

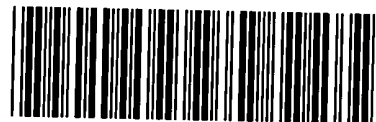
**British American Tobacco (AIT) Limited**

**Registered Number 00934507**

**Annual report and financial statements**

**For the year ended 31 December 2016**

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## Strategic report

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

### Principal activities

The Company acts as the focal point for the British American Tobacco p.l.c. Group (the "Group") anti-illicit trade ("AIT") operations, strategy and related matters including engagement with above market international non-governmental organisations and co-ordination of above market cross functional input into AIT plans. In addition, the Company also holds investments in companies operating in the tobacco industry as members of the Group.

### Review of the year ended 31 December 2016

The profit for the financial year attributable to British American Tobacco (AIT) Limited shareholders after deduction of all charges and the provision of taxation amounted to £571,000 (2015: profit of £132,000).

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

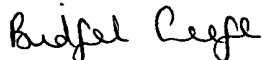
### Key performance indicators

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

### Principal risks and uncertainties

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

By Order of the Board



B.M. Creegan  
Assistant Secretary  
1 September 2017

## Directors' report

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

### Dividends

During the year the Company paid dividends amounting to £nil (2015: £nil).

### Board of Directors

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

Nicola Snook (Resigned 31 May 2017)  
Anthony Michael Hardy Cohn  
David Patrick Ian Booth

### Statement of Directors' responsibilities

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

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

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

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

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

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

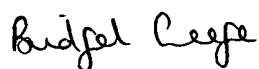
## Directors' report (continued)

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

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

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

By Order of the Board



B.M. Creegan  
Assistant Secretary  
1 September 2017

## **Independent auditor's report to the members of British American Tobacco (AIT) Limited**

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

We have audited the financial statements of British American Tobacco (AIT) Limited for the year ended 31 December 2016 set out on pages 7 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

### **Scope of the audit of the financial statements**

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

### **Opinion of financial statements**

In our opinion, British American Tobacco (AIT) Limited financial statements (the "financial statements"):

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

### **Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

## **Independent auditor's report to the members of British American Tobacco (AIT) 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  
1 September 2017

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

	Note	2016 £'000	2015 £'000
<b>Continuing operations</b>			
Other operating income	2	1,159	3,560
Other operating charges	3	(1,814)	(3,765)
<b>Operating loss</b>		<b>(655)</b>	<b>(205)</b>
Income from shares in Group undertakings		1,020	-
Interest receivable and similar income	4	206	337
<b>Profit on ordinary activities before taxation</b>		<b>571</b>	<b>132</b>
Tax on profit/(loss) on ordinary activities	5	-	-
<b>Profit for the financial year</b>		<b>571</b>	<b>132</b>

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

There are no recognised gains or losses other than the profit 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	Share premium account £'000	Profit and loss account £'000	Total Equity £'000
<b>1 January 2015</b>	117,500	461	45,371	163,332
Profit for the financial year	-	-	132	132
<b>31 December 2015</b>	<b>117,500</b>	<b>461</b>	<b>45,503</b>	<b>163,464</b>
Profit for the financial year	-	-	571	571
<b>31 December 2016</b>	<b>117,500</b>	<b>461</b>	<b>46,074</b>	<b>164,035</b>

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



## Balance sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Investments	6	1,328	1,329
		<b>1,328</b>	<b>1,329</b>
<b>Current assets</b>			
Debtors: amounts falling due within one year	7	163,436	163,199
Creditors: amounts falling due within one year	8	(729)	(1,064)
<b>Net current assets</b>		<b>162,707</b>	<b>162,135</b>
<b>Total assets less current liabilities</b>		<b>164,035</b>	<b>163,464</b>
<b>Capital and reserves</b>			
Called up share capital	9	117,500	117,500
Share premium account		461	461
Profit and loss account		46,074	45,503
<b>Total shareholders' funds</b>		<b>164,035</b>	<b>163,464</b>

The financial statements on pages 7 to 15 were approved by the Directors on 1 September 2017 and signed on behalf of the Board.



D.P.I. Booth  
Director

Registered number  
00934507

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

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

### 1 Accounting policies

#### Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101 have been taken.

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

The 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 101 at 1 January 2014.

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

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 and in preparing the opening balance sheet at 1 January 2014 for the purpose of the transition to FRS 101.

#### Cash flow statement

The Company is a wholly owned subsidiary of British American Tobacco p.l.c.. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 101.

#### 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.

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

### 1 Accounting policies (continued)

#### Income

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

#### Taxation

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

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

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

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

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

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

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

#### Investments in Group undertakings and participating interests

Investments in Group undertakings and participating interests are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, where appropriate.

#### Dividends

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

## 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. Disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent.

#### Retirement benefits

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

### 2 Other operating income

Operating income comprises technical, advisory fees and commission income receivable from fellow Group companies.

### 3 Other operating charges

	2016 £'000	2015 £'000
<b>Operating charges comprise:</b>		
Staff costs	1,293	1,798
Exchange (gain)/ loss	(48)	3
Other	569	1,964
	<b>1,814</b>	<b>3,765</b>
<b>Staff costs:</b>		
Wages and salaries	965	1,337
Social security costs	97	173
Retirement benefits costs (note 10)	119	154
Share-based payments	112	127
Other staff costs	-	7
	<b>1,293</b>	<b>1,798</b>

Auditor's fees of £2,500 were borne by a fellow Group undertaking (2015: £2,500).

The average monthly number of persons employed by the Company during the year was 11 (2015: 14), all of whom were working in an administrative capacity.

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

## 4 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest receivable from Group undertakings and similar income	206	337

## 5 Taxation

## 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 from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

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

Factors affecting the taxation charge (continued)	2016 £'000	2015 £'000
Profit for the year	571	132
Total tax expense	-	-
Loss excluding taxation	571	132
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	114	27
Non-deductible expenses	22	28
Tax exempt revenues	(204)	-
Group relief surrendered/(claimed) for nil consideration	68	(55)
<b>Total tax charge for the period</b>	<b>-</b>	<b>-</b>

## 6 Investments

## (1) Shares in Group undertakings

Company	Share Class	Direct	Subsidiary	Attributable
<b>Cyprus</b> <i>Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia, CY-1060, Cyprus</i>				
Carreras of Cyprus (Export) Limited*	Ordinary	99.90	0.00	99.90
<b>Djibouti</b> <i>B.P. 2392, Djibouti</i>				
Tobacco Exporters International (Mer Rouge) SARL	Ordinary	100.00	0.00	100.00
<b>Tanzania</b> <i>Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania</i>				
International Cigarette Distributors Limited	Ordinary	99.00	0.00	99.00
Zanzibar Distribution Company Limited	Ordinary	99.00	0.00	99.00
<b>Yemen</b> <i>P.O. Box 14, Sanna, Yemen</i>				
Kamaran Industry and Investment Company	Ordinary	31.00	0.00	31.00

The participating interest that principally affects the Company's financial position is Kamaran Industry and Investment Company.

\*Carreras of Cyprus (Export) Limited: one additional share is held by a fellow group subsidiary as nominee for the Company.

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

## Investments (continued)

## (2) Shareholdings at cost less provisions

	Shares in Group undertakings	Shares in participating interests	Total
	£'000	£'000	£'000
<b>Cost</b>			
1 January 2016	15	1,328	1,343
Disposal	(1)	-	(1)
<b>31 December 2016</b>	<b>14</b>	<b>1,328</b>	<b>1,342</b>
<b>Impairment provisions</b>			
1 January 2016	(14)	-	(14)
<b>31 December 2016</b>	<b>(14)</b>	<b>-</b>	<b>(14)</b>
<b>Net book value</b>			
1 January 2016	-	1,328	1,328
<b>31 December 2016</b>	<b>-</b>	<b>1,328</b>	<b>1,328</b>

In 2016 the company disposed of Carreras of Cyprus (Export) Limited.

- (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 and that the fair value of investments which classify as other investments at fair value and their current book value is not material.

## 7 Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	163,436	163,199

Included in amounts owed by Group undertakings, is an amount of £161,273,000 (2015: £159,422,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. All other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

## 8 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed to Group undertakings	729	1,064

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

## 9 Called up share capital

Ordinary shares of £1 each	2016	2015
Allotted, called up and fully paid		
- value	£117,500,000	£117,500,000
- number	117,500,000	117,500,000

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

### 10 Retirement benefits

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

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 £63,000 (2015: £69,000) 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 £56,000 (2015: £85,000).

### 11 Share-based payments

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

#### Long-Term Incentive plan (LTIP)

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

#### Deferred Share Bonus Scheme (DSBS)

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

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

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

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

Free shares granted in April each year (maximum £3,600 in any year (2015: £3,000)) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

### 12 Share-based payments (continued)

#### Share-based payment expense

Please refer to the Annual Report of British American Tobacco p.l.c. for full disclosures under IFRS 2. The weighted average share price on exercise of LTIP shares in 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 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 UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. In addition all of the participating employers have cross guaranteed the contributions due to the scheme. The fund had a deficit according to the last triennial actuarial valuation in March 2014, of £264,000,000. As at 31 December 2016 the valuation of the asset on an IAS 19 basis was £341,722,000 (2015: £311,222,000).

### 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 B.A.T (U.K. and Export) Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

The Company Secretary  
Globe House  
4 Temple Place  
London  
WC2R 2PG