

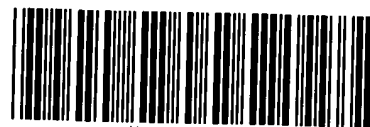
British-American Tobacco (Holdings) Limited

Registered Number 00262254

Annual report and financial statements

For the year ended 31 December 2015

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Strategic report

The Directors present their strategic report on British-American Tobacco (Holdings) Limited (the "Company") for the year ended 31 December 2015.

Principal activities

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

Review of the year ended 31 December 2015

The profit for the financial year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of taxation amounted to £654,462,000 (2014: £813,301,000). Profit for the financial year is shown after deduction of £85,861,000 (2014: £15,990,000) of exceptional costs, which relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

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

Key performance indicators

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

Principal risks and uncertainties

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

Auditor

PricewaterhouseCoopers LLP resigned as auditor on 24 September 2015 pursuant to section 516 of the Companies Act 2006. On 7 December 2015 the Directors appointed KPMG LLP as auditor of the Company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006.

By Order of the Board


A.E. Griffiths
Assistant Secretary

26 September 2016

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2015.

Dividends

During the year the Company paid dividends amounting to £1,500,000,000 (2014: £nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2015 to the date of this report are as follows:

	Appointed	Resigned
Nicandro Durante		
John Benedict Stevens		
Neil Robert Withington		30 April 2015
Andrew MacLachlan Gray		
Jack Bowles		
Giovanni Giordano		
David O'Reilly		
Naresh Kumar Sethi		
Kingsley Wheaton		
Alan Davy		
Ricardo Cesar de Almeida Oberlander		
Tadeu Luiz Marroco		
Johan Maurice Vandermeulen		
Jerome Bruce Abelman	1 January 2015	

Directors' indemnities

Throughout the period 1 January 2015 to the date of this report, a qualifying third party indemnity has been in force under which Messrs J.B. Stevens and N. Durante, as Directors of the Company, are, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company or as a result of things done by them as Directors on behalf of the Company.

Employees

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

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

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

Directors' report (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 confirm that they have complied with the above requirements in preparing the financial statements.

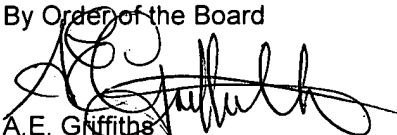
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

Directors' declaration in relation to relevant audit information

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

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


A.E. Griffiths
Assistant Secretary

26 September 2016

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

We have audited the financial statements of British-American Tobacco (Holdings) Limited for the year ended 31 December 2015 set out on pages 7 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

Respective responsibilities of directors and auditor

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

Scope 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.

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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.

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

Matters on which we are required to report by exception

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

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



Christopher Hearn, (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
26 September 2016

Profit and loss account for the year ended 31 December 2015

		2015	Restated 2014
	Note	£'000	£'000
Continuing operations			
Other operating income	2	686,663	550,794
Other operating charges	3	(664,147)	(521,053)
Operating profit		22,516	29,741
Income from shares in Group undertakings	4	645,776	795,963
Interest receivable and similar income	5	5,390	4,574
Interest payable and similar charges	6	(203)	(8)
Profit on ordinary activities before taxation		673,479	830,270
Tax on profit on ordinary activities	7	(19,017)	(16,969)
Profit for the financial year		654,462	813,301

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

Statement of other comprehensive income for the year ended 31 December 2015

		2015	Restated 2014
	Note	£'000	£'000
Profit for the financial year		654,462	813,301
Actuarial gain / (loss) arising on defined benefit pension scheme	16	7,443	(15,916)
Effective portion of changes in fair value of cash flow hedges		(2,101)	1,147
Total recognised gains relating to the financial year		659,804	798,532

Statement of changes in equity for the year ended 31 December 2015


	Called up share capital	Share premium account	Profit and loss account	Cash flow hedge reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000
1 January 2014	84,630	744	2,647,790	-	2,733,164
Effect of changes in accounting policy (note 19)	-	-	-	946	946
1 January 2014 Restated	84,630	744	2,647,790	946	2,734,110
Profit for the financial year	-	-	813,301	-	813,301
	84,630	744	3,461,091	946	3,547,411
Other comprehensive income					
Equity share scheme expense	-	-	62,857	-	62,857
Exercise of equity –settled share options	-	-	(93,325)	-	(93,325)
Cash flow hedge loss	-	-	-	1,147	1,147
Actuarial gain arising from defined benefit pension scheme (note 16)	-	-	(15,916)	-	(15,916)
31 December 2014 Restated	84,630	744	3,414,707	2,093	3,502,174
Profit for the financial year	-	-	654,462	-	654,462
Dividends paid	-	-	(1,500,000)	-	(1,500,000)
	84,630	744	2,569,169	2,093	2,656,636
Other comprehensive income					
Equity share scheme expense	-	-	(20,236)	-	(20,236)
Exercise of equity –settled share options	-	-	3,954	-	3,954
Cash flow hedge loss	-	-	-	(2,101)	(2,101)
Actuarial gain arising from defined benefit pension scheme (note 16)	-	-	7,443	-	7,443
31 December 2015	84,630	744	2,560,330	(8)	2,645,696

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

Balance sheet at 31 December 2015

		31 December 2015	Restated 31 December 2014	Restated 1 January 2014
	Note	£'000	£'000	£'000
Fixed assets				
Intangible assets	8	457,365	443,984	334,886
Tangible assets	9	26,732	34,913	50,975
Investments in Group undertakings	10	170,900	170,900	170,900
		654,997	649,797	556,761
Current assets				
Debtors: amounts falling due within one year	11	2,197,914	3,193,207	2,738,360
Derivative financial instruments- assets	18	2,770	2,400	946
Stocks	12	330,422	242,580	-
Debtors: amounts falling due after one year		39	-	-
		2,531,145	3,438,187	2,739,306
Creditors: amounts falling due within one year	13a	(351,830)	(405,359)	(413,074)
Derivative financial instruments- liabilities	18	(1,595)	(307)	-
Net current assets		2,177,720	3,032,521	2,326,232
Total assets less current liabilities		2,832,717	3,682,318	2,882,993
Creditors: amounts falling due after one year	13b	(950)	-	-
Provisions for liabilities and other charges	14	(13,091)	(16,661)	(22,615)
Retirement benefit scheme liabilities	16	(172,262)	(163,483)	(126,268)
Derivative financial instruments – liabilities falling due after one year	18	(718)	-	-
Net assets		2,645,696	3,502,174	2,734,110
Capital and reserves				
Called up share capital	15	84,630	84,630	84,630
Share premium account		744	744	744
Profit and loss account		2,560,330	3,414,707	2,647,790
Cash flow hedge reserve		(8)	2,093	946
Total shareholders' funds		2,645,696	3,502,174	2,734,110

The financial statements on pages 7 to 32 were approved by the Directors on 26 September 2016 and signed on behalf of the Board.



J.B. Stevens
Director

Registered number
00262254

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

Notes to the financial statements for the year ended 31 December 2015

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 Company has taken advantage of the exemption from preparing a cash flow statement, from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group, and from certain disclosures in relation to financial instruments and share schemes where equivalent disclosures are included in the consolidated financial statements of the Company's ultimate parent.

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. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance, including recognition and measurement exemptions under IFRS 1, is provided in note 19.

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

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

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.

Notes to the financial statements for the year ended 31 December 2015

Accounting policies (continued)

Foreign currencies

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

Income

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

Taxation

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

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

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

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

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

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

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

Intangible assets

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

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to five years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding ten years. Assets in the course of construction are not amortised until brought into operational use.

Notes to the financial statements for the year ended 31 December 2015

Accounting policies (continued)

Tangible assets

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

Investments in Group undertakings

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

Operating leases

The annual payments under operating leases are charged to the Profit and loss account on a straight line basis over the length of the lease term.

Employee share schemes

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

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

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

Dividends

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

Government grants

Government grants, including tax credits in relation to qualifying research and development expenditure are recognised in the same period as the related expenditure where the Company has complied with the relevant regulations and there is reasonable assurance that the tax credits will be received. These tax credits are presented as deductions from research and development expenditure.

Stocks

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

Notes to the financial statements for the year ended 31 December 2015

Accounting policies (continued)

Retirement benefits

The Company operates and participates in both defined benefit and defined contribution schemes. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 Employee Benefits, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements.

Actuarial gains and losses, changes in unrecognised scheme surpluses and minimum funding requirements are recognised in full through other comprehensive income. Past service costs or credits resulting from amendments to benefits are recognised immediately.

For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements.

Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

Financial instruments

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

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

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

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

- for derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the Profit and loss account in the period in which they arise.

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

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

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

Notes to the financial statements for the year ended 31 December 2015**2 Other operating income**

Other operating income comprises technical and advisory fees and royalties receivable from fellow Group undertakings. Other operating income for 2014 has been restated by £8,677,000 to match the gross presentation of revenue and expense related to the work in progress in the current year.

	2015	Restated 2014
	£'000	£'000
Other operating income		
Royalties	275,150	224,598
Technical and advisory fees	242,561	302,064
IT recharges	150,679	21,281
Other income	18,273	2,851
	686,663	550,794

3 Other operating charges

	2015	Restated 2014
	£'000	£'000
Other operating charges comprise:		
Staff costs	241,285	201,142
Depreciation of tangible assets	13,778	14,742
Amortisation of intangibles	52,849	26,401
Impairment of tangible assets	788	-
(Gain)/Loss on disposal of tangible assets	(471)	5,412
Operating lease charges:		
- buildings - gross	20,088	11,530
- buildings –amounts capitalised to work in progress	(1,799)	-
- buildings - net	18,289	11,530
Auditors' remuneration:		
- For the audit of the financial statements of the ultimate parent undertaking	2,646	2,373
- For the audit of the financial statements of the Company	50	50
- Taxation advisory services	6,536	524
Exchange losses	7,603	3,099
Exceptional operating charges	85,861	15,990
Other operating charges	261,495	300,604
Cost of sales	40,161	8,677
Total other operating charges capitalised to work in progress	(66,723)	(69,491)
	664,147	521,053

Exceptional charges of £85,861,000 (2014: £15,990,000) relate to costs incurred as a result of initiatives to improve effectiveness and efficiency as part of the Group's implementation of a new operating model.

For a clear and better presentation the amounts that are capitalised to work in progress have been presented gross, with other operating charges and staff costs for 2014 restated to match the current year presentation.

Notes to the financial statements for the year ended 31 December 2015

Other operating charges (continued)

	2015 £'000	Restated 2014 £'000
Staff costs:		
Wages and salaries	223,783	182,061
Social security costs	18,358	13,858
Unfunded defined benefit scheme pension costs (note 16)	20,290	25,139
Defined contribution scheme costs (note 16)	7,465	4,659
Other pension costs	117	1,911
Contributions from other Group undertakings	-	(4,267)
Pension recharge (note 16)	6,527	8,528
Share-based payments (note 17)	75,272	70,927
Contributions from other Group undertakings to share based payments	(51,047)	(49,510)
Total staff costs capitalised to work in progress	(59,480)	(52,164)
	241,285	201,142

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

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

	2015 Number	2014 Number
Administration	1,008	962

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

	2015 £'000	2014 £'000
Aggregate emoluments	12,303	11,955

	2015 Number	2014 Number
Directors exercising share options during the year	2	7
Directors entitled to receive shares under a long term incentive scheme	11	12
Directors retirement benefits accruing under a defined benefit scheme	9	9
Directors retirement benefits accruing under a defined contribution scheme	3	3

Highest paid Director

	2015 £'000	2014 £'000
Aggregate emoluments	1,735	2,128
Defined contribution pension scheme:		
Accrued pension at the end of year	194	-
Lump sum paid at the end of the year	-	2,784

Included in the total aggregate emoluments above is a payment for compensation for loss of office of £1,013,000 (2014: £753,000).

Notes to the financial statements for the year ended 31 December 2015

Other operating charges (continued)

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

During 2015 and 2014 the highest paid Director was entitled to receive shares under a long term incentive scheme. The share options were exercised in 2014 but not in 2015.

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

	Land and buildings	
	2015	2014
	£'000	£'000
Within 1 year	1,107	1,567
Between 1-5 years	1,906	3,356
Beyond 5 years	1,065	1,598

Commitments in respect of non-cancellable operating leases are related to the rental of the Guilford building.

4 Income from shares in Group undertakings

	2015	2014
	£'000	£'000
Income receivable from Group undertakings	645,776	795,963

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

5 Interest receivable and similar income

	2015	2014
	£'000	£'000
Interest receivable from Group undertakings	5,390	4,574

6 Interest payable and similar charges

	2015	2014
	£'000	£'000
Exchange losses	185	-
Interest payable to Group undertakings	18	8
	203	8

7 Taxation

(a) Recognised in the profit and loss account

	2015		2014	
	£'000	£'000	£'000	£'000
<i>Foreign tax</i>				
Current tax on income for the period	19,017		16,969	
Total current tax		19,017		16,969
Total income tax expense		19,017		16,969

Notes to the financial statements for the year ended 31 December 2015

Taxation (continued)

(b) Factors affecting the taxation charge

The standard rate of corporation taxation in the UK changed from 21.0% to 20.0% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the Company's future current tax charge. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 20.25%.

The current taxation charge differs from the standard 20.25% (2014: 21.5%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2015 £'000	2014 £'000
Profit for the year	654,462	813,301
Total tax expense	19,017	16,969
Profit excluding taxation	673,479	830,270
Tax using the UK corporation tax rate of 20.25% (2014: 21.5%)	136,379	178,508
Non-deductible expenses	5,487	20,828
Tax exempt revenues	(136,683)	(192,249)
Group relief (claimed)/surrendered for nil consideration	(1,092)	15,844
Effect of re-statement of prior year figures	106	(33,351)
Amounts not recognised	(261)	14,069
Effects of overseas tax rates	15,081	13,320
Total tax charge	19,017	16,969

The Company has a deductible temporary differences of £785,889,000 (2014: £743,870,000) (taxation amount of £157,178,000 (2014: £148,774,000)) relating to capital allowances; defined benefit and defined contribution pension schemes; share schemes and unrelieved tax losses. These have not been recognised on the balance sheet due to it not being sufficiently probable that it will be fully utilised in the foreseeable future.

8 Intangible assets

	Computer software £'000	Under construction £'000	Total £'000
Cost			
1 January 2015	234,716	295,885	530,601
Additions	-	70,721	70,721
Reallocation	222,803	(222,803)	-
Disposals	(4,491)	-	(4,491)
31 December 2015	453,028	143,803	596,831
Accumulated amortisation			
1 January 2015	(86,617)	-	(86,617)
Charge for the year	(52,849)	-	(52,948)
31 December 2015	(139,466)	-	(139,466)
Net book value			
1 January 2015	148,099	295,885	443,984
31 December 2015	313,562	143,803	457,365

Notes to the financial statements for the year ended 31 December 2015

Intangible assets (continued)

Reconciliation of opening balance

	Computer software £'000	Under construction £'000	Total £'000
Net book value at 1 January 2015	-	-	-
Effect of changes in accounting policy	148,099	295,885	443,984
Net book value at 1 January 2015 Restated (note 19)	148,099	295,885	443,984

9 Tangible assets

	Freehold property £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Cost				
1 January 2015	42,072	54,164	5,735	101,971
Additions	-	1,320	5,276	6,596
Reallocation	-	8,357	(8,357)	-
Disposals	-	(1,529)	-	(1,529)
31 December 2015	42,072	62,312	2,654	107,038
Accumulated amortisation				
1 January 2015	(37,879)	(29,179)	-	(67,058)
Charge for the year	(3,272)	(10,506)	-	(13,778)
Impairment charge	-	(788)	-	(788)
Disposals	-	1,318	-	1,318
31 December 2015	(41,151)	(39,155)		(80,306)
Net book value				
1 January 2015	4,193	24,985	5,735	34,913
31 December 2015	921	23,157	2,654	26,732

Reconciliation of opening balance

	Freehold property £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Net book value at 1 January 2015	4,193	173,084	301,620	478,897
Effect of changes in accounting policy	-	(148,099)	(295,885)	(443,984)
Net book value at 1 January 2015 Restated (note 19)	4,193	24,985	5,735	34,913

Notes to the financial statements for the year ended 31 December 2015

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Australia				
B.A.T Australia Pty. Limited	Ordinary	0.00	100.00	100.00
Bahrain				
British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
Benin				
British American Tobacco Benin SA	Issued	0.00	100.00	100.00
Cambodia				
British American Tobacco (Cambodia) Limited	Ordinary	0.00	71.00	71.00
British American Tobacco Cambodge International Limited	Ordinary	0.00	100.00	100.00
Chile				
Inversiones Casablanca S.A.	Ordinary	0.00	99.99	99.99
Cyprus				
Carreras of Cyprus (Export) Limited	Ordinary	0.00	100.00	100.00
Djibouti				
Tobacco Exporters International (Mer Rouge) SARL	5000 DJF	0.00	100.00	100.00
Egypt				
BETCO for General Services and Marketing LLC	Ordinary	0.00	100.00	100.00
BETCO for Trade and Distribution LLC	Ordinary	0.00	100.00	100.00
British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
English American Company for Importation and Trade LLC	Ordinary	0.00	100.00	100.00
Fiji				
British American Tobacco (Fiji) Marketing Limited	Ordinary	0.00	50.00	50.00
Hong Kong				
American Cigarette Company Limited	Ordinary	0.00	100.00	100.00
British Cigarette Company (1964) Limited	Ordinary	0.00	100.00	100.00
Iran, Islamic Republic of				
B.A.T. Pars Company (Private Joint Stock)	Ordinary	0.00	100.00	100.00
Iraq				
B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	0.00	100.00	100.00
Isle of Man				
Abbey Investment Company Limited	Ordinary	0.00	100.00	100.00
Tobacco Investments Limited	Ordinary	0.00	100.00	100.00
Japan				
British American Tobacco Japan, Ltd.	Ownership Interest	0.00	100.00	100.00
Korea, Republic of				
British American Tobacco Korea Limited	Common	0.00	100.00	100.00
Malaysia				
British American Tobacco GSD (Kuala Lumpur) Sdn Bhd	Ordinary	0.00	100.00	100.00
Mali				
British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
Myanmar				
British American Tobacco Myanmar Services Limited	Ordinary	0.00	100.00	100.00
Niger				
British American Tobacco Niger	Ordinary	0.00	100.00	100.00
Pakistan				

Notes to the financial statements for the year ended 31 December 2015

Investments in Group undertakings (continued)

Pakistan Tobacco Company Limited	Ordinary	0.00	94.34	94.34
Phoenix (Private) Limited	Ordinary	0.00	100.00	94.34
Romania				
British American Shared Services (Europe) S.R.L.	Ordinary	0.00	100.00	100.00
Senegal				
Tobacco Marketing Consultant TMC S.A.R.L	Ordinary	0.00	100.00	100.00
Singapore				
Agrega Asia Pacific Pte. Ltd.	Ordinary	100.00	0.00	100.00
Solomon Islands				
Solomon Islands Tobacco Company Limited	Ordinary	0.00	50.00	50.00
South Africa				
British American Shared Services Africa Middle East (Pty) Limited	Ordinary	0.00	100.00	100.00
Sudan				
Blue Nile Cigarette Company Limited	Ordinary	0.00	100.00	100.00
Tanzania, United Republic of				
British American Tobacco (Tanzania) Limited	Ordinary	0.00	100.00	100.00
Zanzibar Distribution Company Limited	Issued	0.00	99.00	99.00
Trinidad and Tobago				
The West Indian Tobacco Company Limited	Ordinary	0.00	50.13	50.13
Uganda				
British American Tobacco Uganda Limited	Ordinary	0.00	70.00	70.00
United Arab Emirates				
British American Tobacco GCC DMCC	Ordinary	0.00	100.00	100.00
British American Tobacco ME DMCC	Ordinary	0.00	100.00	100.00
United Kingdom				
Advanced Technologies (Cambridge) Limited	Ordinary	0.00	100.00	100.00
Agrega Limited	Ordinary-A	100.00	0.00	100.00
Agrega Limited	Ordinary-B	100.00	0.00	100.00
B.A.T (U.K. and Export) Limited	Ordinary	0.00	100.00	100.00
B.A.T Additional Retirement Benefit Scheme Trustee Limited	Ordinary	0.00	100.00	100.00
B.A.T Cambodia (Investments) Limited	Ordinary	0.00	100.00	100.00
B.A.T Portugal Limited	Ordinary	0.00	100.00	100.00
B.A.T Russia Limited	Ordinary	0.00	100.00	100.00
B.A.T Services Limited	Ordinary	0.00	100.00	100.00
B.A.T Uzbekistan (Investments) Limited	Ordinary	0.00	100.00	100.00
B.A.T Vietnam Limited	Ordinary	0.00	100.00	100.00
BATUS Limited	Ordinary	0.00	100.00	100.00
British American Global Shared Services Limited	Issued	100.00	0.00	100.00
British American Shared Services (GSD) Limited	Ordinary	0.00	100.00	100.00
British American Shared Services Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (AIT) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (Investments) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (Philippines) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (South America) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco Global Travel Retail Limited	Ordinary	100.00	0.00	100.00
British American Tobacco Georgia Limited	Ordinary	0.00	100.00	100.00
British American Tobacco Western Europe Commercial Trading Limited	Ordinary £1.00	100.00	0.00	100.00
British American Tobacco Western Europe Commercial Trading Limited	Ordinary 1.00 euro	100.00	0.00	100.00
British-American Tobacco (Mauritius) p.l.c.	Ordinary	0.00	100.00	100.00

Notes to the financial statements for the year ended 31 December 2015

Investments in Group undertakings (continued)

Carreras Rothmans Limited	6% First Pref.	0.00	100.00	100.00
	6% Second Pref.			
Carreras Rothmans Limited	Shares	0.00	100.00	100.00
Carreras Rothmans Limited	Ordinary	0.00	100.00	100.00
CG Ventures Limited	Ordinary	0.00	100.00	100.00
East African Tobacco Company (U.K.) Limited	Ordinary	0.00	99.00	99.00
Louisville Securities Limited	Ordinary	100.00	0.00	100.00
Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
Powhattan Limited	Ordinary	0.00	100.00	100.00
Rothmans Exports Limited	Ordinary	0.00	100.00	100.00
Rothmans International Tobacco (UK) Limited	Ordinary	0.00	100.00	100.00
Rothmans of Pall Mall (Overseas) Limited	Ordinary	0.00	100.00	100.00
Ryservs (1995) Limited	Ordinary	0.00	100.00	100.00
Ryservs (No.3) Limited	Ordinary	0.00	100.00	100.00
South Western Nominees Limited	Ordinary £1.00	100.00	0.00	100.00
South Western Nominees Limited	Ordinary US\$1.00	100.00	0.00	100.00
Tobacco Exporters International Limited	Ordinary	0.00	100.00	100.00
Tobacco Marketing Consultants Limited	Ordinary	0.00	100.00	100.00
Westanley Trading & Investment Company Limited	Ordinary	0.00	100.00	100.00
Westminster Tobacco Company Limited	Ordinary	0.00	100.00	100.00
United States				
BATUS Holdings Inc.	Common Stock	0.00	100.00	100.00
	Common Stock of no			
BATUS JAPAN, INC.	par value	0.00	100.00	100.00
BATUS Retail Services, Inc.	Common - 2	0.00	100.00	100.00
	Common -			
	Subscription			
BATUS Retail Services, Inc.	Agreement	0.00	100.00	100.00
British American Tobacco (Brands) Inc.	Common	0.00	100.00	100.00
Brown & Williamson Holdings, Inc.	Common	0.00	100.00	100.00
	Common Stock of no			
Louisville Corporate Services, Inc.	par value	0.00	100.00	100.00
Uzbekistan				
UZBAT A.O.	Ordinary	0.00	97.38	97.38

(2) Investments in Associated Undertakings

Chile				
BAT Chile S.A.	Ordinary	0.00	48.49	48.49
British American Tobacco Chile Operaciones S.A.	Ordinary	0.00	48.49	48.49
India				
VST Industries Limited (Listed)	Ordinary	0.00	23.45	23.45
United States				
Reynolds American Inc. (Listed)	Common Stock	0.00	42.17	42.17
Yemen				
Kamran Industry and Investment Company	Ordinary	0.00	31.00	31.00

Notes to the financial statements for the year ended 31 December 2015**Investments in Group undertakings (continued)****(3) Investments in Group undertakings**

	Investment in Group undertakings £'000
Cost	
1 January 2015	642,388
31 December 2015	642,388
Impairment provisions	
1 January 2015	471,488
31 December 2015	471,488
Net book value	
1 January 2015	170,900
31 December 2015	170,900

- (4) The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the balance sheet.

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

	2015 £'000	Restated 2014 £'000
Amounts due from Group undertakings - gross	2,092,512	3,141,465
Allowances account	(587)	-
Amounts due from Group undertakings - net	2,091,925	3,141,465
Other debtors	13,162	51,234
Prepayments and accrued income	72,978	508
Government levies	19,849	-
	2,197,914	3,193,207

Included within amounts owed by Group undertakings is an amount of £1,387,595,000 (2014: £2,425,568,000) 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.

12 Stocks

	2015 £'000
Work in progress	
1 January 2015	242,580
Capitalised project costs	128,003
Cost of sales	(40,161)
Work in progress	330,422

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

Notes to the financial statements for the year ended 31 December 2015**13 Creditors:****(a) Amounts falling due within one year**

	2015 £'000	2014 £'000
Trade creditors	68,526	43,833
Amounts owed to Group undertakings	132,695	195,994
Taxation and social security	266	23,060
Other creditors	2,360	1,191
Accruals and deferred income	147,983	141,281
	351,830	405,359

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

(b) Amounts falling due after one year

	2015 £'000	2014 £'000
Deferred income	950	-

Deferred income represents the portion of the receipt related to the Franked Investment Income Global Litigation Order ("FIIGLO") allocated to British-American Tobacco (Holdings) Limited. The total gross amount received from HM Revenue and Customs ("HMRC") by the Group was £1,224,000,000 in two separate payments. HMRC held back £261,000,000 on the second payment received by the Group, contending that it represents a new 45% tax on the interest component of restitution claims against HMRC. The total cash allocated to the Company was £950,000, after an apportioned deduction of £327,000 representing the 45% tax described previously.

Actions challenging the legality of the 45% tax have been lodged by both the Group and other participants in FIIGLO.

The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal.

Due to the uncertainty of the amount and eventual outcome the Company has not recognised this receipt in the Profit and loss account in the current or prior period.

14 Provisions for liabilities and other charges

	Share schemes £'000
1 January 2015	16,661
Provided in the year	4,412
Utilised during the year	(7,982)
31 December 2015	13,091

15 Called up share capital

Ordinary shares of £1 each	2015	2014
Allotted, called up and fully paid		
- value	£84,630,122	£84,630,122
- number	84,630,122	84,630,122

Notes to the financial statements for the year ended 31 December 2015

16 Retirement Benefit Scheme Liabilities

The Company also participates in several retirement benefit schemes, the largest of which is the British American Tobacco UK Pension Fund (UKPF). Under FRS 101, where more than one employer participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the net defined benefit cost shall be recognised in the accounts of the group entity that is legally the sponsoring employer of the scheme, with the other participating employers recognising costs equal to their contributions to those liabilities. British American Tobacco (Investments) Limited is the Principal Employer and sponsoring employer under IAS 19 of the scheme. The cost recognised by the Company in respect of this scheme was £6,527,000 (2014: £8,528,000) for the year (note 3).

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

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

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

	2015	2014
	£'000	£'000
Present value of unfunded scheme liabilities	(172,262)	(163,483)
	(172,262)	(163,483)
The above net liability is recognised in the Balance Sheet as follows:		
– retirement benefit scheme liabilities	(172,262)	(163,483)
	(172,262)	(163,483)

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

	2015	2014
	£'000	£'000
Defined benefit schemes		
Service cost		
– current service cost	6,996	9,450
– past service cost	7,805	10,213
– interest on scheme liabilities	5,489	5,476
Total amount recognised in the income statement (note 3)	20,290	25,139

Notes to the financial statements for the year ended 31 December 2015**Retirement benefits scheme liabilities (continued)**

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

	2015	2014
	£'000	£'000
Actuarial gains/(losses) on scheme liabilities	7,443	(15,916)

The movements in scheme liabilities are as follows:

	2015	2014
	£'000	£'000
Present value at 1 January	163,483	126,268
Current service cost	6,996	9,450
Past service costs	7,805	10,213
Interest on scheme liabilities	5,489	5,476
Benefits paid (cash outflow)	(4,068)	(3,840)
Actuarial (gains)/losses	(7,443)	15,916
Present value at 31 December	172,262	163,483

Scheme liabilities by scheme membership:

	2015	2014
	£'000	£'000
Active members	76,625	70,376
Deferred members	2,740	2,250
Retired members	92,897	90,857
Present value at 31 December	172,262	163,483

Scheme liabilities by benefits earned to date:

	2015	2014
	£'000	£'000
Guaranteed benefits	134,734	130,921
Future salary increases	37,528	32,562
Present value at 31 December	172,262	163,483

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

	2015	2014
	£'000	£'000
Actuarial (gains)/losses:		
- arising from changes in demographic assumptions	-	(5,974)
- arising from changes in financial assumptions	(5,524)	18,802
Experience (gains)/losses	(1,919)	3,088
Total	(7,443)	15,916

Notes to the financial statements for the year ended 31 December 2015

Retirement benefits scheme liabilities (continued)

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

The principal actuarial assumptions used, weighted to reflect individual scheme differences are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

Assumptions

	2015 %	2014 %
Rate of increase in salaries	4.60%	4.5%
Rate of increase in pensions in payment	3.10%	3.0%
Rate of increase in deferred pensions	2.30%	2.5%
Discount rate	3.84%	3.41%
General inflation	3.10%	3.00%
	2015	2014
Weighted average duration of liabilities	20.34	19.96

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

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

	2015 Years	2014 Years
Member age 65 (current life expectancy)		
- male	23.70	23.59
- female	26.25	26.12
Member age 45 (life expectancy at age 65)		
- male	26.39	26.25
- female	29.01	28.88

Valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2015 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase £'000	1 year decrease £'000	0.25 percentage point increase £'000	0.25 percentage point decrease £'000
Average life expectancy – increase/(decrease) of scheme liabilities	5,507	(5,510)		
Rate of inflation – increase/(decrease) of scheme liabilities			8,768	(8,213)
Discount rate – (decrease)/increase of scheme liabilities			(8,181)	(8,777)

Notes to the financial statements for the year ended 31 December 2015

Retirements benefits scheme liabilities (continued)

Defined Contribution Scheme Costs

On 1 April 2005, the UK defined benefit schemes were closed to new employees, and new members since then have joined the defined contribution scheme. The cost to the Company was:

	2015	2014
	£'000	£'000
Defined contribution schemes recognised in the income statement gross (note 3)	7,465	4,659
Capitalised costs	(1,013)	(1,072)
Defined contribution schemes recognised in the income statement	6,452	3,587

At 31 December 2015, there were amounts of £nil (2014: £nil) outstanding in respect of defined contribution schemes.

17 Share-based payments

Employees of the Company participate in the British American Tobacco Group 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 British American Tobacco p.l.c. 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.

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

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. For awards made from 2016 onwards, the maximum individual award is currently £3,600 (previously £3,000).

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 2015 was £35.39 (2014: £34.40). The weighted average share price on exercise of DSBS shares in 2015 was £35.05 (2014: £33.70)

The outstanding shares for the year ended 31 December 2015 had an exercise price range of £34.88 - £36.62 (2014: £32.85 - £34.91). The weighted average remaining contractual life are 8.2 years (2014: 8.4 years) for the LTIP shares and are 1.2 years (2014: 1.1 years) for the DSBS shares.

Notes to the financial statements for the year ended 31 December 2015

18	Derivative financial instruments	2015	2015	2014	2014
		Assets	Liabilities	Restated	Restated
		£'000	£'000	Assets	Liabilities
				£'000	£'000
	Cash flow hedges				
	- Forward foreign currency contracts	1,994	(2,002)	2,400	(307)
	Held for trading*				
	- Forward foreign currency contracts	776	(311)		
	Current	2,770	(1,595)	2,400	(307)
	Non –current		(718)		

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

The Company's operations expose it to currency risk as income from shares in Group undertakings is denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The total cash flow hedge movement for the year was a loss of £2,101,000.

19 Transition to Financial Reporting Standards FRS 101

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

FRS 100 sets out the overall financial reporting framework for companies in the UK and Ireland. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting policies as in their listed group accounts, but with fewer disclosures. FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying 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 Company has adopted the accounting requirements of the reduced disclosure framework under FRS 101 in these financial statements, with a transition date of 1 January 2014. The Company's financial statements still meet the requirements of the Companies Act 2006 including giving a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

The Company has informed its shareholders and received no objections to the use of FRS 101.

The Company has taken advantage of the exemption from preparing a cash flow statement, from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group, and from certain disclosures in relation to financial instruments and share schemes where equivalent disclosures are included in the consolidated financial statements of the Company's ultimate parent.

The effect of the adoption of FRS 101 has affected the Company's position as of 1 January 2014 and a reconciliation of the effect of change in accounting policy is presented on pages 28 to 32:

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Statement of balance sheet before and after conversion

		UKGAAP 31 December 2014	Effect of change in accounting policy £'000	FRS 101 31 December 2014	UKGAAP 1 January 2014	Effect of change in accounting policy £'000	FRS 101 1 January 2014
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets							
Intangible assets	a	-	443,984	443,984	-	334,886	334,886
Tangible assets	a	478,897	(443,984)	34,913	385,861	(334,886)	50,975
Investments in Group undertakings		170,900	-	170,900	170,900	-	170,900
		649,797	-	649,797	556,761	-	556,761
Current assets							
Debtors: amounts falling due within one year	b	3,038,086	155,121	3,193,207	2,738,360	-	2,738,360
Derivative financial assets	c	-	2,400	2,400	-	946	946
Debtors: amounts falling due after one year		242,580	-	242,580	-	-	-
		3,280,666	157,521	3,438,187	2,738,360	946	2,739,306
Creditors: amounts falling due within one year	a	(405,359)	-	(405,359)	(413,074)	-	(413,074)
Derivative financial liabilities	c	-	(307)	(307)	-	-	-
Net current assets		2,875,307	157,214	3,032,521	2,325,286	946	2,326,232
Total assets less current liabilities		3,525,104	157,214	3,682,318	2,882,047	946	2,882,993
Provisions for liabilities and other charges		(16,661)	-	(16,661)	(22,615)	-	(22,615)
Retirement benefit scheme liabilities		(163,483)	-	(163,483)	(126,268)	-	(126,268)
Net assets including retirement benefits liabilities		3,344,960	157,214	3,502,174	2,733,164	946	2,734,110
Capital and reserves							
Called up share capital		84,630	-	84,630	84,630	-	84,630
Share premium account		744	-	744	744	-	744
Profit and loss account	b	3,259,586	155,121	3,414,707	2,647,790	-	2,647,790
Cash flow hedge reserve	c	-	2,093	2,093	-	946	946
Total shareholders' funds		3,344,960	157,214	3,502,174	2,733,164	946	2,734,110

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Reconciliation of profit and loss for comparative

	Note	UK GAAP 2014 £'000	Effect of change in accounting policy £'000	FRS 101 2014 £'000
Continuing operations				
Other operating income		542,117	-	542,117
Other operating charges	a,b	(662,021)	149,645	(512,376)
Operating profit		(119,904)	149,645	29,741
Income from shares in Group undertakings		795,963	-	795,963
Interest receivable and similar income		4,574	-	4,574
Interest payable and similar charges		(8)	-	(8)
Other finance expense	b	(5,476)	5,476	-
Profit on ordinary activities before taxation		675,149	155,121	830,270
Tax on profit on ordinary activities		(16,969)	-	(16,969)
Profit for the financial year		658,180	155,121	813,301

Notes to the financial statements for the year ended 31 December 2015**Transition to Financial Reporting Standards FRS 101 (continued)****Explanation of reconciling items above****Note a**

Amounts representing computer software and assets under construction were not recognised as intangibles under UK GAAP and are reclassified as intangibles under FRS 101. These were £443,984,000 at 31 December 2014 and £334,886,000 as at 1 January 2014. A summary of the conversion adjustments has been presented below:

	31 December 2014 Reclassification between tangible and intangible £'000	Total £'000	1 January 2014 Reclassification between tangible and intangible £'000	Total £'000
Intangible assets	443,984	443,984	334,886	334,886
Tangible assets	(443,984)	(443,984)	(334,886)	(334,886)

As an effect of the adoption of FRS 101 depreciation and impairment costs have been reclassified and the effect on the other operating charges notes is presented below:

	31 December 2014
Depreciation of tangible assets	(26,401)
Amortisation of intangible assets	26,401

Note b

Retirement benefits liabilities not related exclusively to British-American Tobacco (Holdings) Limited employees, and not recognised under UK GAAP, but for which British-American Tobacco (Holdings) Limited has paid the cash contributions, have been recognised in the financial statements of British American Tobacco (Investments) limited as per FRS 101 accounting requirements. A summary of the amounts recognised in respect of these funds for 31 December 2014 and 1 January 2014 is presented on page 31.

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Explanation of reconciling items

	31 December 2014 Total £'000
Intercompany creditor	155,121
Contributions from other Group undertakings	7,043
UKPF IAS 19 charge	8,528
Profit and loss account	(170,692)

The impact on other operating charges and staff cost (Note 3) is shown below:

	2014	Effect of change in accounting policy	Restated 2014
	£'000	£'000	£'000
Staff costs:			
Wages and salaries	133,736	-	133,736
Social security costs	11,831	-	11,831
Unfunded defined benefit scheme pension costs	19,663	5,476	25,139
Defined contribution scheme costs	3,587		3,587
Other pension costs	1,171		1,171
Defined benefit scheme treated as defined contribution scheme	170,692	(170,692)	-
Retirement benefits contributions to other Group undertakings	-	8,528	8,528
Contributions from other Group undertakings	(11,310)	7,043	(4,267)
Share based payments	70,927	-	70,927
Contributions from other Group undertakings to share based payments	(49,510)	-	(49,510)
	350,787	(149,645)	201,142

The adjustment of £5,476,000 represents EBF net finance costs presented as part of the IAS 19 charge of the restated staff costs were previously disclosed under other finance expense.

Cash contributions made by the Company of £170,692,000 in respect of the defined benefit schemes has been reclassified against the intercompany creditor with British American Tobacco (Investments) Limited. Contributions from other Group undertakings of £7,043,000 related to UKPF have also been derecognised from the Profit and loss account of the Company.

The adjustment of £8,528,000 represents a recharge from BAT Investments Limited in respect of British-American Tobacco (Holdings) Limited employees.

Notes to the financial statements for the year ended 31 December 2015

Transition to Financial Reporting Standards FRS 101 (continued)

Explanation of reconciling items above

Note c

Derivative financial instruments have been recognised on balance sheet as effect of conversion to FRS 101. Total impact on cash flow hedge reserve of this adjustment was a net asset of £2,093,000 as of 31 December 2014 and £946,000 as of 1 January 2014.

	31 December 2014		1 January 2014	
	£'000	Total £'000	£'000	Total £'000
Derivative financial assets	2,400	2,400	946	946
Derivative financial liabilities	(307)	(307)	-	-
Cash flow hedge reserve	2,093	2,093	946	946

20 Related party disclosures

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

	2015 £'000	2014 £'000
Transactions with associates and joint ventures of the British American Tobacco p.l.c. Group		
Other charges	-	986

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

As a wholly owned subsidiary the Company has taken advantage of the exemption under paragraph 3(c) of FRS 101 'Related party disclosures' from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

21 Contingent liabilities

The Company's ultimate parent British American Tobacco p.l.c. has guaranteed the liabilities of the British American Tobacco UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. The fund had a deficit according to the last tri-annual actuarial valuation in March 2014, of £264,000,000 (2011: 516,000,000). As at 31 December 2015 the Group valuation of the asset on an IAS 19 basis was £311,222,000 (2014: deficit of £282,000).

22 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is B.A.T Industries p.l.c.. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

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