Louisville Securities Limited

Registered number 03015916

Annual report and financial statements

For the year ended 31 December 2017

Contents

Strategic Report

The Directors present their Strategic Report on Louisville Securities Limited (the "Company") for the year ended 31 December 2017.

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 2017

The profit for the financial year attributable to Louisville Securities Limited shareholders after deduction of all charges and the provision of taxation amounted to £527,122,000 (2016: £549,004,000).

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"), 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 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.

In connection with signing the merger agreement Louisville Securities Limited entered into a new agreement with BAT (2009) Limited for $5,000,000,000 (£3,835,826,620). The proceeds were used to finance the acquisition of shares in BATUS, total amount of £3,849,262,866, as part of the financing structure for the acquisition of RAI.

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

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

Going concern

The Company is in a net current liability position as at 31 December 2017. However, the Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial and other support of Weston (2009) Limited, which has sufficient resources to supply the support, to the Company. This support is expected to continue for the foreseeable future, including not seeking repayment of amounts currently made available for at least for the next twelve months and thereafter for the foreseeable future to enable it to continue to trade. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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.

Strategic Report (continued)

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

J.M. Guttridge

Secretary 11 September 2018

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2017.

Dividends

During the year the Company paid dividends amounting to £1,080,000,000 (2016: £1,360,000,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2017 to the date of this report are as follows:

Robert James Casey
John Benedict Stevens
Steven Glyn Dale
Richard Remon Bakker (Resigned 31 December 2017)
Andrew James Barrett (Appointed 23 July 2018)

Research and development

No research and development expenditure has been incurred during the year (2016: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2016: £nil).

Employees

The average number of employees employed by the Company during the year was nil (2016: nil).

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' indemnities

Throughout the period 1 January 2017 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.

Directors' Report (continued)

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

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

J.M Guttridge
Secretary

11 September 2018

Independent Auditor's Report to the members of Louisville Securities Limited

Opinion

We have audited the financial statements of Louisville Securities Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and loss account, Statement of other comprehensive income, Statement of changes in equity, Balance Sheet and related notes, including the accounting policies in note 1.
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Independent Auditor's Report to the members of Louisville Securities Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Christopher Hearn (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London. E14 5GL
11 September 2018

Profit and loss account for the year ended 31 December

Continuing operations	Note	2017 £'000	2016 £'000
Other operating income	2	-	11,620
Operating profit		-	11,620
Income from shares in Group undertakings	3	**553,353**	513,551
Income from shares in associates	4	**123,799**	204,194
Interest receivable and similar income	5	**32,019**	36,677
Interest payable and similar expenses	6	**(218,541)**	(170,767)
Profit before taxation		**490,630**	595,275
Taxation	7	**36,492**	(46,271)
Profit for the financial year		**527,122**	549,004

There is no difference between the profit 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

	2017 £'000	2016 £'000
Profit for the financial year	**527,122**	549,004
Effective portion of changes in fair value of cash flow hedges, net of tax	**132,439**	(90,341)
Total recognised gains relating to the financial year	**659,561**	458,663

Statement of changes in equity for the year ended 31 December

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Cash flow hedge reserve £'000	Total Equity £'000
1 January 2016	-	-	**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	-	-	**1,323,051**	**(117,475)**	**1,205,576**
Profit for the financial year	-	-	527,122	-	527,122
Dividends paid	-	-	(1,080,000)	-	(1,080,000)
Issue of shares	-	23,223,433	-	-	23,223,433
	-	**23,223,433**	**770,173**	**(117,475)**	**23,876,131**
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges	-	-	-	132,439	132,439
31 December 2017	-	**23,223,433**	**770,173**	**14,964**	**24,008,570**

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

Balance sheet as at 31 December

	Note	**31 December 2017 £'000**	31 December 2016 £'000
Fixed assets			
Investments in group undertakings	8	**32,607,184**	2,251,795
Investment in associate	8	**-**	3,765,937
		32,607,184	6,017,732
Current assets			
Derivative financial instruments - current	12	**902**	1,682
Derivative financial instruments – non current	12	**29,276**	-
Debtors: amounts falling due within one year	9a	**1,533,705**	1,018,354
Debtors: amounts falling due after one year	9b	**1,871**	1,227,694
		1,565,754	2,247,730
Current liabilities			
Creditors: amounts falling due within one year	10a	**(2,840,274)**	(92,183)
Derivative financial instruments - liabilities	12	**(13,863)**	(88,150)
Net current (liabilities)/ assets		**(1,288,383)**	2,067,397
Total assets less current liabilities		**31,318,801**	8,085,129
Creditors: amounts falling due after more than one year	10b	**(7,310,231)**	(6,847,894)
Derivative financial instruments – liabilities – non current		**-**	(31,659)
Net assets		**24,008,570**	1,205,576
Capital and reserves			
Called up share capital	11	**-**	-
Share premium account	11	**23,223,433**	-
Cash flow hedge reserve	12	**14,964**	(117,475)
Profit and loss account		**770,173**	1,323,051
Total shareholders' funds		**24,008,570**	1,205,576

The financial statements on pages 8 to 19 were approved by the Directors on 11 September 2018 and signed on behalf of the Board.

A.J. Barrett
Director

Registered number 03015916

Notes to the financial statements for the year ended 31 December 2017

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 Company is in a net current liability position as at 31 December 2017. However, the Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial and other support of Weston (2009) Limited, which has sufficient resources to supply the support, to the Company. This support is expected to continue for the foreseeable future, including not seeking repayment of amounts currently made available for at least for the next twelve months and thereafter for the foreseeable future to enable it to continue to trade. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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.

Notes to the financial statements for the year ended 31 December 2017

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.

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.

Notes to the financial statements for the year ended 31 December 2017

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.

Future changes to accounting policies

IFRS 9 *Financial Instruments*. This new standard replaces IAS 39, with the effective implementation date being 1 January 2018. The anticipated impact from restatement of the Company's Financial Statements for 2017 and 2016 is considered immaterial.

2 Other operating income

	2017	2016
	£'000	£'000
Exchange gains	-	(2,491)
Gain from disposal of associates	-	(9,129)
	-	(11,620)

Auditor's fees of £2,500 were borne by a fellow Group undertaking (2016: £2,500).

None of the Directors received any remuneration in respect of their services to the Company during the year (2016: £nil). The Company considers that there is no practicable method to allocate a portion of the emoluments the Directors receive from their respective Group company employer for any qualifying services in respect of the Company, as these are considered to be incidental and part of Directors overall management responsibilities within the Group.

There were no employees (2016: none) and no staff costs during the year (2016: £nil).

3 Income from shares in Group undertakings

	2017	2016
	£'000	£'000
Income from shares in Group undertakings	**553,353**	513,551

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

4 Income from shares in associate

	2017	2016
	£'000	£'000
Income from shares in associate	**123,799**	204,194

Income from shares in associates mainly represents dividends received from Reynolds American Inc., received prior to the transfer of the shares in associate to BATUS Holdings Inc. (note 8).

Notes to the financial statements for the year ended 31 December 2017

5 Interest receivable and similar income

	2017	2016
	£'000	£'000
Exchange gains	1,080	3,265
Interest receivable from Group undertakings	30,939	33,412
	32,019	36,677

A total amount of £291,605,000 exchange gain on the revaluation of the borrowing and £291,605,000 exchange loss on the revaluation of investment in subsidiaries (2016: £293,599,000) and an amount of £191,638,000 exchange gain on the revaluation of borrowing and £191,638,000 exchange loss on the revaluation of associate (2016: £610,569,000), 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 expenses

	2017	2016
	£'000	£'000
Interest payable to Group undertakings	112,931	82,786
Preference shares	101,918	86,941
Fair value loss on ineffective derivative	3,692	1,040
	218,541	170,767

7 Taxation

(a) Recognised in the profit and loss account

	2017		2016	
	£'000	£'000	£'000	£'000
Foreign tax				
Current tax on income for the period	6,190		11,431	
Total current tax		6,190		11,431
Deferred tax				
Origination and reversal of timing differences	(42,682)		139,360	
Effect of changes in tax rates	-		(104,520)	
Total deferred tax		(42,682)		34,840
Total income tax income/ (expense)		(36,492)		46,271

(b) Factors affecting the taxation charge

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

The current taxation charge differs from the standard 19.25% (2016: 20%) 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 2017

7 Taxation (continued)

(b) Factors affecting the taxation charge

	2017 £'000	2016 £'000
Profit for the year	**527,122**	549,004
Total tax (income)/expense	**(36,492)**	46,271
Profit excluding taxation	**490,630**	595,275
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	**94,429**	119,055
Non–deductible expenses	**28,989**	36,571
Tax exempt revenues	**(140,246)**	(164,196)
Group relief surrendered for nil consideration	**16,850**	8,570
Effects of overseas tax rates	**6,168**	46,271
Origination and reversal of timing differences	**(42,682)**	-
Total tax for the period	**(36,492)**	46,271

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				
251 Little Falls Drive, Wilmington, DE 19808, United States				
B.A.T Capital Corporation	Common stock	0.00	100.00	100.00
BATUS Holdings Inc.	Common stock	100.00	0.00	100.00
BATUS Japan Inc.	Common	0.00	100.00	100.00
BATUS Japan, Inc.	Common Stock of no par value	0.00	100.00	100.00
BATUS Retail Services, Inc.	Common	0.00	50.00	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
Louisville Corporate Services, Inc.	Common Stock of no par value	0.00	100.00	100.00
Reynolds American Inc.	Common Stock	0.00	100.00	100.00

Notes to the financial statements for the year ended 31 December 2017

8 Investments (continued)

(2) Investments in Group undertakings

	Investments in Group undertakings £'000
1 January 2017	2,251,795
Effect of fair value hedge: exchange loss on revaluation of investment (note 5)	(291,605)
Additions	27,072,695
Transfer of shares	3,574,299
31 December 2017	**32,607,184**
Net book value	
1 January 2017	2,251,795
31 December 2017	**32,607,184**

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"), 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 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 while the total value of the amounts recorded as addition to investments was of £23,223,433,000.

In connection with signing the merger agreement Louisville Securities Limited entered into a new agreement with BAT (2009) Limited for a term loan of $5,000,000,000 (£3,835,826,620). The proceeds were further used to finance the acquisition of new shares in BATUS, total amount of £3,849,262,866, as part of the financing structure for the acquisition of RAI.

During the year the Company has transferred the 10% direct investment in Reynolds American Inc., to its direct subsidiary BATUS Holdings Inc., in a share for share exchange, with a value of £3,574,299,000.

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

(4) Investment in Associate

	Investment in Associate £'000
1 January 2017	3,765,937
Effect of fair value hedge: exchange loss on revaluation of investment (note 5)	(191,638)
Transfer of shares	(3,574,299)
31 December 2017	**-**
Carrying Amount	
1 January 2017	3,765,937
31 December 2017	**-**

Notes to the financial statements for the year ended 31 December 2017

9 Debtors

(a) Amounts falling due within one year

	2017	2016
	£'000	£'000
Amounts owed by Group undertakings	**1,533,705**	1,018,354

An amount of £403,864,000 (2016: £955,363,000) is unsecured, interest bearing and repayable on demand. The interest rates are based on GBP and USD LIBOR. Included in amounts owed by Group undertakings is an amount of £1,121,419,000 (USD 1,517,000,000) (2016: £1,227,694,000 previously presented in amounts falling due after more than one year) being unsecured, interest bearing and repayable in 2018. All other amounts are unsecured, interest free and repayable on demand.

(b) Amounts falling due after more than one year

	2017	2016
	£'000	£'000
Prepayment	**1,871**	-
Amounts owed by Group undertakings	-	1,227,694
	1,871	1,227,694

Amounts owed by Group undertakings in 2016 of £1,227,694,000 were unsecured, interest bearing and repayable in 2018. Amounts owed by Group undertakings in 2017 are unsecured and non-interest bearing.

10 Creditors

(a) Amounts falling due within one year

	2017	2016
	£'000	£'000
Amounts owed to Group undertakings	**2,840,274**	49,501
Deferred tax	-	42,682
	2,840,274	92,183

Amounts owed to Group undertakings include £2,780,706,000 (USD 3,761,600,000) (2016: £3,044,228,000 (USD 3,761,600,000) presented in 2016 in creditors falling due after one year) which are unsecured, interest bearing and repayable in 2018. The interest rate is based on USD LIBOR. £1,659,287,000 (2016: £1,816,533,808) of these amounts are designated as a fair value hedge of investments in group undertakings.

Deferred tax

	2016
	£'000
1 January 2017	42,682
Reversed in the year	(42,682)
31 December 2017	-

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

Notes to the financial statements for the year ended 31 December 2017

10 Creditors

(b) Amounts falling due after more than one year

	2017 £'000	2016 £'000
Amounts owed to Group undertakings	**7,310,231**	6,847,894

Amounts owed to Group undertakings include £3,835,827,000 (2016: £nil) which are unsecured, interest bearing and repayable in 2020 and 2022. The interest rate is based on USD LIBOR. The proceeds were further used to finance the issue of new shares by BATUS to Louisville Securities Limited as part of the funding structure for the acquisition of RAI.

An amount of £3,474,404,000 (USD 4,700,000,000) (2016: £3,803,666,000 (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 USD 4,653,380,001 (£3,439,941,000) were designated as a fair value hedge of investments in the Reynolds American Inc. associate until the transfer of shares to BATUS Holdings Inc., when the treatment was discontinued and the intercompany funding was designated as a fair value hedge on the investment in BATUS Holdings Inc..

11 Called up share capital

Ordinary shares of 1 each	**2017**	2016
Allotted, called up and fully paid		
- value	-	£1
- number	-	1

Ordinary shares of 0.01 each	**2017**	2016
Allotted, called up and fully paid		
- value	**£1.77**	-
- number	**177**	-

Share premium

	2017	2016
Allotted, called up and fully paid		
- value	**£23,223,433,252**	-

On 14 July 2017, prior to issuing new shares, the company went through a subdivision of its shares, turning from one share of £1 per share to 100 shares of £0.01 per share.
On 25 July 2017, the Company issued 77 new shares with a nominal value of £0.77 and a total share premium of £23,223,433,252 to its immediate parent British-American Tobacco (Holdings) Limited. The transactions happened as a consequence of the Merger Agreement for the acquisition of RAI (note 8).

On 25 July 2017, the Company issued 77 new shares with a nominal value of £0.77 and a total share premium of £23,223,433,252 to its immediate parent British-American Tobacco (Holdings) Limited. The transactions happened as a consequence of the Merger Agreement for the acquisition of RAI (note 8).

Notes to the financial statements for the year ended 31 December 2017

12 Financial instruments

Derivative financial instruments

	2017	**2017**	2016	2016
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Cash flow hedges				
- Forward foreign exchange contracts	**30,178**	**(13,863)**	1,682	119,809
Current	**902**	**(13,863)**	1,682	88,150
Non-current	**29,276**	**-**	-	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 2017 amounted to £14,964,000 gain (£117,475,000 loss), with the remaining ineffective part has been recognised in the profit and loss for the year.

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 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