

B.A.T (U.K. and Export) Limited

Registered Number 00239762

Annual report and financial statements

For the year ended 31 December 2016

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Contents

| | |
|---|----|
| Strategic report | 2 |
| Directors' report | 3 |
| Independent auditor's report to the members of B.A.T (U.K. and Export) Limited | 5 |
| Profit and loss account and Statement of other comprehensive income for the year ended 31 December 2016 | 7 |
| Balance sheet at 31 December 2016 | 9 |
| Notes to the financial statements for the year ended 31 December 2016 | 10 |

Strategic report

The Directors present their strategic report on B.A.T (U.K. and Export) Limited (the "Company") for the year ended 31 December 2016.

Principal activities

The principal activity of the Company is the sale and marketing of tobacco products, mainly across Africa and Asia.

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

Review of the year ended 31 December 2016

The profit for the financial year attributable to B.A.T (U.K. and Export) Limited shareholders amounted to £370,323,000 (2015: £336,583,000). Company net assets for the year ended 31 December 2016 are £325,620,000 (2015: £461,378,000).

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 British American Tobacco p.l.c. Group (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



S. Kerr
Secretary

19 September 2017

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2016.

Dividends

During the year the Company paid dividends amounting to £437,741,000 (2015: £160,700,000).

Post Balance Sheet Events

Subsequent to the year end, the Company has paid dividends amounting to £164,236,000.

Board of Directors

The names of the persons who served as directors of the Company during the period 01 January 2016 to the date of signing this report are as follows:

| | Appointed | Resigned |
|----------------------------|---------------|---------------|
| Richard Remon Bakker | | |
| David Patrick Ian Booth | | |
| Anthony Michael Hardy Cohn | | |
| Andre Willem Joubert | 22 April 2016 | |
| Paul Rutger Lageweg | | 31 May 2017 |
| Paul McCrory | | 16 March 2017 |
| Justin James Smith | | 31 May 2017 |
| Adin Trbonja | 15 March 2017 | |
| Mihovil James Dijanosic | | |
| Robert Lee Allen | | 22 April 2016 |
| Vladimir Shilov | 31 May 2017 | |
| Stephan Matthiesen | 31 May 2017 | |

Financial risk management

The Company's operations expose it to currency risk as part of its purchases and sales of raw materials and goods for resale are denominated in foreign currencies. The exposure is partially hedged with forward foreign exchange contracts.

The Company is also exposed to credit risk. To minimise exposure, credit limits are set up for each customer and management monitors the level of outstanding debt on an on-going basis.

The Company also uses other credit control tools to manage its credit risk, including bank guarantees, credit insurance and letters of credit.

Directors' report (continued)

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors 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 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.

Statement of disclosure of information to auditor

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

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

By Order of the Board



S. Kerr
Secretary

19 September 2017

Globe House
1 Water Street
London
WC2R 3LA

Independent Auditor's report to the members of B.A.T (U.K. and Export) Limited

We have audited the financial statements of B.A.T (U.K. and Export) Limited for the year ended 31 December 2016 set out on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, B.A.T (U.K. and Export) Limited financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's report to the members of B.A.T (U.K. and Export) Limited

Matters on which we are required to report by exception

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

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



Christopher Hearn (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
/9 September 2017

Profit and loss account for the year ended 31 December 2016

| | | 2016 | 2015 |
|---|-------------|----------------|----------------|
| | Note | £'000 | £'000 |
| Continuing operations | | | |
| Turnover | 2 | 811,357 | 509,005 |
| Changes in stocks of finished goods and work in progress | | (4,462) | 9,417 |
| Other operating income | 2 | 1,607 | 5,927 |
| Raw materials and consumables | | (321,914) | (227,843) |
| Staff Costs | 3 | (6,777) | (6,120) |
| Depreciation and other amounts written off tangibles assets | | (1,086) | (1,862) |
| Other operating expenses | 3 | (296,200) | (133,219) |
| Operating Profit | | 182,525 | 155,305 |
| Income from shares in Group undertakings | 4 | 187,936 | 181,499 |
| Interest receivable and similar income | 5 | 576 | 611 |
| Interest payable and similar expenses | 6 | (95) | (44) |
| Profit before taxation | | 370,942 | 337,371 |
| Tax on profit | 7 | (619) | (788) |
| Profit for the financial year | 15 | 370,323 | 336,583 |

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

Statement of other comprehensive income for the year ended 31 December 2016

| | 2016 | 2015 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Profit for the financial year | 370,323 | 336,583 |
| Effective portion of changes in fair value of cash flow hedges | (68,900) | (44,962) |
| Total comprehensive income for the year | 301,423 | 291,621 |

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

Statement of changes in equity at 31 December 2016

| | Share Capital £'000 | Profit and loss account £'000 | Cash Flow Hedge Reserves £'000 | Total £'000 |
|-------------------------------------|---------------------------|--|---|----------------|
| 31 December 2015 | 1,000 | 473,178 | (12,800) | 461,378 |
| Profit for the financial year | - | 370,323 | - | 370,323 |
| Dividends paid | - | (437,741) | - | (437,741) |
| Movement in cash flow hedge reserve | - | - | (68,900) | (68,900) |
| Other movements | - | 560 | - | 560 |
| 31 December 2016 | 1,000 | 406,320 | (81,700) | 325,620 |

Balance sheet as at 31 December 2016

| | | 2016 | 2015 |
|---|-------------|----------------|----------------|
| | Note | £'000 | £'000 |
| Fixed assets | | | |
| Tangible assets | 8 | 3,220 | 7,678 |
| Investments | 9 | 143,361 | 143,361 |
| | | 146,581 | 151,039 |
| Current assets | | | |
| Stock | 10 | 9,639 | 14,101 |
| Debtors: amounts falling due within one year | 11 | 358,442 | 410,387 |
| Financial Instruments | 13 | 55,107 | 24,220 |
| Cash at bank and in hand | | 9,863 | 4,394 |
| | | 433,051 | 453,102 |
| Creditors: amounts falling due within one year | 12 | (151,650) | (109,367) |
| Financial Instruments | 13 | (102,362) | (33,235) |
| Net current assets | | 179,039 | 310,230 |
| Total assets less current liabilities | | 325,620 | 461,538 |
| Creditors: amounts falling due after more than one year | | - | (160) |
| Net assets | | 325,620 | 461,378 |
| Capital and reserves | | | |
| Called up share capital | 14 | 1,000 | 1,000 |
| Profit and loss account | 15 | 406,320 | 473,178 |
| Cash Flow Hedge Reserve | 15 | (81,700) | (12,800) |
| Total shareholders' funds | 16 | 325,620 | 461,378 |

The financial statements on pages 7 to 23 were approved by the Directors on 19 September 2017 and signed on behalf of the Board.



A. Cohn
Director

Registered number
00239762

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

Notes to the financial statements for the year ended 31 December 2016

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 – '*Reduced Disclosure Framework*' ('FRS 101'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Comparative period reconciliations for tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of British American Tobacco p.l.c. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company is exempt under CA2006 s400 from the obligation to prepare group accounts.

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

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.

Going Concern

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

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.

Notes to the financial statements for the year ended 31 December 2016

1 Accounting policies (continued)

Foreign currencies

Items included in the financial statements of the Company are reported in pounds, being the primary currency of economic environment in which the Company operates.

Transactions arising in currencies other than pounds are translated at the rate of exchange ruling on the date of the transaction, or at the forward rate if fully hedged by a forward exchange contract. Monetary assets and liabilities expressed in currencies other than pounds are translated at rates of exchange ruling at the end of the financial year, or the forward rate if fully hedged by a forward exchange contract. All exchange differences are taken to the Profit and loss account in the year.

Forward contracts are used to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes. The forward contracts are accounted for in the financial statements where the underlying transactions have occurred by the balance sheet date.

Turnover

Turnover comprises sales at invoiced value (excluding duty, excise and other taxes) and is after deducting rebates, returns and similar discounts, and is included in the Profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts when there is an expectation that all or a portion of the amount due will not be recovered.

Taxation

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

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

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

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

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

Stock

Stock is valued at the lower of cost and net realisable value. Cost is based on weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale.

Notes to the financial statements for the year ended 31 December 2016

1 Accounting policies (continued)

Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis to write off the cost of tangible assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal. Assets in the course of construction are not depreciated until brought into operational use.

| | |
|-------------------------------------|--------|
| The rates of depreciation used are: | % |
| Buildings | 2.5 |
| Plant, machinery and equipment | 7 - 25 |

Fixed asset investments

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

Retirement benefits

The Company operates and participates in both defined benefit and defined contribution schemes. The costs and liabilities of the defined benefit schemes are accounted for by the principle employer of the arrangement, and the Company recognises its contributions to the costs of these schemes as an expense when they fall due. Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

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 recharge in the year ended 31 December 2016 was £201,000 (2015: £173,000) as disclosed in note 3 other operating charges. The fellow Group company, which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes, and provides the relevant disclosures required under IFRS 2 *Share-based Payments*.

Consequently, the Company has taken advantage of the disclosure exemptions under FRS101 against the requirements of IFRS 2.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Notes to the financial statements for the year ended 31 December 2016

2 Turnover and other operating income

| | 2016 £'000 | 2015 £'000 |
|------------------------|----------------|----------------|
| Turnover | 811,357 | 509,005 |
| Other operating income | 1,607 | 5,927 |
| | <u>812,964</u> | <u>514,932</u> |

Turnover comprises the sale of tobacco products. In the opinion of the Directors a geographical analysis of turnover would be prejudicial to the interests of the Company.

Other operating income arises from the recovery from a fellow Group undertaking of costs incurred on their behalf.

3 Operating expenses

| | 2016 £'000 | 2015 £'000 |
|-------------------------------------|----------------|----------------|
| Operating expenses comprise: | | |
| Auditor's remuneration | | |
| - Audit services | 159 | 83 |
| Exchange losses / (gains) | 921 | (5,054) |
| Other operating expenses | 295,120 | 138,190 |
| | <u>296,200</u> | <u>133,219</u> |

| | 2016 £'000 | 2015 £'000 |
|-----------------------|---------------|---------------|
| Staff costs: | | |
| Wages and salaries | 5,964 | 5,501 |
| Social security costs | 323 | 261 |
| Other pension costs | 289 | 185 |
| Share-based payments | 201 | 173 |
| | <u>6,777</u> | <u>6,120</u> |

Notes to the financial statements for the year ended 31 December 2016

3 Operating expenses (continued)

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

| | 2016 Number | 2015 Number |
|----------------|----------------|----------------|
| By activity | | |
| Administration | 22 | 27 |
| Production | - | 1 |
| Marketing | 25 | 21 |
| | 47 | 49 |

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2015: £nil)

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

| | Land and buildings | | Others | |
|-----------------|--------------------|---------------|---------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Within one year | - | - | - | 214 |
| 2 – 5 years | - | - | - | - |
| | - | - | - | 214 |

4 Income from shares in Group undertakings

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Income from shares in Group undertakings | 187,936 | 181,499 |

5 Interest receivable and similar income

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Interest receivable from Group undertakings | 576 | 611 |

6 Interest payable and similar charges

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Interest payable to Group undertakings | 95 | 44 |

Notes to the financial statements for the year ended 31 December 2016

7 Tax on profit

(a) Summary of taxation on profit

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Current taxation: | | |
| UK corporation taxation on profit of the year | | |
| Comprising: | | |
| - current taxation at 20.00% (2015: 20.25%) | - | 16 |
| - double taxation relief | - | (16) |
| Overseas taxation | 619 | 788 |
| Total taxation note 7(b) | 619 | 788 |

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The current taxation charge differs from the standard 20.00% (2015: 20.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Profit before taxation | 370,942 | 337,371 |
| Corporation taxation at 20.00% (2015: 20.25%) on profit | 74,188 | 68,317 |
| Factors affecting the taxation rate: | | |
| Expenses not deductible | 2,682 | 1,523 |
| Income not taxable | (37,989) | (36,754) |
| Effects of group relief/other reliefs | (39,055) | (33,374) |
| Effects of overseas tax rates | 575 | 772 |
| Amounts not recognised | 218 | 304 |
| Total taxation charge note 7(a) | 619 | 788 |

The Company has a deductible temporary differences of £195,934,000 (2015: £193,598,000) (taxation amount of £33,309,000 (2015: £34,848,000)) relating to capital allowances. These have not been recognised on the balance sheet due to it not being sufficiently probable that they will be fully utilised in the foreseeable future.

Notes to the financial statements for the year ended 31 December 2016

8 Tangible assets

| | Land and buildings £'000 | Plant, machinery and equipment £'000 | Assets in the course of construction £'000 | Total £'000 |
|--------------------------------------|--------------------------------|--|--|----------------|
| Cost | | | | |
| 1 January 2016 | 22 | 13,304 | 979 | 14,305 |
| Additions | - | 450 | 478 | 928 |
| Disposals | - | (102) | - | (102) |
| Transfer to other group undertakings | | (8,796) | | (8,796) |
| 31 December 2016 | 22 | 4,856 | 1,457 | 3,335 |
| Accumulated depreciation | | | | |
| 1 January 2016 | - | 6,627 | - | 6,627 |
| Charge for the year | - | 1,086 | - | 1,086 |
| Disposals | - | (75) | - | (75) |
| Transfer to other group undertakings | - | (4,523) | - | (4,523) |
| 31 December 2016 | - | 3,115 | - | 3,115 |
| Net book value | | | | |
| 1 January 2016 | 22 | 6,677 | 979 | 7,678 |
| 31 December 2016 | 22 | 1,741 | 1,457 | 3,220 |

Notes to the financial statements for the year ended 31 December 2016

9 Investments

(1) Shares in Group undertakings

| | % equity shares held Ordinary £1 shares |
|---|--|
| <u>Unlisted – registered in Bahrain</u> | |
| British American Tobacco Middle East S.P.C. | 100 |
| Unit 1, Building 2126, Road 1734, Block 117, Hidd Town, Bahrain | |
| 1,000 ordinary shares of BHD50 each | |
| <u>Unlisted - registered in Dubai</u> | |
| British American Tobacco GCC DMCC | 100 |
| Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. | |
| Box 337222, United Arab Emirates | |
| 200 ordinary shares of AED1,000 each | |
| British American Tobacco ME DMCC | 100 |
| Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. | |
| Box 337222, United Arab Emirates | |
| 200 ordinary shares of AED1,000 each | |
| <u>Unlisted – registered in England and Wales</u> | |
| B.A.T Services Limited | 100 * |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 99 ordinary shares of £1 each | |
| Tobacco Marketing Consultants Limited | 100 |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 1,000 ordinary shares of £1 each | |
| British American Tobacco (AIT) Limited | 100 |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 117,500,000 ordinary shares of £1 each | |
| Ryservs (No. 3) Limited | 100 |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 1 ordinary shares of £1 each | |
| Tobacco Exporters International Limited | 100 |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 10,000 ordinary shares of £1 each | |
| Carreras Rothmans Limited | 100 |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 75,000 ordinary shares of £1 each | |
| Rothmans Export Limited | 100 |
| Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom | |
| 2 ordinary shares of £1 each | |

Notes to the financial statements for the year ended 31 December 2016

9 Investments (continued)

| | |
|--|--------|
| Rothmans of Pall Mall (Overseas) Limited Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom 5,000 ordinary shares of £1 each | 100 |
| <u>Unlisted - registered in Iraq</u> B.A.T. Iraqia Company for Tobacco Trading Limited Enkawa, Erbil, Kurdistan Region of Iraq 1,000,000 ordinary shares of IQD1.00 each | 100 |
| <u>Unlisted – registered in Northern Ireland</u> Murray, Sons & Company Limited The Greenhouse, 6th Floor, Block E, Mountainview, Leopardstown, Dublin, 18, 18,300 ordinary shares of £5 each | 100 |
| <u>Unlisted – registered in Benin</u> British American Tobacco Benin SA Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin 89,992 ordinary shares of XOF 14,000 each | 100 ** |
| <u>Unlisted – registered in Cyprus</u> Carreras of Cyprus Limited Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia, CY-1060, Cyprus 999 ordinary shares of CYP1.00 each | 99.9 |
| <u>Unlisted – registered in Mali</u> British American Tobacco (Mali) sarl Hippodrome, Rue 249X218, Porte 569, Bamako, BP 2065, Mali 200 ordinary shares of MFL 5000 each | 100 |
| <u>Unlisted – registered in Iran</u> B.A.T Pars Company (Private Joint Stock) No. 2 Saba Boulevard with Africa Boulevard, Tehran, 19667, Islamic Republic of Iran 7,487,995 ordinary shares of IRR10,000 each | 100 |
| <u>Unlisted – registered in Senegal</u> Tobacco Marketing Consultants S.A.R.L Almadies, Route Hôtel Méridien en Face Club Med, Dakar, Senegal 200 ordinary shares of XOF 5,000 each | 100 |
| <u>Unlisted – registered in Niger</u> British American Tobacco Niger C/O Niger Briques SARL, Grand, Marché Niamey BP2401, Niamey-Niger 28,000 ordinary shares of XOF 5,000 each | 100 |

Notes to the financial statements for the year ended 31 December 2016

9 Investments (continued)

Unlisted – registered in Djibouti

| | |
|--|-----|
| Tobacco Exporters International (Mer Rouge) SARL | 100 |
| B.P. 2392, Djibouti | |
| 600 ordinary shares DJF5,000.00 | |

Unlisted – registered in Tanzania

| | |
|---|----|
| International Cigarette Distributors Limited (TZA) | 99 |
| Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania | |
| 99 ordinary shares of 120,000 TZS each | |

| | |
|---|----|
| Zanzibar Distribution Company Limited | 99 |
| Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania | |
| 99 ordinary shares of 120,000 TZS each | |

*Beneficial ownership: 1 share is held by a fellow Group undertaking as nominee for the Company.

**Beneficial ownership: 8 shares are held by a fellow Group undertaking as nominee for the Company.

The subsidiary undertaking that principally affects the Company's financial position is British American Tobacco (AIT) Limited. The principal activities of the Company is to act as the focal point for the British American Tobacco p.l.c. Group anti-illicit trade operations, strategy and related matters including engagement with above market international non-governmental organisations and co-ordination of above market cross functional input into AIT plans.

Notes to the financial statements for the year ended 31 December 2016

9 Investments (continued)

(2) Shareholdings at cost less provisions and other fixed asset investments

| | Shareholdings at cost less provisions £'000 | Total £'000 |
|------------------------------|--|----------------|
| Cost | | |
| 1 January 2016 | 143,361 | 143,361 |
| Additions | - | - |
| Disposals | - | - |
| 31 December 2016 | | |
| Impairment provisions | | |
| 1 January 2016 | - | - |
| Charge in the year | - | - |
| Disposals | - | - |
| 31 December 2016 | | |
| Net book value | | |
| 1 January 2016 | 143,361 | 143,361 |
| 31 December 2016 | 143,361 | 143,361 |

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

10 Stock

| | 2016 £'000 | 2015 £'000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables | 519 | 866 |
| Finished goods and goods for resale | 9,120 | 13,235 |
| | 9,639 | 14,101 |

11 Debtors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|----------------|----------------|
| Trade debtors | 70,498 | 63,255 |
| Amounts owed by Group undertakings | 287,600 | 346,788 |
| Prepayments and accrued income | 344 | 344 |
| | 358,442 | 410,387 |

Included within amounts owed by Group undertakings is an amount of £238,640,000 (2015: £288,520,250) 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.

Notes to the financial statements for the year ended 31 December 2016

12 Creditors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|----------------|----------------|
| Trade creditors | 91,358 | 30,611 |
| Finance leases | 66 | 115 |
| Amounts owed to Group undertakings | 36,064 | 50,052 |
| Accruals and deferred income | 24,162 | 28,589 |
| | 151,650 | 109,367 |

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

13 Financial Instruments

The Company's operations expose it to currency risk as part of its sales of cigarettes and purchases of raw materials, and goods for resale are denominated in foreign currencies other than pounds.

The exposure is hedged with forward foreign exchange contracts.

The fair value of the instruments at 31 December 2016 was a net payable of £47,525,000 (2015: net payable of £9,015,000).

| | 2016 Assets £'000 | 2016 Liabilities £'000 | 2015 Assets £'000 | 2015 Liabilities £'000 |
|--------------------------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| Cash flow hedges | | | | |
| - Forward foreign currency contracts | 55,107 | 102,362 | 24,220 | 33,235 |

14 Called up share capital

| Ordinary shares of £1 each | 2016 | 2015 |
|------------------------------------|------------|------------|
| Allotted, called up and fully paid | | |
| - value | £1,000,000 | £1,000,000 |
| - number | 1,000,000 | 1,000,000 |

15 Reserves

| | £'000 |
|-------------------------------------|----------------|
| 1 January 2016 | 460,378 |
| Profit for the financial year | 370,323 |
| Movement in Cash Flow Hedge Reserve | (68,900) |
| Dividends paid | (437,741) |
| Other movement | 560 |
| 31 December 2016 | 324,620 |

Notes to the financial statements for the year ended 31 December 2016

16 Reconciliation of movements in shareholders' funds

| | 2016 £'000 | 2015 £'000 |
|--|------------------|----------------|
| Profit for the financial year | 370,323 | 336,583 |
| Movement in Cashflow Hedge Reserve | (68,900) | (44,962) |
| Dividend paid | (437,741) | (160,700) |
| Other movement | 560 | - |
| Net movement in shareholders' funds | (135,758) | 130,921 |
| Opening shareholders' funds | 461,378 | 330,457 |
| Closing shareholders' funds | 325,620 | 461,378 |

17 Pensions

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer funded scheme. Under FRS 101, where more than one employer 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 net defined benefit cost shall be recognised in the accounts of the group entity that is legally the sponsoring employer. British American Tobacco (Investments) Limited is the sponsoring employer with the other participating employers recognising costs equal to their contributions to those liabilities.

Details of the latest actuarial valuation of this defined benefit scheme are contained in the financial statements of British American Tobacco (Investments) Limited.

The last full tri-annual actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2014 by a qualified independent actuary. The valuation showed that the fund had a deficit of £264,000,000 (2011: £516,000,000).

The Company only participates in multi-employer schemes and the Company is unable to identify its share of the underlying assets and liabilities of the schemes.

The defined benefit pension scheme cost was £47,982 (2015: £68,518) for the year.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due.

18 Related party disclosures

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

Notes to the financial statements for the year ended 31 December 2016

19 Contingent liabilities

The Company's ultimate parent British American Tobacco p.l.c. ("BAT plc") 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 2014, of £264,000,000. As at 31 December 2016 the valuation of the asset on an IAS 19 basis was £341,722,000 (2015: £311,222,000).

In January 2014 an individual named Mehdi Khosravi issued a claim in the English High Court against BAT plc, as well as Al Aqili Trading LLC, Mohammed Saleh Al Aqili and Mohammed Saeed Mohamed Al Aqili (the "Al Aqili Defendants"). In September 2015 the claimant amended his claim to join the Company and B.A.T. Pars Company as defendants and served the claim on BAT plc and the Company (the "BAT UK Defendants"). B.A.T. Pars Company has not been served with the claim and therefore is currently not an active party to the proceedings.

The claimant sought damages of up to £1.5 billion for alleged personal injuries and economic loss which, he alleged, were caused by the Al Aqili Defendants acting as agents for the BAT UK Defendants and/or for which the BAT UK Defendants were vicariously liable. On 28 January 2016, the English High Court dismissed Khosravi's case against BAT plc and the Company and awarded costs in favour of the defendants. Following this decision, Khosravi applied for leave to appeal the decision and also applied to stay the costs order against him, however his application was refused on paper by the Court of Appeal on 22 November 2016 and at an oral hearing on 4 July 2017. This case is now at an end.

20 Post Balance Sheet Events

Subsequent to the year end, the Company has paid dividends amounting to £164,270,000.

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 (Investments) 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