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Abbey Investment Company Limited

Registered Number UK FC002780

Registered Number Isle of Man 537

Annual report and financial statements

For the year ended 31 December 2016

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Directors' report

The Directors present their report together with the audited financial statements of Abbey Investment Company Limited (the "Company") for the year ended 31 December 2016.

Principal activities

The Company's principal activity is the holding of an investment in a company operating in the tobacco industry as a member of the British American Tobacco p.l.c. Group (the "Group").

Review of the year ended 31 December 2016

The profit for the financial year attributable to Abbey Investment Company Limited shareholders after deduction of all charges and the provision of taxation amounted to £10,489,000 (2015: £9,320,000).

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

Key performance indicators

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

Principal risks and uncertainties

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

Dividends

During the year the Company paid dividends amounting to £nil (2015: £4,000,000).

Board of Directors

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

Robert James Casey
Anthony Michael Hardy Cohn
David Patrick Ian Booth

Directors' report (continued)

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors 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*.

The financial statements are required by law to 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 they have been prepared in accordance with UK Accounting Standards; 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 proper 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 to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By Order of the Board



S. Kerr
Secretary

27 June 2017

Independent auditor's report to the members of Abbey Investment Company Limited

We have audited the financial statements of Abbey Investment Company Limited for the year ended 31 December 2016 which comprise the profit and loss account, statement of other comprehensive income, the balance sheet, and the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards, including *FRS 101 Reduced Disclosure Framework* applicable in the UK and Ireland as applicable to an Isle of Man company.

This report is made solely to the Company's members, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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 annual report 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.

Opinion on the financial statements

In our opinion the financial statements:

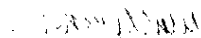
- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

Independent auditor's report to the members of Abbey Investment Company 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 Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's balance sheet, profit and loss account, and statement of other comprehensive income are not in agreement with the books of account and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

Profit and loss account for the year ended 31 December 2016

		2016	2015
	Note	£'000	£'000
Continuing operations			
Other operating charges	2	(16)	-
Operating loss		(16)	-
Income from other investments at fair value	3	12,328	11,660
Interest receivable and similar income		56	16
Profit on ordinary activities before taxation		12,368	11,676
Tax on profit on ordinary activities	4	(1,879)	(2,356)
Profit for the financial year		10,489	9,320

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 2016

	Note	2016	2015
		£'000	£'000
Profit for the financial year		10,489	9,320
Net fair value gains on other investments at fair value	5	93,084	74,584
Deferred taxation related to fair value reserve	7	(12,404)	(9,945)
Total other comprehensive income for the year		91,169	73,959

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Profit and loss account	Fair Value Reserve	Total Equity
	£'000	£'000	£'000	£'000
1 January 2015	1,500	4,292	47,374	53,166
Profit for the financial year	-	9,320	-	9,320
Dividends paid	-	(4,000)	-	(4,000)
	1,500	9,612	47,374	58,486
Other comprehensive income				
Net fair value loss on other investments at fair value	-	-	74,584	74,584
Deferred taxation related to fair value reserve	-	-	(9,945)	(9,945)
31 December 2015	1,500	9,612	112,013	123,125
Profit for the financial year	-	10,489	-	10,489
	1,500	20,101	112,013	133,614
Other comprehensive income				
Net fair value gains on other investments at fair value (note 5)	-	-	93,084	93,084
Deferred taxation related to fair value reserve (note 7)	-	-	(12,404)	(12,404)
31 December 2016	1,500	20,101	192,693	214,294

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

Balance sheet as at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Fixed assets			
Other investments at fair value	5	222,622	129,538
		222,622	129,538
Current assets			
Debtors: amounts falling due within one year	6	22,009	10,820
Creditors: amounts falling due within one year		(700)	-
Net current assets		21,309	10,820
Provisions for liabilities and charges	7	(29,637)	(17,233)
Net assets		214,294	123,125
Capital and reserves			
Called up share capital	8	1,500	1,500
Profit and loss account		20,101	9,612
Fair value reserve		192,693	112,013
Total shareholders' funds		214,294	123,125

The financial statements on pages 6 to 13 were approved and authorized for issue by the Board of Directors on 27 June 2017 and signed on behalf of the Board by:



A.M.H. Cohn
Director



D.P.I. Booth
Director

Registered number
UK FC002780
Isle of Man 537

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

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

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and Isle of Man Companies Acts 1931 to 2004. 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 Isle of Man Companies Act 1931 to 2004 and where advantage of disclosure exemptions available under FRS 101 have been taken.

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

The most significant items include:

- the review of asset values and impairment testing of non-financial assets;
- the estimation of amounts to be recognised in respect of taxation; and
- 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.

In accordance with IFRS 10 *Consolidated Financial Statements*, group financial statements have not been prepared as the Company is itself a wholly owned subsidiary of British American Tobacco p.l.c., and the shareholders of the Company have not objected to the Company not preparing consolidated financial statements. The financial statements of British American Tobacco p.l.c. are publicly available.

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.

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

1 Accounting policies (continued)

Cash flow statement

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

Foreign currencies

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

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.

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

1 Accounting policies (continued)

Financial instruments

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

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

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

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

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

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

2 Other operating charges

	2016 £'000	2015 £'000
Exchange loss	16	-

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

There were no employees (2015: none) and no staff costs during the year (2015: £nil).

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2015: £nil).

3 Income from other investments at fair value

	2016 £'000	2015 £'000
Income from other investments at fair value	12,328	11,660

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

4 Taxation

(a) Recognised in the profit and loss account

	2016 £'000	2015 £'000
<i>Foreign tax</i>		
Current tax on income for the period	1,879	2,356
Adjustments in respect of prior periods	-	-
Total current tax	1,879	2,356
Total income tax expense (note 4b)	1,879	2,356

(b) Factors affecting the taxation charge

The Company is resident in the Isle of Man and is subject to the standard rate of taxation at nil% on the profits. However the Company's profits are subject to taxation in the United Kingdom.

A reduction in the UK corporation tax from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

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

	2016 £'000	2015 £'000
Profit for the year	10,489	9,320
Total tax expense	1,879	2,356
Profit excluding taxation	12,368	11,676
Tax using the UK corporation tax rate of 20.00% (2015: 20.00%)	2,474	2,364
Non-deductible expenses	-	-
Tax exempt revenues	(2,466)	(2,361)
Group relief surrendered/(claimed) for nil consideration	(8)	(3)
Overseas taxation	1,879	2,356
Tax charge for the period (note 4a)	1,879	2,356

(c) Income tax recognised in other comprehensive income (note 7)

	2016 £'000	2015 £'000
Deferred tax on change in fair value of assets classified as available-for-sale	12,404	9,945

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

5 Investments

(1) Other Investments at fair value

Company	Share Class	Direct Interest (%)	Subsidiary Interest (%)	Attributable Interest (%)
Chile				
<i>Isidora Goyenechea 3000, piso 19, Las Codes, Chile</i>				
British American Tobacco Chile Operaciones S.A.	Ordinary	13.36%	0.00	13.36%

The total holding by the British American Tobacco p.l.c. Group in British American Tobacco Chile Operaciones S.A. is 99.41%.

(2) Other Investments

Company	Share Class	Direct Interest (%)	Subsidiary Interest (%)	Attributable Interest (%)
Chile				
<i>Isidora Goyenechea 3000, piso 19, Las Codes, Chile</i>				
BAT Chile S.A.	Ordinary	0.00	99.41%	13.36%

Other investments represent residual investments in Companies which are part of the British American Tobacco Group.

(3) Other investments at fair value	Other investments at fair value £'000	Total £'000
Cost		
1 January 2016	129,538	129,538
Change in fair value	93,084	93,084
31 December 2016	222,622	222,622

6 Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	22,009	10,820

Amounts owed by Group undertakings are unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR.

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

7 Provisions for liabilities and charges

	Deferred tax on undistributed earnings of other investments at fair value £'000	Total £'000
1 January 2016	17,233	17,233
Charged/(credited) to other comprehensive income	12,404	12,404
31 December 2016	29,637	29,637

This is comprised entirely of deferred taxes related to the movement in fair value of investments.

8 Called up share capital

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

9 Related party disclosures

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

10 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 British American Tobacco (Investments) Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

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