

British American Tobacco (Investments) Limited

Registered Number 00074974

Annual report and financial statements

For the year ended 31 December 2017



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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 2017.

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 2017

The profit for the financial year attributable to British American Tobacco (Investments) Limited shareholders after deduction of all charges and the provision of taxation amounted to £113,009,000 (2016: £241,458,000). The profit for the financial year is shown after deduction of £7,813,000 (2016: £1,142,000) of exceptional operating charges. Out of total staff costs an amount of £nil (2016: £590,000) 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



Noelle Colfer

Secretary

29 June 2018

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2017.

Dividends

During the year the Company paid dividends amounting to £nil (2016: £510,000,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2017 to the date of this report are as follows:

Naresh Kumar Sethi
Jerome Bruce Abelman
David O'Reilly
Steven Glyn Dale
John Benedict Stevens
Kingsley Wheaton
Giovanni Giordano
Alan Davy

Directors' indemnities

Throughout the period 1 January 2017 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 2017 was £91,759,000 (2016: £80,897,000) including associated depreciation and staffing.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2016: £nil).

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Employees

The average number of employees employed by the Company during the year was 875 (2016: 748).

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, 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 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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' Report (continued)

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 auditor is 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 auditor is aware of that information.

By Order of the Board



Noelle Colfer

Secretary

29 June 2018

Independent Auditor's Report to the members of British American Tobacco (Investments) Limited

Opinion

We have audited the financial statements of British American Tobacco (Investments) Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and loss account, Statement of other comprehensive income, Statement of changes in equity, Balance Sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Independent Auditor's Report to the members of British American Tobacco (Investments) Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on pages 4 and 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Christopher Hearn (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London. E14 5GL
29 June 2018

Profit and Loss Account For the Year Ended 31 December

	Note	2017 £'000	2016 £'000
Continuing operations			
Other operating income	2	154,073	133,540
Other operating expenses	3	(391,293)	(396,215)
Operating loss		(237,220)	(262,675)
Income from shares in Group undertakings	4	398,586	537,346
Income from other investments at fair value	5	8,311	5,472
Interest receivable and similar income	6	539	997
Interest payable and similar expenses	7	(6,862)	(7,059)
Profit before taxation		163,354	274,081
Tax on profit	8	(50,345)	(32,623)
Profit for the financial year		113,009	241,458

Statement of other comprehensive income for the year ended 31 December

	Note	2017 £'000	2016 £'000
Profit for the financial year		113,009	241,458
Actuarial gain/(loss) arising from defined benefit pension scheme	17	555,345	(117,516)
Deferred tax on actuarial gain/(loss)	8	(95,494)	22,399
Deferred tax on fair value reserve		(544)	(5,691)
Net fair value gains on other investments at fair value	11	17,055	24,563
Effective portion of changes in fair value of cash flow hedges		1,012	(1,480)
Total other comprehensive income for the year		590,383	163,733

Statement of changes in equity for the year ended 31 December

	Called up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Fair Value Reserve £'000	Total Equity £'000
1 January 2016	134,747	-	597,794	55,193	787,734
Profit for the financial year	-	-	241,458	-	241,458
Dividends paid	-	-	(510,000)	-	(510,000)
Other comprehensive income	134,747	-	329,252	55,193	519,192
Net fair value gains on other investments at fair value	-	-	-	24,563	24,563
Deferred tax on actuarial loss	-	-	22,399	-	22,399
Actuarial loss arising from defined benefit pension scheme	-	-	(117,516)	-	(117,516)
Effective portion of changes in fair value of cash flow hedges	-	(1,480)	-	-	(1,480)
Deferred tax on fair value reserve	-	-	-	(5,691)	(5,691)
31 December 2016	134,747	(1,480)	234,135	74,065	441,467
Profit for the financial year	-	-	113,009	-	113,009
Other comprehensive income	134,747	(1,480)	347,144	74,065	554,476
Net fair value gains on other investments at fair value (note 11)	-	-	-	17,055	17,055
Actuarial gain arising from defined benefit pension scheme (note 17)	-	-	555,345	-	555,345
Effective portion of changes in fair value of cash flow hedges	-	1,012	-	-	1,012
Deferred tax on actuarial gain	-	-	(95,494)	-	(95,494)
Deferred tax on fair value reserve	-	-	-	(544)	(544)
31 December 2017	134,747	(468)	806,995	90,576	1,031,850

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

Balance Sheet as at 31 December

		31 December 2017 £'000	31 December 2016 £'000
	Note		
Fixed assets			
Intangible assets	9	67,606	51,610
Tangible assets	10	188,601	151,090
Investments in Group undertakings	11	125,160	233,125
Other investments at fair value	11	97,667	80,612
Retirement benefit assets	12	995,473	341,722
		1,474,507	858,159
Current assets			
Debtors: amounts falling due within one year	13	455,732	317,736
Cash at bank and in hand		628	1,680
		456,360	319,416
Creditors: amounts falling due within one year	14a	(374,783)	(335,714)
Derivative financial instruments - liabilities		(610)	(1,480)
Net current assets/(liabilities)		80,967	(17,778)
Total assets less current liabilities		1,555,474	840,381
Creditors: amounts falling due after more than one year	14b	(274,134)	(274,132)
Provisions for liabilities and other charges	15	(171,220)	(36,168)
Retirement benefit liabilities	17	(78,270)	(88,614)
Net assets including retirement benefit liabilities		1,031,850	441,467
Capital and reserves			
Called up share capital	16	134,747	134,747
Cash flow hedge reserve		(468)	(1,480)
Profit and loss account		806,995	234,135
Fair value reserve		90,576	74,065
Total shareholders' funds		1,031,850	441,467

The financial statements on pages 8 to 37 were approved by the Directors on 29 June 2018 and signed on behalf of the Board.



S.G. Dale
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 2017

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.

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.

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.

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. All exchange differences are taken to the profit and loss account in the year except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Notes to the Financial Statements For the Year Ended 31 December 2017

1 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 2017

1 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 2017

1 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 previously, 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.

Future changes to accounting policies

IFRS 9 *Financial Instruments*. This new standard replaces IAS 39, with the effective implementation date being 1 January 2018. The anticipated impact from restatement of the Company's Financial Statements for 2017 and 2016 is considered immaterial.

IFRS 15 *Revenue from Contracts with Customers*. This new standard replaces IAS 18, with the effective implementation date being 1 January 2018. The anticipated impact from restatement of the Company's Financial Statements for 2017 and 2016 is considered immaterial.

IFRS 16 *Leases*. This new standard replaces IAS 17, with the effective implementation date being 1 January 2019. The current distinction between operating and financial leases is removed, and all leasing commitments will be reported to the balance sheet as financial obligation and "right-of-use" assets. Further due diligence will be carried out before the implementation.

Notes to the Financial Statements For the Year Ended 31 December 2017

2 Other operating income

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

3 Other operating expenses

	2017 £'000	2016 £'000
Staff costs	126,161	88,837
Research and development	44,654	31,636
Depreciation of tangible assets	6,111	6,496
Amortisation of intangible assets	10,990	5,938
Impairment of tangible assets	-	323
Loss on disposal of tangible assets	305	-
Impairment of intangible assets	-	11
Operating lease expenses - buildings	505	959
Exchange (gains)/losses	(6,426)	9,943
Exceptional operating expenses	7,813	1,142
Reversal of loan impairment	(106,529)	-
Impairment of loans to Group undertakings	8,269	48,061
Write off of loan to Group undertakings	2,980	16,272
Impairment of investment	124,965	47,035
Other	171,495	139,562
	391,293	396,215

Included within research and development is an amount of £2,164,000 (2016: £2,325,000) 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 £7,506,000 (2016: £5,041,000) which relates to research and development activity.

Auditor's fees of £75,000 were borne by a fellow Group undertaking (2016: £75,000).

The exceptional operating expenses of £7,813,000 (2016: £1,142,000), are related to a project required as part of Operation Evolution to deliver the Group's integrated Enterprise Operating Model. Within staff costs, an amount of £nil (2016: £590,000) 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 services underpinned by a global single instance of SAP.

The provision for impairment and write-off of loans to Group undertaking totalling £11,249,000 (2016: £64,333,000) are related to loans granted to British American Tobacco Egypt LLC, an indirect subsidiary of the Company, and British American Tobacco (Cambodge) International Limited, a direct subsidiary of the Company.

During the year the Company has impaired its investment in British American Tobacco (Philippines) Limited by £124,965,000.

Reversal of loan impairment of £106,529,000 (2016: £nil) mainly represents cash collected from UZBAT A.O. due to changes in local legislation regarding cash payments to external borrowers.

Other charges comprise mainly information technology costs and professional fees payable to fellow Group companies.

	2017 £'000	2016 £'000
Staff costs:		
Wages and salaries	91,026	96,241
Social security costs	9,730	9,444
Retirement benefits cost/(contribution) (note 17)	9,571	(28,264)
Contributions from other Group undertakings	(8,308)	(8,832)
Other pension costs - defined contribution	5,123	4,356
Share scheme charges	18,544	15,295
Other pension costs – administration costs	475	597
	126,161	88,837

Notes to the Financial Statements For the Year Ended 31 December 2017

3 Other operating expenses (continued)

Included within total staff costs is an amount of £38,946,000 (2016: £36,420,000) which relates to research and development activity.

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

	2017 Number	2016 Number
By activity		
Administration	875	748

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2016: £nil). The Company considers that there is no practicable method to allocate a portion of the emoluments the Directors receive from their respective Group company employer for any qualifying services in respect of the Company, as these are considered to be incidental and part of the Directors overall management responsibilities within the Group.

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

	Land and buildings	
	2017 £'000	2016 £'000
Within 1 year	425	425
Between 1-5 years	2,231	2,210
Beyond 5 years	-	446

The operating lease relates to Cambridge office buildings.

4 Income from shares in Group undertakings

	2017 £'000	2016 £'000
Income from shares in Group undertakings	398,586	537,346

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

5 Income from other investments at fair value

	2017 £'000	2016 £'000
Income from other investments at fair value	8,311	5,472

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

6 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable from Group undertakings	108	997
Exchange gains	431	-
	539	997

Notes to the Financial Statements For the Year Ended 31 December 2017

7 Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest payable to Group undertakings	6,853	7,059
Fair value losses	9	-
	6,862	7,059

8 Taxation

(a) Recognised in the profit and loss account

	2017 £'000	£'000	2016 £'000	£'000
<i>UK corporation tax</i>				
Current tax on income for the period	-		588	
Adjustments in respect of prior periods	-		236	
		-		824
<i>Foreign tax</i>				
Current tax on income for the period	18,183		16,533	
Total current tax		18,183		17,357
<i>Deferred tax</i>				
Origination and reversal of temporary differences	20,362		14,438	
Effect of change in tax rates	-		828	
Adjustments in respect of prior periods	11,800		-	
Total deferred tax		32,162		15,266
Total income tax expense		50,345		32,623

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The current taxation charge differs from the standard 19.25% (2016: 20%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2017 £'000	2016 £'000
Profit for the year	113,009	243,879
Total tax expense	50,345	30,202
Profit excluding taxation	163,354	274,081
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	31,447	54,816
Non-deductible expenses	27,407	14,274
Tax exempt revenues	(78,328)	(108,564)
Group relief surrendered for nil consideration	42,532	39,474
Effect of research and development expenditure credit	-	824
Effect of rate change	(2,696)	-
Foreign tax suffered	18,183	16,533
Net deferred tax debit	-	15,266
Adjustments in respect of prior years	11,800	-
Total tax charge	50,345	32,623

An amount of £3,243,000 (2016: £1,205,000) (taxation amount of £624,000 (2016: £241,000)) included in non-deductible expenses above represents imputed taxation adjustments in respect of UK to UK transfer pricing. The deferred tax liability relates to fixed asset temporary differences and defined benefit pension schemes.

Notes to the financial statements for the year ended 31 December 2017

8 Taxation (continued)

(b) Factors affecting the taxation charge (continued)

	2017 £'000	£'000	2016 £'000	£'000
(c) Income tax recognised in other comprehensive income				
Deferred tax on actuarial gain/(loss)	95,494		19,977	
Effect of change in tax rates	-		2,422	
Deferred tax on fair value reserve	544		(5,691)	
		96,038		16,708

9 Intangible assets

	Computer software £'000	Patents and trademarks £'000	Under development £'000	Total £'000
Cost				
1 January 2017	95,839	23,257	8,030	127,126
Additions	126	-	26,860	26,986
Reallocations	5,078	-	(5,078)	-
31 December 2017	101,043	23,257	29,812	154,112
Accumulated amortisation and impairment				
1 January 2017	(65,648)	(9,868)	-	(75,516)
Charge for the year	(8,024)	(2,966)	-	(10,990)
31 December 2017	(73,672)	(12,834)	-	(86,506)
Net book value				
1 January 2017	30,191	13,389	8,030	51,610
31 December 2017	27,371	10,423	29,812	67,606

Notes to the financial statements for the year ended 31 December 2017

10 Tangible assets

	Freehold property £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Cost				
1 January 2017	57,968	56,106	88,031	202,105
Additions	-	3,971	79,494	83,465
Reallocations	-	11,855	(11,855)	-
Disposals	(307)	(2,869)	(38,626)	(41,802)
31 December 2017	57,661	69,063	117,044	243,768
Accumulated depreciation and impairment				
1 January 2017	(15,219)	(35,796)	-	(51,015)
Charge for the year	(2,158)	(3,953)	-	(6,111)
Disposals	78	1,881	-	1,959
31 December 2017	(17,299)	(37,868)	-	(55,167)
Net book value				
1 January 2017	42,749	20,310	88,031	151,090
31 December 2017	40,362	32,536	115,703	188,601

The Company has entered into arrangements with external suppliers whereby The Company acts as an agent on behalf of the markets and pays 30% as down payment for pieces of machinery to be built in order to meet Group demand. Machinery can take up to two years to build and when it is finalised it is transferred to the end market. These down payments are presented in tangible assets under construction.

11 Investments

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
Australia				
166 William Street, Woolloomooloo, NSW 2011, Australia B.A.T Australia Pty. Limited	Ordinary	0.00	50.00	50.00
Bahrain				
Unit 1, Building 2126, Road 1734, Block 117, Hidd Town, Bahrain British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
Benin				
Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin British American Tobacco Benin SA	Issued	0.00	100.00	100.00
Cambodia				
1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia British American Tobacco (Cambodia) Limited	Ordinary	0.00	71.00	71.00

Notes to the financial statements for the year ended 31 December 2017

11 Investments (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
Cambodia				
<i>No. 33, Street No. 294 (Corner of Street No. 29), Sangkat Tonle Bassac, Khan Cham Karmon, Phnom Penh, Cambodia</i>				
British American Tobacco (Cambodge) International Limited	Ordinary	100.00	0.00	100.00
Chile				
<i>Isidora Goyenechea 3000, piso 19, Las Codes, Chile</i>				
BAT Chile S.A.	Ordinary	0.00	100.00	48.52
Inversiones Casablanca S.A.	Ordinary	99.99	0.00	99.99
Cyprus				
<i>Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia, CY-1060, Cyprus</i>				
Carreras of Cyprus (Export) Limited	Ordinary	0.00	100.00	100.00
Djibouti				
<i>B.P. 2392, Djibouti</i>				
Egypt				
<i>10 Omar Ibn El Khattab St. City Stars Complex, Star Capital Towers 4A, 8th floor, Heliopolis, Cairo, Egypt</i>				
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
<i>City Stars Complex, Star Capital 4A, 10th Floor, Omar Ibn El Khattab St., Heliopolis, Cairo, Egypt</i>				
British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
Hong Kong				
<i>Units 2501 and 2506 to 2510, 25/F Island Place Tower, Island Place 510, King's Road, Hong Kong</i>				
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				
<i>No. 2 Saba Boulevard with Africa Boulevard, Tehran, 19667, Islamic Republic of Iran</i>				
B.A.T. Pars Company (Private Joint Stock)	Ordinary	0.00	100.00	100.00
Iraq				
<i>Enkawa, Erbil, Kurdistan Region of Iraq</i>				
B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	0.00	100.00	100.00
Isle of Man				
<i>2nd Floor, St Mary's Court, 20 Hill Street, Douglas, IM1 1EU, Isle of Man</i>				
Abbey Investment Company Limited	Ordinary	100.00	0.00	100.00
Kenya				
<i>08 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya</i>				
British American Tobacco Area Limited	Ordinary	0.00	50.00	50.00

Notes to the financial statements for the year ended 31 December 2017

11 Investments (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
Mali				
<i>Hippodrome, Rue Djelibougou à Bamako - BP 2065, Mali</i>				
British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
Niger				
<i>C/O Niger Briques SARL, Grand, Marché Niamey BP2401, Niamey-Niger</i>				
British American Tobacco Niger	Ordinary	0.00	100.00	100.00
Northern Ireland				
<i>212-218 Upper Newtownards Road, Belfast, Northern Ireland</i>				
Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
Pakistan				
<i>Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan</i>				
Pakistan Tobacco Company Limited	Ordinary	94.34	0.00	94.34
Phoenix (Private) Limited	Ordinary	0.00	100.00	91.51
Senegal				
<i>Almadies, Route Hôtel Méridien en Face Club Med, Dakar, Senegal</i>				
Tobacco Marketing Consultant TMC S.A.R.L	Ordinary	0.00	100.00	100.00
Tanzania, United Republic of				
<i>Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania</i>				
British American Tobacco (Tanzania) Limited	Ordinary	100.00	0.00	100.00
United Arab Emirates				
<i>Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates</i>				
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				
<i>Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom</i>				
B.A.T Additional Retirement Benefit Scheme Trustee Limited	Ordinary	100.00	0.00	100.00
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
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 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 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

Notes to the financial statements for the year ended 31 December 2017

11 Investments (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
United Kingdom				
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
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	33.33	100.00
	6% Second pref	0.00	33.33	100.00
Carreras Rothmans Limited	Ordinary	0.00	33.34	100.00
East African Tobacco Company (U.K.) Limited	Ordinary	99.00	0.00	99.00
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
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
Solomon Islands				
<i>Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands</i>				
Solomon Islands Tobacco Company Limited	Ordinary	50.00	0.00	50.00
Trinidad and Tobago				
<i>Comer Eastern Main Road and Mt. D'or Road, Champs Fleurs, Trinidad and Tobago</i>				
The West Indian Tobacco Company Limited	Ordinary	50.13	0.00	50.13
Uganda				
<i>7th Floor TWED Towers, Plot 10, Kafu Road, Nakasero, P.O. Box 7100, Kampala, Uganda</i>				
British American Tobacco Uganda Limited	Ordinary	70.00	0.00	70.00
Uzbekistan				
<i>77 Minor Passage, Tashkent, 100084, Uzbekistan</i>				
UZBAT A.O.	Ordinary	0.00	97.38	97.38

Notes to the financial statements for the year ended 31 December 2017

11 Investments (continued)

(2) Indirect Investments in Associated Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Chile				
<i>Isidora Goyenechea 3000, piso 19, Las Codes, Chile</i>				
British American Tobacco Chile Operaciones S.A.	Ordinary	2.61	45.88	48.49

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				
<i>Lady Maria Road, Nabua, Suva, Fiji</i>				
Central Manufacturing Company Limited	Ordinary	15.00	0.00	15.00
Nepal				
<i>Shree Bal Sadan, Gha 2-513, Kantipath, Kathmandu, Nepal</i>				
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 2017

11 Investments (continued)

(4) Investments in Group Companies

	Investments in Group Companies £'000	Other fixed asset investments £'000	Total £'000
Cost			
1 January 2017	1,046,972	39	1,047,011
Additions	17,000	-	17,000
31 December 2017	1,063,972	39	1,064,011
Impairment provisions			
1 January 2017	813,847	39	813,886
Charge in the year	124,965	-	124,965
31 December 2017	938,812	39	938,851
Net book value			
1 January 2017	233,125	-	233,125
31 December 2017	125,160	-	125,160

During the year the Company made an equity injection of £17,000,000 into British American Tobacco (Philippines) Limited, however as at year end the entire investment was impaired due to the decision to close the business in Philippines. The total value of the impaired investment was of £124,965,000.

(5) Other investments at fair value

	Other investments at fair value £'000
Cost	
1 January 2017	80,612
Change in fair value	17,055
31 December 2017	97,667

- (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.

12 Retirement benefits assets

	2017 £'000	2016 £'000
Retirement benefits assets	995,473	341,722

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

Notes to the financial statements for the year ended 31 December 2017

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

	2017 £'000	2016 £'000
Amounts due from Group undertakings - gross	813,696	801,783
Allowances account	(370,970)	(490,435)
Amounts due from Group undertakings - net of allowances	442,726	311,348
Other debtors	1,574	1,603
Prepayments and accrued income	11,432	4,785
	455,732	317,736

Included within amounts owed by Group undertakings is an amount of £283,390,000 (2016: £159,545,000) 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.

The movement in allowances accounts is as follows

	2017 £'000
1 January 2017	490,435
Provided in the year	8,269
Reversed in the year	(106,529)
Differences in exchange	(21,205)
31 December 2017	370,970

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 £2,980,000 (2016: £16,272,000) from the interest free loans was written off during the year.

Amounts reversed during the year represent cash collected from UZBAT A.O. due to changes in local legislation regarding cash payments to external borrowers.

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

14 Creditors

(a) Amounts falling due within one year

	2017 £'000	2016 £'000
Amounts owed to Group undertakings	128,546	120,535
Taxation and social security	-	488
Accruals and deferred income	246,237	214,691
	374,783	335,714

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

Notes to the financial statements for the year ended 31 December 2017

14 Creditors (continued)

(b) Amounts falling due after more than one year

	2017	2016
	£'000	£'000
Deferred income	274,134	274,132

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 £1,225,244,000 in three 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 £274,132,000, 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

	Deferred tax	Other provisions	Total
	£'000	£'000	£'000
1 January 2017	27,230	8,938	36,168
Interest accrued	-	6,852	6,852
Deferred tax recognised in Profit and loss	32,162	-	32,162
Deferred tax recognised in Other comprehensive income	96,038	-	96,038
31 December 2017	155,430	15,790	171,220

The deferred tax liability relates to fixed asset temporary differences, defined benefit pension schemes and fair value reserve.

16 Called up share capital

Ordinary shares of £0.25 each	2017	2016
Allotted, called up and fully paid		
- value	£134,747,266	£134,747,266
- number	538,989,062	538,989,062

Notes to the financial statements for the year ended 31 December 2017

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 2017 by a qualified independent actuary and showed a deficit of £23,000,000.

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 £78,225,000 in 2017 and £78,064,000 in 2016.

These contributions were to be used to achieve the statutory funding objective and thereafter to support attaining a lower risk investment strategy. With effect from July 2018, the Group will pay £18 million a year to meet the cost of future benefit accruals. Additional annual contributions are payable until the Fund is valued to 110% on a Technical Provision basis, and are expected to be £11 million in 2018. 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 2017 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 2017

17 Retirement benefits (continued)

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Present value of funded scheme liabilities	(3,082,910)	(3,470,192)	(121,423)	(132,377)	(3,204,333)	(3,602,569)
Fair value of funded scheme assets	4,078,383	3,811,914	43,153	43,763	4,121,536	3,855,677
	995,473	341,722	(78,270)	(88,614)	917,203	253,108

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

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
– retirement benefit scheme liabilities	-	-	(78,270)	(88,614)	(78,270)	(88,614)
– retirement benefit scheme assets	995,473	341,722	-	-	995,473	341,722
	995,473	341,722	(78,270)	(88,614)	917,203	253,108

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

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Defined benefit schemes						
Service cost						
– current service cost	17,185	17,029	1,817	1,686	19,002	18,715
– past service cost	(2,267)	(33,076)	258	(1,334)	(2,009)	(34,410)
– settlements and curtailments	-	(778)	(281)	-	(281)	(778)
Net interest on the net defined benefit liability						
– interest on scheme liabilities	90,563	110,677	4,418	4,585	94,981	115,262
– interest on scheme assets	(100,992)	(125,542)	(1,130)	(1,511)	(102,122)	(127,053)
Total amount recognised in the profit and loss account (note 3)	4,489	(31,690)	5,082	3,426	9,571	(28,264)

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	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Actuarial gains/(losses) on scheme liabilities	350,643	(580,433)	4,293	(12,425)	354,936	(592,858)
Actuarial gains on scheme assets	199,372	471,179	1,037	4,163	200,409	475,342
Net actuarial gains/ (losses) in Other comprehensive income	550,015	(109,254)	5,330	(8,262)	555,345	(117,516)

Notes to the Financial Statements For the Year Ended 31 December 2017

17 Retirement benefits (continued)

The movements in scheme liabilities are as follows:

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Present value at 1 January	3,470,192	2,942,232	132,377	109,397	3,602,569	3,051,629
Exchange differences	-	-	(6,588)	11,491	(6,588)	11,491
Current service cost	17,185	17,029	1,817	1,686	19,002	18,715
Past service costs/(credits)	(2,267)	(33,076)	258	(1,334)	(2,009)	(34,410)
Settlements and curtailments	-	(7,938)	(793)	(118)	(793)	(8,056)
Interest on scheme liabilities	90,563	110,677	4,418	4,585	94,981	115,262
Benefits paid (cash outflow)	(142,120)	(139,165)	(5,773)	(5,755)	(147,893)	(144,920)
Actuarial (gains)/ losses	(350,643)	580,433	(4,293)	12,425	(354,936)	592,858
Present value at 31 December	3,082,910	3,470,192	121,423	132,377	3,204,333	3,602,569

Scheme liabilities by scheme membership:

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Active members	419,685	541,503	32,004	32,139	451,689	573,642
Deferred members	476,431	606,897	10,985	12,023	487,416	618,920
Retired members	2,186,794	2,321,792	78,434	88,215	2,265,228	2,410,007
Present value at 31 December	3,082,910	3,470,192	121,423	132,377	3,204,333	3,602,569

Scheme liabilities by benefits earned to date:

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Guaranteed benefits	3,080,709	3,461,851	105,008	114,111	3,185,717	3,575,962
Future salary increases	2,201	8,341	-	-	2,201	8,341
Discretionary benefits	-	-	16,415	18,266	16,415	18,266
Present value at 31 December	3,082,910	3,470,192	121,423	132,377	3,204,333	3,602,569

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

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Actuarial (gains)/losses:						
- arising from changes in demographic assumptions	(360,835)	-	(9,384)	-	(370,219)	-
- arising from changes in financial assumptions	13,269	635,353	5,869	13,147	19,138	648,500
Experience (gains)/losses	(3,077)	(54,920)	(778)	(722)	(3,855)	(55,642)
Total	(350,643)	580,433	(4,293)	12,425	(354,936)	592,858

Notes to the Financial Statements For the Year Ended 31 December 2017

17 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	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Fair value at beginning of period	3,811,914	3,253,454	43,763	40,303	3,855,677	3,293,757
Exchange differences	-	-	(204)	423	(204)	423
Settlements	-	(7,160)	(512)	(118)	(512)	(7,278)
Interest on scheme assets	100,992	125,542	1,130	1,511	102,122	127,053
Company contributions	108,225	108,064	3,712	3,236	111,937	111,300
Benefits paid (cash outflow)	(142,120)	(139,165)	(5,773)	(5,755)	(147,893)	(144,920)
Actuarial gains	199,372	471,179	1,037	4,163	200,409	475,342
Fair value at end of period	4,078,383	3,811,914	43,153	43,763	4,121,536	3,855,677

The fair value of scheme assets by category:

	UKPF		ACP and BATOPF		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Equities – listed	262,915	767,689	10,917	8,333	273,832	776,022
Equities – unlisted	214,416	205,395	-	-	214,416	205,395
Bonds – listed	3,082,317	2,447,460	19,453	19,957	3,101,770	2,467,417
Bonds – unlisted	102,027	79,939	-	-	102,027	79,939
Other assets – listed	-	-	-	11,971	-	11,971
Other assets – unlisted	416,708	311,431	12,783	3,502	429,491	314,933
Fair value of scheme assets at 31 December	4,078,383	3,811,914	43,153	43,763	4,121,536	3,855,677

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	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Actual return on scheme assets	300,364	596,721	2,167	5,674	302,531	602,395

Notes to the Financial Statements For the Year Ended 31 December 2017

17 Retirement benefits (continued)

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.

	2017	2016
	%	%
Rate of increase in salaries	3.2	3.3
Rate of increase in pensions in payments	3.2	3.3
Rate of increase in deferred pensions	2.2	2.5
Discount rate	2.5	2.6
General inflation	3.2	3.3
Weighted average duration of liabilities	16.7	18.9

Mortality assumptions are subject to regular review. The following table has been used for 2017: S2PA (YOB) with the CMI (2016) improvement model with a 1.25% long-term improvement rate (2016: 91.5% S1NA (year of birth) table with the Continuous Mortality Investigation (2013) model with a 1.75% long-term improvement rate).

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

	2017	2016
	Years	Years
Member age 65 (current life expectancy)		
- male	22.73	23.8
- female	24.18	26.4
Member age 45 (life expectancy at age 65)		
- male	24.31	26.5
- female	25.48	29.2

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 2017 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 2017

17 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	112,801	(111,503)		
Rate of inflation – increase/(decrease) of scheme liabilities			118,209	(110,694)
Discount rate – (decrease)/increase of scheme liabilities			(128,542)	137,377

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:

	2017 £'000	2016 £'000
Defined contribution schemes recognised in the profit and loss account (note 3)	5,123	4,356

At 31 December 2017, there were amounts of £nil (2016: £nil) outstanding in respect of defined contribution schemes.

18 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 (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to one 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 were granted in March (2016: May).

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 Group and these are as follows:

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

Free shares granted in April each year (maximum £3,600 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.

Notes to the Financial Statements For the Year Ended 31 December 2017

18 Share-based payments (continued)

Share-based payment expense

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

The weighted average share price on exercise of LTIP shares in 2017 was £51.95 (2016: £45.80).

The weighted average share price on exercise of DSBS shares in 2017 was £52.52 (2016: £42.26).

The outstanding shares for the year ended 31 December 2017 had an exercise price range of £48.43 - £52.52 (2016: £34.64 - £47.71). The weighted average remaining contractual life are 8.1 years (2016: 8.2 years) for the LTIP shares and are 1.3 years (2016: 1.3 years) for the DSBS shares.

19 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under paragraph 3(c) of FRS 101 'Related party disclosures' from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

20 Contingent liabilities

United States

The Company has the benefit of an indemnity given by R.J. Reynolds Tobacco Company ("RJRT") (the "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 2017.

Following the acquisition of the remaining equity ownership interest in Reynolds American Inc., RJRT has become an indirect, wholly owned subsidiary of BAT p.l.c. ("BAT"). The RJRT Indemnification is therefore between members of the Group, and as such the Group does not benefit from an indemnification by an external party.

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 million. There has been no activity in this case following the claimant's death in 1997.

Canada

Following the implementation of legislation enabling provincial governments to recover healthcare costs directly from tobacco manufacturers ten actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases have been brought. These proceedings name various Group companies as defendants, including BAT, the Company, B.A.T Industries p.l.c. ("Industries"), Carreras Rothmans Limited (collectively the "UK Companies"), Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada, and RJRT and its affiliate R.J. Reynolds Tobacco International Inc. ("RJRTI") (collectively, the "RJR Companies"). The cases are proceeding in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island. The enabling legislation is in force in all ten provinces. In addition, legislation has received Royal Assent in two of the three territories in Canada, but has yet to be proclaimed into force.

Notes to the Financial Statements For the Year Ended 31 December 2017

20 Contingent liabilities (continued)

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial The Company Industries Carreras Rothmans Limited Other former Rothmans Group companies The RJR Companies All have been served.	Defences have been filed and document production and discoveries are ongoing. On 13 February 2017 the province delivered an expert report dated October 2016, quantifying its damages in the amount of CAD\$118 billion. No trial date has been set. The federal government is seeking CAD\$5 million jointly from all the defendants in respect of costs.
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	Defences have been filed and document production and discoveries are substantially complete. Damages have been calculated by the province as in the range of CAD\$25-\$60 billion from 1954 to 2060. Following a motion to set a trial date, the court has ordered that trial commence on 4 November 2019.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	Defences have been filed. The parties completed significant document production in summer of 2017 and discoveries are expected to commence in 2018. On June 15, 2018, the province delivered an expert report quantifying its damages in the range of CAD \$280 – 630 billion in 2016/2017 dollars for the period 1954 – 2060. The Province is seeking to amend its Statement of Claim to claim damages of CAD \$330 billion. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2006	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. Defences have been filed and the province began its document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

Notes to the Financial Statements For the Year Ended 31 December 2017

20 Contingent liabilities (continued)

Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2012	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. Defences have been filed and the province has delivered a test shipment of documents. Damages have not been quantified by the province. No trial date has been set.
Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. Defences have been filed and document production is underway. Damages have not been quantified by the province. No trial date has been set.
Alberta	Crown's Right of Recovery Act 2009	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. Defences have been filed and the province has delivered its first tranche of productions. The province has stated its claim to be worth CAD\$10 billion. No trial date has been set
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2005	Imperial, the Company, Industries, Carreras Rothmans Limited and the RJR Companies have been named as defendants and served.	The 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 CAD\$60 billion. No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. Defences have been filed and the next step will be document production, which the parties have deferred for the time being. Damages have not been quantified by the province. No trial date has been set.
Nova Scotia	Tobacco Health Care Costs Recovery Act 2005	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. Defences have been filed and the province provided a test document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

Notes to the Financial Statements For the Year Ended 31 December 2017

20 Contingent liabilities (continued)

There are 7 class actions being brought in Canada against the Company.

Seven putative class actions, described below, have been filed against various Canadian and non-Canadian tobacco-related entities, including the Company, in various Canadian Provinces. In these cases, the plaintiffs allege claims based on fraud, fraudulent concealment, breach of warranty, breach of warranty of merchantability, and of fitness for a particular purpose, failure to warn, design defects, negligence, breach of a "special duty" to children and adolescents, conspiracy, concert of action, unjust enrichment, market share liability, and violations of various trade practices and competition statutes.

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

In July 2010, two further smoking and health class actions in British Columbia were served on Imperial, the UK Companies and the RJR 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, Imperial and the RJR Companies objected to jurisdiction. Subsequently, BAT and Carreras Rothmans Limited were released from Bourassa and McDermid. Imperial, Industries, the Company and the RJR Companies remain as defendants in both actions. No certification motion hearing date has been set. The Plaintiffs were due to deliver certification motion materials by 31 January 2015, but have not yet done so.

In June 2012, a new smoking and health class action was filed in Ontario (Jacklin) against the domestic manufacturers and foreign companies, including Imperial, the UK Companies and the RJR Companies. The claim is presently in abeyance.

Nigeria

As at 21 June 2018, 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. In the five cases that remain active, the plaintiffs seek a total of approximately 10.6 trillion Nigerian naira (roughly £22.3 billion as at 21 June 2018) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.

The federal action was filed on 6 November 2007 in the Federal High Court, and the five state actions were commenced in their respective High Courts on 9 May 2007 (Kano), 30 May 2007 (Oyo), 13 March 2008 (Lagos), 26 February 2008 (Ogun), and 17 October 2008 (Gombe). The suits claim that the state and federal government plaintiffs incurred costs related to the treatment of smoking-related illnesses resulting from allegedly tortious conduct by the defendants in the manufacture, marketing, and sale of tobacco products in Nigeria, and assert that the plaintiffs are entitled to reimbursement for such costs. The plaintiffs assert causes of action for negligence, negligent design, fraud and deceit, fraudulent concealment, breach of express and implied warranty, public nuisance, conspiracy, strict liability, indemnity, restitution, unjust enrichment, voluntary assumption of a special undertaking, and performance of another's duty to the public.

BAT and the Company 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. The underlying cases are stayed or adjourned pending the final outcome of these jurisdictional challenges. In the state of Oyo, on 13 November 2015, and 24 February 2017 respectively, BAT's and the Company's jurisdictional challenges were successful in the Court of Appeal and the issuance of the writ of summons was set aside.

Notes to the Financial Statements For the Year Ended 31 December 2017

20 Contingent liabilities (continued)

Investments Indemnity

The Company has agreed to indemnify its supplier of crushable capsules in respect of liabilities (including damages and legal costs) that it may incur as a result of pending legal proceedings brought against its supplier regarding alleged patent infringement. Damages are currently being sought in the region of £40 million. The extent of the Company's liability under the indemnity will depend upon the final outcome of those proceedings.

Conclusion

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Company believes that the defences of the Company to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere. If adverse judgments are entered against the Company in any case, all avenues of appeal will be pursued. 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. At least in the aggregate, and despite the quality of defences available to the Company, it is not impossible that the Company's results of operations or cash flows in particular quarterly or annual periods 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 UK Pension Fund, 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 2017, of £23,000,000. As at 31 December 2017 the valuation of the surplus on an IAS 19 basis was £995,473,000 (2016: £341,722,000).

The Company provides guarantees in the normal course of business and as at 31 December 2017 had performance guarantees of up to USD 1,500,000 and EUR 610,000 (2016: USD 1,500,000 and EUR 610,000).

21 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