Louisville Securities Limited

Registered number 03015916

Annual report and financial statements

For the year ended 31 December 2016

Contents

Strategic Report

The Directors present their Strategic Report on Louisville Securities Limited (the "Company") for the year ended 31 December 2016.

Principal activities

The Company acts as an investment holding company in associated undertakings of the British American Tobacco p.l.c. Group (the "Group") which are active in the tobacco industry.

Review of the year ended 31 December 2016

The profit for the financial year attributable to Louisville Securities Limited shareholders after deduction of all charges and the provision of taxation amounted to £549,004,000 (2015: £447,686,000).

On 26th July 2016, Reynolds American Inc. ("RAI") announced that it was offering a new USD 2 billion share repurchase programme, intended to be completed by the end of 2018. The Company expected to participate in this share buyback programme only to the extent that the Company retained its combined direct and indirect shareholding of 42% in RAI. In September 2016 the Company reduced the direct investment in Reynolds American Inc. by 660,385 shares, in value of £24,000,000 (2015: £nil) but retained its direct and indirect shareholding of 42%. The share buy-back program ceased in the fourth quarter of 2016.

On 17 January 2017, the Company's ultimate parent, British American Tobacco p.l.c. ("BAT plc"), announced that it had agreed the terms of a recommended offer with Reynolds American Inc. ("RAI") for BAT plc to acquire the remaining 57.8% of RAI it did not already own. The proposed merger was accepted by both parties' shareholders on 19 July 2017.

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

Key performance indicators

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

Principal risks and uncertainties

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

By Order of the Board

S. Kerr

S Kerr
Secretary

8 September 2017

Directors' Report

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

Dividends

During the year the Company paid dividends amounting to £1,360,000,000 (2015: £500,000,000).

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:

	Appointed	Resigned
Robert James Casey		
John Benedict Stevens		
Tadeu Luiz Marroco		1 December 2016
Richard Bakker	1 December 2016	
Steven Glyn Dale		

Directors' indemnities

Throughout the period 1 January 2016 to the date of this report, an indemnity has been in force under which Mr J.B. Stevens, as a Director of the Company, was, 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 he may incur in or about the execution of his duties to the Company or as a result of things done by him as a Director on behalf of the Company.

Financial risk management

The Company's operations expose it to currency risk as its income from shares in Group undertakings is denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts.

Post Balance Sheet events

On 17 January 2017, the Company's ultimate parent, British American Tobacco p.l.c. ("BAT plc"), announced that it had agreed the terms of a recommended offer with Reynolds American Inc. ("RAI") for BAT plc to acquire the remaining 57.8% of RAI it did not already own. The proposed merger was accepted by both parties' shareholders on 19 July 2017.

Pursuant to the Merger Agreement, BAT plc, on behalf of its indirect subsidiary BATUS Holdings Inc. ("BATUS"), has agreed to issue new shares, represented by American Depositary Shares, for the benefit of RAI shareholders. In consideration for BAT plc issuing new shares, BATUS has agreed to issue to BAT plc an assignable obligation owed by BATUS to issue shares to the holder of that obligation. This assignable obligation is transferred down the chain of Group companies from BAT plc to BATUS, in exchange for the issue of shares by each subsidiary company to its direct parent.

As a consequence, on 25 July 2017, the Company issued 77 new shares with a nominal value of £0.77 to its immediate parent British-American Tobacco (Holdings) Limited in exchange for consideration of the same value represented by the assignable warrant noted above. On the same day the Company transferred the assignable warrant to its direct subsidiary BATUS in exchange for 876,804 new shares with a nominal value $876,804,000.

On 14 June 2017 the existing 1 ordinary share of £1 was sub-divided into 100 ordinary shares of 1p each.

Directors' Report (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the 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 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland. 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 Annual 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 auditor is 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 auditor is aware of that information .

By Order of the Board

S Kerr
Secretary

8 September 2017

Independent auditor's report to the members of Louisville Securities Limited

We have audited the financial statements of Louisville Securities Limited for the year ended 31 December 2016 set out on pages 7 to 18. 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 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope for the audit of the financial statements

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

Our opinion

In our opinion, Louisville Securities Limited financial statements (the "financial statements"):

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Independent auditor's report to the members of Louisville Securities 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
8 September 2017

Profit and loss account for the year ended 31 December

Continuing operations	Note	2016 £'000	2015 £'000
Other operating income/(charges)	2	**11,620**	(134)
Operating profit/(loss)		**11,620**	(134)
Income from shares in Group undertakings	3	**513,551**	457,280
Income from shares in associates	4	**204,194**	74,854
Interest receivable and similar income	5	**36,677**	5,043
Interest payable and similar charges	6	**(170,767)**	(77,772)
Profit on ordinary activities before taxation		**595,275**	459,271
Tax on profit on ordinary activities	7	**(46,271)**	(11,585)
Profit for the financial year		**549,004**	447,686

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

	2016 £'000	2015 £'000
Profit for the financial year	**549,004**	447,686
Effective portion of changes in fair value of cash flow hedges, net of tax	**(90,341)**	4,340
Tax on recognized gains relating to the financial year	-	-
Total recognised gains relating to the financial year	**458,663**	452,026

Statement of changes in equity for the year ended 31 December

	Called up share capital £'000	Profit and loss account £'000	Cash flow hedge reserve £'000	Total Equity £'000
1 January 2015	-	2,186,361	(31,474)	2,154,887
Profit for the financial year	-	447,686	-	447,686
Dividends paid	-	(500,000)	-	(500,000)
	-	**2,134,047**	**(31,474)**	**2,102,573**
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges	-	-	4,340	4,340
31 December 2015	**-**	**2,134,047**	**(27,134)**	**2,106,913**
Profit for the financial year	-	549,004	-	549,004
Dividends paid	-	(1,360,000)	-	(1,360,000)
	-	**1,323,051**	**(27,134)**	**1,295,917**
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges	-	-	(90,341)	(90,341)
31 December 2016	**-**	**1,357,891**	**(117,475)**	**1,205,576**

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

Balance sheet as at 31 December

	Note	31 December 2016 £'000	31 December 2015 £'000
Fixed assets			
Investments in subsidiaries	8	**2,251,795**	1,950,290
Investments in associates	8	**3,765,937**	3,170,666
		6,017,732	5,120,956
Current assets			
Derivative financial instruments - assets	12	**1,682**	1,374
Debtors: amounts falling due within one year	9a	**1,018,354**	1,766,098
Debtors: amounts falling due after one year	9b	**1,227,694**	1,029,242
		2,247,730	2,796,714
Creditors: amounts falling due within one year	10a	**(92,183)**	(41,566)
Derivative financial instruments - liabilities	12	**(88,150)**	(28,232)
Net current assets		**2,067,397**	2,726,916
Total assets less current liabilities		**8,085,129**	7,847,872
Creditors: amounts falling due after more than one year	10b	**(6,847,894)**	(5,740,959)
Derivative financial instruments – liabilities – non current		**(31,659)**	-
Net assets		**1,205,576**	2,106,913
Capital and reserves			
Called up share capital	11	**-**	-
Cash flow hedge reserve	12	**(117,475)**	(27,134)
Profit and loss account		**1,323,051**	2,134,047
Total shareholders' funds		**1,205,576**	2,106,913

The financial statements on pages 7 to 18 were approved by the Directors on 8 September 2017 and signed on behalf of the Board.

S. Dale
Director

Registered number 03015916

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 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102").

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.

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.

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 102.

Foreign currencies

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the profit and loss account in the year except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

1 Accounting policies (continued)

Income

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

Taxation

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

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

Deferred taxation is provided in full using the liability method for timing 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. Deferred tax assets and liabilities are not discounted.

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

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

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, and adjustments for the effect of fair value hedges where appropriate.

Contingent liabilities and contingent assets

The Company is a defendant in tobacco-related and other litigation. Provision for this litigation (including legal costs) will be made at such time as an unfavourable outcome becomes probable and the amount could be reasonably estimated.

Contingent assets are possible assets whose existence will only be confirmed by future events not wholly within the control of the entity and are not recognised as assets until the realisation of income is virtually certain.

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

1 Accounting policies (continued)

Financial instruments

The Company has complied with the requirements of section 11 (basic financial instruments) and section 12 (other financial instruments) of FRS 102.

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.

As noted previously, investments in subsidiaries and associates are stated at cost. Other non-derivative financial assets are classified on initial recognition as loans and receivables or cash and cash equivalents as follows:

Loans and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Cash and cash equivalents: include cash in hand and deposits held on call, together with other short-term highly liquid investments including investments in certain money market funds. Cash equivalents normally comprise instruments with maturities of three months or less at date of acquisition.

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. These estimates for irrecoverable amounts are recognised when there is objective evidence that the full amount receivable will not be collected according to the original terms of the asset.

Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

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:

- where a derivative financial instrument or another financial instrument is designated as a fair value hedge, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged and any gains or losses on re-measurement are recognised immediately in the income statement;
- 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 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.

1 Accounting policies (continued)

Financial instruments (continued)
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 re-performed 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.

Preference shares and similar financial instruments are classified as liabilities if they do not represent a residual interest in the net assets of the entity.

2 Other operating (income)/ charges

	2016	2015
	£'000	£'000
Exchange (gains)/losses	**(2,491)**	134
Gain from disposal of associates	**(9,129)**	-
	(11,620)	134

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

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

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

3 Income from shares in Group undertakings

	2016	2015
	£'000	£'000
Income from shares in Group undertakings	**513,551**	457,280

Income from shares in Group undertakings mainly represent dividends received from BATUS Holdings Inc..

4 Income from shares in associates

	2016	2015
	£'000	£'000
Income from shares in associates	**204,194**	74,854

Income from shares in associates mainly represent dividends received from Reynolds American Inc..

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

5 Interest receivable and similar income

	2016	2015
	£'000	£'000
Exchange gains	**3,265**	-
Interest receivable from Group undertakings	**33,412**	5,043
	36,677	5,043

A total amount of £293,599,000 (2015: £83,360,000 of interest payable and similar charges) and an amount of £610,569,000 (2015: £155,571,000 of interest payable and similar charges), net impact of zero, included in the above are the effects of foreign exchange risk being hedged in relation to investments in subsidiaries and associates (note 8) being financed by foreign currency creditors falling due after more than one year (note 10(b)).

6 Interest payable and similar charges

	2016	2015
	£'000	£'000
Interest payable to Group undertakings	**82,786**	42,626
Preference shares	**86,941**	34,199
Exchange loss	-	756
Fair value loss on ineffective derivative	**1,040**	191
	170,767	77,772

7 Taxation

(a) Recognised in the profit and loss account

	2016		2015	
	£'000	£'000	£'000	£'000
Foreign tax				
Current tax on income for the period	**11,431**		3,743	
Total current tax		**11,431**		3,743
Deferred tax				
Origination and reversal of timing differences	**139,360**		7,842	
Effect of changes in tax rates	**(104,520)**		-	
Total deferred tax		**34,840**		7,842
Total income tax expense		**46,271**		11,585

The amount of £34,840,000 (2015: £7,842,000) relates to timing differences on fixed assets.

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. 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:

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

7 Taxation (continued)

(b) Factors affecting the taxation charge

	2016 £'000	2015 £'000
Profit for the year	**549,004**	447,686
Total tax expense	**46,271**	11,585
Profit excluding taxation	**595,275**	459,271
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	**119,055**	93,002
Non–deductible expenses	**36,571**	14,555
Tax exempt revenues	**(164,196)**	(115,206)
Group relief surrendered for nil consideration	**8,570**	7,649
Effects of overseas tax rates	**46,271**	11,585
Total tax charge for the period	**46,271**	11,585

8 Investments

(1) Shares in Group undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Japan				
Atago Mori Tower 21F, 2-5-1 Arago, Minato-Ku, Tokyo, 105-622, Japan				
British American Tobacco Japan, Ltd	Ownership interest	0.00	100.00	100.00
Republic of Korea				
Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Republic of Korea				
British American Tobacco Korea Limited	Common	0.00	100.00	100.00
United Kingdom				
Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom				
BATUS Limited	Ordinary	0.00	100.00	100.00
United States				
Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington Delaware 19808, United States				
BATUS Holdings Inc.	Common stock	100.00	0.00	100.00
BATUS Retail Services, Inc.	Common	0.00	100.00	100.00
British American Tobacco (Brands) Inc.	Common	0.00	100.00	100.00
Brown & Williamson Holdings Inc.	Common stock	0.00	100.00	100.00
BATUS Japan Inc.	Common stock of no par value	0.00	100.00	100.00
Louisville Corporate Services, Inc.	Common stock of no par value	0.00	100.00	100.00
B.A.T Capital Corporation	Common stock	0.00	100.00	100.00

(2) Indirect Investments in Associated Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
United States				
Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington Delaware 19808, United States				
Reynolds American Inc.	Common stock	10.85	31.33	42.18

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

8 Investments (continued)

(3) Investments in Group undertakings

	Investments in Group undertakings £'000
1 January 2016	1,950,290
Effect of fair value hedge: exchange gain on revaluation of investment (note 6)	293,599
Additions	15,812
Disposal	(7,906)
31 December 2016	**2,251,795**

Net book value	
1 January 2016	1,950,290
31 December 2016	**2,251,795**

During 2016, the Company acquired B.A.T Capital Corporation from British American Tobacco p.l.c. and subsequently sold it to BATUS Holdings Inc., and received in return shares of BATUS Holdings Inc.

(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.

(5) Investment in Associates

	Investment in Associates £'000
1 January 2016	3,170,666
Effect of fair value hedge: exchange gain on revaluation of investment (note 6)	610,569
Share buy back	(15,298)
31 December 2016	**3,765,937**

Carrying Amount	
1 January 2016	3,170,666
31 December 2016	**3,765,937**

In September 2016 the Company reduced the direct investment in Reynolds American Inc. by repurchasing 660,385 shares maintaining a direct and indirect investment of 42%.

9 Debtors

(a) Amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	**1,018,354**	1,766,098

An amount of £955,363,000 (2015: £1,766,098,000) is unsecured, interest bearing and repayable on demand. The interest rates are based on GBP and USD LIBOR. The remaining balance represents dividends receivable and accrued interest on loans.

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

9 Debtors (continued)

(b) Amounts falling due after more than one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	**1,227,694**	1,029,242

Amounts owed by Group undertakings of £1,227,694 (2015: £1,029,242,000) are unsecured, interest bearing and repayable in 2018.

10 Creditors

(a) Amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed to Group undertakings	**49,501**	33,724
Deferred tax	**42,682**	7,842
	92,183	41,566

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

Deferred tax

	2016 £'000
1 January 2016	7,842
Charge in the year	34,840
31 December 2016	**42,682**

The deferred tax liability has been recognised for the unremitted earnings of Reynolds American Inc.

(b) Amounts falling due after more than one year

	2016 £'000	2015 £'000
Amounts owed to Group undertakings	**6,847,894**	5,740,959

Amounts owed to Group undertakings include £3,044,228,000 (USD 3,761,600,000) (2015: £2,552,141,000 (USD 3,761,600,000)) which are unsecured, interest bearing and repayable in 2018. The interest rate is based on USD LIBOR. £1,816,533,808 (2015: £1,522,898,433) of these amounts are designated as a fair value hedge of investments in subsidiaries.

An amount of £3,803,666,000 (USD 4,700,000,000) (2015: £3,188,819,000 (USD 4,700,000,000)) represents 4,700,000 redeemable preference shares (USD 1,000 amount paid upon each share) which are classified as financial liabilities under FRS 102. Out of this amount a total of 4,653,380,001 USD (£3,765,937,000) are designated as a fair value hedge of investments in associates.

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

11 Called up share capital

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

12 Financial instruments

Derivative financial instruments	2016	2016	2015	2015
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Cash flow hedges				
- Forward foreign currency contracts	1,682	119,809	1,374	28,232
Current	1,682	88,150	1,374	28,232
Non-current	-	31,659	-	-

The Company's operations expose it to currency risk as income from shares in Group undertakings and associates is denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The effective portion of cash flow hedges as at 31 December 2016 amounted to £117,475,000 loss (£27,134,000 loss).

13 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under section 33 of FRS 102 from disclosing transactions with wholly owned subsidiary undertakings of the British American Tobacco p.l.c. Group.

14 Post balance sheet events

On 17 January 2017, the Company's ultimate parent, British American Tobacco p.l.c. ("BAT plc"), announced that it had agreed the terms of a recommended offer with Reynolds American Inc. ("RAI") for BAT plc to acquire the remaining 57.8% of RAI it did not already own. The proposed merger was accepted by both parties' shareholders on 19 July 2017.

Pursuant to the Merger Agreement, BAT plc, on behalf of its indirect subsidiary BATUS Holdings Inc. ("BATUS"), has agreed to issue new shares, represented by American Depositary Shares, for the benefit of RAI shareholders. In consideration for BAT plc issuing new shares, BATUS has agreed to issue to BAT plc an assignable obligation owed by BATUS to issue shares to the holder of that obligation. This assignable obligation is transferred down the chain of Group companies from BAT plc to BATUS, in exchange for the issue of shares by each subsidiary company to its direct parent.

As a consequence, on 25 July 2017, the Company issued 77 new shares with a nominal value of £0.77 to its immediate parent British-American Tobacco (Holdings) Limited in exchange for consideration of the same value represented by the assignable warrant noted above. On the same day the Company transferred the assignable warrant to its direct subsidiary BATUS in exchange for 876,804 new shares with a nominal value $876,804,000.

On 14 June 2017 the existing 1 ordinary share of £1 was sub-divided into 100 ordinary shares of 1p each.

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

14 Post balance sheet events (continued)

As part of the merger process, on 19 July 2017, the Company also transferred its investment in RAI to its direct subsidiary BATUS, and received in exchange 285,330 new shares in BATUS, with a nominal value of $285,330,000.

15 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is British-American Tobacco (Holdings) Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

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