,152,000 (2012: £15,380,000) which is unsecured, interest free and repayable in March 2015. All other amounts were unsecured, interest free and repayable in December 2017.

11 Creditors

(a) Amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	-	403
Amounts owed to Group undertakings	321,762	706,705
Taxation and social security	1,915	3,097
Accruals and deferred income	50,217	43,564
	373,894	753,769

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

Notes to the financial statements for the year ended 31 December 2013

Creditors (continued)

(b) Amounts falling due after more than one year

	2013	2012
	£'000	£'000
Amounts owed to Group undertakings	24,619	15,380

Amounts owed to Group undertakings are unsecured, interest bearing and repayable in March 2015. The interest is based on USD LIBOR.

Maturity of financial liabilities	2013	2012
	£'000	£'000
Between 1 and 2 years	24,619	-
Between 2 and 5 years	-	15,380
	24,619	15,380

12 Called up share capital

Ordinary shares of £0.25 each	2013	2012
Allotted, called up and fully paid		
- value	£134,747,266	£134,747,266
- number	538,989,062	538,989,062

13 Reserves

	Other reserves	Profit and loss account
	£'000	£'000
1 January 2013	41,341	781,931
Loss for the financial year	-	(218,838)
Actuarial loss on pension scheme	-	(1,645)
31 December 2013	41,341	561,448

14 Reconciliation of movements in shareholders' funds

	2013	2012
	£'000	£'000
(Loss) for the financial year	(218,838)	(219,599)
Unrealised exchange differences on translation of branch activities	-	(36)
Actuarial loss on defined pension scheme	(1,645)	(739)
Net movement in shareholders' funds	(220,483)	(220,374)
Opening shareholders' funds	958,019	1,178,393
Closing shareholders' funds	737,536	958,019

Notes to the financial statements for the year ended 31 December 2013

15 Pensions

The Company participates in several pension schemes, the largest of which, the British American Tobacco UK Pension Fund, is a multi-employer scheme. Under FRS 17, where more than one employer participates in a defined benefit scheme the individual participating employers should account for the scheme as a defined contribution scheme if they are unable to identify their individual shares of the underlying assets and liabilities in the scheme. The Company is unable to identify its share of the underlying assets and liabilities of the multi-employer British American Tobacco Group funded defined benefit schemes and therefore, does not recognise any share of any surplus or deficit in respect of these.

The last full tri-annual actuarial valuation, calculated using the projected unit basis, of the British American Tobacco UK Pension Fund was carried out as at 31 March 2011 by a qualified independent actuary. The valuation showed that the fund had a deficit of £516,000,000. As at 31 December 2013 the Group valuation of the deficit on an IAS 19 basis was £75,169,000 (2012 : £340,743,000). The valuation is not completed on an FRS 17 basis therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

The Company sponsors the B.A.T Overseas Pension Fund ("BATOPF"), a defined benefit scheme where the Company is the major participator. Under FRS 17, the net deficit or surplus for each defined benefit scheme is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The latest actuarial valuation of the Fund was carried out by the independent actuaries, Barnett Waddingham, as at 30 June 2011.

The total pension cost to the Company was £5,855,000 (2012: £4,783,000). There were no amounts prepaid or outstanding in respect of defined benefit schemes or defined contribution schemes in the current and prior financial year.

The assets and the liabilities of the BATOPF scheme are as follows:

	2013 £'000	2012 £'000
Present value of funded obligations	(55,865)	(55,016)
Fair value of plan assets	38,772	38,655
Net deficit	(17,093)	(16,361)
Analysis of amount charged to the Profit and loss account	2013 £'000	2012 £'000
Operating profit		
– current service cost	3	-
– settlements and curtailment	-	838
Other finance income/(expense)		
– expected return on scheme assets	1,517	1,841
– interest cost	(2,152)	(2,412)
Net return	(635)	(571)
Actual return on plan assets	2,891	3,973
Analysis of amount recognised in Statement of total recognised gains and losses:	2013 £'000	2012 £'000
Actual return less expected return on pension scheme assets	1,373	2,132
Experience (losses)/gains arising on scheme liabilities	(2,057)	103
Changes in assumptions underlying the present value of the scheme liabilities	(961)	(2,974)
Actuarial losses recognised in the statement of total recognised gains and losses	(1,645)	(739)

Notes to the financial statements for the year ended 31 December 2013

Pensions (continued)

The total accumulated net actuarial losses taken through the Statement of total recognised gains and losses is a loss of £23,271,000 (2012: £21,626,000).

Changes in the present value of the defined benefit obligation are as follows:

	2013 £'000	2012 £'000
Defined benefit obligation at 1 January	55,016	54,949
Current service cost	3	-
Interest cost	2,152	2,412
Benefits paid	(4,324)	(4,378)
Settlements and curtailments	-	(838)
Actuarial losses	3,018	2,871
Defined benefit obligation at 31 December	55,865	55,016

Changes in the fair value of funded plan assets are as follows:

	2013 £'000	2012 £'000
Fair value of plans assets at 1 January	38,655	37,508
Expected return on plan assets	1,517	1,841
Company contributions	1,551	1,552
Benefits paid	(4,324)	(4,378)
Actuarial gains	1,373	2,132
Fair value of plan assets at 31 December	38,772	38,655

Contributions to the defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, taking into account regulatory requirements. Contributions in 2014 are expected to be £1,551,000 for pension schemes, compared to £1,551,000 in 2013.

The major categories of assets as a percentage of the total fair value of plan assets is as follows:

	2013 %	2012 %
Equities	27.15	49.81
Bonds	18.20	42.72
Other assets	54.65	7.47

The long term rate of return on assets were:

	2013 %	2012 %
Equities	6.60	6.00
Bonds	4.00	3.60
Other assets	6.60	6.00

Notes to the financial statements for the year ended 31 December 2013

Pensions (continued)

The principal actuarial assumptions at the balance sheet date are:

	2013	2012
	%	%
Rate of increase in salaries	n/a	4.40
Rate of increase in pensions in payment	3.40	2.90
Rate of increase in deferred pensions	3.40	2.90
Discount rate	4.42	4.07
General inflation	3.40	2.90

The weighted average life expectancy in years for mortality tables used to determine the defined benefit obligations is as follows:

	2013	2012
	Years	Years
Member age 65 (current life expectancy)		
- male	22.69	22.58
- female	24.98	24.85
Member age 45 (life expectancy at age 65)		
- male	24.95	24.83
- female	27.36	27.24

In the UK, for post-retirement mortality assumptions at 31 December 2013 and 31 December 2012 the S1NA (year of birth) table with the Continuous Mortality Investigation (2009) model with a 1.5 per cent long term improvement rate, has been used.

The history of the present value of the defined benefit obligation, fair value of the plan assets, the net deficit/(surplus) and experience gains and losses are as follows:

Historical information	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(55,865)	(55,016)	(54,949)	(50,947)	(52,024)
Fair value of plan assets	38,772	38,655	37,508	40,095	38,390
Net deficit	(17,093)	(16,361)	(17,441)	(10,852)	(13,634)
Experience (gains)/losses on defined benefit obligation	2,057	(103)	(623)	(175)	1,477
Experience (gains)/losses on fair value of plan assets	(1,373)	(2,132)	1,422	(2,127)	(4,589)

Notes to the financial statements for the year ended 31 December 2013

16 Related party disclosures

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

	2013 £'000	2012 £'000
Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group		
Other charges	6,075	4,077

The associate referred to is Reynolds American Inc.

As a wholly owned subsidiary the Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

17 Contingent liabilities

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 2013.

As of the date of financial statements, the Company was a party to only one US smoking and health case, an individual action (Perry).

The Company has been named as a defendant in two further actions in the US (Smith and Gero). 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 and the appeal remains pending.

Gero is an individual action alleging misappropriation of novel ideas and breach of contract in the US. On 7 November 2011, the trial court dismissed British American Tobacco p.l.c. and the Company for lack of personal jurisdiction. The plaintiff filed notices of appeal, but thereafter filed a notice of voluntary dismissal of the appeals. On 20 March 2013, the appellate court entered an order dismissing the appeals.

Outside the US, the Company, amongst others, has been named in nine healthcare recoupment actions filed by Canadian provinces (British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Manitoba, Quebec, Saskatchewan, Alberta and Prince Edward Island) and in seven smoking and health class actions in Nova Scotia, Manitoba, Saskatchewan, Alberta, and British Columbia (which has two cases) and Ontario.

In Nigeria, the Company was named as a defendant, amongst others, in five healthcare recoupment claims filed by Nigerian states (Gombe, Kano, Lagos, Oyo, Ogun) and one healthcare recoupment claim was filed in Abuja by the Federal Government. In late May 2012, the Oyo State High Court struck out the service of the claim upon the Company and other defendants in that action. The claimants seek compensatory, special and punitive damages totaling approximately £44.8 billion as well as injunctive relief designed to regulate the sale, use and marketing of tobacco products in their respective jurisdictions.

Notes to the financial statements for the year ended 31 December 2013

Contingent liabilities (continued)

While it is impossible to be certain of the outcome of any particular case or of 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 any event, with regard to US litigation, the Company has the benefit of the RJRT Indemnification. 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.

The Company has cross-guaranteed the liabilities of the British American Tobacco UK Pension Fund with other participating employees of the scheme. In addition the Company's ultimate parent, British American Tobacco p.l.c., has guaranteed the liabilities of the British American Tobacco UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. The fund had a deficit according to the last formal tri-annual actuarial valuation in March 2011 of £516,000,000. As at 31 December 2013 the Group valuation of the deficit on an IAS 19 basis was £75,169,000 (2012: £340,743,000). The valuation is not completed on an FRS 17 basis, therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

The Company provides guarantees in the normal course of business and as at 31 December 2013 had guaranteed payables by Group undertakings of up to US \$2,220,000 (2012: US \$560,000).

18 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