

British American Tobacco (Investments) Limited

Registered Number 00074974

Annual report and financial statements

For the year ended 31 December 2018



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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 2018.

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 2018

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 £338,825,000 (2017: £113,009,000). The profit for the financial year is shown after deduction of £9,033,000 (2017: £7,813,000) of exceptional operating charges.

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



Jessica Haynes
Assistant Secretary

02 July 2019

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2018.

Dividends

The Directors do not recommend the payment of a dividend for the year (2017: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2018 to the date of this report are as follows:

Naresh Kumar Sethi	(Resigned 31/03/2019)
Jerome Bruce Abelman	
David O'Reilly	
Steven Glyn Dale	
John Benedict Stevens	
Kingsley Wheaton	
Giovanni Giordano	(Resigned 31/03/2019)
Alan Davy	

Directors' indemnities

Throughout the period 1 January 2018 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 2018 was £81,732,000 (2017: £91,759,000) including associated depreciation and staffing.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2017: £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 872 (2017: 875).

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



Jessica Haynes
Assistant Secretary

02 July 2019

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 2018 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 2018 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of investments and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH AMERICAN TOBACCO (INVESTMENTS) LIMITED

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.

Directors' responsibilities

As explained more fully in their statement set out on pages 3 to 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.

PNikolaev

Polina Nikolaev (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London, E14 5GL

~~June 2019~~

2 July 2019

Profit and loss account for the year ended 31 December

		2018	Restated 2017
		£'000	£'000
Continuing operations	Note		
Other operating income	2	411,437	335,103
Other operating expenses	3	(518,992)	(572,323)
Operating loss		(107,555)	(237,220)
Income from shares in Group undertakings	4	469,129	398,586
Income from other investments at fair value	5	7,876	8,311
Interest receivable and similar income	6	985	539
Interest payable and similar expenses	7	(7,420)	(6,862)
Profit before taxation		363,015	163,354
Taxation	8	(24,190)	(50,345)
Profit for the financial year		338,825	113,009

Statement of other comprehensive income for the year ended 31 December

		2018	2017
		£'000	£'000
Profit for the financial year	Note	338,825	113,009
Actuarial gain arising from defined benefit pension scheme	16	32,800	555,345
Deferred tax on actuarial gain	8	(4,864)	(95,494)
Deferred tax on fair value reserve		(339)	(544)
Net fair value gains on other investments at fair value	11	16,090	17,055
Effective portion of changes in fair value of cash flow hedges		468	1,012
Total other comprehensive income for the year		382,980	590,383

Statement of changes in equity for the year ended 31 December


	Called up share capital	Cash flow hedge reserve	Profit and loss account	Fair Value Reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000
1 January 2017	134,747	(1,480)	234,135	74,065	441,467
Profit for the financial year	-	-	113,009	-	113,009
	134,747	(1,480)	347,144	74,065	554,476
Net fair value gains on other investments at fair value	-	-	-	17,055	17,055
Actuarial gain arising from defined benefit pension scheme (note 16)	-	-	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
Profit for the financial year	-	-	338,825	-	338,825
	134,747	(468)	1,145,820	90,576	1,370,675
Net fair value gains on other investments at fair value (note 11)	-	-	-	16,090	16,090
Actuarial gain arising from defined benefit pension scheme (note 16)	-	-	32,800	-	32,800
Effective portion of changes in fair value of cash flow hedges	-	468	-	-	468
Deferred tax on actuarial gain (note 8)	-	-	(4,864)	-	(4,864)
Deferred tax on fair value reserve	-	-	-	(339)	(339)
31 December 2018	134,747	-	1,173,756	106,327	1,414,830

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

Balance sheet as at 31 December

		31 December 2018 £'000	31 December 2017 £'000
	Note		
Fixed assets			
Intangible assets	9	95,261	67,606
Tangible assets	10	176,687	188,601
Investments in Group undertakings	11	124,503	125,160
Other investments at fair value	11	113,757	97,667
Retirement benefit assets	16	1,062,842	995,473
		1,573,050	1,474,507
Current assets			
Debtors: amounts falling due within one year	12a	715,852	455,732
Debtors: amounts falling due after one year	12b	22,935	-
Cash at bank and in hand		671	628
		739,458	456,360
Creditors: amounts falling due within one year	13a	(352,192)	(374,783)
Derivative financial instruments - liabilities		-	(610)
Net current assets		387,266	80,967
Total assets less current liabilities		1,960,316	1,555,474
Creditors: amounts falling due after more than one year	13b	(274,132)	(274,134)
Provisions for liabilities and other charges	14	(191,309)	(171,220)
Retirement benefit liabilities	16	(80,045)	(78,270)
Net assets including retirement benefit liabilities		1,414,830	1,031,850
Capital and reserves			
Called up share capital	15	134,747	134,747
Cash flow hedge reserve		-	(468)
Profit and loss account		1,173,756	806,995
Fair value reserve		106,327	90,576
Total shareholders' funds		1,414,830	1,031,850

The financial statements on pages 8 to 36 were approved by the Directors on 02 July 2019 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 2018

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.

With effect from 1 January 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. On adopting the IFRS 15, the Company revised the presentation of technical and advisory fee income, and decided to present it within other operating income rather than being netted off within other operating costs. The adoption of IFRS 9 had no material effect on the accounts.

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 financial and non-financial assets including investments in fellow Group undertakings;
- 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.

The Directors have at the time of approving these financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months following the signing of these accounts.

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 2018

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.

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.

Any liabilities or assets related to payments or recoveries of taxes 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.

Notes to the financial statements for the year ended 31 December 2018

1 Accounting policies (continued)

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.

Financial instruments

The Company's business model for managing financial assets is set out in the BAT Group Treasury Manual which notes that the primary objective with regard to the management of cash and investments is to protect against the loss of principal. The majority of financial assets are held in order to collect contractual cash flows (typically cash and cash equivalents and loans and other receivables) but some assets (typically investments) are held for investment potential.

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 needed.

Non-derivative financial assets are classified on initial recognition as other investments at fair value, loans and receivables 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 that are not held for trading are accounted for as equity investments to be measured at fair value in accordance with IFRS 9 with changes in fair value being recognised directly in other comprehensive income. When such investments are derecognised the cumulative change in fair value remains in other comprehensive income and is not recycled to profit or loss. 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 5 per cent and 25 per cent per annum.

Notes to the financial statements for the year ended 31 December 2018

1 Accounting policies (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018

1 Accounting policies (continued)

Impairment of financial assets

Financial assets are reviewed at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. With effect from 1 January 2018, loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on the initial recognition of the underlying asset. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12-month expected credit losses. Where the credit risk on the receivables has increased significantly since initial recognition, allowances are measured at an amount equal to the lifetime expected credit loss. Prior to 1 January 2018, financial assets were reviewed for impairment at each balance sheet date, or whenever events indicated that the carrying amount might not be recoverable.

Other operating expenses

Operating expenses are recorded in period they relate to and are generated in the normal business operations of the company.

Impairment of non-financial assets and investments in Group undertakings

Non-financial assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value in use.

2 Other operating income

Other operating income comprises technical and advisory fees, commission income and royalties receivable from fellow Group companies. The Company has taken advantage of the implementation of IFRS 15 to revise the presentation of technical and advisory fee income charged to fellow subsidiaries such that these amounts are now shown within other operating income rather than being netted off within other operating costs. The Directors consider this to be a better presentation of the income and expenses of the Company.

Other operating income amounting to £181,030,000 which was previously reported under other operating expenses in the prior year has been restated and presented as other operating income.

3 Other operating expenses

		Restated
	2018	2017
	£'000	£'000
Staff costs	125,246	126,161
Research and development	33,292	44,654
Depreciation of tangible assets	6,279	6,111
Amortisation of intangible assets	12,735	10,990
Write off of intangible assets	134	-
Impairment of tangible assets	3,832	-
Loss on disposal of tangible assets	2,786	305
Operating lease expenses - buildings	894	505
Impairment of intangible assets	1,725	-
Exchange (gains)/losses	1,590	(6,426)
Exceptional operating expenses	9,033	7,813
Reversal of loan impairment	(112,299)	(106,529)
Impairment of loans to Group undertakings	9,232	8,269
Write off of loan to Group undertakings	-	2,980
Impairment of investment	23,187	124,965
Other	401,326	352,525
	518,992	572,323

Included within research and development is an amount of £1,485,000 (2017: £2,164,000) 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 £5,524,839 (2017: £7,506,000) which relates to research and development activity. Also, an amount of £988,000 included in impairment of tangible assets relates to research and development. The operating lease amount relates to research and development. Auditor's fees of £75,000 were borne by a fellow Group undertaking (2017: £75,000).

Notes to the financial statements for the year ended 31 December 2018

3 Other operating expenses (continued)

The exceptional operating expenses of £9,033,000 (2017: £7,813,000), are related to Group's integrated Enterprise Operating Model and Reynolds Integration.

The provision for impairment and write-off of loans to Group undertaking totalling £9,232,000 (2017: £11,249,000) 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.

Reversal of loan impairment of £112,299,000 (2017: 106,529,000) mainly represents cash collected from JSC JV "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.

	2018 £'000	2017 £'000
Staff costs:		
Wages and salaries	107,400	91,026
Social security costs	10,967	9,730
Retirement benefits cost/(contribution) (note 17)	(4,103)	9,571
Contributions from other Group undertakings	(8,178)	(8,308)
Other pension costs - defined contribution	5,137	5,123
Share scheme charges	13,376	18,544
Other pension costs – administration costs	647	475
	125,246	126,161

Included within total staff costs is an amount of £41,034,000 (2017: £38,946,000) 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:

	2018 Number	2017 Number
By activity		
Administration	872	875

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2017: £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	
	2018 £'000	2017 £'000
Within 1 year	425	425
Between 1-5 years	1,806	2,231

The operating lease relates to Cambridge office buildings.

Notes to the financial statements for the year ended 31 December 2018

4 Income from shares in Group undertakings

	2018 £'000	2017 £'000
Income from shares in Group undertakings	469,129	398,586

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

	2018 £'000	2017 £'000
Income from other investments at fair value	7,876	8,311

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

6 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from Group undertakings	969	108
Exchange gains	-	431
Fair value gains	16	-
	985	539

7 Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable to Group undertakings	6,854	6,853
Exchange losses	566	9
	7,420	6,862

8 Taxation**(a) Recognised in the profit and loss account**

	2018 £'000	£'000	2017 £'000	£'000
<i>UK corporation tax</i>				
Current tax on income for the period	-		-	
Adjustments in respect of prior periods	-		-	
		-		-
<i>Foreign tax</i>				
Current tax on income for the period	16,159		18,183	
Total current tax		16,159		18,183
<i>Deferred tax</i>				
Origination and reversal of temporary differences		9,715		20,362
Adjustments in respect of prior periods		(1,684)		11,800
Total deferred tax		8,031		32,162
Total income tax expense		24,190		50,345

Notes to the financial statements for the year ended 31 December 2018

8 Taxation

(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% (2017: 19.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2018 £'000	2017 £'000
Profit for the year	338,825	113,009
Total tax expense	24,190	50,345
Profit excluding taxation	363,015	163,354
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	68,973	31,447
Non-deductible expenses	8,277	27,407
Tax exempt revenues	(90,631)	(78,328)
Group relief surrendered for nil consideration	24,239	42,532
Effect of rate change	(1,143)	(2,696)
Foreign tax suffered	16,159	18,183
Adjustments in respect of prior years	(1,684)	11,800
Total tax charge	24,190	50,345

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

	2018 £'000	2017 £'000	2018 £'000	2017 £'000
(c) Income tax recognised in other comprehensive income				
Deferred tax on actuarial gain	4,864		95,494	
Effect of change in tax rates			-	
Deferred tax on fair value reserve	339		544	
		5,203		96,038

Notes to the financial statements for the year ended 31 December 2018

9 Intangible assets

	Computer software £'000	Patents and trademarks £'000	Under development £'000	Total £'000
Cost	101,043	23,257	29,812	154,112
1 January 2018				
Additions	-	-	42,247	42,247
Reallocations	712	6,409	(7,121)	-
Disposals	-	(133)	-	(133)
31 December 2018	101,755	29,533	64,938	196,226
Accumulated amortisation and impairment				
1 January 2018	(73,672)	(12,834)	-	(86,506)
Charge for the year	(8,454)	(4,280)	-	(12,734)
Impairment charge	-	(1,725)	-	(1,725)
31 December 2018	(82,126)	(18,839)	-	(100,965)
Net book value				
1 January 2018	27,371	10,423	29,812	67,606
31 December 2018	19,629	10,694	64,938	95,261

10 Tangible assets

	Freehold property £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Cost				
1 January 2018	57,661	69,063	117,044	243,768
Additions	-	3,066	33,202	36,268
Reallocations	-	8,276	(8,276)	-
Disposals	(1,846)	(14,234)	(25,605)	(41,685)
31 December 2018	55,815	66,171	116,365	238,351
Accumulated depreciation and impairment				
1 January 2018	(17,299)	(37,868)	-	(55,167)
Charge for the year	(2,139)	(4,140)	-	(6,279)
Impairment charge	-	(3,832)	-	(3,832)
Disposals	1,055	2,559	-	3,614
31 December 2018	(18,383)	(43,281)	-	(61,664)
Net book value				
1 January 2018	40,362	31,195	117,044	188,601
31 December 2018	37,432	22,890	116,365	176,687

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

Notes to the Financial Statements for the year ended 31 December 2018

11 Investments

(1) Shares in group undertakings

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
Bahrain				
<i>Unit 1, Building 2126, Road 1734, Block 117, Hidd Town, Bahrain</i>				
British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
Benin				
<i>Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin</i>				
British American Tobacco Benin SA	Issued	0.00	99.99	99.00
Cambodia				
<i>1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia</i>				
British American Tobacco (Cambodia) Limited	Ordinary	0.00	71.00	71.00
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	49.78
Inversiones Casablanca S.A.	Ordinary	99.98	0.00	99.98
Egypt				
<i>Administrative unit no.1 , 5th Floor, Building S2B, Sector A, Downtown Mall Katameya, 5th settlement, New 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
British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
Fiji				
<i>Lady Maria Road, Nabua, Suva, Fiji</i>				
British American Tobacco (Fiji) Marketing Pte Limited	Ordinary	50.00	0.00	50.00
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	75.00	25.00	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	99.90	99.90
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>9 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 2018

11 Investments (continued)

(1) Shares in group undertakings (continued)

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
Mali				
<i>DJELIBOUGOU-Immeuble BASSARO- BP 2065, Bamako -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
Pakistan				
<i>Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan</i>				
Pakistan Tobacco Company Limited	Ordinary	94.35	0.00	94.35
Phoenix (Private) Limited	Ordinary	0.00	97.00	91.52
Qatar				
<i>P O Box 6689, 41 Floor, Tornado Tower, West Bay, Doha, Qatar</i>				
British American Tobacco Q LLC	Ordinary	0.00	100.00	100.00
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
Solomon Islands				
<i>Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands</i>				
Solomon Islands Tobacco Company Limited	Ordinary	50.00	0.00	50.00
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
Trinidad and Tobago				
<i>Corner 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
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	50.00	50.00	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

Notes to the Financial Statements for the year ended 31 December 2018

11 Investments (continued)

(1) Shares in group undertakings (continued)

Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
B.A.T Vietnam Limited	Ordinary	50.00	50.00	100.00
British American Tobacco (AIT) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (Philippines) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (South America) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco Georgia Limited	Ordinary	50.00	50.00	100.00
British-American Tobacco (Mauritius) p.l.c.	Ordinary	100.00	0.00	100.00
Carreras Rothmans Limited	6% First pref	0.00	100.00	100.00
	6% Second pref	0.00	100.00	100.00
Carreras Rothmans Limited	Ordinary	0.00	100.00	100.00
East African Tobacco Company (U.K.) Limited	Ordinary	100.00	0.00	100.00
Powhattan Limited	Ordinary	100.00	0.00	100.00
Rothmans Exports Limited	Ordinary	0.00	100.00	100.00
Rothmans International Tobacco (UK) Limited	Ordinary	100.00	0.00	100.00
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
United Kingdom				
212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland				
Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
Uzbekistan				
77 Minor Passage, Tashkent, 100084, Uzbekistan				
JSC JV "UZBAT A.O."	Ordinary	0.00	97.38	97.38

(2) Indirect Investments in Associated Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Chile				
<i>Isidora Goyenechea 3000, piso 19, Las Codes, Chile</i>				
British American Tobacco Chile Operaciones S.A.	Ordinary	2.61	47.14	49.75

(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 2018

11 Investments (continued)

(4) Investments in Group Companies

	Investments in Group Companies £'000	Other fixed asset investments £'000	Total £'000
Cost			
1 January 2018	1,063,972	39	1,064,011
Additions	22,530	-	22,530
31 December 2018	1,086,502	39	1,086,541
Impairment provisions			
1 January 2018	938,812	39	938,851
Charge in the year	23,187	-	23,187
31 December 2018	961,999	39	962,038
Net book value			
1 January 2018	125,160	-	125,160
31 December 2018	124,503	-	124,503

During the year the Company made an equity injection of £7,388,000 into British American Tobacco Georgia Limited. The investment was tested for impairment as at year end, and as a result the entire balance of the investment was recorded as impairment provision during the year.

Amounts due from Group undertakings totalling £15,058,000 have been converted into equity for British American Tobacco (Cambodge) International Limited. Total value of the investment has been assessed for impairment as at year end as a result the Company has booked an impairment of £15,799,000.

During the year the Company made two equal equity injections, of £42,000 each into its Egyptian subsidiaries BETCO for General Services and Marketing LLC and BETCO for Trade and Distribution LLC.

(5) Other investments at fair value

	Other investments at fair value £'000
Cost	
1 January 2018	97,667
Change in fair value	16,090
31 December 2018	113,757

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

Notes to the financial statements for the year ended 31 December 2018

12 Debtors

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

a) Amounts falling due within one year

	2018 £'000	2017 £'000
Amounts due from Group undertakings - gross	972,541	813,696
Allowances account	(273,045)	(370,970)
Amounts due from Group undertakings - net of allowances	699,496	442,726
Other debtors	3,306	1,574
Prepayments and accrued income	13,050	11,432
	715,852	455,732

Included within amounts owed by Group undertakings is an amount of £528,515,000 (2017: £283,390,000) 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

	2018 £'000
1 January 2018	370,970
Provided in the year	9,232
Reversed in the year	(112,299)
Differences in exchange	5,142
31 December 2018	273,045

Amounts due from Group undertakings representing interest free loans and factoring were fully provided during the year.

Amounts reversed during the year represent cash collected from JSC JV "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.

b) Amounts falling due after one year

	2018 £'000	2017 £'000
Prepayments	22,935	-
	22,935	-

Amounts falling due after one year represent prepayments to suppliers of tobacco products components.

Notes to the financial statements for the year ended 31 December 2018

13 Creditors**(a) Amounts falling due within one year**

	2018 £'000	2017 £'000
Amounts owed to Group undertakings	73,630	128,546
Accruals and deferred income	278,562	246,237
	352,192	374,783

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

(b) Amounts falling due after more than one year

	2018 £'000	2017 £'000
Deferred income	274,132	274,134

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.

14 Provisions for liabilities and other charges

	Deferred tax £'000	Other provisions £'000	Total £'000
1 January 2018	155,430	15,790	171,220
Interest accrued	-	6,855	6,855
Deferred tax recognised in Profit and loss	8,031	-	8,031
Deferred tax recognised in Other comprehensive income	5,203	-	5,203
31 December 2018	168,664	22,645	191,309

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

Notes to the financial statements for the year ended 31 December 2018

15 Called up share capital

Ordinary shares of £0.25 each	2018	2017
Allotted, called up and fully paid		
- value	£134,747,266	£134,747,266
- number	538,989,062	538,989,062

16 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 British American Tobacco UK Pension Fund for 2017 and 2016 were agreed with the Trustee as part of a recovery plan to include £30,000,000 a year to cover ongoing service costs, with additional contributions to eliminate a 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 the Group will pay £18 million a year to meet the cost of the future benefit accruals. Additional annual contributions are payable until the Fund is valued to 115% on a Technical Provisions basis, and are expected to be £11 million in 2019.

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 2018 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 2018

16 Retirement benefits (continued)

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Present value of funded scheme liabilities	(2,915,549)	(3,082,910)	(119,382)	(121,423)	(3,034,931)	(3,204,333)
Fair value of funded scheme assets	3,978,391	4,078,383	39,337	43,153	4,017,728	4,121,536
	1,062,842	995,473	(80,045)	(78,270)	982,797	917,203

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

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
– retirement benefit scheme liabilities	-	-	(80,045)	(78,270)	(80,045)	(78,270)
– retirement benefit scheme assets	1,062,842	995,473	-	-	1,062,842	995,473
	1,062,842	995,473	(80,045)	(78,270)	982,797	917,203

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

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Defined benefit schemes						
Service cost						
– current service cost	13,869	17,185	1,859	1,817	15,728	19,002
– past service cost	214	(2,267)	1,302	258	1,516	(2,009)
– settlements and curtailments	593	-	-	(281)	593	(281)
Net interest on the net defined benefit liability						
– interest on scheme liabilities	76,186	90,563	3,799	4,418	79,985	94,981
– interest on scheme assets	(100,863)	(100,992)	(1,062)	(1,130)	(101,925)	(102,122)
Total amount recognised in the profit and loss account (note 3)	(10,001)	4,489	5,898	5,082	(4,103)	9,571

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	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Actuarial gains/(losses) on scheme liabilities	112,036	350,643	7,713	4,293	119,749	354,936
Actuarial gains on scheme assets	(84,214)	199,372	(2,735)	1,037	(86,949)	200,409
Net actuarial gains/ (losses) in Other comprehensive income	27,822	550,015	4,978	5,330	32,800	555,345

Notes to the financial statements for the year ended 31 December 2018

16 Retirement benefits (continued)

The movements in scheme liabilities are as follows:

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Present value at 1 January	3,082,910	3,470,192	121,423	132,377	3,204,333	3,602,569
Exchange differences	-	-	4,315	(6,588)	4,315	(6,588)
Current service cost	13,869	17,185	1,859	1,817	15,728	19,002
Past service costs/(credits)	214	(2,267)	1,302	258	1,516	(2,009)
Settlements and curtailments	1,366	-	-	(793)	1,366	(793)
Interest on scheme liabilities	76,186	90,563	3,799	4,418	79,985	94,981
Benefits paid (cash outflow)	(146,960)	(142,120)	(5,603)	(5,773)	(152,563)	(147,893)
Actuarial gains	(112,036)	(350,643)	(7,713)	(4,293)	(119,749)	(354,936)
Present value at 31 December	2,915,549	3,082,910	119,382	121,423	3,034,931	3,204,333

Scheme liabilities by scheme membership:

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Active members	379,318	419,685	28,200	32,004	407,518	451,689
Deferred members	442,086	476,431	10,474	10,985	452,560	487,416
Retired members	2,094,145	2,186,794	80,708	78,434	2,174,853	2,265,228
Present value at 31 December	2,915,549	3,082,910	119,382	121,423	3,034,931	3,204,333

Scheme liabilities by benefits earned to date:

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Guaranteed benefits	2,907,914	3,080,709	104,634	105,008	3,012,548	3,185,717
Future salary increases	7,635	2,201	-	-	7,635	2,201
Discretionary benefits	-	-	14,748	16,415	14,748	16,415
Present value at 31 December	2,915,549	3,082,910	119,382	121,423	3,034,931	3,204,333

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

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Actuarial (gains)/losses:						
- arising from changes in demographic assumptions	28,914	(360,835)	(705)	(9,384)	28,209	(370,219)
- arising from changes in financial assumptions	(155,984)	13,269	(10,683)	5,869	(166,667)	19,138
Experience (gains)/losses	15,034	(3,077)	3,675	(778)	18,709	(3,855)
Total	(112,036)	(350,643)	(7,713)	(4,293)	(119,749)	(354,936)

Notes to the financial statements for the year ended 31 December 2018

16 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	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Fair value at beginning of period	4,078,383	3,811,914	43,153	43,763	4,121,536	3,855,677
Exchange differences	-	-	128	(204)	128	(204)
Settlements	773	-	-	(512)	773	(512)
Interest on scheme assets	100,863	100,992	1,062	1,130	101,925	102,122
Company contributions	29,546	108,225	3,332	3,712	32,878	111,937
Benefits paid (cash outflow)	(146,960)	(142,120)	(5,603)	(5,773)	(152,563)	(147,893)
Actuarial gains	(84,214)	199,372	(2,735)	1,037	(86,949)	200,409
Fair value at end of period	3,978,391	4,078,383	39,337	43,153	4,017,728	4,121,536

The fair value of scheme assets by category:

	UKPF		ACP and BATOPF		Total	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Equities – listed	191	262,915	10,238	10,917	10,429	273,832
Equities – unlisted	142,422	214,416	-	-	142,422	214,416
Bonds – listed	3,285,229	3,082,317	21,246	19,453	3,306,475	3,101,770
Bonds – unlisted	161,572	102,027	-	-	161,572	102,027
Other assets – listed	-	-	-	-	-	-
Other assets – unlisted	388,977	416,708	7,853	12,783	396,830	429,491
Fair value of scheme assets at 31 December	3,978,391	4,078,383	39,337	43,153	4,017,728	4,121,536

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	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Actual return on scheme assets	16,649	300,364	(1,673)	2,167	(14,976)	302,531

Notes to the financial statements for the year ended 31 December 2018

16 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.

	2018	2017
	%	%
Rate of increase in salaries	3.2	3.2
Rate of increase in pensions in payments	3.2	3.2
Rate of increase in deferred pensions	2.2	2.2
Discount rate	2.9	2.5
General inflation	3.2	3.2
Weighted average duration of liabilities	16.0	16.7

Mortality assumptions are subject to regular review. The following table has been used for 2018: S2PA (YOB) with the CMI (2017) improvement model with a 1.25% long term improvement rate (2016: S2PA (YOB) with the CMI (2016) improvement model with a 1.25% 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:

	2018	2017
	Years	Years
Member age 65 (current life expectancy)		
- male	22.60	22.73
- female	24.10	24.18
Member age 45 (life expectancy at age 65)		
- male	24.17	24.31
- female	25.41	25.48

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 2018 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 2018

16 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	104,204	(103,244)		
Rate of inflation – increase/(decrease) of scheme liabilities			105,778	(98,804)
Discount rate – (decrease)/increase of scheme liabilities			(115,808)	122,602

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:

	2018 £'000	2017 £'000
Defined contribution schemes recognised in the profit and loss account (note 3)	5,137	5,123

At 31 December 2018, there were amounts of £nil (2017: £nil) outstanding in respect of defined contribution schemes.

17 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. Pay-out 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. LTIPs were granted in March.

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. DSBS 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 2018

17 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 2018 was £38.90 (2017: £51.95).

The weighted average share price on exercise of DSBS shares in 2018 was £40.00 (2017: £52.52).

The outstanding shares for the year ended 31 December 2018 had an exercise price range of £26.23 - £49.46 (2017: £48.43 - £52.52). The weighted average remaining contractual life are 8.1 years (2017: 8.1 years) for the LTIP shares and are 1.3 years (2017: 1.3 years) for the DSBS shares.

18 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.

19 Contingent liabilities

United States

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

In Canada, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the two Quebec class actions against, among others, Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada. Imperial's share of the judgment is a maximum of approximately CAD\$ 9.2 billion. As a result of this judgment, the then immediate attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million on deposit with the court, the fact that JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the Canadian *Companies' Creditors Arrangement Act* (the "CCAA") on 8 March 2019 and obtained a court ordered stay of all tobacco litigation in Canada as against all defendants, and the need for a process to resolve all of the outstanding litigation across the country, on 12 March 2019, Imperial filed for protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation. On 22 March 2019 Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the "Stays"). The Stays are currently in place until 28 June 2019 and an extension of the Stays will be sought at the next comeback hearing, set for 26 June 2019. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.

The below represents the state of the referenced litigation as at the advent of the Stays.

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 British American Tobacco p.l.c ("BAT"), the Company, B.A.T Industries p.l.c. ("Industries"), Carreras Rothmans Limited (collectively, the "UK Companies"), Imperial and R.J. Reynolds Tobacco Company ("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 2018

19 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 were ongoing as of early 2019. 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 pertaining to the third-party claim, now dismissed.
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. The most recent expert report filed by the Province estimates a range of damages between CAD \$11.1 billion - \$23.2 billion, including expected future costs. On 7 March 2019, the New Brunswick Court of Queen's Bench released a decision which requires the Province to produce a substantial amount of additional documentation and data to the defendants. As a result, the original trial date of 4 November 2019 would have been delayed. No new trial date has been set.
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 commenced in the fall of 2018. On 15 June 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, and the province amended the damages sought in its Statement of Claim to CAD\$330 billion. On 31 January 2019, the province delivered a further expert report claiming an additional CAD \$9.4 billion - 10.9 billion in damages in respect of environmental tobacco smoke. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2001	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 2018

19 Contingent liabilities (continued)

Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2007	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 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 commenced. 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 commenced its document production. 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 2009	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, document production, was 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 2018

19 Contingent liabilities (continued)

There are 7 class actions being brought in Canada against various Canadian and foreign manufacturers and foreign companies, including the Company.

As noted above, on 12 March 2019, Imperial and its subsidiary Imperial Tobacco Company Limited filed for protection under the CCAA. JTI-MacDonald Corp. and Rothmans, Benson & Hedges Inc. also filed for protection under the CCAA on 8 March 2019 and 22 March 2019 respectively. A Court-ordered stay of proceedings was obtained in each CCAA proceeding with the combined effect that all tobacco litigation in Canada has been stayed against all defendants until 28 June 2019 subject to further extension by the CCAA Court.

The seven putative class actions, described below, have been filed in various Canadian Provinces. In these cases, none of which have quantified their asserted damages, the plaintiffs allege claims based on fraud, fraudulent concealment, 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 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, the UK Companies 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 June 2010, two further smoking and health class actions in British Columbia were filed against Canadian and foreign manufacturers and foreign companies, including the UK Companies, Imperial 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 did not serve their certification motion materials and no date for a certification motion was set.

In June 2012, a 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 has been in abeyance.

Nigeria

As at 14 June 2019, 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 £23.3 billion as at 14 June 2019) 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.

Notes to the financial statements for the year ended 31 December 2018

19 Contingent liabilities (continued)

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.

Closed litigation matters

The following matters on which the Company reported in the contingent liabilities and financial commitments note 20 to the Company's 2017 financial statements have been dismissed, concluded or resolved as noted below:

Matter	Jurisdiction	Companies named as Defendants	Description	Disposition
Investments Indemnity	Japan	The Company	Alleged patent infringement	Settlement agreed on confidential terms

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, 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 adversely affected by the impact of a significant increase in litigation, difficulties in obtaining the bonding required to stay execution of judgments on appeal, or any final outcome of any particular litigation.

The Directors do not consider it appropriate to make any provision in respect of any pending litigation of the Company because the likelihood of any resulting material loss, on an individual case basis, is not considered probable and/or the amount of any such loss cannot be reasonably estimated. The Directors do not believe that the ultimate outcome of all litigation of the Company will significantly impair the Company's financial condition. If the facts and circumstances change that result in unfavourable outcomes in the pending litigation, then there could be a material impact on the financial statements of the Company.

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 2018 the valuation of the surplus on an IAS 19 basis was £1,062,842,000 (2017: £995,473,000).

Notes to the financial statements for the year ended 31 December 2018

20 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