Nicoventures Limited

Registered Number 07412694

Directors' report and financial statements

For the year ended 31 December 2013

Contents

Strategic report

The Directors present their strategic report on the Company for the year ended 31 December 2013.

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.

The Company's first licensed product will involve novel nicotine technology in a device being developed by Kind Consumer Limited, a third party healthcare research and development company focused on inhalation technologies. The UK's Medicines and Healthcare products Regulatory Agency granted a licence to Kind Consumer Limited for this product on 11th September 2014.

Review of the year ended 31 December 2013

The loss for the financial year attributable to Nicoventures Limited shareholders after deduction of all charges and the provision of taxation amounted to £22,966,000 (2012: £12,609,000).

During the year British American Tobacco (1998) Limited ("BAT98") sold the legal and beneficial title to all the issued shares in the Company to Nicoventures Holdings Limited ("NVH"). Both BAT98 and NVH are fellow Group undertakings.

In December 2013, the Company issued 75,000,000 ordinary shares of £1 each to its shareholder, NVH, for a consideration of £75,000,000 and utilised the cash to repay the Company's loan from BAT98.

In August 2014, the Company issued 7,000,000 ordinary shares of £1 each to its shareholder, NVH, for a consideration of £7,000,000 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.

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

S Ellis
Secretary

17 September 2014

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2013.

Dividends

The Directors do not recommend the payment of a dividend for the year (2012: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2013 to the date of signing this report are as follows:

	Appointed	Resigned
Charl Erasmus Steyn		9 February 2013
Steven Glyn Dale		8 February 2013
Michael Charles Terrell Prideaux		8 February 2013
Adrian John Anthony Marshall		28 June 2013
Roy Duncan Chambers		28 August 2013
Steven James Burton		28 August 2013
Kevin Arthur Bridgman	8 February 2013	
Peter Simon Charles Cleverly	28 August 2013	
Douglas James Lafferty	28 August 2013	
Desmond John Naughton	28 August 2013	
Philippe Zell	28 August 2013	

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.

Creditor payment policy

The Company follows the Better Payment Practice Code* and therefore for both the current and the next financial year aims to settle the terms of payment with its suppliers when agreeing the terms of each transaction, in any case within the supplier's own standard payment period, and also aims to pay all of its suppliers within a reasonable period of their invoices being received.

In respect of all of its suppliers, it is the Company's policy to:

- agree the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment;
- abide by the terms of payment; and
- avoid any delays when legitimately questioning invoices.

The proportion which the amount owed to trade creditors at 31 December 2013 in relation to the amounts invoiced by suppliers during the year equated to a 35 days proportion of 366 days (2012: 37 days).

* Details of the Better Payment Practice Code are available on the website http://www.payontime.co.uk.

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 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 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

S Ellis

S Ellis
Secretary

17 September 2014

Independent auditors' report to the members of Nicoventures Limited

Report on the financial statements

Our opinion
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say below.

What we have audited
The financial statements for the year ended 31 December 2013, which are prepared by Nicoventures Limited, comprise:

- the Profit and loss account;
- the Balance sheet; and
- the related notes.

The financial reporting framework that has been applied in their preparation comprises 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.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & 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.

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.

Independent auditors' report to the members of Nicoventures Limited (continued)

Opinion on 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.

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 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.

Sotiris Kroustis (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

17 September 2014

Profit and loss account for the year ended 31 December 2013

Continuing operations	Note	2013 £'000	2012 £'000
Other operating charges	2	**(23,331)**	(12,593)
Operating loss		**(23,331)**	(12,593)
Interest receivable and similar income	3	**396**	11
Interest payable and similar charges	4	**(31)**	(27)
Loss on ordinary activities before taxation		**(22,966)**	(12,609)
Tax on loss on ordinary activities	5	**-**	-
Loss for the financial year	12	**(22,966)**	(12,609)

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

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

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

Balance Sheet at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible assets	6	**14,808**	2,020
		14,808	2,020
Current assets			
Stock	7	**348**	-
Debtors: amounts falling due within one year	8a	**28,988**	886
Debtors: amounts falling due after one year	8b	**5,375**	2,000
Creditors: amounts falling due within one year	9	**(4,764)**	(12,265)
Net current assets / (liabilities)		**29,947**	(9,379)
Total assets less current liabilities		**44,755**	(7,359)
Provisions for liabilities	10	**(80)**	-
Net assets / (liabilities)		**44,675**	(7,359)
Capital and reserves			
Called up share capital	11	**90,000**	15,000
Profit and loss account	12	**(45,325)**	(22,359)
Total shareholders' funds / (deficit)	13	**44,675**	(7,359)

The financial statements on pages 7 to 21 were approved by the Directors on 17 September 2014 and signed on behalf of the Board.

D Lafferty
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 2013

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. 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.

Taxation

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

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

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

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

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

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

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. 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:

	%
Fixtures and fittings	20

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.

Employee share schemes

The Company is recharged by British-American Tobacco Holdings Limited, a fellow Group company, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The recharge in the year ended 31 December 2013 was £807,000 (2012: £457,000) as disclosed in note 2 other operating charges. The fellow Group company, which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes, provides the relevant disclosures required under FRS 20.

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.

Research and development

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

Notes to the financial statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

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.

Future changes to accounting policies

On 22 November 2012, the Financial Reporting Council issued FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework. These were followed on 14 March 2013 by the publication of 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, for accounting periods beginning on or after 1 January 2015. Early adoption is permissible.

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 FRSSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Directors are evaluating the impact of these requirements for the Company, and are likely to adopt the accounting requirements of the reduced disclosure framework under FRS 101 in the Company's reporting for 2015, but do not currently anticipate any material impact from doing so.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2 Other operating charges

	2013	2012
	£'000	£'000
Other operating charges comprise:		
Staff costs	**6,774**	4,117
Depreciation of tangible fixed assets	**30**	-
Operating lease charges:		
- buildings	**295**	128
Research and development costs	**1,739**	1,992
Exchange losses / (gains)	**97**	(2)
Other operating charges	**14,616**	6,358
	23,551	12,593
Staff costs:		
Wages and salaries	**4,817**	2,729
Social security costs	**608**	370
Defined contribution scheme costs (note 14)	**303**	146
Other pension costs (note 14)	**89**	129
Share-based payments (note 15)	**807**	457
Other staff costs	**150**	286
	6,774	4,117

Auditors' fees of £2,500 were borne by a fellow Group undertaking (2012: £2,500).

The average monthly number of persons (including Directors) employed by the Company during the year was 23 (2012: 12).

	2013	2012
	Number	Number
Administration	**23**	12

The aggregate emoluments of the Directors payable by the Company in respect of their services to the Company were as follows:

	2013	2012
	£'000	£'000
Aggregate emoluments	**1,237**	414

Notes to the financial statements for the year ended 31 December 2013 (continued)

2 Other operating charges (continued)

	Number	Number
Directors exercising share options during the year	**1**	1
Directors entitled to receive shares under a long term incentive scheme	**2**	1
Directors retirement benefits accruing under a defined benefit scheme	**2**	1
Directors retirement benefits accruing under a defined contribution scheme	**1**	-

Highest paid director	**2013**	2012
	£'000	£'000
Aggregate emoluments	**639**	414
Defined benefit pension scheme:		
Accrued pension at the end of the year	**53**	139

During 2013 and 2012, the highest paid Director was entitled to receive shares under a long term incentive scheme and exercised share options during the year.

Included in the total aggregate emoluments above is a payment for compensation for loss of office of £489,393 (2012: £nil).

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

	Land and buildings	
	2013	2012
	£'000	£'000
2 - 5 years	**826**	129

3 Interest receivable and similar income

	2013	2012
	£'000	£'000
Interest receivable from Group undertakings	**21**	11
Interest receivable from Other debtors	**375**	-
	396	11

Notes to the financial statements for the year ended 31 December 2013 (continued)

4 Interest payable and similar charges

	2013 £'000	2012 £'000
Interest payable to Group undertakings	**(31)**	(27)

5 Tax on loss on ordinary activities

(a) Summary of taxation on loss on ordinary activities

	2013 £'000	2012 £'000
Current taxation:		
UK corporation taxation on loss of the year		
Comprising:		
- current taxation at 23.25% (2012: 24.5%)	-	-
Total current taxation note 5(b)	-	-

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 24.0% to 23.0% with effect from 1 April 2013. Accordingly the Company's loss for this accounting period is taxed at an effective rate of 23.25%.

The current taxation charge differs from the standard 23.25% (2012: 24.5%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2013 £'000	2012 £'000
Loss on ordinary activities before taxation	**(22,966)**	(12,609)
Corporation taxation at 23.25% (2012: 24.5%) on loss on ordinary activities	**(5,340)**	(3,089)
Factors affecting the taxation rate:		
Permanent differences	**207**	3
Other timing differences	**7**	-
Group loss relief surrendered at less than full consideration	**5,126**	3,086
Total current taxation note 5(a)	-	-

An amount of £2,524 (2012: £3,538) (taxation amount of £587 (2012: £867)) included in permanent differences above represents imputed taxation adjustments in respect of UK to UK transfer pricing.

Notes to the financial statements for the year ended 31 December 2013 (continued)

6 Tangible assets

	Fixtures and fittings	Assets in the course of construction	Total
	£'000	**£'000**	**£'000**
Cost			
1 January 2013	-	2,020	2,020
Additions	897	13,191	14,088
Disposals	-	(1,270)	(1,270)
31 December 2013	**897**	**13,941**	**14,838**
Accumulated depreciation			
1 January 2013	-	-	-
Charge for the year	30	-	30
31 December 2013	**30**	**-**	**30**
Net book value			
1 January 2013	-	2,020	2,020
31 December 2013	**867**	**13,941**	**14,808**

7 Stocks

	2013	2012
	£'000	£'000
Raw materials and consumables	**348**	-

8 Debtors

(a) Amounts falling due within one year

	2013	2012
	£'000	£'000
Amounts owed by Group undertakings	**26,778**	-
Other debtors	**1,954**	749
Prepayments and accrued income	**256**	137
	28,988	886

Included within amounts owed by Group undertakings is an amount of £25,010,000 (2012: £nil) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements for the year ended 31 December 2013 (continued)

8 Debtors (continued)

(b) Amounts falling due after one year

	2013	2012
	£'000	£'000
Other debtors	**5,375**	2,000

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.

9 Creditors: amounts falling due within one year

	2013	2012
	£'000	£'000
Trade creditors	**28**	758
Amounts owed to Group undertakings	**2,727**	10,665
Accruals and deferred income	**2,009**	842
	4,764	12,265

Included within amounts due to Group undertakings is an amount of £nil (2012: £9,474,000) which is unsecured, repayable on demand and incurs interest based on LIBOR. Other amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

10 Provisions for liabilities

	Other	Total
	£'000	£'000
1 January 2013	-	-
Provided in the year	80	80
31 December 2013	**80**	**80**

Included within amount Other is an amount of £80,000 which is for an onerous lease contract.

Notes to the financial statements for the year ended 31 December 2013 (continued)

11 Called up share capital

	Number
1 January 2013	15,000,002
Issue of new shares	75,000,000
31 December 2013	**90,000,002**

The Company issued 75,000,000 ordinary shares of £1 each to a fellow Group undertaking in December 2013.

Ordinary shares of £1 each	**2013**	2012
Allotted, called up and fully paid		
- value	**£90,000,002**	£15,000,002
- number	**90,000,002**	15,000,002

12 Profit and loss account

	£'000
1 January 2013	**(22,359)**
Loss for the financial year	**(22,966)**
31 December 2013	**(45,325)**

13 Reconciliation of movements of shareholders' funds / deficit

	2013	2012
	£'000	£'000
Loss for the financial year	**(22,966)**	(12,609)
Net proceeds of issue of ordinary share capital	**75,000**	-
Net movement in shareholders' funds / (deficit)	**52,034**	(12,609)
Opening shareholders' (deficit) / funds	**(7,359)**	5,250
Closing shareholders' funds / (deficit)	**44,675**	(7,359)

Notes to the financial statements for the year ended 31 December 2013 (continued)

14 Pensions

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer scheme, in respect of certain employees. Employees are not required to contribute. Details of the latest actuarial valuation of this defined benefit scheme are contained in the financial statements of British-American Tobacco (Holdings) Limited. The last full tri-annual actuarial valuation, calculated using the projected unit basis, of the British American Tobacco UK Pension Fund was carried out as at 31 March 2011 by a qualified independent actuary. The valuation showed that the fund had a deficit of £516,000,000. As at 31 December 2013 the Group valuation of the deficit on an IAS 19 basis was £75,169,000 (2012: £340,743,000). The valuation is not completed on an FRS 17 basis therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

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 only participates in multi-employer schemes and the Company is unable to identify its share of the underlying assets and liabilities of the schemes. Therefore, under FRS 17 the Company does not recognise any share of any surplus or deficit in respect of the joint pension schemes.

The defined benefit pension scheme cost was £89,000 (2012: £129,000) 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 £303,000 (2012: £146,000).

At 31 December 2013 there were amounts of £nil (2012: £nil) prepaid or outstanding in respect of defined benefit schemes and defined contribution schemes.

15 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 relative to inflation (50 per cent of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50 per cent of grant). 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 2013 (continued)

15 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)

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

The expense is calculated using the fair value and the shares expected to vest at grant date. However these conditions and any transfers, early exercises or lapses are not taken into account after this date as they would be under FRS 20 principles. This is due to the cost implications and additional administration required to monitor the movement of Group employees between fellow Group undertakings.

Please refer to the Annual Report of British American Tobacco p.l.c. for full disclosures under IFRS 2.

The amounts recognised in the profit and loss account of the Company in respect of share-based payments and the number of options granted in relation to the expense were as follows:

		2013		2012
	Equity-settled £000's	**Number of shares / options granted**	Equity-settled £000's	Number of shares / options granted
LTIP	**341**	**15,792**	163	8,533
DSBS	**434**	**13,914**	277	9,709
SRS	**32**	**880**	17	527
Total recognised in the profit and loss account (note 2) / total number of grants	**807**	**30,586**	457	18,769

Valuation assumptions

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

		2013		2012
	LTIP	**DSBS**	LTIP	DSBS
Expected volatility (%)	**25.0**	**25.0**	25.7	25.7
Average expected term to exercise (years)	**3.5**	**3.0**	3.5	3.0
Risk-free rate (%)	**0.4**	**0.3**	0.7	0.6
Expected dividend yield (%)	**3.8**	**3.8**	3.9	3.9
Share price at date of grant (£)	**35.05**	**35.05**	32.08	32.08
Fair value at grant date (£)	**23.69**	**31.23**	21.79	28.50

Notes to the financial statements for the year ended 31 December 2013 (continued)

15 Share-based payments (continued)

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:

	2013	2012
	%	%
Average share price volatility FTSE 100 comparator group	**37.0**	39.0
Average share price volatility FMCG comparator group	**26.0**	26.0
Average correlation FTSE 100 comparator group	**37.0**	38.0
Average correlation FMCG comparator group	**37.0**	36.0

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period 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 pay-out calculation is based on expectations published in analysts' forecasts.

Notes to the financial statements for the year ended 31 December 2013 (continued)

16 Related party disclosures

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.

17 Contingent liabilities

The Company has cross-guaranteed the liabilities of the British American Tobacco UK Pension Fund with other participating employers of the scheme.

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 formal tri-annual actuarial valuation in March 2011 of £516,000,000. As at 31 December 2013 the Group valuation of the deficit on an IAS 19 basis was £75,169,000 (2012: £340,743,000). The valuation is not completed on an FRS 17 basis, therefore the IAS 19 value is disclosed in accordance with requirements of FRS 17.

18 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
WC2R 2PG