

**British-American Tobacco (Holdings) Limited**

**Registered Number 00262254**

**Directors' report and financial statements**

**For the year ended 31 December 2014**

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## Strategic report

The Directors present their strategic report on the Company for the year ended 31 December 2014.

### 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 2014

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 £658,180,000 (2013: £1,963,630,000). Profit for the financial year is shown after deduction of £15,990,000 (2013: £3,999,000) of exceptional costs, which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

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

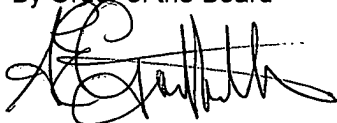
### Key performance indicators

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

### Principal risks and uncertainties

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

By Order of the Board



Ms A.E. Griffiths  
Assistant Secretary

24 September 2015

## Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2014.

### Dividends

The Directors do not recommend the payment of a dividend for the year (2013: £nil).

### Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2014 to the date of this report are as follows:

	Appointed	Resigned
Nicandro Durante		
John Benedict Stevens		
Desmond John Naughton		01 January 2014
John Patrick Daly		06 April 2014
Neil Robert Withington		30 April 2015
Andrew MacLachlan Gray		
Jack Bowles		
Giovanni Giordano		
Jean-Marc Levy		31 December 2014
David O'Reilly		
Naresh Kumar Sethi		
Kingsley Wheaton		
Alan Davy		
Ricardo Cesar de Almeida Oberlander		
Tadeu Luiz Marroco	01 September 2014	
Johan Maurice Vandermeulen	01 September 2014	
Jerome Bruce Abelman	01 January 2015	

### Directors' indemnities

Throughout the period 1 January 2014 to the date of this report, a qualifying third party indemnity has been in force under which Messrs J.B. Stevens, J.P. Daly 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.

### Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, publications and regular meetings with employee representatives.

The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

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

## Directors' report

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

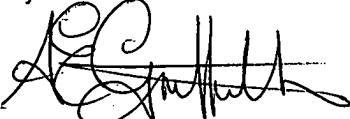
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

### Directors' declaration in relation to relevant audit information

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

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

By Order of the Board



Ms A.E. Griffiths  
Assistant Secretary

24 September 2015

## **Independent auditors' report to the members of British-American Tobacco (Holdings) Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, British-American Tobacco (Holdings) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 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.

#### **What we have audited**

British-American Tobacco (Holdings) Limited's financial statements comprise:

- the Balance sheet as at 31 December 2014;
- the Profit and loss account for the year then ended;
- the Statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **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 for which the financial statements are prepared is consistent with the financial statements.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

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

## **Independent auditors' report to the members of British-American Tobacco (Holdings) Limited**

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **What an audit of financial statements involves**

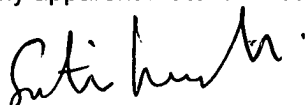
We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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



Sotiris Kroustis (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

24 SEPTEMBER 2015

**Profit and loss account for the year ended 31 December 2014**

	Note	2014 £'000	2013 £'000
<b>Continuing operations</b>			
Other operating income	2	542,117	513,109
Other operating charges	3	(662,021)	(172,337)
<b>Operating (loss)/profit</b>		<b>(119,904)</b>	<b>340,772</b>
Income from shares in Group undertakings		795,963	2,105,497
Interest receivable and similar income	4	4,574	1,338
Interest payable and similar charges	5	(8)	(81)
Amounts written-off investments		-	(465,104)
Other finance expense	15	(5,476)	(4,303)
<b>Profit on ordinary activities before taxation</b>		<b>675,149</b>	<b>1,978,119</b>
Tax on profit on ordinary activities	6	(16,969)	(14,489)
<b>Profit for the financial year</b>	13	<b>658,180</b>	<b>1,963,630</b>

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 total recognised gains and losses for the year ended 31 December 2014**

	Note	2014 £'000	2013 £'000
<b>Profit for the financial year</b>		<b>658,180</b>	<b>1,963,630</b>
Actuarial loss arising on defined benefit pension scheme	14	(15,916)	(6,945)
<b>Total recognised gains relating to the financial year</b>		<b>642,264</b>	<b>1,956,685</b>

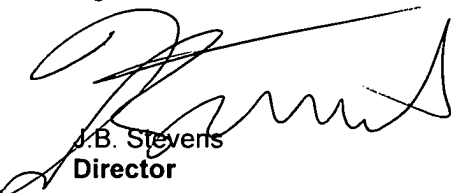
The accompanying notes are an integral part of the financial statements.



**Balance sheet at 31 December 2014**

	Note	2014 £'000	2013 £'000
<b>Fixed assets</b>			
Tangible assets	7	478,897	385,861
Investments	8	170,900	170,900
		<b>649,797</b>	556,761
<b>Current assets</b>			
Debtors: amounts falling due within one year	9a	3,038,086	2,738,360
Debtors : amounts falling due after one year	9b	242,580	-
Creditors: amounts falling due within one year	10	(405,359)	(413,074)
<b>Net current assets</b>		<b>2,875,307</b>	2,325,286
<b>Total assets less current liabilities</b>		<b>3,525,104</b>	2,882,047
<b>Provisions for liabilities</b>	11	<b>(16,661)</b>	(22,615)
<b>Net assets excluding pension deficit</b>		<b>3,508,443</b>	2,859,432
Pension deficit	15	(163,483)	(126,268)
<b>Net assets including pension deficit</b>		<b>3,344,960</b>	2,733,164
<b>Capital and reserves</b>			
Called up share capital	12	84,630	84,630
Share premium account	13	744	744
Profit and loss account	13	3,259,586	2,647,790
<b>Total shareholders' funds</b>	14	<b>3,344,960</b>	2,733,164

The financial statements on pages 7 to 28 were approved by the Directors on 24 September 2015 and signed on behalf of the Board.



J.B. Stevens  
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 2014

### 1 Accounting policies

#### Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The Company is included in the consolidated financial statements of British American Tobacco p.l.c. which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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

#### Cash flow statement

The Company is a wholly owned subsidiary of British American Tobacco p.l.c.. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996) 'Cash flow statements'.

#### Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction, or at the forward rate if fully hedged by a forward exchange contract. Monetary assets and liabilities expressed in currencies other than sterling 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. As required by the Companies Act 2006, the fair value of all forward contracts outstanding at year end is disclosed in note 17.

#### Accounting for income

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

#### Taxation

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

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

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

## Notes to the financial statements for the year ended 31 December 2014

### Accounting policies (continued)

#### Taxation (continued)

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

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

#### Tangible assets

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

The rates of depreciation used are:

	%
Freehold land	nil
Plant, machinery and equipment	7 - 36
Leasehold assets	Over the period of the lease

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

#### Fixed asset investments

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

#### 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 both equity-settled and cash-settled 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 periods, based on the Company's estimate of awards that will eventually vest, with a corresponding credit to reserves.

For cash-settled share based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

Fair value is measured by the use of Black-Scholes and Monte-Carlo option pricing models. 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.

## Notes to the financial statements for the year ended 31 December 2014

### Accounting policies (continued)

#### Dividends

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

#### Retirement benefits

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

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

Pension surpluses/deficits as of the balance sheet date are recognised in full as an asset/liability for all defined benefit pension schemes where the Company is the major participant or where it is possible to identify the Company's individual share of the underlying assets and liabilities in the scheme. The net deficit or surplus for these schemes is based on the present value of defined benefit scheme obligations at the balance sheet date less the fair value of the scheme assets.

Actuarial gains and losses are recognised through the statement of total recognised gains and losses.

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

The actuarial cost charged to operating charges in the profit and loss account consists of current service cost, past service cost and the impact of any settlements and curtailments. Interest costs and expected return on plan assets are shown as other finance income or expense.

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

#### Future changes to accounting policies

The Financial Reporting Council has issued FRS 100 Application of Financial Reporting Requirements, FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Ireland. These standards will be applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups which continue to report under EU-adopted International Financial Reporting Standards (IFRS), for accounting periods beginning on or after 1 January 2015.

FRS 100 sets out the overall financial reporting framework for companies in the UK and Ireland. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting policies as in their listed group financial statements, but with fewer disclosures. FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying EU-adopted IFRS, FRS 101 or the FRSSSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Company will adopt the accounting requirements of the reduced disclosure framework under FRS 101 in the Company's reporting for 2015. As shown in note 15, the Company is a participating employer of the British American Tobacco UK Pension Fund. This fund had a deficit on an IAS 19 basis at 31 December 2014 of £282,000 (2013: £75,169,000). Under FRS 101 the entire deficit of the scheme will be recognised as a post-employment benefit liability in the Company's Balance sheet. In addition, as shown in note 17, the recognition of financial instruments will affect the Company's Balance sheet and Reserves.

**Notes to the financial statements for the year ended 31 December 2014****2 Other operating income**

Other operating income comprises technical and advisory fees and royalties receivable from fellow Group undertakings.

**3 Other operating charges**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Other operating charges comprise:</b>		
Staff costs	<b>350,787</b>	362,010
Depreciation of tangible assets	<b>41,143</b>	23,090
Impairment of tangible assets	-	625
Loss/(gain) on disposal of tangible assets	<b>5,412</b>	(291)
Operating lease charges:		
- buildings	<b>11,530</b>	11,441
Auditors' remuneration:		
- For the audit of the financial statements of the ultimate parent undertaking	<b>2,373</b>	2,100
- For the audit of the financial statements of the Company	<b>50</b>	50
- Taxation advisory services	<b>524</b>	352
Exchange losses	<b>3,099</b>	1,340
Exceptional operating charges	<b>15,990</b>	3,999
Write back of intercompany borrowing	-	(465,104)
Other operating charges	<b>231,113</b>	232,725
	<b>662,021</b>	172,337

Exceptional charges of £15,990,000 (2013: £3,999,000) relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

The write back of £465,104,000 in 2013 related to an amount owed to a fellow Group undertaking that was forgiven during the 2013 financial year.

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs:</b>		
Wages and salaries	<b>133,736</b>	112,965
Social security costs	<b>11,831</b>	8,872
Unfunded defined benefit scheme pension costs (note 15)	<b>19,663</b>	10,603
Defined contribution scheme costs (note 15)	<b>3,587</b>	3,333
Other pension costs	<b>1,171</b>	2,345
Defined benefit scheme treated as defined contribution scheme (note 15)	<b>170,692</b>	220,000
Contributions from other Group undertakings - pension costs	<b>(11,310)</b>	(10,251)
Share-based payments (note 16)	<b>70,927</b>	69,984
Contributions from other Group undertakings to share based payments (note 16)	<b>(49,510)</b>	(55,841)
	<b>350,787</b>	362,010

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:

	<b>2014</b>	<b>2013</b>
	<b>Number</b>	<b>Number</b>
Administration	<b>962</b>	846

**Notes to the financial statements for the year ended 31 December 2014****Other operating charges (continued)**

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:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	<b>11,955</b>	8,983
	<b>2014</b>	<b>2013</b>
	<b>Number</b>	<b>Number</b>
Directors exercising share options during the year	<b>7</b>	7
Directors entitled to receive shares under a long term incentive scheme	<b>12</b>	11
Directors retirement benefits accruing under a defined benefit scheme	<b>9</b>	9
Directors retirement benefits accruing under a defined contribution scheme	<b>3</b>	2

**Highest paid Director**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	<b>2,128</b>	1,595
Defined contribution pension scheme:		
Accrued pension at the end of year	-	99
Lump sum paid at the end of the year	<b>2,784</b>	-

Included in the total aggregate emoluments above is a payment for compensation for loss of office of £753,000 (2013: £nil).

The above figures do not include Messrs N. Durante J.B Stevens and J.P. Daly 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..

One Director is deemed to have benefited from an annual interest-free quasi-loan from the Company in respect of the payment of his overseas tax liabilities. This was paid off during 2014 (2013: £42,000).

During 2014 and 2013, the highest paid Director was entitled to receive shares under a long term incentive scheme. The share options were exercised during 2014 but not in 2013.

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

	<b>Land and buildings</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
1 – 5 years	<b>1,247</b>	1,247
Beyond 5 years	<b>851</b>	10,673
	<b>2,098</b>	11,920

**Notes to the financial statements for the year ended 31 December 2014****4 Interest receivable and similar income**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable from Group undertakings	<b>4,574</b>	<b>1,338</b>

**5 Interest payable and similar charges**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Interest payable to Group undertakings	<b>8</b>	<b>81</b>

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current taxation:</b>		
UK corporation taxation on profit of the year		
Comprising:		
- current taxation at 21.5% (2013: 23.25%)	-	-
Overseas taxation	<b>16,969</b>	<b>14,489</b>
Total current taxation note 6(b)	<b>16,969</b>	<b>14,489</b>

**(b) Factors affecting the taxation charge**

The standard rate of corporation taxation in the UK changed from 23.0% to 21.0% with effect from 1 April 2014. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 21.5%.

The current taxation charge differs from the standard 21.5% (2013: 23.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before taxation	<b>675,149</b>	<b>1,978,119</b>
Corporation taxation at 21.5% (2013: 23.25%) on profit on ordinary activities	<b>145,157</b>	<b>459,913</b>
<b>Factors affecting the taxation rate:</b>		
Permanent differences	<b>(7,360)</b>	<b>(11,658)</b>
Capital allowances	<b>9,729</b>	-
Other timing differences	<b>7,762</b>	<b>8,113</b>
Group loss relief surrendered at less than full consideration	<b>15,844</b>	<b>33,160</b>
Overseas taxation	<b>16,969</b>	<b>14,489</b>
Corporate income taxation relief on intra-group dividends	<b>(171,132)</b>	<b>(489,528)</b>
Total current taxation charge note 6(a)	<b>16,969</b>	<b>14,489</b>

An amount of £nil (2013: £16,003,000) (taxation amount of £nil (2013: £3,721,000)) included in permanent differences above represents taxation adjustments in respect of UK to UK transfer pricing for the imputed interest adjustment.

The Company has a deferred taxation asset of £743,870,000 (2013: £222,879,000) (taxation amount of £148,774,000 (2013: £44,576,000)) relating to capital allowances; defined benefit and defined contribution pension schemes; share schemes and unrelieved tax losses. 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 2014

## 7 Tangible assets

	Freehold land £'000	Leasehold assets £'000	Plant, machinery and equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>					
1 January 2014	4,133	44,600	350,407	190,044	589,184
Additions	-	-	15,776	128,780	144,556
Reallocation	-	-	17,204	(17,204)	-
Disposals	-	(2,528)	(94,488)	-	(97,016)
Transfer to fellow Group undertakings	(4,133)	-	-	-	(4,133)
<b>31 December 2014</b>	<b>-</b>	<b>42,072</b>	<b>288,899</b>	<b>301,620</b>	<b>632,591</b>
<b>Accumulated depreciation</b>					
1 January 2014	-	37,764	165,559	-	203,323
Charge for the year	-	2,470	38,673	-	41,143
Disposals	-	(2,355)	(88,417)	-	(90,772)
<b>31 December 2014</b>	<b>-</b>	<b>37,879</b>	<b>115,815</b>	<b>-</b>	<b>153,694</b>
<b>Net book value</b>					
1 January 2014	4,133	6,836	184,848	190,044	385,861
<b>31 December 2014</b>	<b>-</b>	<b>4,193</b>	<b>173,084</b>	<b>301,620</b>	<b>478,897</b>

## 8 Investments

## (1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
<b>Australia</b>				
B.A.T Australia Pty. Limited	Ordinary	0.00	100.00	100.00
<b>Bahrain</b>				
British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
<b>Bangladesh</b>				
British American Tobacco Bangladesh Company Limited (Listed)	Ordinary	0.00	72.91	0.00
<b>Barbados</b>				
British American Tobacco Company (Barbados) Limited	Ordinary	0.00	100.00	100.00
<b>Belgium</b>				
British American Tobacco Co-ordination Centre/L.P. Co-ordination Centre VOF	Partnership stake in equity	0.00	99.00	0.00
Tabacofina-Vander Elst N.V.	Ordinary	0.00	100.00	0.00
<b>Benin</b>				
Britannique Ivoirienne Tabac Conseil - Benin (S.A.R.L.)	Issued	0.00	100.00	100.00
British American Tobacco Benin SA	Issued	0.00	100.00	100.00
<b>Cambodia</b>				
British American Tobacco (Cambodia) Limited	Ordinary	0.00	71.00	71.00
British American Tobacco Cambodia International Limited	Ordinary	0.00	100.00	100.00
<b>Chile</b>				
Inversiones Casablanca S.A.	Ordinary	0.00	99.99	99.99
<b>Costa Rica</b>				
BATCCA Park Inversiones Inmobiliarias, S.A.	Ordinary	0.00	100.00	0.00
BATCCA Servicios S.A.	Ordinary	0.00	100.00	0.00



# British-American Tobacco (Holdings) Limited

## Cyprus

Carreras of Cyprus (Export) Limited	Ordinary	0.00	100.00	100.00
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## Djibouti

Tobacco Exporters International (Mer Rouge) SARL	5000 DJF	0.00	100.00	100.00
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## Egypt

BETCO for General Services and Marketing LLC	Ordinary	0.00	100.00	100.00
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BETCO for Trade and Distribution LLC	Ordinary	0.00	100.00	100.00
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British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
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## Fiji

British American Tobacco (Fiji) Marketing Limited	Ordinary	0.00	50.00	50.00
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## Guatemala

Procesadora Unitab, S.A.	Ordinary	0.00	50.00	0.00
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## Hong Kong

American Cigarette Company Limited	Ordinary	0.00	100.00	100.00
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British Cigarette Company (1964) Limited	Ordinary	0.00	100.00	100.00
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## Iran, Islamic Republic of

B.A.T. Pars Company (Private Joint Stock)	Ordinary	0.00	100.00	100.00
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## Iraq

B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	0.00	100.00	100.00
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## Isle of Man

Abbey Investment Company Limited	Ordinary	0.00	100.00	100.00
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Tobacco Investments Limited	Ordinary	0.00	100.00	100.00
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## Italy

Eurostores S.R.L.	Ordinary	0.00	100.00	100.00
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## Japan

British American Tobacco Japan, Ltd.	Ownership Interest	0.00	100.00	100.00
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## Jersey

Pathway 5 (Jersey) Limited	Ordinary	0.00	100.00	0.00
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## Korea, Republic of

British American Tobacco Korea Limited	Common	0.00	100.00	100.00
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## Malaysia

British American Tobacco GSD (Kuala Lumpur) Sdn Bhd	Ordinary	0.00	100.00	100.00
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## Mali

British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
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## Myanmar

British American Tobacco Myanmar Services Limited	Ordinary	0.00	100.00	100.00
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## Niger

British American Tobacco Niger	Ordinary	0.00	100.00	100.00
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## Pakistan

Pakistan Tobacco Company Limited (Listed)	Ordinary	0.00	94.34	94.34
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Phoenix (Private) Limited	Ordinary	0.00	100.00	94.34
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## Panama

British American Tobacco Panama, S.A.	Ordinary	0.00	100.00	0.00
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## Romania

British American Shared Services (Europe) S.R.L.	Ordinary	0.00	100.00	100.00
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## Senegal

Tobacco Marketing Consultant TMC S.A.R.L.	Ordinary	0.00	100.00	100.00
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## Sierra Leone

Aureol Tobacco Company Limited	Ordinary	0.00	86.96	86.96
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## Singapore

Agrega Asia Pacific Pte. Ltd.	Ordinary	100.00	0.00	100.00
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## Solomon Islands

Solomon Islands Tobacco Company Limited	Ordinary	0.00	50.00	50.00
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## South Africa

British American Shared Services Africa Middle East (Pty) Limited	Ordinary	0.00	100.00	100.00
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## Tanzania, United Republic of

British American Tobacco (Tanzania) Limited	Ordinary	0.00	100.00	100.00
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Zanzibar Distribution Company Limited (In liquidation)	Issued	0.00	99.00	99.00
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**British-American Tobacco (Holdings) Limited**

Trinidad and Tobago	The West Indian Tobacco Company Limited (Listed)	Ordinary	0.00	50.13	50.13
Uganda	British American Tobacco Uganda Limited	Ordinary	0.00	70.00	70.00
United Arab Emirates	British American Tobacco GCC DMCC	Ordinary	0.00	100.00	100.00
United Kingdom	Advanced Technologies (Cambridge) Limited	Ordinary	0.00	100.00	100.00
	Agrega Limited	Ordinary-A	100.00	0.00	100.00
	Agrega Limited	Ordinary-B	100.00	0.00	100.00
	B.A.T (U.K. and Export) Limited	Ordinary	0.00	100.00	100.00
	B.A.T Additional Retirement Benefit Scheme Trustee 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 Global Shared Services Limited	Issued	100.00	0.00	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 Western Europe Commercial Trading Limited (previous name: British American Tobacco (Supply Chain WE) Limited)	Ordinary £1.00	100.00	0.00	100.00
	British American Tobacco Western Europe Commercial Trading Limited (previous name: British American Tobacco (Supply Chain WE) Limited)	Ordinary £1.00	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 Pref.	0.00	100.00	100.00
	Carreras Rothmans Limited	6% Second Pref.	0.00	100.00	100.00
	Carreras Rothmans Limited	Shares	0.00	100.00	100.00
	Carreras Rothmans Limited	Ordinary	0.00	100.00	100.00
	CG Ventures Limited	Ordinary	0.00	100.00	100.00
	East African Tobacco Company (U.K.) Limited	Ordinary	0.00	99.00	99.00
	International Cigarette Consultants (Ivory Coast) Limited	Ordinary	0.00	100.00	100.00
	Louisville Securities Limited	Ordinary	100.00	0.00	100.00
	Millbank Nominees Limited	Ordinary	0.00	100.00	100.00
	Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
	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
	Rysers (1995) Limited	Ordinary	0.00	100.00	100.00
	Rysers (No.3) Limited	Ordinary	0.00	100.00	100.00
	South Western Nominees Limited	Ordinary £1.00	100.00	0.00	100.00
	South Western Nominees Limited	Ordinary US\$1.00	100.00	0.00	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
United States	Westminster Tobacco Company Limited	Ordinary	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

## British-American Tobacco (Holdings) Limited

BATUS Retail Services, Inc.	Common - 2	0.00	100.00	100.00
	Common -			
	Subscription			
BATUS Retail Services, Inc.	Agreement	0.00	100.00	100.00
British American Tobacco (Brands) Inc.	Common	0.00	100.00	100.00
Brown & Williamson Holdings, Inc.	Common	0.00	100.00	100.00
	Common Stock of no			
Louisville Corporate Services, Inc.	par value	0.00	100.00	100.00
<b>Uzbekistan</b>				
UZBAT A.O.	Ordinary	0.00	97.38	97.38

## (2) Investments in Associated Undertakings

### Belgium

British American Tobacco Belgium S.A.	Ordinary	0.00	0.01	0.01
	Shares of no			
British American Tobacco Holdings Belgium N.V.	value	0.00	0.01	0.01

### Chile

BAT Chile S.A.	Ordinary	0.00	48.49	48.49
British American Tobacco Chile Operaciones S.A. (Listed)	Ordinary	0.00	48.49	48.49
Industrial Chiletobacos S.A.	Ordinary	0.00	48.49	48.49
Inversiones CCT SpA	Ordinary	0.00	48.49	48.49

### Egypt

British American Tobacco North Africa LLC	Ordinary	0.00	0.20	0.20
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### Fiji

Central Manufacturing Company Limited	Ordinary	0.00	15.00	15.00
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### India

VST Industries Limited (Listed)	Ordinary	0.00	23.45	23.45
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### Nepal

Surya Nepal Pvt. Limited	Ordinary	0.00	2.00	2.00
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### United Kingdom

Employment Conditions Abroad Limited	Issued	2.50	0.00	2.50
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### United States

Reynolds American Inc. (Listed)	Common Stock	0.00	42.04	42.04
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### Yemen

Kamaran Industry and Investment Company	Ordinary	0.00	31.00	31.00
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The subsidiary undertaking that principally affects the Company's financial position is British American Tobacco (Investments) Limited which is a holding company of group companies which are active in the tobacco industry. The Company also undertakes significant research and development.

## Notes to the financial statements for the year ended 31 December 2014

## Investments (continued)

## (2) Shareholdings at cost less provisions

	Shareholdings at cost less provisions £'000
<b>Cost</b>	
1 January 2014	642,388
<b>31 December 2014</b>	<b>642,388</b>
<b>Impairment provisions</b>	
1 January 2014	471,488
<b>31 December 2014</b>	<b>471,488</b>
<b>Net book value</b>	
1 January 2014	170,900
<b>31 December 2014</b>	<b>170,900</b>

- (3) 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.

## 9 Debtors:

## (a) Amounts falling due within one year

	2014 £'000	2013 £'000
Amounts owed by Group undertakings	2,986,344	2,682,841
Other debtors	51,234	55,348
Prepayments and accrued income	508	171
	<b>3,038,086</b>	<b>2,738,360</b>

Included within amounts owed by Group undertakings is an amount of £2,425,568,000 (2013: £1,931,269,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

## (b) Amounts falling due after one year

	2014 £'000	2013 £'000
Other debtors	242,580	-

Amounts included in other debtors 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 2014

**10 Creditors: amounts falling due within one year**

	2014 £'000	2013 £'000
Trade creditors	43,833	40,581
Amounts owed to Group undertakings	195,994	202,392
Taxation and social security	23,060	26,296
Other creditors	1,191	52
Accruals and deferred income	141,281	143,753
	<b>405,359</b>	<b>413,074</b>

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

**11 Provisions for liabilities**

	Share schemes £'000
1 January 2014	22,615
Provided in the year	12,231
Utilised during the year	(18,185)
<b>31 December 2014</b>	<b>16,661</b>

**12 Called up share capital**

Ordinary shares of £1 each	2014	2013
Allotted, called up and fully paid		
- value	£84,630,122	£84,630,122
- number	84,630,122	84,630,122

**13 Reserves**

	Share premium account £'000	Profit and loss account £'000
1 January 2014	744	2,647,790
Profit for the financial year	-	658,180
Actuarial loss on pension scheme	-	(15,916)
Equity share scheme expense	-	62,857
Exercise of equity-settled share options	-	(93,325)
<b>31 December 2014</b>	<b>744</b>	<b>3,259,586</b>

## Notes to the financial statements for the year ended 31 December 2014

## 14 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial year	658,180	1,963,630
Actuarial loss on defined pension scheme	(15,916)	(6,945)
Equity share scheme expense	62,857	59,528
Exercise of equity-settled shares	(93,325)	(71,223)
Net movement in shareholders' funds	611,796	1,944,990
Opening shareholders' funds	2,733,164	788,174
<b>Closing shareholders' funds</b>	<b>3,344,960</b>	<b>2,733,164</b>

## 15 Pensions

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

The last full tri-annual actuarial valuation 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). As at 31 December 2014 the Group valuation of the deficit on an IAS 19 basis was £282,000 (2013: £75,169,000). The valuation is not completed on an FRS 17 basis therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

On 1 April 2005 the UK defined benefit schemes were closed to new employees who are now eligible to join a defined contribution pension scheme, the cost to Company for which was £3,587,000 (2013: £3,333,000).

Under FRS 17 the Company is required to report its liabilities in respect of certain unfunded defined benefit pension schemes where the Company is the major participator. At 31 December 2014 these amounted to £163,483,000 (2013: £126,268,000) as shown below.

The total operating pension cost to the Company, including charges in respect of unfunded defined benefit schemes and defined contribution scheme costs, net of contributions from other Group undertakings was £183,803,000 (2013: £226,030,000).

At 31 December 2014 there were amounts of £nil (2013: £nil) outstanding in respect of defined contribution schemes.

**Notes to the financial statements for the year ended 31 December 2014****Pensions (continued)**

The liabilities of the unfunded schemes are as follows:

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Present value of funded obligations	<b>(163,483)</b>	(126,268)
Net deficit	<b>(163,483)</b>	(126,268)

**Analysis of amount charged to the Profit and loss account**

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Operating profit		
– current service cost	<b>9,450</b>	8,296
– past service cost	<b>10,213</b>	2,307
	<b>19,663</b>	10,603
Other finance costs		
– interest cost	<b>5,476</b>	4,303
Net return	<b>5,476</b>	4,303

**Analysis of amounts in the Statement of total recognised gains and losses**

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Experience losses arising on scheme liabilities	<b>(3,088)</b>	(2,890)
Changes in assumptions underlying the present value of the scheme liabilities	<b>(12,828)</b>	(4,055)
Actuarial losses recognised in the STRGL	<b>(15,916)</b>	(6,945)

The cumulative amount of actuarial losses recognised in the Statement of recognised gains and losses is £50,771,000 (2013: £34,855,000).

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

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Defined benefit obligation at 1 January	<b>(126,268)</b>	(107,853)
Current service cost	<b>(9,450)</b>	(8,296)
Interest cost	<b>(5,476)</b>	(4,303)
Past service costs - vested	<b>(10,213)</b>	(2,307)
Contributions by scheme members		
Benefits paid	<b>3,840</b>	3,436
Actuarial losses	<b>(15,916)</b>	(6,945)
Defined benefit obligation at 31 December	<b>(163,483)</b>	(126,268)

The principal actuarial assumptions at the balance sheet date are:

	<b>2014</b>	2013
	<b>%</b>	%
Rate of increase in salaries	<b>4.50</b>	4.90
Rate of increase in pensions in payment	<b>3.00</b>	3.40
Rate of increase in deferred pensions	<b>2.50</b>	2.90
Discount rate	<b>3.41</b>	4.42
General inflation	<b>3.00</b>	3.40

## Notes to the financial statements for the year ended 31 December 2014

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

	<b>2014</b>	2013
	<b>Years</b>	Years
Member age 65 (current life expectancy)		
- male	<b>23.59</b>	25.09
- female	<b>26.12</b>	26.20
Member age 45 (life expectancy at age 65)		
- male	<b>26.25</b>	28.09
- female	<b>28.88</b>	29.37

In the UK, for post-retirement mortality assumptions at 31 December 2014 the 91.5% S1NA (year of birth) table (2013: S1NA (year of birth) table) with the Continuous Mortality Investigation (2013) model (2013: Continuous Mortality Investigation (2009) model) with a 1.75% (2013: 1.5%) long term improvement rate, has been used.

The history of the present value of the defined benefit obligation and experience gains and losses are as follows:

<b>Historical information</b>	<b>2014</b>	2013	2012	2011	2010
	<b>£'000</b>	£'000	£'000	£'000	£'000
Defined benefit obligation	<b>(163,483)</b>	(126,268)	(107,853)	(82,571)	(68,537)
Experience (losses)/gains on defined benefit obligation	<b>(3,088)</b>	(2,890)	(918)	5,393	(2,281)

## 16 Share based payments

The Company operates a number of share-based payment arrangements of which the two principal ones are:

### Long-Term Incentive Plan (LTIP)

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

Prior to 2014, payout is subject to performance conditions based on earnings per share relative to inflation (50% of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50% of grant).

### Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a 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 Company also has a number of other arrangements as follows:

### Executive Share Option Scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of ten years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options.



## Notes to the financial statements for the year ended 31 December 2014

### Share based payments (continued)

The granting of options under this scheme ceased with the last grant made in March 2004 and final outstanding awards were exercised by March 2014.

#### Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20 per cent discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three year or five year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £6,000 (2013: £3,000) in any tax year.

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

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

#### Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c.. The maximum amount that can be allocated in this way to any individual is £1,800 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax free after a five year holding period.

Further details on the operation of share-based payment arrangements can be found in the Remuneration report of British American Tobacco p.l.c..

#### Share-based payment expense

The amounts recognised in the Profit and loss account in respect of share-based payments were as follows:

	Equity-settled in £'000	2014 Cash-settled in £'000	Equity-settled in £'000	2013 Cash-settled in £'000
LTIP (note a)	5,319	738	8,000	1,000
DSBS (note b)	51,662	2,448	46,000	4,000
ESOS (note c)				
SAYE (note c)	999	-	1,000	-
SRS (note c)	4,434	-	4,000	-
<b>Total share-based payment expense</b>	<b>62,414</b>	<b>3,186</b>	<b>59,000</b>	<b>5,000</b>

The employers NI charge for the year ended 31 December 2014 was £5,327,000 (2013: £5,874,000).

In addition to the above share-based payment expense, for the year ended 31 December 2014, the Company recharged £49,510,000 (2013: £55,841,000) to other Group companies for share scheme related costs based on the fair value calculated at award date for awards granted during the year.

## Notes to the financial statements for the year ended 31 December 2014

### Share based payments (continued)

#### Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Company has recorded liabilities in respect of vested and unvested grants at the end of 2014 and 2013:

	2014		2013	
	Vested £'000	Unvested £'000	Vested £'000	Unvested £'000
LTIP	1,900	1,900	2,900	1,300
DSBS	200	10,700	100	5,100
<b>Total liability</b>	<b>2,100</b>	<b>12,600</b>	<b>3,000</b>	<b>6,400</b>

#### (a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2014 and 31 December 2013 were as follows:

	2014		2013	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	5,396	280	5,731	350
Granted during year	2,410	34	1,656	51
Exercised during the year	(1,204)	(82)	(1,465)	(101)
Forfeited during the year	(1,542)	(43)	(526)	(20)
<b>Outstanding at end of the year</b>	<b>5,060</b>	<b>189</b>	<b>5,396</b>	<b>280</b>
<b>Exercisable at end of year</b>	<b>375</b>	<b>46</b>	<b>723</b>	<b>89</b>

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the year was £34.40 (2013: £35.41) for equity-settled and £34.57 (2013: £34.97) for cash-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 8.2 years (2013: 7.3 years) for the equity-settled scheme and 6.9 years (2013: 6.5 years) for the cash-settled share-based payment arrangements.

## Notes to the financial statements for the year ended 31 December 2014

## Share based payments (continued)

## (b) Deferred share bonus scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2014 and 31 December 2013 were as follows:

	2014		2013	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	4,920	250	5,104	316
Granted during year	1,626	40	1,570	54
Exercised during the year	(2,395)	(115)	(1,667)	(114)
Forfeited during the year	(49)	(5)	(87)	(6)
<b>Outstanding at end of the year</b>	<b>4,102</b>	<b>170</b>	<b>4,920</b>	<b>250</b>
<b>Exercisable at end of year</b>	<b>15</b>	<b>2</b>	<b>-</b>	<b>2</b>

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the year was £33.70 (2013: £34.96) for equity-settled and £33.43 (2013: £34.99) for cash-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 1.3 years (2013: 0.7 years) for the equity-settled scheme and 1.0 years (2013: 0.7 years) for the cash-settled scheme.

## (c) Other schemes

## ESOS

The number of outstanding equity-settled options at the end of the year was nil (2013: 95,266).

## SAYE

The number of outstanding options at the end of the year for the three year scheme was 352,504 (2013: 263,599) and for the five year scheme 558,756 (2013: 465,274).

## SRS and ISRS

The number of outstanding shares at the end of the year for the Share Reward Scheme was 456,057 (2013: 546,983) and for the International Share Reward Scheme 34,748 (2013: 41,205).

## Notes to the financial statements for the year ended 31 December 2014

### Share based payments (continued)

#### Valuation assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

	<b>2014</b>		<b>2013</b>	
	<b>LTIP</b>	<b>DSBS</b>	<b>LTIP</b>	<b>DSBS</b>
Expected volatility (%)	<b>18</b>	<b>18</b>	25	25
Average expected term to exercise (years)	<b>3.5</b>	<b>3.0</b>	3.5	3.0
Risk-free rate (%)*	<b>1.4</b>	<b>1.1</b>	0.4	0.3
Expected dividend yield (%)*	<b>4.2</b>	<b>4.2</b>	3.8	3.8
Share price at date of grant (£)*	<b>32.6</b>	<b>32.6</b>	35.05	35.05
Fair value at grant date (£)*	<b>17.72</b>	<b>19.55</b>	23.69/23.44	31.23

\*Where two figures have been quoted for the Long-Term Incentive Plan, the first number represents the awards made to employees below Management Board level and the second number to awards made to the members of the Management Board as at the date of award.

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	<b>2014</b>	<b>2013</b>
	<b>%</b>	<b>%</b>
Average share price volatility FTSE 100 comparator group	-	37
Average share price volatility FMCG comparator group	<b>20</b>	26
Average correlation FTSE 100 comparator group	-	37
Average correlation FMCG comparator group	<b>31</b>	37

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each financial year for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

## Notes to the financial statements for the year ended 31 December 2014

### 17 Financial instruments

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 fair value of the instruments at 31 December 2014 was an asset of £2,094,000 (2013: £946,000). As the Company adopts FRS 101 for 2015 this fair value, and its 2014 comparative, will become part of the Balance sheet. Subsequent to the year end, the Company's financial position was not materially affected by the instruments reaching their maturity dates.

### 18 Related party disclosures

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

	2014 £'000	2013 £'000
<b>Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group</b>		
Other charges	986	4,958

The associates referred to are Reynolds American Inc., ITC Limited and VST Limited.

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

### 19 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 tri-annual actuarial valuation in March 2014, of £264,000,000 (2011: 516,000,000). As at 31 December 2014 the Group valuation of the deficit on an IAS 19 basis was £282,000 (2013: £75,169,000). The valuation is not completed on an FRS 17 basis, therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

### 20 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is 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