

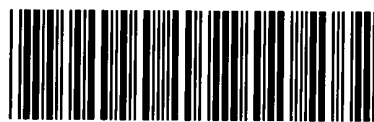
Nicovations Limited

Registered Number 07412694

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 Nicovations Limited ("the Company") for the year ended 31 December 2016.

Principal activities

The Company focuses exclusively on the development and commercialisation of innovative regulatory approved nicotine products that provide a consumer-acceptable alternative to cigarettes.

Post return of the Medical Licence to Kind Consumer on the 3rd January 2017 the Company will only provide support to licence holders through the leasing of development and production equipment.

Review of the year ended 31 December 2016

The loss for the financial year attributable to Nicovations Limited shareholders after deduction of all charges and the provision of taxation amounted to £46,074,000 (2015: £7,764,000). Net assets at 31 December 2016 are £6,707,000 (2015: £40,781,000).

In March 2016, the Company issued 5,000,000 ordinary shares and in September 2016, the Company issued 7,000,000 ordinary shares of £1 each to its' shareholder, Nicoventures Holdings Limited ("NVH"), for a consideration of £12,000,000 and utilised the cash to finance its short term activities.

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

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.

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.

Auditor

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



O. Martin

Assistant Secretary

20 October 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

The Directors do not recommend the payment of a dividend for the year (2015: £nil).

Post balance sheet events

From the 3rd January 2017, the Company now only provides support to licence holders through the leasing of development and production equipment. All related cost and impairment of assets have been reflected in the balance sheet as at 31st December.

In March 2017, the Company issued 9,000,000 ordinary shares of £1 each to its shareholder, Nicoventures Holdings Limited ("NVH"), for a consideration of £9,000,000 and utilised the cash to finance its short term activities.

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 signing this report are as follows:

	Appointed	Resigned
Hauke Paasch		11 November 2016
Kevin Arthur Bridgman		
Marina Trani		
Frederico Pinto Monteiro		
Kingsley Wheaton		
Renata Moraes Machado	12 December 2016	

Research and development

The Company is currently undertaking development into innovative regulatory approved nicotine products that provide a consumer acceptable alternative to cigarettes without the real and serious health risks of smoking.

The research and development expenditure incurred by the Company in 2016 was £2,502,000 (2015: £3,203,000).

Directors' report (continued)

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 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.

Statement of disclosure of information to auditor

Having made appropriate enquiries, each of the Directors who held office as at the date of approval of this Annual Report confirm that:

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

By Order of the Board



O. Martin

Assistant Secretary

20 October 2017

Independent auditor's report to the members of Nicovations Limited

We have audited the financial statements of Nicovations Limited for the year ended 31 December 2016 set out on pages 7 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 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 for 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, Nicovations 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 loss 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 for which the financial statements are prepared is consistent with the financial statements.

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

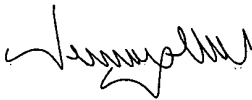
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Nicovations 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.



Jeremy Hall (Senior Statutory Auditor)
For and on behalf of KPMG LLP (Statutory Auditor)
Chartered Accountants
15 Canada Square
London, E14 5GL
20 October 2017

Profit and loss account for the year ended 31 December

		2016 £'000	2015 £'000
Continuing operations	Note		
Other operating expenses	2	(47,667)	(8,402)
Operating loss		(47,667)	(8,402)
Interest receivable and similar income	3	698	645
Loss before taxation		(46,969)	(7,757)
Tax on loss	4	895	(7)
Loss for the financial year		(46,074)	(7,764)

There are no recognised gains or losses other than the loss for the financial year and therefore no Statement of other comprehensive income has been presented.

Statement of changes in equity for the year ended 31 December

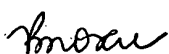
	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
1 January 2015	97,000	(53,455)	43,545
Loss for the financial year	-	(7,764)	(7,764)
Issue of new shares	5,000	-	5,000
31 December 2015	102,000	(61,219)	40,781
Loss for the financial year	-	(46,074)	(46,074)
Issue of new shares	12,000	-	12,000
31 December 2016	114,000	(107,293)	6,707

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

Balance Sheet at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	5	14,715	27,783
		14,715	27,783
Current assets			
Stock	6	-	220
Debtors: amounts falling due within one year	7a	11,227	9,750
Debtors: amounts falling due after one year	7b	-	6,559
		11,227	16,529
Current Liabilities			
Creditors: amounts falling due within one year	8	(3,735)	(3,247)
Net current assets		7,492	13,282
Total assets less current liabilities		22,207	41,065
Provisions for liabilities	9	(15,500)	(284)
Net assets		6,707	40,781
Capital and reserves			
Called up share capital	10	114,000	102,000
Profit and loss account		(107,293)	(61,219)
Total shareholders' funds		6,707	40,781

The financial statements on pages 7 to 20 were approved by the Directors on 20 October 2017 and signed on behalf of the Board.



Renata Moraes Machado
Director

Registered number
07412694

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 Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101 have been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. There have been no measurement and recognition adjustments on transition to FRS 101, so the Company have not presented a transition balance sheet, income statement or equity reconciliation.

The preparation of the financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related notes to the accounts.

The most significant items include:

- the review of asset values and impairment testing of non-financial assets;
- the estimation of amounts to be recognised in respect of taxation and legal matters; and
- the exemptions taken under IFRS 1 on the first time adoption of FRS 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 judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements which are prepared on the historical cost basis.

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

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the Profit and loss account in the year.

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

1 Accounting policies (continued)

Taxation

Tax is that chargeable on the profits for the year, together with deferred tax.

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

Deferred tax 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 probably 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.

Stock

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

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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 charged to the Profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets.

The estimated useful lives are as follows:

	Years
Fixtures and fittings	5-10

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. Assets in the course of construction are not depreciated until brought into operational use.

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.

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

1 Accounting policies (continued)

Employee share schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group undertaking, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The fellow Group company, which administers the share schemes on behalf of other Group undertakings and calculates and reflects the charge for the share schemes, provides the relevant disclosures required under IFRS 2. As noted above, disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent.

Financial instruments

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

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

Non-derivative financial assets are classified on initial recognition as other investments at fair value, loans and receivables or cash and cash equivalents as follows:

Loans and receivables: Amounts owed by Group undertakings and Other debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other investments at fair value: Other investments at fair value are accounted for as available-for-sale investments in accordance with IAS 39 with changes in fair value being recognised directly in other comprehensive income. When such investments are derecognised (e.g. through disposal) or become impaired, the accumulated gains and losses, previously recognised in other comprehensive income, are reclassified to the profit and loss statement within 'income from other investments at fair value'. Dividend and interest income on these investments are included within 'income from other investments at fair value' when the Company's right to receive payments is established.

Fair values for quoted investments are based on observable market prices where available. If there is no active market for an investment, the fair value is established by using the discounted cash flows of estimated future dividends.

Retirement benefits

The Company participates in several pension schemes, the largest of which, the British American Tobacco UK Pension Fund, is a multi-employer pension 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 scheme and therefore, does not recognise any share of any surplus or deficit in respect of these.

The Company also operates a defined contribution scheme. Payments in respect of defined contribution schemes are charged to the Profit and loss account as they fall due.

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

1 Accounting policies (continued)

Research and development

Research and development expenditure is charged to the Profit and loss account as incurred.

Provisions

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

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

2 Other operating expenses

	2016 £'000	2015 £'000
Staff costs	2,010	1,471
Depreciation of tangible fixed assets	314	73
Impairment of tangible assets	14,000	-
Provision against termination agreements	15,500	-
Provision against non collectable loan	7,170	-
Operating lease charges:		
- buildings	-	(20)
Research and development costs	2,502	3,203
Exchange losses	28	-
Other operating expenses	6,143	3,675
	47,667	8,402
Staff costs:		
Wages and salaries	1,504	1,094
Social security costs	210	121
Defined contribution scheme costs (note 11)	139	65
Other pension costs (note 11)	49	22
Share-based payments (note 12)	-	89
Other staff costs	108	80
	2,010	1,471

Auditor's fees payable to KPMG LLP of £2,000 were borne by a fellow Group undertaking (2015: £5,000). Non-audit services of £nil were incurred by KPMG LLP in the year (2015: £nil).

The average monthly number of persons (including Directors) employed by the Company during the year was 10 (2015: 8).

The total director remuneration was £518,514 (2015: £407,760), with the highest paid director remuneration of £518,514 (2015: £407,760). The other directors' time was incidental to the operations of the Company and emoluments for services rendered were paid by other Group entities (2015: £nil).

	2016 Number	2015 Number
Administration	10	8

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

	Land and buildings 2016 £'000	Land and buildings 2015 £'000
1 year	-	735
2 - 5 years	-	735

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

3 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest receivable from Group undertakings	9	23
Interest receivable from Other debtors	689	622
	698	645

4 Tax on loss on ordinary activities

(a) Recognised in the profit and loss account

	2016 £'000	2015 £'000
<i>UK corporation tax</i>		
Current tax on income for the period	35	7
Adjustments in respect of prior periods	-	-
Double taxation relief	-	-
<i>Foreign tax</i>		
Current tax on income for the period	-	-
Adjustments in respect of prior periods	-	-
Total current tax	35	7
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(930)	-
Reduction in tax rate	-	-
Recognition of previously unrecognised tax losses	-	-
Total deferred tax	(930)	-
Total income tax expense	(895)	7

(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.

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

4. (b) Factors affecting the taxation charge (continued))

The current taxation charge differs from the standard 20% (2015: 20.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2016 £'000	2015 £'000
Loss for the year	(46,074)	(6,771)
Total tax expense	(895)	7
Loss excluding taxation	(46,969)	(6,764)
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	(9,394)	(1,370)
Non-deductible expenses	2,825	82
Effect of R&D expenditure credit	35	7
Origination and reversal of temporary differences	(930)	-
Group relief surrendered for nil consideration	6,569	1,288
Total income tax expense	(895)	7

The Company has a deferred taxation asset of £14,808,000 (2015: £1,425,000) (taxation amount of £1,480,000 (2015: £256,000)) relating to capital allowances. This has 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

5 Tangible assets

	Plant, Machinery and Equipment £'000	Assets in the course of construction £'000	Fixtures and fittings £'000	Total £'000
Cost				
1 January 2016	-	27,572	369	27,941
Additions	-	1,246	-	1,246
Transfers	8,874	(8,874)	-	-
31 December 2016	8,874	19,944	369	29,187
Accumulated depreciation				
1 January 2016	-	-	158	158
Charge for the year	103	-	211	314
Impairment	3,600	10,400	-	14,000
31 December 2016	3,703	10,400	369	14,472
Net book value				
1 January 2016	-	27,572	211	27,783
31 December 2016	5,171	9,544	-	14,715

6 Stock

	2016 £'000	2015 £'000
Raw materials and consumables	-	220

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

7 Debtors

(a) Amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	6,793	7,502
Other debtors	4,434	2,248
	11,277	9,750

Included within amounts owed by Group undertakings is an amount of £6,586,000 (2015: £6,942,000) 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

	2016 £'000	2015 £'000
Other Debtors	-	6,559

Other debtors are unsecured, interest bearing and repayable over a period of more than one year. The interest rate is fixed at 10% per annum. In 2016, the loan has been fully provided.

8 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	347	1,390
Amounts owed to Group undertakings	143	192
Accruals and deferred income	3,245	1,665
	3,735	3,247

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

9 Provisions for liabilities

	2016 £'000	2015 £'000
Opening balance	284	453
Provided in the year	15,500	82
Utilised in the year	(284)	(251)
Closing balance	15,500	284

Included within 2016 is an amount of £15,500,000 for settlement of contracts with suppliers post return of the Voke Marketing Licence.

10 Called up share capital

	Number
1 January 2016	102,000,002
Issue of new shares	12,000,000
31 December 2016	114,000,002

The Company issued 5,000,000 ordinary shares of £1 each to a fellow Group undertaking in March 2016 and 7,000,000 ordinary shares of £1 each to a fellow Group undertaking in September 2016.

Ordinary shares of £1 each	2016 £	2015 £
Allotted, called up and fully paid		
- value	114,000,002	102,000,002
- number	114,000,002	102,000,002

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

11 Pensions

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer funded scheme. Under FRS 101, where more than one employer participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the net defined benefit cost shall be recognised in the accounts of the group entity that is legally the sponsoring employer. British American Tobacco (Investments) Limited is the sponsoring employer with the other participating employers recognising costs equal to their contributions to those liabilities.

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

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

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

The defined benefit pension scheme cost was £49,000 (2015: £21,900) for the year.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due. The defined contribution pension cost for the Company was £139,000 (2015: £65,000).

12 Share-based payments

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

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share (50 per cent of grant) total shareholder return (25 per cent of grant), and net turnover (25 per cent of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to a 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.

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

12 Share-based payments (continued)

The Group also has the following arrangement which is not material for the Group and the Company:

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.

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.

13 Related party disclosures

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

14 Contingent liabilities

The Company's ultimate parent British American Tobacco p.l.c has guaranteed the liabilities of the British American Tobacco Pension Fund, on behalf of the Company and the other participating employers of the scheme. The fund had a deficit according to the last formal tri-annual actuarial valuation in March 2014 of £264,000,000. As at 31 December 2016 the valuation of the retirement benefits assets on an IAS 19 basis was £341,722,000 (2015: £311,222,000). The valuation is not completed on an FRS 17 basis, therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

15 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 Nicoventures Holdings Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

The Company Secretary
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4 Temple Place
London
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