

British-American Tobacco (Holdings) Limited

Registered Number 00262254

Annual report and financial statements

For the year ended 31 December 2016

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Strategic Report

The Directors present their strategic report on British-American Tobacco (Holdings) Limited (the "Company") for the year ended 31 December 2016.

Principal activities

The Company acts as an investment holding company in subsidiary undertakings of the British American Tobacco p.l.c. Group (the "Group") which are active in the tobacco industry and in addition acts as the principal Group Head Office operating company.

Review of the year ended 31 December 2016

The profit for the financial year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of taxation amounted to £2,338,279,000 (2015: £654,462,000). Profit for the financial year is shown after deduction of £95,313,000 (2015: £85,861,000) of exceptional costs, which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

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

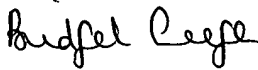
Key performance indicators

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

Principal risks and uncertainties

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

By Order of the Board



B.M. Creegan
Assistant Secretary

22 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 £2,800,000,000 (2015: £1,500,000,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2016 to the date of this report are as follows:

Nicandro Durante
John Benedict Stevens
Jerome Bruce Abelman
Jack Bowles
Alan Davy
Giovanni Giordano
Andrew MacLachlan Gray
Tadeu Luiz Marroco
David O'Reilly
Ricardo Cesar de Almeida Oberlander
Naresh Kumar Sethi
Johan Maurice Vandermeulen
Kingsley Wheaton
Debra Ann Crew (Appointed 27 July 2017)

Post balance sheet events

On 17 January 2017, the Company's ultimate parent, British American Tobacco p.l.c. ("BAT plc"), announced that it had agreed the terms of a recommended offer with Reynolds American Inc. ("RAI") for BAT plc to acquire the remaining 57.8% of RAI it did not already own. The proposed merger was accepted by both parties' shareholders on 19 July 2017.

Pursuant to the Merger Agreement, BAT plc, on behalf of its indirect subsidiary BATUS Holdings Inc ("BATUS"), has agreed to issue new shares, represented by American Depositary Shares, for the benefit of RAI shareholders. In consideration for BAT plc issuing new shares, BATUS has agreed to issue to BAT plc an assignable obligation owed by BATUS to issue shares to the holder of that obligation. This assignable obligation is transferred down the chain of Group companies from BAT plc to BATUS, in exchange for the issue of shares by each subsidiary company to its direct parent.

As a consequence, on 25 July 2017, the Company issued 40,267,521 new shares with a nominal value of £40,267,521 to its immediate parent, B.A.T Industries p.l.c.. On the same day, the Company transferred the assignable warrant to its direct subsidiary Louisville Securities Limited in exchange for 77 new shares with a nominal value of £0.77.

Directors' indemnities

Throughout the period 1 January 2016 to the date of this report, a qualifying third party indemnity has been in force under which Messrs J.B. Stevens and N. Durante, as Directors of the Company, are, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company or as a result of things done by them as Directors on behalf of the Company.

Directors' Report (continued)

Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, publications and regular meetings with employee representatives. The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

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

Statement of Directors' responsibilities

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

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

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

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

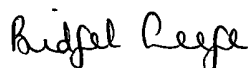
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

Directors' declaration in relation to relevant audit information

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

- (a) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's 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



B.M. Creegan
Assistant Secretary

22 September 2017

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

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

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

Respective responsibilities of directors and auditor

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

Scope 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, British-American Tobacco (Holdings) 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 United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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 British-American Tobacco (Holdings) Limited (continued)

Matters on which we are required to report by exception

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

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



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

Profit and loss account for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Continuing operations			
Other operating income	2	775,128	686,663
Other operating charges	3	(613,075)	(664,147)
Operating profit		162,053	22,516
Income from shares in Group undertakings	4	2,185,115	645,776
Interest receivable and similar income	5	4,022	5,390
Interest payable and similar charges	6	(26)	(203)
Profit on ordinary activities before taxation		2,351,164	673,479
Tax on profit on ordinary activities	7	(12,885)	(19,017)
Profit for the financial year		2,338,279	654,462

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

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

	Note	2016 £'000	2015 £'000
Profit for the financial year		2,338,279	654,462
Actuarial (loss)/ gain arising on defined benefit pension scheme	17	(29,419)	7,443
Effective portion of changes in fair value of cash flow hedges		(6,706)	(2,101)
Total recognised gains relating to the financial year		2,302,154	659,804

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Cash flow hedge reserve £'000	Total Equity £'000
1 January 2015	84,630	744	3,414,707	2,093	3,502,174
Profit for the financial year	-	-	654,462	-	654,462
Dividends paid	-	-	(1,500,000)	-	(1,500,000)
	84,630	744	2,569,169	2,093	2,656,636
Other comprehensive income					
Equity share scheme expense	-	-	(20,236)	-	(20,236)
Exercise of equity-settled share options	-	-	3,954	-	3,954
Cash flow hedge loss	-	-	-	(2,101)	(2,101)
Actuarial gain arising from defined benefit pension scheme (note 17)	-	-	7,443	-	7,443
31 December 2015	84,630	744	2,560,330	(8)	2,645,696
Profit for the financial year	-	-	2,338,279	-	2,338,279
Dividends paid	-	-	(2,800,000)	-	(2,800,000)
	84,630	744	2,098,609	(8)	2,183,975
Other comprehensive income					
Equity share scheme income	-	-	10,740	-	10,740
Exercise of equity-settled share options	-	-	1,043	-	1,043
Cash flow hedge loss	-	-	-	(6,706)	(6,706)
Actuarial loss arising from defined benefit pension scheme (note 16)	-	-	(29,419)	-	(29,419)
31 December 2016	84,630	744	2,080,973	(6,714)	2,159,633

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

Balance sheet as at 31 December 2016

		31 December 2016	31 December 2015
	Note	£'000	£'000
Fixed assets			
Intangible assets	8	448,289	457,365
Tangible assets	9	28,434	26,732
Investments in Group undertakings	10	170,699	170,900
		647,422	654,997
Current assets			
Debtors: amounts falling due within one year	11	1,760,629	2,197,914
Deferred tax asset	15	7,279	-
Derivative financial instruments- assets	19	6,917	2,770
Stocks	12	379,167	330,422
Debtors: amounts falling due after one year		2,020	39
Cash at bank and in hand		1,642	-
		2,157,654	2,531,145
Creditors: amounts falling due within one year	13a	(372,860)	(351,830)
Derivative financial instruments- liabilities	19	(17,510)	(1,595)
Net current assets		1,767,284	2,177,720
Total assets less current liabilities		2,414,706	2,832,717
Creditors: amounts falling due after one year	13b	(952)	(950)
Provisions for liabilities and other charges	14	(17,961)	(13,091)
Retirement benefit scheme liabilities	17	(236,160)	(172,262)
Derivative financial instruments – liabilities falling due after one year	19	-	(718)
Net assets		2,159,633	2,645,696
Capital and reserves			
Called up share capital	16	84,630	84,630
Share premium account		744	744
Profit and loss account		2,080,973	2,560,330
Cash flow hedge reserve		(6,714)	(8)
Total shareholders' funds		2,159,633	2,645,696

The financial statements on pages 7 to 31 were approved by the Directors on 22 September 2017 and signed on behalf of the Board.



J.B. Abelman
Director

Registered number
00262254

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 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 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 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 most significant items include:

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

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

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

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.

Income

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

Taxation

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

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

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

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

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

Intangible assets

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

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

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 and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held for sale. Freehold and leasehold property are depreciated at rates between 2.5 per cent and 4 per cent per annum, and plant and equipment at rates between 7 per cent and 25 per cent per annum. Assets in the course of construction are not depreciated until brought into operational use.

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.

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.

Employee share schemes

The Company has equity-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at the date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period.

Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared and paid.

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.

Stocks

The Company acts as a service provider for certain global solutions and accounts for the cost of the services for which the entity has not recognised the related revenue as work in progress stock, in accordance with IAS2.

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

1 Accounting policies (continued)

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.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current.

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

Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- for derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the Profit and loss account. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the Profit and loss account in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the Profit and loss account in the same periods as the hedged item;
- for derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the Profit and loss account in the period in which they arise.

In order to qualify for hedge accounting, the Company is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained, and is expected to remain, highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the Profit and loss account in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately reclassified to the Profit and loss account.

Derivative fair value changes recognised in the Profit and loss account are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs.

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

2 Other operating income

Other operating income predominantly comprises royalties, technical and advisory fees and IT recharges from fellow Group undertakings.

	2016 £'000	2015 £'000
Other operating income		
Royalties	324,775	275,150
Technical and advisory fees	214,168	242,561
IT recharges	226,014	150,679
Other income	10,171	18,273
	775,128	686,663

3 Other operating charges

	2016 £'000	2015 £'000
Other operating charges comprise:		
Staff costs	247,411	241,285
Depreciation of tangible assets	8,461	13,778
Amortisation of intangibles	58,498	52,849
Impairment of tangible assets	535	788
Gain on disposal of tangible assets	(570)	(471)
Operating lease charges:		
- buildings – gross	20,245	20,088
- buildings - amounts capitalised to work in progress	(792)	(1,799)
- buildings – net	19,453	18,289
Auditor's remuneration:		
- For the audit of the financial statements of the ultimate parent undertaking	3,521	2,646
- For the audit of the financial statements of the Company	50	50
- Taxation advisory services	6,698	6,536
Exchange (gains)/losses	(9,571)	7,603
Exceptional operating charges	95,313	85,861
Other operating charges	191,680	261,495
Cost of sales	70,331	40,161
Total other operating charges capitalised to work in progress	(78,735)	(66,723)
	613,075	664,147

Exceptional charges of £95,313,000 (2015: £85,861,000) relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

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

3 Other operating charges (continued)

	2016 £'000	2015 £'000
Staff costs:		
Wages and salaries	193,302	223,783
Social security costs	17,663	18,358
Unfunded defined benefit scheme pension costs (note 17)	38,711	20,290
Defined contribution scheme costs (note 17)	9,535	7,465
Other pension costs	146	117
Pension recharge (note 17)	4,411	6,527
Share-based payments (note 18)	78,909	75,272
Contributions from other Group undertakings to share based payments	(55,717)	(51,047)
Total staff costs capitalised to work in progress	(39,549)	(59,480)
Total	247,411	241,285

The Company acts as contractual employer and recharges the costs as appropriate to other Group undertakings where its employees perform work on behalf of other Group undertakings. Additionally the Company is recharged for work performed for the Company by employees employed by other Group undertakings.

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

	2016 Number	2015 Number
Administration	893	1,008

The aggregate emoluments of the Directors payable by the Company or its subsidiary undertakings in respect of their services to those companies while Directors of the Company were:

	2016 £'000	2015 £'000
Aggregate emoluments	10,783	12,303

	2016 Number	2015 Number
Directors exercising share options during the year	3	2
Directors entitled to receive shares under a long term incentive scheme	11	11
Directors retirement benefits accruing under a defined benefit scheme	9	9
Directors retirement benefits accruing under a defined contribution scheme	3	3

Highest paid Director

	2016 £'000	2015 £'000
Aggregate emoluments	1,569	1,735
Defined contribution pension scheme:		
Accrued pension at the end of year	333	194

Included in the total aggregate emoluments above is a payment for compensation for loss of office of £nil (2015: £1,013,000).

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

3 Other operating charges (continued)

The above figures do not include Messrs N. Durante and J.B Stevens who receive remuneration in respect of their services as Directors of the British American Tobacco p.l.c. Group and do not receive any remuneration in their capacity as Directors of the Company. Their remuneration is disclosed in the Annual Report of British American Tobacco p.l.c..

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

Land and buildings

	2016 £'000	Restated 2015 £'000
Within 1 year	10,865	11,423
Between 1-5 years	42,179	43,170
Beyond 5 years	26,650	38,031

Commitments in respect of non-cancellable operating leases are related to the rental of the Guilford and Globe House buildings. Prior year disclosure has been restated so as to include the rent for Globe House.

4 Income from shares in Group undertakings

	2016 £'000	2015 £'000
Income receivable from Group undertakings	2,185,115	645,776

Income receivable from Group undertakings mainly represents dividends received from Louisville Securities Limited.

5 Interest receivable and similar income

	2016 £'000	2015 £'000
Exchange gains	2,025	-
Interest receivable from Group undertakings	1,997	5,390
	4,022	5,390

6 Interest payable and similar charges

	2016 £'000	2015 £'000
Exchange losses	-	185
Interest payable to Group undertakings	26	18
	26	203

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

7 Taxation

(a) Recognised in the Profit and loss account

	2016 £'000	£'000	2015 £'000	£'000
<i>UK corporation tax</i>				
Current tax on income for the period	15,506		-	
Adjustments in respect of prior periods	(2)		-	
Double taxation relief	(15,506)		-	
<i>Foreign tax</i>				
Current tax on income for the period	20,166		19,017	
Total current tax		20,164		19,017
<i>Deferred tax (see note 7(c))</i>				
Origination and reversal of temporary differences	(7,172)		-	
Adjustments in respect of prior periods	(107)		-	
Total deferred tax		(7,279)		-
Total income tax expense		12,885		19,017

(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 deferred tax asset at 31 December 2016 has been calculated based on these rates.

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 for the year	2,340,507	654,462
Total tax expense	12,885	19,017
Profit excluding taxation	2,353,392	673,479
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	470,678	136,379
Adjustments in respect of prior periods	(109)	
Non-deductible expenses	11,901	5,487
Tax exempt revenues	(456,736)	(136,683)
Tax rate changes	284	-
Group relief (claimed)/surrendered for nil consideration	(3,200)	(1,092)
Effect of re-statement of prior year figures	-	106
Amounts not recognised	(14,592)	(261)
Effects of overseas tax rates	4,659	15,081
Total tax charge	12,885	19,017

- (c) The deferred tax asset relates to fixed asset temporary differences. The Company has additional deductible temporary differences of £796,855,000 (2015: £785,889,000) (taxation amount of £153,395,000 (2015: £157,178,000)) relating to fixed asset temporary differences; defined benefit and defined contribution pension schemes and share schemes. These have not been recognised on the balance sheet due to it not being sufficiently probable that it will be fully utilised in the foreseeable future.

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

8 Intangible assets

	Computer software £'000	Under development £'000	Total £'000
Cost			
1 January 2016	453,028	143,803	596,831
Additions	6,298	43,124	49,422
Reallocation	130,784	(130,784)	-
31 December 2016	590,110	56,143	646,253
Accumulated amortisation			
1 January 2016	(139,466)	-	(139,466)
Charge for the year	(58,498)	-	(58,498)
31 December 2016	(197,964)	-	(197,964)
Net book value			
1 January 2016	313,562	143,803	457,365
31 December 2016	392,146	56,143	448,289

9 Tangible assets

	Freehold property £'000	Plant and equipment £'000	Under development £'000	Total £'000
Cost				
1 January 2016	42,072	62,312	2,654	107,038
Additions	-	3,320	7,447	10,767
Reallocation	-	798	(798)	-
Disposals	(4,491)	(3,243)	-	(7,734)
31 December 2016	37,581	63,187	9,303	110,071
Accumulated amortisation				
1 January 2016	(41,151)	(39,155)	-	(80,306)
Charge for the year	(174)	(8,287)	-	(8,461)
Impairment charge	(262)	(273)	-	(535)
Disposals	4,491	3,174	-	7,665
31 December 2016	(37,096)	(44,541)	-	(81,637)
Net book value				
1 January 2016	921	23,157	2,654	26,732
31 December 2016	485	18,646	9,303	28,434

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Australia 166 William Street, Woolloomooloo, NSW 2011, Australia				
B.A.T Australia Pty. Limited	Ordinary	0.00	100.00	100.00
Bahrain Unit 1, Building 2126, Road 1734, Block 117, Hidd Town, Bahrain				
British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
Benin Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin				
British American Tobacco Benin SA	Issued	0.00	100.00	100.00
Cambodia 1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia				
British American Tobacco (Cambodia) Limited No.33, Street No. 294 (Corner of Street No. 29), Sangkat Tonle Bassac, Khan Cham Kammon, Phnom Penh, Cambodia	Ordinary	0.00	71.00	71.00
British American Tobacco (Cambodge) International Limited	Ordinary	0.00	100.00	100.00
Chile Isidora Goyenechea 3000, piso 19, Las Codes, Chile				
BAT Chile S.A.	Ordinary	0.00	48.52	48.52
Inversiones Casablanca S.A.	Ordinary	0.00	99.99	99.99
British American Tobacco Chile Operaciones S.A.	Ordinary	0.00	48.49	48.49
Cyprus Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia, CY-1060, Cyprus				
Carreras of Cyprus (Export) Limited	Ordinary	0.00	100.00	100.00
Denmark Vester Farimagsgade 16, 1606 Copenhagen, Denmark				
British American Tobacco Denmark A/S (House of Prince A/S)	Ordinary	0.00	100.00	100.00
British American Tobacco Denmark Investments ApS	Ordinary	0.00	100.00	100.00
Precis (1789) Denmark A/S	Ordinary	0.00	100.00	100.00
Djibouti B.P. 2392, Djibouti				
Tobacco Exporters International (Mer Rouge) SARL	5000 DJF	0.00	100.00	100.00
Egypt 10 Omar Ibn El Khattab St. City Stars Complex, Star Capital Towers 4A, 8th floor, Heliopolis, Cairo, Egypt				
BETCO for General Services and Marketing LLC	Ordinary	0.00	100.00	100.00
BETCO for Trade and Distribution LLC	Ordinary	0.00	100.00	100.00
City Stars Complex, Star Capital 4A, 10th Floor, Omar Ibn El Khattab St., Heliopolis, Cairo, Egypt				
British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
Plot No.33, Tagseem Al Marwaha, Qatameya, Nasr City, Cairo, Egypt				
English American Company for Importation and Trade LLC	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Fiji				
<i>Lady Maria Road, Nabua, Suva, Fiji</i>				
British American Tobacco (Fiji) Marketing Limited	Ordinary	0.00	50.00	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	0.00	100.00	100.00
British Cigarette Company (1964) Limited	Ordinary	0.00	100.00	100.00
Iran, Islamic Republic of				
<i>No. 2 Saba Boulevard with Africa Boulevard, Tehran, 19667, Islamic Republic of Iran</i>				
B.A.T. Pars Company (Private Joint Stock)	Ordinary	0.00	100.00	100.00
Iraq				
<i>Enkawa, Erbil, Kurdistan Region of Iraq</i>				
B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	0.00	100.00	100.00
Isle of Man				
<i>2nd Floor, St Mary's Court, 20 Hill Street, Douglas, IM1 1EU, Isle of Man</i>				
Abbey Investment Company Limited	Ordinary	0.00	100.00	100.00
Tobacco Investments Limited	Ordinary	0.00	100.00	100.00
Japan				
<i>Atago Mori Tower 21F, 2-5-1 Arago, Minato-Ku, Tokyo, 105-622, Japan</i>				
British American Tobacco Japan, Ltd.	Ownership Interest	0.00	100.00	100.00
Korea, Republic of				
<i>Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Republic of Korea</i>				
British American Tobacco Korea Limited	Common	0.00	100.00	100.00
Malaysia				
<i>Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301, Petaling Jaya, Selangor Darul Ehsan, Malaysia</i>				
British American Tobacco GSD (Kuala Lumpur) Sdn Bhd	Ordinary	0.00	100.00	100.00
Mali				
<i>Hippodrome, Rue 249X218, Porte 569, Bamako, BP 2065, Mali</i>				
British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
Niger				
<i>C/O Niger Briques SARL, Grand, Marché Niamey BP2401, Niamey-Niger</i>				
British American Tobacco Niger	Ordinary	0.00	100.00	100.00
Norway				
<i>Klaus Torgårdsvej 3, 0372 Oslo, Norway</i>				
British American Tobacco Norway AS	Ordinary	0.00	100.00	100.00
British American Tobacco Norway Holding AS	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Pakistan				
<i>Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan</i>				
Pakistan Tobacco Company Limited	Ordinary	0.00	94.34	94.34
Phoenix (Private) Limited	Ordinary	0.00	94.34	94.34
Poland				
<i>Ul. Tytoniowa 16, 16-300, Augustow, Poland</i>				
British-American Tobacco Polska S.A.	Ordinary	0.00	34.64	34.64
British American Tobacco Polska Trading sp. z o.o.	Ordinary	0.00	34.64	34.64
Romania				
<i>319 Splaiul Independentei, Sema Parc "City Buiding", 1st Floor, 6th Sector, Bucharest, Romania</i>				
British American Shared Services (Europe) S.R.L.	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
Singapore				
<i>15 Senoko Loop, Singapore, 758168</i>				
Agrega Asia Pacific Pte. Ltd.	Ordinary	100.00	0.00	100.00
Solomon Islands				
<i>Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands</i>				
Solomon Islands Tobacco Company Limited	Ordinary	0.00	50.00	50.00
South Africa				
<i>Waterway House South, 3 Dock Road, V&A Waterfront, Cape Town 8000, South Africa</i>				
British American Shared Services Africa Middle East (Pty) Limited	Ordinary	0.00	100.00	100.00
Sudan				
<i>Gomhoreya Street, Khartoum, Sudan, PO Box 1381</i>				
Blue Nile Cigarette Company Limited	Ordinary	0.00	100.00	100.00
Sweden				
<i>Warfvinges väg 35, 112 51 Stockholm, Sweden</i>				
British American Tobacco Sweden AB	Ordinary	0.00	100.00	100.00
British American Tobacco Sweden Holding AB	Ordinary	0.00	100.00	100.00
Fiedler & Lundgren AB	Ordinary	0.00	100.00	100.00
Switzerland				
<i>Route de France 17, 2926 Boncourt, Switzerland</i>				
British American Tobacco Switzerland S.A.	Registered	0.00	100.00	100.00
British American Tobacco Switzerland Vending SA	Ordinary	0.00	100.00	100.00
Tanzania, United Republic of				
<i>Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania</i>				
British American Tobacco (Tanzania) Limited	Ordinary	0.00	100.00	100.00
International Cigarette Distributors Limited (TZA)	Issued	0.00	99.00	99.00
Zanzibar Distribution Company Limited	Issued	0.00	99.00	99.00

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

10 Investments in Group undertakings (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
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	0.00	50.13	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	0.00	70.00	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, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
Advanced Technologies (Cambridge) Limited	Ordinary	0.00	100.00	100.00
Agrega Limited	Ordinary-A	0.00	0.00	100.00
B.A.T (U.K. and Export) Limited	Ordinary	0.00	100.00	100.00
B.A.T Cambodia (Investments) Limited	Ordinary	0.00	100.00	100.00
B.A.T Portugal Limited	Ordinary	0.00	100.00	100.00
B.A.T Russia Limited	Ordinary	0.00	100.00	100.00
B.A.T Services Limited	Ordinary	0.00	100.00	100.00
B.A.T Uzbekistan (Investments) Limited	Ordinary	0.00	100.00	100.00
B.A.T Vietnam Limited	Ordinary	0.00	100.00	100.00
BATUS Limited	Ordinary	0.00	100.00	100.00
British American Shared Services (GSD) Limited	Ordinary	0.00	100.00	100.00
British American Shared Services Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (AIT) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (Investments) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (Philippines) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (South America) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco Georgia Limited	Ordinary	0.00	100.00	100.00
British American Tobacco Global Travel Retail Limited	Ordinary	100.00	0.00	100.00
British American Tobacco Western Europe Commercial Trading Limited	Ordinary	100.00	0.00	100.00
British American Tobacco Western Europe Commercial Trading Limited	Ordinary	100.00	0.00	100.00
British-American Tobacco (Mauritius) p.l.c.	Ordinary	0.00	100.00	100.00
Carreras Rothmans Limited	6% First preference 6% Second preference	0.00	33.33	100.00
Carreras Rothmans Limited	shares	0.00	33.33	100.00
Carreras Rothmans Limited	Ordinary	0.00	33.34	100.00
East African Tobacco Company (U.K.) Limited	Ordinary	0.00	99.00	99.00
Powhattan Limited	Ordinary	0.00	100.00	100.00
Rothmans Exports Limited	Ordinary	0.00	100.00	100.00
Rothmans International Tobacco (UK) Limited	Ordinary	0.00	100.00	100.00
Rothmans of Pall Mall (Overseas) Limited	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings (continued)

(1) Shares in Group Undertakings (continued)

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
United Kingdom				
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
Ryservs (1995) Limited	Ordinary	0.00	100.00	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	0.00	100.00	100.00
Westminster Tobacco Company Limited	Ordinary	0.00	100.00	100.00
<i>Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom</i>				
B.A.T Additional Retirement Benefit Scheme Trustee Limited	Ordinary	0.00	100.00	100.00
British American Global Shared Services Limited	Issued	100.00	0.00	100.00
CG Ventures Limited	Ordinary	0.00	100.00	100.00
Louisville Securities Limited	Ordinary	100.00	0.00	100.00
<i>212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland</i>				
Louisville Securities Limited	Redeemable Preference	0.00	100.00	100.00
Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
United States				
<i>Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington Delaware 19808, United States</i>				
B.A.T Capital Corporation	Of Common stock of \$1	0.00	100.00	100.00
BATUS Holdings Inc.	Common stock	0.00	100.00	100.00
BATUS JAPAN, INC.	Common Stock of no par value	0.00	100.00	100.00
BATUS Retail Services, Inc.	Common - 2	0.00	50.00	100.00
BATUS Retail Services, Inc.	Common - subscription agreement	0.00	50.00	100.00
British American Tobacco (Brands) Inc.	Common	0.00	100.00	100.00
Brown & Williamson Holdings, Inc.	Common Stock	0.00	100.00	100.00
Louisville Corporate Services, Inc.	Common Stock of no par value	0.00	100.00	100.00
Uzbekistan				
<i>77 Minor Passage, Tashkent, 100084, Uzbekistan</i>				
UZBAT A.O.	Ordinary	0.00	97.38	97.38

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

10 Investments in Group undertakings (continued)

(2) Investments in Associated Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Nepal				
<i>Shree Bal Sadan, Gha 2-513, Kantipath, Kathmandu, Nepal</i>				
Surya Nepal Pvt. Limited	Ordinary	0.00	2.00	2.00
United States				
<i>Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington Delaware 19808, United States</i>				
Reynolds American Inc. (Listed)	Common Stock	0.00	42.18	42.18
Yemen				
<i>P.O. Box 14, Sanna, Yemen</i>				
Kamran Industry and Investment Company	Ordinary	0.00	31.00	31.00

(3) Investments in Group undertakings

	Investment in Group undertakings £'000
Cost	
1 January 2016	642,388
Disposals	(201)
31 December 2016	642,187
Impairment provisions	
1 January 2016	471,488
31 December 2016	471,488
Net book value	
1 January 2016	170,900
31 December 2016	170,699

During the year the Company has liquidated Agrega Asia Pacific Pte. Ltd.

- (4) The Directors are of the opinion that the individual investments in the subsidiary 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 2016

11 Debtors:**Amounts falling due within one year**

	2016 £'000	2015 £'000
Amounts due from Group undertakings – gross	1,425,337	2,092,512
Allowances account	-	(587)
Amounts due from Group undertakings – net	1,425,337	2,091,925
Other debtors – gross	7,948	13,162
Allowances for other debtors	(2,311)	-
Other debtors – net	5,637	13,162
Prepayments and accrued income	302,750	72,978
Government levies	26,905	19,849
	1,760,629	2,197,914

Included within amounts owed by Group undertakings is an amount of £1,179,837,000 (2015: £1,387,595,000) which is unsecured and interest bearing. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured and interest free.

The movement in allowance accounts are as follows

	2016 £'000
1 January 2016	587
Amounts due from Group undertakings - Write off	(587)
Allowances for other debtors	2,311
31 December 2016	2,311

The amount of £2,311,000 provided during the year relates to external debtors.

12 Stocks

Work in progress	2016 £'000
1 January 2016	330,422
Capitalised project costs	119,076
Cost of sales	(70,331)
31 December 2016	379,167

Amounts included in work in progress are project costs to be recovered from fellow Group undertakings up to 2023, as per internal contracts.

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

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

	2016 £'000	2015 £'000
Trade creditors	50,839	68,526
Amounts owed to Group undertakings	187,644	132,695
Taxation and social security	1,297	266
Other creditors	178	2,360
Accruals and deferred income	132,902	147,983
	372,860	351,830

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand. Accruals and deferred income mainly represent bonus accrual, global solution (TAO) related accruals and various small other amounts.

(b) Amounts falling due after one year

	2016 £'000	2015 £'000
Deferred income	952	950
	952	950

Deferred income represents the portion of the receipt related to the Franked Investment Income Global Litigation Order ("FIIGLO") allocated to British-American Tobacco (Holdings) 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 £952,000, after an apportioned deduction of £327,000 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

	Share schemes £'000
1 January 2016	13,091
Provided in the year	9,976
Utilised during the year	(5,106)
31 December 2016	17,961

15 Deferred tax asset

	Deferred tax asset £'000
1 January 2016	-
Recognised in the year (note 7)	7,279
31 December 2016	7,279

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

16 Called up share capital

Ordinary shares of £1 each	2016	2015
Allotted, called up and fully paid		
- value	£84,630,122	£84,630,122
- number	84,630,122	84,630,122

17 Retirement Benefit Scheme Liabilities

The Company participates in several retirement benefit schemes, the largest of which is the British American Tobacco UK Pension Fund (UKPF). 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 of the scheme, with the other participating employers recognising costs equal to their contributions to those liabilities. British American Tobacco (Investments) Limited is the Principal Employer and sponsoring employer under IAS 19 of the scheme. The cost recognised by the Company in respect of this scheme was £4,411,000 (2015: £6,527,000) for the year (note 3).

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

On 1 April 2005, the UK defined benefit schemes were closed to new employees; employees joining since that date have been eligible to join a defined contribution pension scheme.

The Company operates the Employee Benevolent Fund (EBF), which is an unfunded scheme. The scheme is formally valued annually by a qualified independent actuary. The amounts recognised in the balance sheet are determined as follows:

	2016 £'000	2015 £'000
Present value of unfunded scheme liabilities	(236,160)	(172,262)
	(236,160)	(172,262)

The above net liability is recognised in the Balance Sheet as follows:

- retirement benefit scheme liabilities	(236,160)	(172,262)
	(236,160)	(172,262)

The amounts recognised in the income statement for the defined benefit scheme are as follows:

	2016 £'000	2015 £'000
Defined benefit schemes		
Service cost		
- current service cost	19,947	6,996
- past service cost	12,251	7,805
- interest on scheme liabilities	6,513	5,489
Total amount recognised in the income statement (note 3)	38,711	20,290

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

17 Retirement benefits scheme liabilities (continued)

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

	2016 £'000	2015 £'000
Actuarial (losses)/ gains on scheme liabilities	(29,419)	7,443

The movements in scheme liabilities are as follows:

	2016 £'000	2015 £'000
Present value at 1 January	172,262	163,483
Current service cost	19,947	6,996
Past service costs	12,251	7,805
Interest on scheme liabilities	6,513	5,489
Benefits paid (cash outflow)	(4,232)	(4,068)
Actuarial loss/(gain)	29,419	(7,443)
Present value at 31 December	236,160	172,262

Scheme liabilities by scheme membership:

	2016 £'000	2015 £'000
Active members	113,925	76,625
Deferred members	5,537	2,740
Retired members	116,698	92,897
Present value at 31 December	236,160	172,262

Scheme liabilities by benefits earned to date:

	2016 £'000	2015 £'000
Guaranteed benefits	201,205	134,734
Future salary increases	34,955	37,528
Present value at 31 December	236,160	172,262

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

	2016 £'000	2015 £'000
Actuarial losses/(gains):		
- arising from changes in financial assumptions	36,067	(5,524)
Experience gains	(6,648)	(1,919)
Total	29,419	(7,443)

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

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.

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

17 Retirement benefits scheme liabilities (continued)

Assumptions

	2016 %	2015 %
Rate of increase in salaries	3.30%	4.60%
Rate of increase in pensions in payment	3.30%	3.10%
Rate of increase in deferred pensions	2.50%	2.30%
Discount rate	2.64%	3.84%
General inflation	3.30%	3.10%

	2016 Years	2015 Years
Weighted average duration of liabilities	21.77	20.34

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

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

	2016 Years	2015 Years
Member age 65 (current life expectancy)		
- male	23.81	23.70
- female	26.38	26.25
Member age 45 (life expectancy at age 65)		
- male	26.53	26.39
- female	29.15	29.01

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 2016 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.

	1 year increase £'000	1 year decrease £'000	0.25 percentage point increase £'000	0.25 percentage point decrease £'000
Average life expectancy – increase/(decrease) of scheme liabilities	9,184	(9,042)		
Rate of inflation – increase/(decrease) of scheme liabilities			12,963	(12,080)
Discount rate – (decrease)/increase of scheme liabilities			(12,341)	13,343

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

17 Retirements benefits scheme liabilities (continued)**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:

	2016	2015
	£'000	£'000
Defined contribution schemes recognised in the income statement gross (note 3)	9,535	7,465
Capitalised costs	(452)	(1,013)
Defined contribution schemes recognised in the income statement	9,083	6,452

At 31 December 2016, there were amounts of £nil (2015: £nil) outstanding in respect of defined contribution schemes.

18 Share-based payments

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

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Pay-out is subject to performance conditions based on earnings per share (40% of grant (2015: 50%)), operating cash flow (20% of grant (2015: 0%)), total shareholder return (20% of grant (2015: 25%)) and net turnover (20% of grant (2015: 25%)). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Deferred Share Bonus Scheme (DSBS)

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

The Group also has a number of other arrangements which are not material for the 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 (2015: £3,000)) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Share-based payment expense

Please refer to the Annual Report of British American Tobacco p.l.c. for full disclosures under IFRS 2. The weighted average share price on exercise of LTIP shares in 2016 was £45.80 (2015: £35.39).

The weighted average share price on exercise of DSBS shares in 2016 was £42.26 (2015: £35.05).

The outstanding shares for the year ended 31 December 2016 had an exercise price range of £34.64 - £47.71 (2015: £34.88 - £36.62). The weighted average remaining contractual life are 8.2 years (2015: 8.2 years) for the LTIP shares and are 1.3 years (2015: 1.2 years) for the DSBS shares.

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

19 Derivative financial instruments

	2016	2016	2015	2015
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Cash flow hedges				
- Forward foreign currency contracts	6,917	(17,482)	1,994	(2,002)
Held for trading*				
- Forward foreign currency contracts	-	(28)	776	(311)
Current	6,917	(17,510)	2,770	(1,595)
Non-current	-	-	-	(718)

*As explained in note 1, some derivative financial instruments are not designated as hedges and so are required to be classified as held-for-trading.

The Company's operations expose it to currency risk as income from shares in Group undertakings is denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The total cash flow hedge movement for the year was a loss of £6,706,000.

20 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.

21 Contingent liabilities

The Company's ultimate parent, British American Tobacco p.l.c., has guaranteed the liabilities of the British American Tobacco UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. The fund had a deficit according to the last triennial actuarial valuation in March 2014, of £264,000,000 (2011: 516,000,000). As at 31 December 2016 the Group valuation of the asset on an IAS 19 basis was £341,722,000 (2015: £311,222,000).

22 Post Balance Sheet events

On 17 January 2017, the Company's ultimate parent, British American Tobacco p.l.c. ("BAT plc"), announced that it had agreed the terms of a recommended offer with Reynolds American Inc. ("RAI") for BAT plc to acquire the remaining 57.8% of RAI it did not already own. The proposed merger was accepted by both parties' shareholders on 19 July 2017.

Pursuant to the Merger Agreement, BAT plc, on behalf of its indirect subsidiary BATUS Holdings Inc ("BATUS"), has agreed to issue new shares, represented by American Depositary Shares, for the benefit of RAI shareholders. In consideration for BAT plc issuing new shares, BATUS has agreed to issue to BAT plc an assignable obligation owed by BATUS to issue shares to the holder of that obligation. This assignable obligation is transferred down the chain of Group companies from BAT plc to BATUS, in exchange for the issue of shares by each subsidiary company to its direct parent.

As a consequence, on 25 July 2017, the Company issued 40,267,521 new shares with a nominal value of £40,267,521 to its immediate parent, B.A.T Industries p.l.c.. On the same day, the Company transferred the assignable warrant to its direct subsidiary Louisville Securities Limited in exchange for 77 new shares with a nominal value of £0.77.

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

23 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 B.A.T Industries p.l.c.. 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