NOTICE

THIS OFFERING MEMORANDUM IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR (2) PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) AND WHO ARE OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR).

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this notice, whether received by email or otherwise received as a result of electronic communication. You are advised to read this disclaimer carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the offering memorandum or make an investment decision with respect to the notes, investors must be either (1) qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act ("QIBs") or (2) persons who are not U.S. persons (as defined in Regulation S under the U.S. Securities Act) and who are outside of the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act; provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). The offering memorandum is being sent at your request. By accepting this e-mail and by accessing the offering memorandum, you shall be deemed to have represented to us and the initial purchasers set forth in the attached offering memorandum (collectively, the "Initial Purchasers") that: (1) you consent to delivery of such offering memorandum by electronic transmission, and (2) either you and any customers you represent are: (a) QIBs, or (b) outside the United States and the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia (and if you are resident in a Member State of the European Economic Area, you are a qualified investor). Prospective purchasers that are QIBs are hereby notified that the seller of the notes offered under the offering memorandum may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A under the U.S. Securities Act.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the offering memorandum to any other person. Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any initial purchaser of the notes offered under the offering memorandum or any affiliate of any such initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such an initial purchaser or affiliate on behalf of the issuer in such jurisdiction.

The offering memorandum has not been approved by an authorized person in the United Kingdom. The notes may not be offered or sold other than to persons whose ordinary activities involve these persons in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by us. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, any person who controls any joint lead manager, or any of their respective directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you from the Initial Purchasers upon your request.

Offering Memorandum

BRITISH AMERICAN TOBACCO

B.A.T. International Finance p.l.c.

(a public limited liability company incorporated in England and Wales)

$750,000,000 1.850 per cent Notes due 2018
$1,250,000,000 2.750 per cent Notes due 2020
$500,000,000 3.500 per cent Notes due 2022
$1,500,000,000 3.950 per cent Notes due 2025
$500,000,000 Floating Rate Notes due 2018

Fully and Unconditionally Guaranteed by
British American Tobacco p.l.c., British American Tobacco Holdings (The Netherlands) B.V. and B.A.T. Netherlands Finance B.V.

B.A.T. International Finance p.l.c., a public limited liability company incorporated in England and Wales with registration no. 1060930 ("BATIF" or the "Issuer"), is offering $750,000,000 principal amount of its 1.850 per cent Notes due 2018 (the "2018 Fixed Rate Notes"), $1,250,000,000 principal amount of its 2.750 per cent Notes due 2020 (the "2020 Fixed Rate Notes"), $500,000,000 principal amount of its 3.500 per cent Notes due 2022 (the "2022 Fixed Rate Notes") and $1,500,000,000 principal amount of its 3.950 per cent Notes due 2025 ("2025 Fixed Rate Notes" and, together with the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes and the 2022 Fixed Rate Notes, the "Fixed Rate Notes") and $500,000,000 principal amount of its floating rate notes due 2018 (the "Floating Rate Notes"; the Floating Rate Notes, together with the Fixed Rate Notes, the "Notes"). The Notes will be fully and unconditionally guaranteed (the "Guarantees") by British American Tobacco p.l.c. ("BAT" or the "Parent Guarantor"), a public limited liability company incorporated in England and Wales with registration no. 03407696 and registered as an external company in the Republic of South Africa with the registration number 2008/023963/10, British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN") a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands and registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce of Amsterdam under registration no. 33236251, and B.A.T. Netherlands Finance B.V. ("BATNF") a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands and registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce of Amsterdam under registration no. 60533536 (together with BATHTN, the "Dutch Guarantors" and, together with the Parent Guarantor, the "Guarantors").

Interest on the Notes will accrue from the original issue date of the Notes. Interest on the Fixed Rate Notes will be payable semi-annually in arrear on June 15 and December 15 of each year, commencing December 15, 2015. Interest will be payable on the Floating Rate Notes quarterly on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2015. The 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes will mature on June 15, 2018, June 15, 2020, June 15, 2022 and June 15, 2025, respectively and the Floating Rate Notes will mature on June 15, 2018 (in each case, a "Maturity Date"), and upon surrender will be repaid at 100 per cent of the principal amount thereof together with any unpaid and accrued interest. The Fixed Rate Notes are redeemable prior to maturity, in whole or in part, at the option of the Issuer at a redemption price calculated as set forth under "*Description of the Notes and the Guarantees*". The Notes will be issued in registered form in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will be represented by global Notes registered in the name of a nominee of The Depository Trust Company ("DTC"). Beneficial interests in global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Except as described herein, Notes in definitive form will not be issued. See "*Description of the Notes and the Guarantees*".

The Notes and the Guarantees will be direct, unsecured and unsubordinated obligations of the Issuer and the Guarantors, respectively, and will rank *pari passu* with all other direct, unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of the Issuer and the Guarantors, respectively. Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Notes to be admitted to the Official List of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading on the London Stock Exchange's Professional Securities Market (the "PSM"). References in this Offering Memorandum to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the PSM. The PSM is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

This investment involves risk. See "*Risk Factors*" beginning on page 10.

The Notes and the Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and are being offered and sold within the United States only to "qualified institutional buyers" ("QIBs"), as defined in Rule 144A under the Securities Act ("Rule 144A"), and non-U.S. persons located outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from provisions of Section 5 of the Securities Act provided by Rule 144A thereunder. For a description of certain restrictions on transfers of the Notes, see "*Plan of Distribution*" and "*Notice to Investors*".

Price for 2018 Fixed Rate Notes: 99.942 per cent plus accrued interest, if any, from June 15, 2015
Price for 2020 Fixed Rate Notes: 99.842 per cent plus accrued interest, if any, from June 15, 2015
Price for 2022 Fixed Rate Notes: 99.908 per cent plus accrued interest, if any, from June 15, 2015
Price for 2025 Fixed Rate Notes: 99.697 per cent plus accrued interest, if any, from June 15, 2015
Price for Floating Rate Notes: 100.000 per cent plus accrued interest, if any, from June 15, 2015

The Notes are offered subject to receipt and acceptance by the initial purchasers listed in the section of this Offering Memorandum entitled "*Plan of Distribution*" (the "Initial Purchasers"), to prior sale and to the Initial Purchasers' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of beneficial interests in the Notes will be made through the facilities of DTC and its participants, including Euroclear Bank, S.A./N.V. as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream, Luxembourg"), on or about June 15, 2015, against payment therefor in immediately available funds.

The Notes are expected to be rated A- by Fitch Ratings Ltd. ("Fitch"), A3 by Moody's Investors Service Ltd ("Moody's") and A- by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"). Fitch, Moody's and Standard & Poor's are each established in the European Union and registered under the Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Book-Running Managers

Citigroup **Deutsche Bank Securities** **HSBC** **J.P. Morgan**

BNP PARIBAS **RBS** **Société Générale Corporate & Investment Banking**

The date of this Offering Memorandum is June 11, 2015

IMPORTANT: You must read the following before continuing. The following applies to this Offering Memorandum. You are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Memorandum. In accessing this Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information.

This Offering Memorandum does not constitute an offer of any securities other than those to which it relates or an offer to sell, or solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful. This Offering Memorandum comprises listing particulars given in compliance with the listing rules made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA") by the UK Listing Authority for the purpose of giving information with regard to us and the Notes in connection with the application for admission of the Notes to the Official List and to trading on the PSM.

Neither the Notes nor the Guarantees have been registered with, or recommended or approved by, the U.S. Securities and Exchange Commission (the "Commission") or any other federal or state securities commission or regulatory authority, nor has the Commission or any such other commission or regulatory authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

NOTICE TO NEW HAMPSHIRE INVESTORS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Offering Memorandum has been prepared on the basis that any offer of the Notes in any Member State of the European Economic Area (the "EEA") which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of securities. Accordingly, any person making or intending to make any offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Offering Memorandum may only do so in circumstances in which no obligation arises for the Issuer, the Guarantors or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, the Guarantors or the Initial Purchasers have authorized, nor do they authorize, the making of any offer of the Notes in circumstances in which an obligation arises for the Issuer, the Guarantors or the Initial Purchasers to publish a prospectus for such offer. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

NOTICE TO INVESTORS IN JAPAN

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

NOTICE TO INVESTORS IN HONG KONG

The contents of this Offering Memorandum have not been reviewed by any regulatory authority in Hong Kong. Persons who are invited to purchase or subscribe for the Notes or to whom this Offering

Memorandum is sent are advised to exercise caution in relation to the offer. Persons who are in any doubt about any of the contents of this Offering Memorandum should obtain independent professional advice. No action has been taken to authorize the offer of the Notes to the public in Hong Kong. Accordingly, the Notes may not be offered or sold, or re-offered or resold, and this Offering Memorandum may not be issued, circulated or distributed, in Hong Kong nor may any other advertisement, invitation or document related to the Notes be issued in Hong Kong.

NOTICE TO INVESTORS IN THE NETHERLANDS

The Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the Netherlands, except if such offer or sale is made exclusively to persons who or legal entities which are qualified investors (*gekwalificeerde beleggers*) within the meaning of section 1:1 of the Financial Supervision Act (*Wet op het financieel toezicht*) of the Netherlands.

NOTICE TO INVESTORS IN SOUTH AFRICA

No action has been taken to authorize the offer of the Notes to the public in South Africa. Accordingly, the Notes may not be offered or sold, or re-offered or resold to the public in South Africa, and this Offering Memorandum may not be issued, circulated or distributed to the public in South Africa nor may any other advertisement, invitation or document related to the Notes be issued to the public in South Africa. Should a South African resident wish to participate in the offering, such participation would be subject to South African exchange control regulations.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs UNDER RULE 144A OR (2) NON-U.S. PERSONS LOCATED OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S.

This Offering Memorandum is being provided on a confidential basis to QIBs in the United States and to non-U.S. persons outside the United States for use solely in connection with the offering of the Notes. Its use for any other purpose is not authorized. This Offering Memorandum may not be copied or reproduced in whole or in part, nor may it be distributed or any of its contents be disclosed to any person other than the prospective investors to whom it is being provided.

Prospective investors should note that there are further restrictions on the offering and sale of the Notes and the distribution of this Offering Memorandum. See "*Plan of Distribution*" and "*Notice to Investors*".

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Guarantors, any of their respective affiliates or the Initial Purchasers. None of the Issuer, the Guarantors nor the Initial Purchasers take responsibility for, or provide any assurance as to the reliability of, any information that others may give you. Neither the delivery of this Offering Memorandum nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or any of the Guarantors since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as of any time subsequent to that date.

By receiving this Offering Memorandum, investors acknowledge that they have had an opportunity to request for review, and have received, all additional information they deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. See "*Available Information and Reports to Noteholders*".

Investors also acknowledge that they have not relied on the Initial Purchasers in connection with their investigation of the accuracy of this information or their decision on whether to invest in the Notes. The contents of this Offering Memorandum are not to be considered as legal, business or tax advice. Prospective investors should consult their own counsel, accountants and other advisers as to legal, tax, business, financial and related aspects of a purchase of the Notes.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantors and their respective affiliates, the terms of the offering of the Notes and the merits and risks involved. This offering is being made in reliance upon exemptions from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. By purchasing the Notes, investors are deemed to have made the acknowledgements, representations, warranties and agreements set forth under "*Notice to Investors*".

Each potential investor in the Notes must determine the suitability of that investment in light of their own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the merits and risks of investing in the Notes;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of their particular financial situation, an investment in the Notes and the impact such investment will have on their overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect their investment and their ability to bear the applicable risks.

Potential investors should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities and each potential investor should consult their legal advisers or the appropriate regulators.

The Initial Purchasers reserve the right to withdraw this offering of Notes at any time and to reject any commitment to subscribe for the Notes, in whole or in part. The Initial Purchasers also reserve the right to allot less than the full amount of Notes sought by investors. The Initial Purchasers and certain related entities may acquire a portion of the Notes for their own account.

No action has been taken by the Initial Purchasers, the Issuer, the Guarantors or any other person that would permit an offering of the Notes or the circulation or distribution of this Offering Memorandum or any offering material in relation to the Issuer, the Guarantors or their respective affiliates or the Notes in any country or jurisdiction where action for that purpose is required.

The laws of certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the Notes. Persons into whose possession this Offering Memorandum or any of the Notes come must inform themselves about, and observe any such restrictions. None of the Issuer, the Guarantors, the Initial Purchasers or their respective representatives is making any representation to any offeree or any purchaser of the Notes regarding the legality of any investment in the Notes by such offeree or any purchaser under applicable legal investment or similar laws or regulations. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Notes may come must inform themselves about, and observe any such restrictions on the distribution of this Offering Memorandum and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of the Notes in the United States, the EEA, including the United Kingdom and the Netherlands, Japan, Hong Kong and South Africa. For a further description of certain restrictions on the offering and sale of the Notes and the distribution of the Offering Memorandum, see "*Plan of Distribution*" and "*Notice to Investors*".

The Notes will be issued in fully registered form and only in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will be issued initially in fully registered form as beneficial interests in the Global Notes (defined below). QIBs may elect to hold the Global Notes (the "Rule 144A Global Notes") purchased by them through the facilities of DTC, which will act as depositary for the Notes. Holders of Notes sold in offshore transactions in reliance on Regulation S under the Securities Act may elect to hold the Global Notes (the "Regulations S Global Notes" and, together with the Rule 144A Global Notes, the "Global Notes") through the facilities of Euroclear and Clearstream, Luxembourg as participants in DTC. Prior to the date that is

40 days after the later of the commencement of the offering or the closing date, beneficial interests in such Regulation S Global Notes may be held only through Euroclear and Clearstream, Luxembourg. See "*Book Entry, Delivery and Form*".

To purchase the Notes, investors must comply with all applicable laws and regulations in force in any jurisdiction in which investors purchase, offer or sell the Notes or possess or distribute this Offering Memorandum. Investors must also obtain any consent, approval or permission required by such jurisdiction for investors to purchase, offer or sell any of the Notes under the laws and regulations in force in any jurisdiction in which investors are subject or in which investors make such purchase, offer or sale. None of the Issuer, the Guarantors, their respective affiliates or the Initial Purchasers will have responsibility therefor.

Each of the Issuer and the Guarantors accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of each of the Issuer and the Guarantors (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

IN CONNECTION WITH THIS ISSUE, CITIGROUP GLOBAL MARKETS INC., DEUTSCHE BANK SECURITIES INC., HSBC SECURITIES (USA) INC. AND J.P. MORGAN SECURITIES LLC, AS STABILIZING MANAGERS, MAY OVER-ALLOT THE NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT OF THE AGGREGATE NOMINAL AMOUNT OF THE NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGERS) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT NOTES. SEE "*PLAN OF DISTRIBUTION*". ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

MARKET, RANKING AND OTHER DATA

The data included in this Offering Memorandum regarding markets and ranking, including our position and our competitors within these markets, are based on independent industry publications, reports of government agencies or other published industry sources and our estimates based on our management's knowledge and experience in the markets in which we operate. Where information has been sourced from a third party, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by that third party, no material facts have been omitted which would render the reproduced information inaccurate or misleading. Our estimates have been based on information obtained from customers, suppliers, trade and business organizations and other contacts in the markets in which we operate. We believe these estimates to be reliable. However, this information may prove to be inaccurate because of the method by which we obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Each of the Issuer and the Parent Guarantor is a public limited liability company incorporated under the laws of England and Wales. Each of the Dutch Guarantors is a private company with limited liability incorporated in the Netherlands. All respective directors and executive officers of the Issuer and each of the Guarantors are resident outside of the United States and a substantial portion of their assets are located outside of the United States. Although the Issuer and each of the Guarantors has agreed, in accordance with the terms of the fiscal and paying agency agreements governing the Notes (the "Fiscal and Paying Agency Agreements"), to accept service of process in the United States by agents designated for such purpose, it may not be possible for holders of the Notes (a) to effect service of process upon the Issuer, the Guarantors or their respective directors or officers or (b) to enforce judgments of courts of the United States predicated upon the civil liability of such entities or persons under the U.S. securities laws against any such entities or persons in the courts of a foreign jurisdiction. We have been advised by our English legal counsel, Linklaters LLP, and our Dutch legal counsel, Stibbe N.V., that there is doubt as to the direct enforceability in England and the Netherlands, respectively, of civil liabilities predicated upon the federal securities laws of the United States. A judgment which is enforceable by execution in the United States and has been obtained in a U.S. court will not be enforceable in the Netherlands without re-litigation in the absence of a treaty between the Netherlands and the United States with respect to the mutual recognition and enforcement of civil judgments, and no such treaty currently exists between the Netherlands and the United States. In order to obtain a judgment enforceable in the Netherlands, claimants must litigate the relevant claim again before a Dutch court of competent jurisdiction. Under current practice, the courts of the Netherlands may be expected to render a judgment in accordance with the judgment of the relevant U.S. court, provided that such judgment (i) is a final judgment and has been rendered by a court which has established its jurisdiction vis-à-vis the relevant Dutch Guarantor on the basis of internationally accepted grounds of jurisdiction, (ii) has not been rendered in violation of elementary principles of fair trial, (iii) is not contrary to the public policy of the Netherlands, and (iv) is not incompatible with (a) a prior judgment of a Netherlands court rendered in a dispute between the same parties, or (b) a prior judgment of a foreign court rendered in a dispute between the same parties, concerning the same subject matter and based on the same cause of action, provided that such prior judgment is capable of being recognized in the Netherlands; counsel reserves opinion as to whether this practice extends to default judgments.

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AVAILABLE INFORMATION AND REPORTS TO NOTEHOLDERS

Neither the Issuer nor the Guarantors are subject to informational requirements of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Copies of BAT's Annual Report and Accounts, the full contents of which are not part of, and are not incorporated by reference into, this Offering Memorandum, may be obtained by written request to the Company Secretary, British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom.

Each of the Issuer and the Guarantors has agreed that it will make available, upon request, to any holder or prospective purchaser of the Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act with respect to itself, during any period in which the Guarantors are not subject to Section 13 or 15(d) of the Exchange Act or not exempt by virtue of Rule 12g3-2(b) thereunder. Any such requests should be directed to the Parent Guarantor care of the Company Secretary at British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom.

In accordance with its obligations under the Disclosure Rules and Transparency Rules made under Section 73A and 89A of the FSMA by the UK Listing Authority (the "DTRs"), British American Tobacco p.l.c. currently publishes the following financial information:

Annual Report and Accounts ("Annual Report"). This includes the consolidated, audited accounts for the financial year for British American Tobacco p.l.c., typically published in March.

Half-Yearly Report. This includes the consolidated, unaudited accounts for the first six-months of the financial year for British American Tobacco p.l.c., typically published in July.

British American Tobacco p.l.c. also publishes *Interim Management Statements*. These provide certain unaudited information of British American Tobacco p.l.c. and are typically published bi-annually in April and October.

CERTAIN DEFINITIONS

Reference herein to "BAT Financial Information" is to the audited consolidated balance sheets as of December 31, 2014, December 31, 2013 and December 31, 2012, and the audited consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of British American Tobacco p.l.c. for each of the years ended December 31, 2014, December 31, 2013 and December 31, 2012 disclosed in this Offering Memorandum.

As used in this Offering Memorandum, our fiscal year ended December 31, 2014 is referred to as "2014 Year", our fiscal year ended December 31, 2013 is referred to as "2013 Year", and our fiscal year ended December 31, 2012 is referred to as "2012 Year".

Unless the context requires otherwise, "Group", "Company", "we", "us", or "our" refers to British American Tobacco p.l.c. and its subsidiaries on a consolidated basis. References to our "gross turnover", "revenue", "profit from operations", "adjusted profit from operations", "sales volume" and other financial or operating measures other than net profit, exclude the results of our associates and joint ventures.

PRESENTATION OF FINANCIAL AND OTHER DATA

General

Unless otherwise indicated, financial information contained in this Offering Memorandum is prepared and presented in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). Certain differences exist between IFRS and generally accepted accounting principles in the United States of America ("U.S. GAAP") which might be material to the financial information herein. The Fiscal and Paying Agency Agreements impose no obligation on us to reconcile our future financial statements prepared under IFRS to U.S. GAAP. Accordingly, we have not prepared a reconciliation of our consolidated financial statements and related footnote disclosures between IFRS and U.S. GAAP. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP and how these differences might affect the financial information herein. Various numbers and percentages set out in this Offering Memorandum have been rounded and accordingly may not total exactly.

The historical financial information included in this Offering Memorandum, including the financial information discussed in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", has been included, without material adjustment, from our audited consolidated financial statements for 2013 Year and 2014 Year.

Non-GAAP Measures

In this Offering Memorandum, we present certain financial measures that are not recognized by IFRS and which may not be permitted to appear on the face of the primary financial statements, or footnotes thereto, and in some cases, might not be permitted at all in registered U.S. filings. We believe that these additional measures, which are used internally, are useful to understand our underlying business performance.

Adjusted Diluted Earnings per Share

The principal non-GAAP measure which we use is adjusted diluted earnings per share, which is reconciled to diluted earnings per share. The adjusting items that mainly drive the reconciling items are separately disclosed, as memorandum information, on the face of the income statement and are used to calculate the additional non-GAAP measures of adjusted profit from operations and adjusted share of post-tax results of associates and joint ventures.

Adjusting items are significant items in profit from operations, net finance costs, taxation and our share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of our underlying financial performance. While the disclosure of adjusting items is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the income statement and segmental analyses, or in the notes to our audited consolidated financial statements as appropriate.

Adjusted Profit from Operations

Adjusted profit from operations is profit from operations after excluding the effect of adjusting items, such as restructuring and integration costs, the amortization of acquired trademarks, and impairment of goodwill and other intangible assets to arrive at a measure of underlying performance.

Except as otherwise specified, references to "profit from operations" shall mean profit from operations including the effect of adjusting items, and reference to "profit" in connection with the discussion of our performance on a by-region basis shall mean adjusted profit from operations, which excludes the effect of adjusting items. As such, adjusted profit from operations is not a replacement for any other performance measures derived in accordance with IFRS or any other body of generally accepted accounting principles, and should not be considered as a substitute for the IFRS-compliant information contained in our audited consolidated financial statements.

Adjusted Share of Post-Tax Results of Associates and Joint Ventures

Adjusted share of post-tax results of associates and joint ventures is the share of post-tax results of associates and joint ventures, after excluding our share of the net adjusting items from associates.

Headline Earnings per Share

Due to the secondary listing of the ordinary shares of British American Tobacco p.l.c. on the main board of the JSE Limited ("JSE") in South Africa, we are required to present headline earnings per share and diluted headline earnings per share, as alternative measures of earnings per share, calculated in accordance with Circular 2/2013 'Headline Earnings' issued by the South African Institute of Chartered Accountants.

Constant Rates of Exchange

We review current and prior year segmental adjusted profit from operations of subsidiaries and joint operations, and adjusted post-tax results of associates and joint ventures at constant rates of exchange. This allows comparison of our current year results, including intercompany royalties payable in a foreign currency to UK entities, had they been translated at the previous year's average rates of exchange. Other than in exceptional circumstances, which will be fully disclosed, this does not adjust for the normal transactional foreign exchange gains and losses in operations which are generated by exchange movements.

Organic Growth

In the presentation of financial information, we also use another measure, organic growth, to analyze underlying business performance. Organic growth is the growth after adjusting for the earnings impact of mergers and acquisitions and discontinued activities. Adjustments are made to current and prior year numbers, where appropriate, based on the current period position. No adjustments were made for the impact of mergers and acquisitions and discontinued activities in the audited consolidated financial statements for 2014 Year.

Free Cash Flow

We prepare an alternative cash flow, which includes a measure of 'free cash flow,' to illustrate our cash flows before transactions relating to borrowings.

Gross Turnover

Gross turnover represents revenue earned from sales of cigarettes, cigars, leaf and other tobacco products, and includes duty, excise and other taxes to indicate the impact of duty, excise and other taxes in respect of such sales. Gross turnover is presented because we believe that it and similar measurements are widely used in our industry as a means of evaluating our performance. As such, gross turnover is not a replacement for measures such as revenue or any other performance measures derived in accordance with IFRS or any other body of generally accepted accounting principles, and should not be considered as a substitute for the IFRS-compliant information contained in our audited consolidated financial statements.

Sales Volume

Sales volume represents a key measure to evaluate our performance. Sales volume is a non-GAAP unaudited operating measure of the number of cigarettes sold. This is done with cigarette sticks as the basis, with usage levels applied to other tobacco products to calculate the equivalent number of cigarette units. Sales volume is calculated as the total global sales volume of our brands sold by Group companies, including the volumes of joint operations not already recognized by Group subsidiaries, but excluding the volumes of associates and joint ventures. Sales volume serves as an additional indicator of our performance and not as a replacement for measures such as revenue or any other performance measures derived in accordance with IFRS. We believe that sales volume is a measure commonly used by analysts and investors in our industry and, accordingly, it has been used throughout this Offering Memorandum to permit a more complete analysis of our operating performance.

Independent Auditors

Effective March 23, 2015, KPMG LLP are our independent public auditors.

PricewaterhouseCoopers LLP ("PwC") were previously our independent auditors. PwC audited the BAT Financial Information and the audited consolidated financial statements of the Issuer which are included herein. The reports of PwC with respect to the BAT Financial Information for 2014 Year and 2013 Year and the audited consolidated financial statements of the Issuer for 2014 Year and 2013 Year are in accordance with guidance issued by The Institute of Chartered Accountants in England and Wales. Each report states that: "This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing". The Commission would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Notes may have against PwC based on their reports or the consolidated financial statements to which they relate could be limited. See "*Independent Auditors*".

CURRENCIES AND EXCHANGE RATES

We publish our consolidated financial statements in pounds sterling. In this Offering Memorandum, references to "U.S.$" and "U.S. dollars" are to the lawful currency of the United States of America, references to "pounds", "pounds sterling", "GBP" or "£" are to the lawful currency of the United Kingdom, references to "euro", "EUR" or "€" are to the single currency adopted by participating member states of the European Union ("EU") relating to Economic and Monetary Union, references to "Cdn$" and "Canadian dollar" are to the lawful currency of Canada, references to "IDR" are to the lawful currency of Indonesia, references to "R$" or "Brazilian reals" are to the lawful currency of Brazil, references to "MYR" or "Malaysian ringgit" are to the lawful currency of Malaysia, references to "CHF" or "Swiss franc" are to the lawful currency of Switzerland and references to "SAR" or "South African rand" are to the lawful currency of the Republic of South Africa.

The following tables set out, for the periods and dates indicated, the high, low, average and period end Bloomberg Composite Rate expressed as U.S. dollars per £1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Offering Memorandum. None of the Issuer, the Guarantors or the Initial Purchasers represents that the U.S. dollar or pound sterling amounts referred to below could be or could have been converted into pounds sterling at any particular rate indicated or any other rate.

The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

The Bloomberg Composite Rate of pounds sterling on June 9, 2015 was $1.5370 per £1.00.

Exchange rates for the previous seven months:

	Period End	Average Rate(1)	High	Low
November 2014	1.5623	1.5770	1.5992	1.5623
December 2014	1.5581	1.5634	1.5754	1.5515
January 2015	1.5020	1.5159	1.5579	1.5018
February 2015	1.5440	1.5332	1.5509	1.5027
March 2015	1.4843	1.4958	1.5382	1.4722
April 2015	1.5334	1.4966	1.5457	1.4654
May 2015	1.5271	1.5454	1.5762	1.5115

Exchange rates for the past three years:

	Period End	Average Rate(2)	High	Low
2014	1.6242	1.5925	1.6242	1.5416
2013	1.6566	1.5664	1.6566	1.5174
2012	1.5581	1.6458	1.7102	1.5581

Notes:

(1) The average of the exchange rates on each business day during the relevant period.

(2) The average of the exchange rates on the last business day of each month during the relevant period.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains and refers to certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act with respect to the financial condition, results of operations and business of the Issuer, each of the Guarantors and their respective affiliates. Forward-looking statements are typically identified by words such as "may", "will", "believe", "anticipate", "intend", "estimate", "expect" and other words of similar meaning in connection with a discussion of future operating or financial performance. All of these forward-looking statements are based on estimates and assumptions made by such entities that, although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed upon any forward-looking statements. There are important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements. These factors include, among others, statements relating to:

- our plans or objectives for future operations, products or financial performance;
- our indebtedness;
- the impact of an economic downturn or growth in particular regions;
- anticipated uses of cash, including capital expenditures; and
- the expected outcome of contingencies, including litigation and pension liabilities.

Important factors that could cause our actual results of operations or our financial condition to differ materially from those expressed or implied by forward-looking statements in this Offering Memorandum include, but are not limited to, the factors indicated in this Offering Memorandum under "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and include:

- significant increases in tobacco-related taxes may result in a decline in our overall sales volume, and constantly changing tax laws and rates from around the world may adversely impact our business;
- competition from illicit sources may have an adverse effect on our overall sales volume as well as our ability to increase sales prices, and on our brand equity;
- impact of existing and future legislation, or increased tobacco control regulation;
- significant litigation;
- increased industry competition, including pricing competition, and consolidation;
- price volatility caused by various external factors;
- product contamination may adversely impact sales, market share and profitability;
- changes in consumer preferences or consumer behavior;
- loss of production capacity or key suppliers, distribution interruption or commodity risk;
- unsuccessful integration of recent or future acquisitions, and the division of our resources towards achieving such integration;
- failure to produce a product with the potential to reduce risks of tobacco-related diseases while our competitors successfully do so;
- failure to meet targeted costs savings;
- changes or differences in domestic or international economic or political conditions, such as inflation or fluctuations in interest or foreign exchange rates and tax rates;
- termination of licenses to use certain brands and trademarks;
- ability to protect against intellectual property infringement; and
- loss of key personnel.

For further information regarding factors that could affect the business and financial results of the Issuer, each of the Guarantors or their respective affiliates and such forward-looking statements, see "*Risk Factors*".

Our forward-looking statements speak only as of the date of this Offering Memorandum. Except as required by applicable law or regulation, we expressly disclaim any obligation or undertaking, and do not intend to release publicly any updates or revisions to any forward-looking statements contained in this Offering Memorandum, to reflect any change in our expectations or any change in events, conditions or circumstances, on which any forward-looking statement contained in this Offering Memorandum is based.

OVERVIEW

The following overview is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. Capitalized terms used but not defined in this overview are defined in the text of this Offering Memorandum. Investors should thoroughly consider this Offering Memorandum in its entirety, including the information set forth under "Available Information and Reports to Noteholders" and "Risk Factors", prior to an investment in the Notes.

History of BAT

BAT and its companies have had a significant global presence for over 100 years. The British-American Tobacco Company Ltd. ("BAT Ltd.") was established in 1902, when the Imperial Tobacco Company and the American Tobacco Company agreed to form a joint venture company. BAT Ltd. inherited companies and quickly expanded into major markets, including India and Ceylon, Egypt, Malaya, Northern Europe and East Africa.

Overview of our Business

We sell over 200 international and local brands in over 200 markets around the world. We hold robust market positions in each of the regions in which we operate, and have leadership positions in more than 60 countries. We have a significant portfolio of internationally recognized brands, including our five global drive brands *Dunhill, Kent, Lucky Strike, Pall Mall* and *Rothmans* (the "Global Drive Brands" or "GDBs"), together with other internationally recognized brands, *Vogue, Viceroy, Kool, Peter Stuyvesant*, *Craven A*, *Benson & Hedges* and *John Player Gold Leaf*, which we refer to as our other "International Brands". Our product portfolio includes a wide range of cigarettes and other tobacco products, such as Fine Cut (roll-your-own and make-your-own tobacco) and cigars. We are investing in building a portfolio of innovative new tobacco and nicotine-based products alongside our traditional tobacco business. These next-generation products include e-cigarettes, medicinal nicotine products and tobacco heating products. During 2014 Year, we employed over 57,000 people worldwide. We are a member of the FTSE 100 with a market capitalization of £63.811 billion ($98.077 billion) as of June 9, 2015.

Our operations are organized into four regions (which excludes our associated companies, principally Reynolds American Inc. in the United States ("Reynolds American") and ITC Limited in India ("ITC"):

Asia-Pacific	Japan, South Korea, Malaysia and the countries of Australasia, South and East Asia;
Americas	Canada, the countries of South and Central America and the Caribbean;
Western Europe	over 40 markets in Western and Central Europe; and
Eastern Europe, Middle East and Africa ("EEMEA")	Africa and the Middle East, plus Russia, Ukraine, Moldova, Belarus, Caucasus and Central Asia.

From time to time, strategically important and financially attractive mergers and acquisitions provide us with growth opportunities. For example:

On March 3, 2015, we announced that we, through our Brazilian controlled company British American Tobacco Prestação de Serviços Ltda., had filed with the Brazilian securities regulator, the Comissão de Valores Mobiliários ("CVM"), a request to register a public tender offer to acquire up to all of the 24.7 per cent of Souza Cruz S.A. ("Souza Cruz") shares which are not currently owned by us and to delist Souza Cruz.

On July 15, 2014, we announced an investment of $4.7 billion in Reynolds American subject to the completion of its proposed acquisition of Lorillard Inc. This will maintain our 42 per cent equity position in a larger, more competitive Reynolds American. A consent decree from the US anti-trust authority, the Federal Trade Commission (the "FTC"), has now been received by Reynolds American and the transaction is expected to complete before the end of June 2015.

On August 30, 2013, we announced that CTBAT International Co. Limited ("CTBAT"), a joint investment incorporated in Hong Kong between subsidiaries of China National Tobacco Corporation ("CNTC") and BAT, had commenced official business operations. It owns and manages the worldwide international cigarette trademark State Express 555, and also owns the worldwide right outside China to the leading CNTC brand Shuang Xi.

On July 8, 2013, we announced a joint venture in Myanmar with I.M.U. Enterprise Limited to manufacture, distribute and market our brands. Under the terms of the agreement, we have contributed plant and machinery and cash to the venture in return for a controlling stake.

Key Financial Results

For 2014 Year, our revenue was £13,971 million, compared with revenue of £15,260 million in 2013 Year. Adjusted profit from operations for 2014 Year was £5,403 million, compared with £5,820 million in 2013 Year. Our profit before taxation for 2014 Year was £4,848 million compared with £5,799 million in 2013 Year.

Strengths

We believe that our principal strengths are the following:

Brand Portfolio

We have a significant portfolio of brands, including our five GDBs, our other International Brands and our key local brands.

Geographic Spread

Our products are sold in more than 200 markets around the world and we have a leadership position in more than 60 markets.

Innovation Pipeline

We have introduced innovative tobacco products throughout the world, have established routes to market to roll out our innovations and have strong in-house research and development capabilities.

Global Scale

We have a globally integrated supply chain, which spans direct agronomy support to leaf growers, direct and indirect procurement, tobacco products manufacturing and distribution.

People and Relationships

Our workforce is strongly multicultural and their diverse perspectives help us to succeed. We value our relationships with all of our partners, including leaf growers, suppliers and our retailers.

Next-Generation Products

We understand the needs of adult consumers and have world-class research and development capabilities to help us succeed in the emerging next-generation products category.

Strategy

Our vision is to be the world's best at satisfying consumer moments in tobacco and beyond. By doing so, we will become the leader in our industry. Our mission is to deliver our commitments to society, while championing informed consumer choice. Our strategy is based on four factors: *growth, productivity, building a winning organization and sustainability*. See *"Business — Strategy"*.

Growth

We will grow by understanding and delivering enjoyable consumer moments in combustibles and next-generation products. Our approach is to be consumer led, product obsessed, brand distinct and excellent in execution.

Productivity

Productivity is a key pillar to support growth. It is about effectively deploying resources to increase profits and generate funds to invest behind growth. Our approach is to be operationally best, globally integrated and ensure cost and capital effectiveness.

Building a Winning Organization

To achieve our vision, we recognize that we must continue to have the right people, organized in the right teams and in the right working environment. See "*Business — Employees*".

Sustainability

We want to ensure we continue to have a sustainable future so we can keep meeting the expectations of our adult consumers, our shareholders and other stakeholders. Our approach is to focus on three areas that are most significant for a sustainable future: harm reduction, sustainable agriculture and corporate behavior.

Trading Update and Other Recent Developments

On April 29, 2015, we released our interim management statement for the three months ended March 31, 2015. See “*Trading Update and Other Recent Developments*”.

Overview of the Issuer and the Guarantors

The Issuer

B.A.T. International Finance p.l.c.

The Issuer was incorporated as a private limited company under the laws of England and Wales on July 10, 1972 with registration no. 1060930 and was re-registered as a public limited liability company on September 8, 1981. The Issuer’s principal function is to operate as a financing company for the Group. The Issuer has two subsidiaries, B.A.T Finance B.V. and BATIF Dollar Limited. The Issuer’s principal business office is located at Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom.

The Guarantors

British American Tobacco p.l.c. (“Parent Guarantor”)

The Parent Guarantor was incorporated as a public limited liability company under the laws of England and Wales on July 23, 1997 with registration no. 03407696 and is registered as an external company in the Republic of South Africa with the registration number 2008/023963/10. The Parent Guarantor’s principal business office is located at Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom.

British American Tobacco Holdings (The Netherlands) B.V. (“BATHTN”)

BATHTN was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on February 24, 1992. BATHTN has its statutory seat (*statutaire zetel*) in Amstelveen, the Netherlands, and is registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce under registration no. 33236251.

B.A.T. Netherlands Finance B.V. (“BATNF” and together with BATHTN, the “Dutch Guarantors”)

BATNF was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on April 23, 2014. BATNF has its statutory seat (*statutaire zetel*) in Amstelveen, the Netherlands, and is registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce under registration no. 60533536.

THE OFFERING

Issuer	B.A.T. International Finance p.l.c.
Guarantors	British American Tobacco p.l.c., British American Tobacco Holdings (The Netherlands) B.V. and B.A.T. Netherlands Finance B.V.
The Notes	$750,000,000 of 1.850 per cent Notes due 2018. $1,250,000,000 of 2.750 per cent Notes due 2020. $500,000,000 of 3.500 per cent Notes due 2022. $1,500,000,000 of 3.950 per cent Notes due 2025. $500,000,000 of Floating Rate Notes due 2018.
The Guarantees	The obligations of the Issuer under the Notes will be unconditionally and irrevocably guaranteed on a senior and unsecured basis by each of the Guarantors.
The Offering	The Notes are being offered and sold by the Initial Purchasers (i) in the United States to QIBs in reliance on Rule 144A and (ii) outside the United States to persons other than U.S. persons in reliance upon Regulation S.
Issue Price	99.942 per cent for the 2018 Fixed Rate Notes, plus accrued interest, if any, from June 15, 2015. 99.842 per cent for the 2020 Fixed Rate Notes, plus accrued interest, if any, from June 15, 2015. 99.908 per cent for the 2022 Fixed Rate Notes, plus accrued interest, if any, from June 15, 2015. 99.697 per cent for the 2025 Fixed Rate Notes, plus accrued interest, if any, from June 15, 2015. 100.000 per cent for the Floating Rate Notes, plus accrued interest, if any, from June 15, 2015.
Issue Date	June 15, 2015.
Maturity Date	2018 Fixed Rate Notes: June 15, 2018. 2020 Fixed Rate Notes: June 15, 2020. 2022 Fixed Rate Notes: June 15, 2022. 2025 Fixed Rate Notes: June 15, 2025. Floating Rate Notes: June 15, 2018.
Interest	The 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes will bear interest from the Issue Date at the rates of 1.850 per cent, 2.750 per cent, 3.500 per cent and 3.950 per cent per annum, respectively, payable semi-annually in arrears. The Floating Rate Notes will bear interest equal to LIBOR plus 0.510 per cent, as determined by the Calculation Agent. The interest rate on the Floating Rate Notes for each subsequent interest period will be reset quarterly on each interest payment date.
Interest Payment Dates	June 15 and December 15 of each year, commencing December 15, 2015 until the relevant Maturity Date in respect of the Fixed Rate Notes. March 15, June 15, September 15 and December 15 of each year, commencing September 15, 2015 until the Maturity Date in respect of the Floating Rate Notes.

Status of the Notes and the Guarantees	The Notes and the Guarantees will be direct, unsecured and unsubordinated obligations of the Issuer and each of the Guarantors, respectively, ranking *pari passu* among themselves and with all other direct, unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of the Issuer and each of the Guarantors, respectively. The Notes and the Guarantees will be effectively subordinated to any debt or other obligations of any subsidiary of BAT, except for the Issuer and each of the Dutch Guarantors, with respect to the earnings and assets of that subsidiary. See "*Description of the Notes and the Guarantees — Status of the Notes and Guarantees*".
Use of Proceeds	The net proceeds of the offering will be used to indirectly finance the subscription for additional ordinary shares in Reynolds American in connection with the acquisition by Reynolds American of all the shares in Lorillard Inc. and general corporate purposes, which may include the repayment of certain outstanding debt. See "*Use of Proceeds*".
Covenants	The Issuer and each of the Guarantors have agreed to observe certain covenants with respect to the Notes and the Guarantees. See "*Description of the Notes and the Guarantees — Covenants of the Issuer and the Guarantors*".
Events of Default	For a discussion of certain events that will permit the acceleration of the Notes, including acceleration of certain other indebtedness of the Issuer and the Guarantors, see "*Description of the Notes and the Guarantees — Events of Default*".
Optional Redemption	The Issuer may redeem the Fixed Rate Notes in whole or in part, at its option, at any time and from time to time at a redemption price equal to the greater of (i) 100 per cent of the principal amount of the Fixed Rate Notes to be redeemed and (ii) the sum of the present values of the applicable Remaining Scheduled Payments (as defined in "*Description of the Notes and the Guarantees — Redemption — Optional Redemption*") discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate (as defined in the "*Description of the Notes and the Guarantees — Redemption — Optional Redemption*") plus, in the case of the 2018 Fixed Rate Notes, 12.5 basis points, in the case of the 2020 Fixed Rate Notes, 15 basis points, in the case of the 2022 Fixed Rate Notes, 20 basis points and in the case of the 2025 Fixed Rate Notes, 25 basis points together with, in each case, accrued interest on the principal amount of the Fixed Rate Notes to be redeemed to the date of redemption. See "*Description of the Notes and the Guarantees — Redemption — Optional Redemption*".
Redemption in case the acquisition of Lorillard Inc. by Reynolds American is not completed	If Reynolds American has not completed and closed the acquisition of Lorillard Inc. on or prior to January 15, 2016, the Issuer shall call and redeem the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes, in whole but not in part, at a redemption price for the Notes equal to 101 per cent of the principal amount of such Notes, plus accrued and unpaid interest on the principal amount of such Notes to the date of redemption. See "*Description of the Notes and Guarantees — Early Redemption in Case the Acquisition of Lorillard by Reynolds American is Not Completed*."

Redemption for Tax Reasons	The Issuer may redeem in whole but not in part, at its option, the Notes at a redemption price equal to 100 per cent of the outstanding principal amount of such Notes, plus any accrued and unpaid interest to the date of redemption, if the Issuer or a Guarantor becomes obligated to pay Additional Amounts (as defined below) due to a Change in Tax Law (as defined in "*Description of the Notes and the Guarantees — Redemption — Redemption for Tax Reasons*") with respect to the Notes or payments under the Guarantees in respect thereof. See "*Description of the Notes and the Guarantees — Redemption — Redemption for Tax Reasons*".
Payment of Additional Amounts	Subject to certain exceptions and limitations, the Issuer or, if applicable, each Guarantor (pursuant to the terms of the applicable Guarantee) will pay to the holder of a Note such additional amounts ("Additional Amounts") on the Notes as may be necessary to ensure that the net amounts received by such holder after all withholding or deductions, if any, will not be less than the amount of principal (and premium, if any) and interest which such holder would have received in respect of such Note (or payments under the Guarantees in respect thereof) in the absence of such withholding or deduction. See "*Description of the Notes and the Guarantees — Payment of Additional Amounts*".
Denomination, Form and Registration of Notes	The Notes will be issued in fully registered form and only in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will be issued initially as Global Notes.
Further Issues	The aggregate principal amount of Notes issuable under each Fiscal and Paying Agency Agreement is unlimited. The Issuer may, from time to time, without notice to or the consent of the holders of the Notes in respect of any series of the Notes "reopen" such series of the Notes and create and issue additional notes having substantially the same terms and conditions as the Notes issued hereunder. See "*Description of the Notes and the Guarantees — Further Issues*".
Fiscal and Paying Agent	Citibank, N.A., London Branch.
Transfer Restrictions	The Notes and the Guarantees have not been and will not be registered under the Securities Act and may be offered or sold only (i) in the United States to QIBs in reliance upon the exemption from the registration requirement of the Securities Act provided by Rule 144A and (ii) outside the United States to persons other than U.S. persons in reliance upon Regulation S and only in circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of Directive 2003/71/EC, as amended. See "*Notice to Investors*".
Governing Law	The Fiscal and Paying Agency Agreements, the Notes and the Guarantees will be governed by, and construed in accordance with, the laws of the State of New York.
Ratings	The Notes are expected to be rated A- by Fitch, A3 by Moody's and A- by Standard & Poor's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revisions, suspension or withdrawal at any time by the assigning rating agency.

Listing	Prior to the issuance of the Notes, the Group will use its best efforts to obtain admission of the Notes to the Official List of the UK Listing Authority and to trading on the PSM.
Risk Factors	Investing in the Notes involves risks. Prior to investing in the Notes, prospective investors should consider, together with the other information set out in this Offering Memorandum, the factors and risks attaching to an investment in the Notes. See "*Risk Factors*".
CUSIP	
2018 Fixed Rate Notes	144A: 05530Q AM2 Regulation S: G08820 CK9
2020 Fixed Rate Notes	144A: 05530Q AG5 Regulation S: G08820 CD5
2022 Fixed Rate Notes	144A: 05530Q AL4 Regulation S: G08820 CJ2
2025 Fixed Rate Notes	144A: 05530Q AK6 Regulation S: G08820 CH6
Floating Rate Notes	144A: 05530Q AJ9 Regulation S: G08820 CG8
ISIN	
2018 Fixed Rate Notes	144A: US05530QAM24 Regulation S: USG08820CK98
2020 Fixed Rate Notes	144A: US05530QAG55 Regulation S: USG08820CD55
2022 Fixed Rate Notes	144A: US05530QAL41 Regulation S: USG08820CJ26
2025 Fixed Rate Notes	144A: US05530QAK67 Regulation S: USG08820CH69
Floating Rate Notes	144A: US05530QAJ94 Regulation S: USG08820CG86

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables set forth our selected historical consolidated financial data. The selected historical consolidated financial and operating data set forth below has been extracted from our audited consolidated financial statements for each of 2014 Year and 2013 Year and should be read in conjunction with and are qualified in their entirety by reference to the BAT Financial Information, including the notes thereto, and *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and *"Business"*, each of which is included elsewhere in this Offering Memorandum. See *"Available Information and Reports to Noteholders"* and *"Presentation of Financial and Other Data"*.

	Year ended December 31,		
	2014	**2013**	**2012**
		(£ millions) (audited)	
Selected Group Income Statement Data			
Gross turnover (including duty, excise and other taxes)[1]	42,506	46,185	45,872
Revenue	13,971	15,260	15,190
Raw materials and consumables used	(3,088)	(3,348)	(3,445)
Changes in inventories of finished goods and work in progress	58	105	133
Employee benefit costs	(2,194)	(2,384)	(2,426)
Depreciation, amortization and impairment costs	(523)	(477)	(475)
Other operating income	178	302	245
Other operating expenses	(3,856)	(3,932)	(3,850)
Profit from operations	4,546	5,526	5,372
Analyzed as:			
— adjusted profit from operations[1]	5,403	5,820	5,641
— restructuring and integration costs	(452)	(246)	(206)
— amortization of trademarks and similar intangibles	(58)	(74)	(63)
— gain on deemed partial disposal of a trademark	—	26	—
— Fox River	27	—	—
— Flintkote	(374)	—	—
	4,546	5,526	5,372
Net finance costs	(417)	(466)	(456)
Share of post-tax results of associates and joint ventures	719	739	676
Analyzed as:			
— adjusted share of post-tax results of associates and joint ventures[1]	712	723	681
— issue of shares and change in shareholding	14	22	20
— restructuring and integration costs	4	(4)	(24)
— MSA receipts	5	33	—
— other	(16)	(35)	(1)
	719	739	676
Profit before taxation	4,848	5,799	5,592
Taxation on ordinary activities	(1,455)	(1,600)	(1,516)
Profit for the year	3,393	4,199	4,076

Note:

(1) Gross turnover, adjusted profit from operations and adjusted share of post-tax results of associates and joint ventures are non-GAAP measures and are defined within the section entitled *"Presentation of Financial and Other Data"*.

Selected Group Balance Sheet Data	As of December 31, 2014	2013	2012
		(£ millions) (audited)	
Assets			
Non-current assets	17,035	17,363	18,141
Current assets[(1)]	9,132	9,518	9,186
Total assets	26,167	26,881	27,327
Liabilities			
Non-current liabilities[(2)]	11,584	11,510	11,406
Current liabilities[(3)]	8,769	8,436	8,142
Total liabilities	20,353	19,946	19,548
Net assets	5,814	6,935	7,779
Selected Group Cash Flow Statement Data			
Net cash from operating activities	3,716	4,436	4,427
Net cash used in investing activities	(470)	(335)	(400)
Net cash used in financing activities	(3,467)	(3,967)	(3,954)
Net cash flows (used in)/from operating, investing, and financing activities	(221)	134	73
Differences on exchange	(63)	(197)	(176)
Decrease in net cash and cash equivalents in the year	(284)	(63)	(103)
Opening net cash and cash equivalents	1,776	1,839	1,942
Closing net cash and cash equivalents	1,492	1,776	1,839

Notes:

(1) As of December 31, 2014, 2013 and 2012, current assets included cash and cash equivalents of £1,818 million, £2,106 million and £2,081 million, respectively.

(2) As of December 31, 2014, 2013 and 2012, non-current liabilities included borrowings of £9,779 million, £9,716 million and £9,083 million, respectively.

(3) As of December 31, 2014, 2013 and 2012, current liabilities included borrowings of £2,479 million, £1,980 million and £1,636 million, respectively.

RISK FACTORS

The following factors may affect our ability to fulfill our obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Group is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which could be material for the purpose of assessing the market risks associated with the Notes are also described below. We believe that the factors described below represent the principal risks inherent in investing in the Notes. Prospective purchasers of the Notes offered hereby should note that our inability to pay interest, principal or other amounts on or in connection with any Notes may occur for reasons other than those stated below and we do not represent that such statements below regarding the risks of holding any Notes are exhaustive. Prospective purchasers of the Notes should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decisions. Purchasers may lose the value of their entire investment in certain circumstances.

Risks related to the tobacco industry and our business

Significant increases in tobacco-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted in numerous jurisdictions. These tax increases may result in a decline in overall sales volume for our products or may alter our sales mix in favor of value-for-money brands.

Tobacco products are subject to high levels of taxation, including excise taxes, sales taxes and import duties in most markets in which we operate. In many of these markets, taxes are generally increasing but the rate of increase varies between markets and between different types of tobacco products. Significant or unexpected increases in tobacco taxes, the introduction of laws establishing minimum retail selling prices, changes in relative tax rates for different tobacco products or adjustments to excise structures, may result in a decline in overall sales volume for our products or alter our sales mix in favor of value-for-money brands and may adversely impact working capital and lead to loss of profit. Increases in tobacco-related taxes or changes to excise structures can limit our ability to increase the prices on tobacco products or could necessitate absorption of tax increases. Additionally, tax increases can also lead to portfolio erosion and growth in illicit trade.

Competition from illicit sources may have an adverse effect on our overall sales volume, restricting the ability to increase selling prices and damaging brand equity.

Illicit trade and tobacco trafficking in the form of counterfeit products, smuggled genuine products, and locally manufactured products on which applicable taxes are evaded, represent a significant and growing threat to the legitimate tobacco industry. Factors such as increasing tax regimes, regulatory restrictions, compliance requirements and economic downturn are encouraging more consumers to switch to illegal cheaper tobacco products and providing greater rewards for smugglers. Illicit trade can have an adverse effect on our overall sales volume, restrict the ability to increase selling prices, damage brand equity and may lead to commoditization of our products.

Our business faces increasing tobacco control and regulation which may have an impact on our overall sales volume and profit.

Regulation, often introduced without the industry's input, combined with a generally diminishing social acceptance of smoking, has, in certain markets been associated with reduced legal industry volumes and increased illicit trade. In addition, we believe that further tobacco-control regulation is inevitable over the medium term in most of the markets in which we operate, and is driven by guidelines and protocols derived from the World Health Organization's Framework Convention on Tobacco Control ("FCTC") and other tobacco-control activities undertaken outside the FCTC process (e.g., the European Union, the U.S. Food and Drug Administration and domestic regulation). The FCTC is an international public health treaty that establishes a global agenda to regulate tobacco in an effort to reduce tobacco initiation and to encourage tobacco cessation. Over 170 governments worldwide have ratified the FCTC. The FCTC has led to increased efforts by tobacco-control advocates and public health organizations to reduce the supply and demand of tobacco products, and to encourage governments to further regulate the tobacco industry. Many of the measures outlined in the FCTC have been or are being implemented by means of national legislation in many markets in which we operate. Most regulation or potential regulatory initiatives can be categorized as follows:

- *Place*: regulations and restrictions on smoking in public and work places (e.g. smoking bans);
- *Product*: regulation on use of ingredients, product design and attributes (e.g. ceilings regarding tar, nicotine and carbon monoxide yields), as well as product disclosures (e.g. ingredients and emissions);

- *Packaging and labeling*: regulation on pictorial health warnings, rotating health warnings, use of descriptors, size of warnings and other government mandated messages, and plain packaging with all the attendant implications for the ability to fully utilize trademarks and other intellectual property rights;
- *Promotion and advertising*: regulation on communications to consumers regarding tobacco products;
- *Purchase*: regulation on the manner in which tobacco products are sold, such as type of outlet (e.g. supermarkets and vending machines) and how they are sold (e.g. above the counter versus beneath the counter); and
- *Price*: regulations which have implications on the prices which manufacturers can charge for their tobacco products (e.g. by excise or minimum prices).

These types of tobacco-control regulations can impact our ability to compete, customers' ability to differentiate products and, in particular, may promote overall volumes of illicit tobacco products and may have an impact on our overall sales volume and value, as well as increasing operational complexity and our cost of doing business. We are further affected by the uncertain regulatory environment in respect of non-tobacco nicotine products, including the classification of products and restrictions on advertising.

Further, taking into account the significant number of regulations, including sanctions, that may apply to our businesses across the world, it is possible that we may be subject to claims for breach of such regulations. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims, in particular, considering the speed and spread of any accusations through social media.

Our business faces significant tobacco-related and other litigation that could substantially reduce our profitability and could severely impair our liquidity.

We have legal and regulatory proceedings related to tobacco products pending in 24 jurisdictions, including the United States and Canada. These proceedings comprise claims for personal injury (both individual claims and class actions); claims for economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments); and challenges to tobacco regulation. There are also proceedings ongoing that are not directly related to tobacco products, including: an insolvency preference claim, a price fixing claim, a claim relating to a company acquisition and an indirect environmental pollution claim. These various proceedings could give rise to material liability.

In the United States, our subsidiary Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) ("B&W"), is a defendant in a number of product liability cases. In a number of cases, the amounts of compensatory and punitive damages sought may range into the millions and, in some cases, billions of dollars. Although we have the benefit of an indemnity from R.J. Reynolds Tobacco Company ("RJRT"), a subsidiary of Reynolds American, our associate company in which we hold an approximately 42 per cent ownership interest through B&W, with respect to a broad range of U.S. tobacco-related litigation concerning B&W, if RJRT is unable or unwilling under any particular circumstances to settle or honor the indemnity, we are at risk to the extent that the costs related to any liability cannot be recouped through the indemnity. See "*Business — Legal Proceedings*".

In Canada, claims for economic loss arising from the treatment of smoking and health-related diseases are being brought by provincial governments in ten provinces. Legislation in two of the three territories has received the Royal Assent but is still not in force. There are similar claims in five other jurisdictions: Nigeria, South Korea, Argentina, Brazil and the United States. In Nigeria there are six actions. In addition to the medical cost recoupment actions, there are also 11 class actions in Canada spread over seven provinces. Judgment in two class actions in Quebec was released on June 1, 2015, and provisional execution was ordered against the defendants. Both the judgment and the provisional execution will be appealed in the Quebec Court of Appeal. See "*Business—Legal Proceedings—Litigation—Product Liability Outside the United States—(b) Class Actions—Canada*".

Regulations have been adopted in Brazil and Canada prohibiting the use of almost all additives in the manufacture of tobacco products. The Canadian ingredients ban became effective on July 5, 2012. The ingredients ban in Brazil was due to come into effect on September 16, 2013. However, both the federal Supreme Court and the federal court have issued injunctions suspending the effect of the regulations pending an appeal by a Brazilian tobacco industry union. In parallel, on August 27, 2013, the Brazilian health agency published a "normative instruction" authorizing the use of 121 ingredients (excluding menthol) for a period of 12 months. On November 18, 2013, a favorable ruling was returned at first instance in one set of proceedings (which is under appeal). Further proceedings and a constitutional challenge are still underway.

In Australia, the Tobacco Plain Packaging Act 2011 has now been adopted, and implementation regulations have been issued. Plain packaging measures have therefore been required in Australia as of December 1, 2012. There are, however, challenges to these regulations being brought before the World Trade Organization by Ukraine, Honduras, the Dominican Republic, Cuba and Indonesia. Similar plain packaging measures have been enacted by Ireland and the UK, but will not take effect before May 2016.

In the European Union, the new Tobacco Products Directive (2014/40/EU) has been adopted, and EU Member States have been given until May 2016 to transpose its requirements into national law. Among other things, the Directive will ban the sale of flavored tobacco products. Menthol-flavored cigarettes will be exempted from the ban until May 2020. We and a number of other parties have challenged the validity of the Directive. Those challenges are currently pending before the Court of Justice of the European Union.

The FCTC encourages litigation against tobacco product manufacturers, and, accordingly, we anticipate that new legal claims may arise in the ordinary course of business. Certain rulings in respect of existing cases, if considered favorable to plaintiffs, may give rise to further litigation by others. We are also increasingly involved in bringing regulatory challenges in response to the introduction of tobacco control measures which we believe to be unreasonable. Again, the adoption of such measures is, in part, being driven by the World Health Organization and the elaboration of guidelines for the implementation of the FCTC. Therefore, our consolidated results of operations, cash flows and financial position could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of certain pending or future litigation, including through exposure to substantial liabilities as a result of such outcomes. This, in turn, could materially increase our costs, including costs associated with bringing proceedings and defending such claims, which includes exposure to adverse costs orders. Any negative publicity resulting from these claims may adversely affect our reputation. See "*Business — Legal Proceedings*".

We are exposed to funding and liquidity, foreign exchange rate, interest rate, and counterparty risks.

Funding and liquidity risks expose us to shortages of cash and cash equivalents needed in our operations and for refinancing our existing debt. We cannot be certain that we will have access to bank finance or to the debt and equity capital markets at all times. Some markets in which we operate are subject to currency controls and other limitations on currency convertibility which can affect the ability to pay for imports as well as impede dividend remittances and similar payments, and access to cash balances. Failure to achieve access to funding and foreign exchange may have an adverse effect on our funding and liquidity position, our credit ratings or our ability to finance acquisitions.

We are exposed to changes in currency rates on the translation of the net assets of overseas subsidiaries into our reporting currency, the pound sterling. We are also exposed to currency changes from the translation of profits earned in overseas subsidiaries; these exposures are not normally hedged. Exposures also arise from the foreign currency denominated trading transactions undertaken by subsidiaries and dividend flows. We maintain both floating and fixed rate debt. Where appropriate, we also use derivatives, primarily interest rate swaps, to vary the fixed to floating mix. Changes in currency values and interest rates could have an adverse impact on our financial condition or operations.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. The failure of any counterparty to meet our payment obligations or performance undertakings to us or the deterioration in the financial condition of one or more of our trading partners could have an adverse effect on our financial condition or operations. In addition, the failure of a transactional banking counterparty could cause disruption to our operations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Risk Management — Credit Risk*".

We are exposed to risks inherent in operating in a global market.

We operate in over 200 markets. Our results of operations and financial condition are influenced by the economic, regulatory and political situations in the markets and regions in which we have operations, which are often unpredictable and outside of our control. Some markets in which we operate face the threat of increasing civil unrest and can be subject to frequent changes in regime. In others, terrorism, conflict, the threat of war or criminal activity may have a significant impact on the business environment. Some markets maintain trade barriers or adopt policies that favor domestic producers, preventing or restricting our sales. Political, social, legal, economic, trade or other developments, sanctions, as well as theft and fraud, may have an adverse impact on our investments and businesses or on our consolidated results of operations. National and international sanction regimes may affect jurisdictions where we operate or third parties with whom we may have commercial relationships and could lead to supply and payment chain disruptions.

Our results are also impacted by factors such as the prevailing economic climate, governmental austerity measures, levels of employment, inflation, governmental action to increase minimum wages, employment costs, interest rates, increase in raw material costs, consumer confidence and consumer perception of economic conditions, and any change to such factors in any of the markets in which we operate could affect consumer behavior and have an impact on our revenue, margins and cash flow.

Our business may be significantly impacted by constantly changing tax laws and tax rates from around the world.

We operate in over 200 markets and pay tax in accordance with the tax legislation of those markets. Tax laws and tax rates around the world frequently change and these changes may have a significant impact on the taxes we must pay and may have an impact on our net profits, which could be material. Further, taking into account the frequent changes to tax regulations, it is possible that we may be subject to claims for breach of such regulations, including for late or incorrect filings or for misinterpretation of rules. We could be subject to significant financial penalties, including payment of interest, in the event of an unfavorable ruling by a tax authority in a disputed area.

We may be faced with potentially onerous liabilities in the event that we breach environmental, health and safety laws of the jurisdictions in which we operate.

If we fail to manage properly the environmental risks and the operational, health and safety laws and regulations to which we are subject, this could result in business disruption, additional and potentially significant remedial costs and damages, fines, sanctions or other legal consequences and could have a negative impact on our reputation. In addition, changes to local regulations or of the legal environment in which we operate may result in additional costs which could adversely affect our operations and financial condition and the value of our assets. See "*Business — Environmental Matters*".

Our licenses to use certain brands and trademarks may be terminated or not renewed.

Some of the brands and trademarks under which our products are sold are licensed to us for a fixed period of time in respect of specified markets, such as the right to use the *Camel*, *Winston* and *Salem* brands and trademarks in various markets in Latin America. In the event that the license to use any of such brands and trademarks is terminated or is not renewed after the end of the term of the relevant license, we will no longer have the right to use, and to sell products under, such brand(s) and trademark(s) in the relevant markets and this could have an adverse effect on our business, results of operations and financial condition. See "*Business — Intellectual Property*".

We are exposed to intellectual property rights infringements as a result of limitations in judicial protection and/or inadequate enforceability.

The brand names under which our products are sold are key assets of our business. Investments over a period of time have led to many of our brands having significant brand equity and a global appeal to consumers, essential to delivering sustainable profit growth into the future. The protection and maintenance of the reputation of these brands is important to our success. In some of the markets in which we operate, the risk of intellectual property rights infringement remains high as a result of limitations in judicial protection and/or inadequate enforceability. Any substantial erosion in the value of our brands could have a material adverse effect on our business, results of operations and financial condition. Our strategy or our execution may not maintain the value in any of our product brands. In addition, as third party rights are not always identifiable, it is possible that we may be subject to claims for infringement of third party intellectual property rights, which could result in interim injunctions, product recall and payment of damages. See *"Business — Intellectual Property"*.

Our market share and profitability may be adversely affected by competitive actions and pricing pressures in the marketplace.

We operate in highly competitive businesses and geographical markets, which are experiencing industry consolidation. To maintain a competitive advantage, we must anticipate and respond to new consumer trends through continuous innovation to ensure that brand offers remain consumer relevant. We also seek to develop and market new products, packaging and technologies, including products which potentially have reduced risk such as non-tobacco nicotine products. We might be unsuccessful in developing or rolling out new generation products or other innovations which complement our product portfolio, or to extract value from such innovations and investments. Competitors' speed-to-market in branding changes, new product launches, or changes in product mix, as well as our potential failure to predict changes in consumer behavior, to install sufficient manufacturing capacity to meet such new or increased demand or to take appropriate pricing decisions, could have an adverse effect on our operations and results.

Our business is vulnerable to the effects of a tough trading environment.

In tough competitive environments, where the price burden on consumers is high because of taxation, limited purchasing power or reduced affordability, our ability to raise prices could be limited. In addition, we may be vulnerable to market size reduction, customer down-trading (including to fine cut), illicit trade and competitors aggressively taking market share through price repositioning, which generally has the impact of reducing the overall profit pool of the market and therefore our profits.

We may lose market share and profit due to the loss of production capacity or key suppliers, distribution interruption or commodity risk.

There are some product categories in respect of which we do not have over capacity or where substitution between different production plants is very difficult. We may lose market share and profit in the event of loss of or insufficient production capacity needed to supply our products or meet increased demand. We have an increasingly global approach to managing our supply chain, covering direct agronomy services support to leaf growers, direct and indirect procurement, tobacco products manufacturing and distribution, with the aim of reducing complexity and rationalizing manufacturing sites and suppliers (where appropriate) to leverage economies of scale while maintaining quality standards. Supply chain rationalization projects, including the factory footprint, require significant project management. Severe disruption to any aspect of our supply chain or suppliers' operations or deterioration in the financial condition of a trading partner could have an adverse impact on our ability to produce and deliver products meeting customer demands. A continuing industry consolidation among distributors and suppliers could lead to reduced efficiency, higher costs and concentrated risk of supply chain interruptions. In certain markets, distribution of our products is through channels managed by third parties, and is often licensed by governments. In these instances, our sales volume may be adversely affected by the loss of such distributions.

Further, raw materials and other inputs, such as leaf, wood pulp and energy, used in our businesses are commodities that are subject to price volatility caused by factors including weather conditions, growing conditions, climate change, local planting decisions, market fluctuations and changes in agricultural regulations. Our access to raw materials may be adversely affected by a significant event occurring in one or more major leaf growing areas. Climatic instability may have a negative impact on the business, which may include decreased quantity and/or quality of leaf, increased prices, reallocation of growing areas and factories or supply-chain disruptions. Commodity price changes beyond our control may result in unexpected increases in raw materials and packaging costs for our products. We may not be able to increase our prices to offset these increased costs without suffering reduced sales volume and income.

We have operations in geographic areas where full insurance coverage against damage resulting from natural disasters may not be obtainable or coverage may be subject to other limitations. We may be unable to recover any damages covered by our insurance or obtain certain types of insurance in the future.

Contamination of our products could adversely impact sales volume, market share and profitability.

Our market position may be affected through the contamination of our products, either by accident or deliberately with malicious intent during the manufacturing process or supply chain. In these instances, significant costs may be incurred in recalling products from the market. In addition, consumers may lose confidence in the specific brand affected by the contamination, resulting in a loss of sales volume which may take a long time to recover, or we could be subject to legal action. During this time, our competitors may increase substantially their market share which would subsequently be difficult and costly to regain.

Failure to successfully design, implement and sustain an integrated operating model or to deliver costs savings may reduce profitability.

We aim to improve profitability and productivity through supply chain improvements and the implementation of a new global operating model, including standardization of processes and shared back-office services. The failure to successfully design, implement and sustain the integrated operating model and organizational structure could lead to unrealized benefits, increased costs, disruption to operations, decreased trading performance and reduced market share, which in turn could further reduce profitability and funds available for investment in long-term growth opportunities.

We may be exposed to reduced trading performance in key markets.

A substantial majority of our profit from operations is based on our operations in 13 markets. Our reported profits may be adversely affected by a significant downturn in one or more of these larger markets.

We may be adversely affected by our market position in certain markets.

We have leading market shares, or are one of a small number of tobacco companies, in certain markets in which we operate. As a result, we may be subject to investigation for alleged abuse of our position in markets in which we have significant market shares or for alleged collusion with other market participants, which could result in adverse regulatory action by the authorities, including monetary fines and negative publicity.

We may not be able to expand our portfolio through successful mergers, acquisitions or joint ventures and may become liable for claims arising prior to such transactions.

Our growth strategy includes a combination of organic growth as well as mergers, acquisitions and joint ventures. We may not be able to expand our business through successful mergers, acquisitions and joint ventures, to correctly value strategic opportunities or to successfully integrate the businesses that we acquire or establish, or obtain the appropriate regulatory approvals for such acquisitions or joint ventures. The integration of businesses involves risks, including the risk that the integration may divert our focus and resources from our goals and the risk that the integration may take longer and be more expensive than expected. Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities and have a material adverse effect on our business, results of operations and financial condition.

In addition, we may become liable for claims arising in respect of conduct prior to the merger or acquisition of the businesses in the event that we are deemed to be a successor to the liabilities of the acquired company. An adverse judgment against us may adversely affect our business. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Results of Operations — Significant Business Combinations and Acquisitions*".

We may be unsuccessful in our attempts to develop and commercialize consumer-appealing next-generation products.

We devote considerable resources into the research and development of a new generation of nicotine and non-combustible products, some of which may have the potential to reduce the risks of tobacco-related disease. Given the challenges in achieving consumer, regulatory and scientific acceptance of these products, there is a risk that these investments may incur significant costs without achieving financial success. If we do not succeed, but our competitors do, we may be at a competitive disadvantage. Furthermore, the regulatory environment of e-cigarettes, non-combustible products and other non-tobacco nicotine products, including classification of products and excise, is still developing and it cannot be predicted whether regulations will permit the marketing of next-generation products. Categorization as medicines, for example, and restrictions on advertising could stifle innovation, increase complexity and significantly undermine the commercial viability of these products. The occurrence of any of the above described risks could have an adverse effect on our business, financial condition and results of operations.

We may be unsuccessful in launching innovative products that offer consumers meaningful value added differentiation.

We focus our research and development activities on both creating new products and processes and maintaining and improving the quality of our existing products. In a competitive market, we believe that innovation is key to growth of our combustible portfolio. We consider that one of our key challenges in the medium and long-term is to provide consumers with high-quality products that take into account their changing preferences and expectations. The inability to develop and roll-out innovations or consumer relevant combustible products, including any failure to predict changes in consumer and societal behavior and expectations, fill gaps in the product portfolio, as well as poor quality or our inability to timely develop and bring products to market could lead to missed opportunities, under or over-supply, loss of competitive advantage, unrecoverable costs and/or the erosion of our consumer base. Moreover, additional product regulation could further reduce the ability to innovate, as well as differentiate tobacco products as a result of increased restrictions on ingredients and design. The occurrence of any of the above described risks could have an adverse effect on our business, financial condition and results of operations.

Loss of key personnel could have a negative impact on our operations.

We rely on a number of highly experienced employees with detailed knowledge of tobacco and other business-related issues. Unanticipated losses of key employees or the inability to identify, attract and retain qualified personnel in the future could adversely affect our business operations.

Reliance on information technology means that a significant disruption could affect our communications and operations.

We increasingly rely on information technology systems for our internal communications, controls, reporting and relations with customers and suppliers. A significant disruption due to computer viruses, malicious intrusions, the failure of a key supplier of IT services or software for financial or technical reasons, the lack of infrastructure or application resilience, insufficient disaster recovery service levels, the setting up of shared services centers or the installation of new systems could affect our communications and operations. Any data, including confidential information stored or transported by IT systems, could be corrupted, lost or disclosed, causing reputational, competitive or operational damage or legal liability. Restoring or recreating such information could be costly, difficult or even impossible.

We have net liabilities under our retirement benefit schemes which may increase in the future due to a number of factors.

We operate approximately 170 retirement benefit arrangements worldwide. These arrangements have been developed in accordance with local practices in the markets concerned. The majority of our scheme members belong to defined benefit schemes, most of which are funded externally, although we operate an increasing number of defined contribution schemes. The contributions to our defined benefit schemes and their valuations are determined in accordance with the advice of independent, professionally qualified actuaries. Changes in asset returns, salary increases, inflation, long-term interest rates and other actuarial assumptions could have an adverse impact on our financial condition and operations, hence adversely affect our credit rating and our ability to raise funds. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies*".

We may be adversely affected by the performance of our associates.

Although we own an approximate 42 per cent interest in Reynolds American, our associate company in the United States and the parent of RJRT, and an approximate 30 per cent interest in ITC, our associate company in India, we do not have control over either of these associates. Our ownership interest in Reynolds American and ITC means we may be affected by their businesses and respective financial performances, as they are subject to tobacco-related industry and business risk factors similar to those we face.

Our business may be negatively affected by the eurozone debt crisis.

Our businesses and performance are influenced by local and global economic conditions and perceptions of those conditions and future economic prospects. In recent years, the global markets and economic conditions have been negatively impacted by market perceptions regarding the ability of certain EU member states to service their sovereign debt obligations, together with the risk of contagion to other, more stable, countries. The large sovereign debts and/or fiscal deficits of a number of European countries and the United States have raised concerns regarding the financial condition of financial institutions, insurers and other corporates: (i) located in these countries; (ii) that have direct or indirect exposure to these countries; and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, as well as the breakup of or exits from the European Union and/or eurozone, could cause severe stress in the financial system generally and on the euro as a currency, could disrupt the banking system generally and adversely affect the markets in which we operate and the businesses and economic condition and prospects of our counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. In addition, these risks, alone or in combination with regulatory changes, including devaluation of local currencies and increased inflation, or actions of market participants, may increase our exposure to foreign exchange rate risks and cause a loss of competitiveness from increased production cost and lower revenue, increased customer down-trading, significant write-downs of stock and a growth in illicit trade.

Risks related to the Issuer, the Guarantors and the Notes

An active trading market for the Notes may not develop, and the transfer of the Notes will be subject to restrictions.

The Notes are a class of securities that have never been traded. We have applied for the admission of the Notes to listing on the Official List of the UK Listing Authority and to trading on the PSM. However, we cannot assure you that the Notes will be listed on any exchange at the time the Notes are delivered to the Initial Purchasers or at any other time. The Initial Purchasers have informed us that they intend to make a market in the Notes. However, they are not obliged to do so, and may discontinue such market making at any time without notice.

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be sustained or remain liquid. If an active trading market does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have developed a secondary market. This is particularly the case for Notes that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives or strategies, or have been structured to meet the investment requirements of limited categories of investors. Those types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

The Notes and the Guarantees have not been registered under the Securities Act or any U.S. state securities laws, and neither the Issuer nor the Guarantors have any obligation or intention subsequently to register or exchange registered securities for the Notes or the Guarantees. Accordingly, the Notes and related Guarantees can only be offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. Therefore, a Noteholder may be required to bear the risk of its investment for an indefinite period. It is your obligation to ensure that your offers and sales of the Notes within the United States and other markets comply with applicable securities laws. See "*Notice to Investors*".

BAT and BATHTN are holding companies.

BAT and BATHTN are holding companies with no revenue-generating operations of their own. The business of BAT is carried out through a number of operating subsidiaries and associated companies. Consequently, BAT and BATHTN will depend upon dividend and other payments from operating subsidiaries to provide the funds necessary to pay the principal of, and the interest on, the Notes. These operating subsidiaries and associated companies have not guaranteed the Notes, and have no obligation, contingent or otherwise, to pay amounts due under the Notes or the Guarantees or to make funds available for these payments, whether in the form of loans, dividends or otherwise. The ability of the operating subsidiaries to make dividend or other payments to BAT or BATHTN will depend on their cash flows and earnings which, in turn, will be affected by all of the factors discussed herein. In addition, under the corporate laws of many jurisdictions, including the United Kingdom, the ability of some subsidiaries and associates to pay dividends is limited to the amount of distributable reserves of such companies.

Noteholders will have a direct claim based on the Notes against the Issuer and based on the Guarantees against the Guarantors, but will not have a direct claim based on the Notes or the Guarantees against any operating subsidiaries. The right of the Noteholders to receive payments under the Notes and the Guarantees will be structurally subordinated to all liabilities of the operating subsidiaries and associated companies. These liabilities include debt that some of our subsidiaries have incurred under bank facilities. In the event of a bankruptcy, liquidation, reorganization or similar proceeding relating to a subsidiary, the right of Noteholders to participate in a distribution of the assets of such subsidiary will rank behind such subsidiary's and associated companies creditors (including trade creditors) and preferred stockholders (if any), except to the extent that BAT or BATHTN have direct claims against such subsidiary.

The Notes will initially be held in book-entry form and therefore you must rely on the procedures of relevant clearing systems to exercise any rights and remedies.

Unless and until Notes in definitive registered form, or definitive registered Notes, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of notes. DTC, or its nominee, will be the registered holder of the Rule 144A and Regulation S Global Notes for the benefit of its participants including Euroclear and Clearstream, Luxembourg. After payment to the registered holder, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of DTC, Euroclear and/or Clearstream, Luxembourg, and if you are not a participant in DTC, Euroclear and/or Clearstream, Luxembourg, on the procedures of the participants through which you own your interest, to exercise any rights and obligations of a holder under the Fiscal and Paying Agency Agreements. See "*Book Entry, Delivery and Form*".

Unlike the holders of Notes themselves, owners of book-entry interests will not have any direct rights to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear and/or Clearstream, Luxembourg or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters on a timely basis.

Similarly, upon the occurrence of an event of default under the Fiscal and Paying Agency Agreements, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC, Euroclear and/or Clearstream, Luxembourg. The procedures to be implemented through DTC, Euroclear and/or Clearstream, Luxembourg may not adequate to ensure the timely exercise of rights under the Notes. See "*Book Entry, Delivery and Form*".

Investors in the Notes may have limited recourse against the independent auditors.

In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, the independent auditors' reports state that: they were made solely to BAT's or the Issuer's members (as applicable), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006; the independent auditors' work was undertaken so that the independent auditors might state to the relevant members those matters that were required to state to them in an auditors' report and for no other purpose; and, to the fullest extent permitted by law, the independent auditors do not accept or assume responsibility to anyone other than BAT's or the Issuer's members (as applicable) as a body, for their audit work or the opinions they have formed. The independent auditors' reports in respect of BAT are included on pages F-2 and F-100 of this Offering Memorandum, and in respect of the Issuer on pages of F-217 and F-247. The Commission would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act or in a report filed under the Exchange Act. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Notes may have against the independent auditors based on their report or the consolidated financial information to which it relates could be limited. See "*Independent Auditors*".

A holder's actual yield on the Notes may be reduced from the stated yield by transaction costs.

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for their own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional domestic or foreign parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, holders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties.

A holder's effective yield on the Notes may be diminished by the tax impact on that holder of their investment in the Notes.

Payments of interest on the Notes, or profits realized by the holder upon the sale or repayment of the Notes, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. However, the tax impact on an individual holder may differ from the situation described for holders generally. See "*Certain Taxation Considerations*".

Floating Rate Notes.

The interest of the Noteholders of each series of Notes may not be consistent with those of the Noteholders of the other series. For example, the Floating Rate Notes will bear interest at a floating rate and will have other features that will differ from the other series of Notes offered hereby. As a result of these differences, the interests of Noteholders of the Floating Rate Notes and the interests of the other Noteholders could conflict. Floating Rate Notes can be a volatile investment. A holder of a Floating Rate Note carries the risk of fluctuating interest rate levels and uncertain interest earnings. Interest rate fluctuations make it impossible to determine the yield of Floating Rate Notes in advance. Investors in Floating Rate Notes should bear in mind that neither the current nor the historical level of the relevant floating interest rate is an indication of the future development of such floating interest rate during the term of any Floating Rate Note.

A holder may be subject to the EU Savings Tax Directive.

Under EU Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive") each member state of the European Union (each an "EU Member State") is required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to, or secured by such a person for the benefit of, an individual resident or to, or secured for, certain other types of entity established in that other EU Member State, except that, for a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other markets and territories and subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld).

The Council of the European Union has adopted a Directive (the "Amending Directive") which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by January 1, 2016, which legislation must apply from January 1, 2017.

The European Commission has published a proposal for a Council Directive repealing the Savings Directive from January 1, 2016 (January 1, 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the Economic and Financial Affairs Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the Economic and Financial Affairs Council meeting of November 26-27, 2000. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Notes may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

The Notes are unsecured obligations of the Issuer and are subordinated to secured obligations on insolvency.

Holders of secured obligations of the Issuer will have claims that are prior to the claims of holders of the Notes to the extent of the value of the assets securing those other obligations. The Notes are effectively subordinated to secured indebtedness to the extent of the value of the assets securing those other obligations. In the event of any distribution of assets or payment in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, the assets securing the claims of secured creditors will be available to satisfy the claims of those creditors, if any, before they are available to unsecured creditors, including the holders of the Notes. In any of the foregoing events, there is no assurance to holders of the Notes that there will be sufficient assets to pay amounts due on the Notes. As a result, holders of the Notes may receive less, ratably, than holders of secured obligations.

The trading market for debt securities may be volatile and may be adversely impacted by many events.

The market for debt securities is influenced by economic and market conditions, interest rates, currency exchange rates, and inflation rates in the European Union and other industrialized countries and areas. There can be no assurance that events in the eurozone or elsewhere will not cause market volatility, or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect.

Exchange rate risks and exchange controls may adversely impact currency conversions of principal and interest paid on the Notes.

The Issuer will pay principal and interest on the Notes in U.S. dollars (the "Specified Currency"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the

Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease the Investor's Currency equivalent yield on the Notes, the Investor's Currency equivalent value of the principal payable on the Notes and the Investor's Currency equivalent market value of the Notes.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

We may be able to incur substantially more debt in the future.

We may be able to incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may be secured by some or all of our assets. The terms of the Notes will not limit the amount of indebtedness we may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that we now face.

USE OF PROCEEDS

The proceeds to the Issuer from the offering are estimated to be approximately $4,478,585,000, after deducting commissions. The net proceeds of the offering will be used to indirectly finance the subscription for additional ordinary shares in Reynolds American in connection with the acquisition by Reynolds American of all the shares in Lorillard Inc. and for general corporate purposes, which may include the repayment of certain outstanding debt. Affiliates of certain of the Initial Purchasers are lenders under certain credit facilities to which the Issuer is a party. In the event that the indebtedness which is repaid with the proceeds of the offering includes indebtedness under these credit facilities, these affiliates of the Initial Purchasers will receive a portion of the proceeds of the net offering of the Notes. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Facilities Agreements and EMTN Program"* for further detail as to these credit facility arrangements.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our actual consolidated cash and cash equivalents, capitalization and indebtedness as of December 31, 2014.

You should read this table in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial information, the related notes and the other financial information included in this Offering Memorandum.

	As of December 31, 2014
	(£ millions)
Total cash and cash equivalents	1,818
Current borrowings	2,479
Non-current borrowings	9,779
Total borrowings	12,258
Share capital	507
Share premium, capital redemption and merger reserves	3,923
Other reserves	(498)
Retained earnings	1,578
Total equity attributable to owners of parent	5,510
Total capitalization and indebtedness(1)	17,768

Notes:

(1) Total capitalization and indebtedness includes total current borrowings, total non-current borrowings and total equity attributable to owners of the parent.

(2) The changes in the financing arrangements of the Group since January 1, 2015 include an issue in March of four bonds in the Euro market for a total of €3 billion. They comprised an €800 million bond with a maturity of 2019, an €800 million bond with a maturity of 2023, an €800 million bond with a maturity of 2027 and a €600 million bond with a maturity of 2045. In March 2015, a €1.25 billion bond was repaid at maturity. In February 2015, we signed a bridge facility of £2.5 billion in respect of the proposed investment in Souza Cruz. As of May 1, 2015, the amount available for drawdown was £2.5 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis summarizes the significant factors affecting our results of operations and financial condition during 2014 Year, 2013 Year and 2012 Year. This discussion contains certain forward-looking statements. Actual results could differ materially from those discussed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Memorandum, particularly under the captions "Forward-Looking Statements" and "Risk Factors". This discussion should be read in conjunction with the BAT Financial Information and accompanying notes and other financial information included in this Offering Memorandum. See also "Trading Update and Other Recent Developments".

Overview

We are a global tobacco group with a portfolio of over 200 international and local brands sold in over 200 markets. We maintain the second largest global market share (excluding China and associates) and are organized into four regions: Asia-Pacific; Americas; Western Europe; and EEMEA (excluding our associated companies, consisting primarily of Reynolds American in the United States and ITC in India). We hold robust market positions in each of these regions and have leadership positions in more than 60 countries.

In 2014 Year, we sold approximately 630 billion cigarettes (excluding sales of our associates) produced by 42 cigarette factories in 38 countries. Our five GDBs — *Dunhill*, *Kent*, *Lucky Strike*, *Pall Mall* and *Rothmans* — account for 42 per cent of our total cigarette volume. Our products are balanced across consumer segments and price points and backed by market-leading innovations. We are investing in building a portfolio of innovative new tobacco and nicotine-based products alongside our traditional tobacco business. These next-generation products include e-cigarettes, medicinal nicotine products and tobacco heating products.

We manage a globally integrated supply chain with a focus on flexible and consumer-centric operations, and our products are distributed to retail outlets worldwide. During 2014 Year, we employed more than 57,000 people worldwide. Our workforce is strongly multicultural and we have a devolved structure, with each local company having responsibility for its operations.

Key Factors Affecting Results of Operations

We believe that the following factors have had and will continue to have a material effect on our results from operations and financial condition. In addition, important factors that could cause our actual operations or financial conditions to differ materially from those expressed or implied below, include, but are not limited to, factors indicated in this Offering Memorandum under "*Risk Factors*".

Significant Business Combinations and Acquisitions

Our growth strategy is to increase our sales volume and share of the global tobacco market through organic growth and mergers and acquisitions where it makes financial and strategic sense. During the periods under review, our financial condition and the comparability of our results of operation between periods has been affected by our strategic corporate transactions and may be so affected in the future.

On June 1, 2015, we announced that we had signed an agreement to acquire TDR d.o.o. and other tobacco and retail assets ("TDR") from Adris Grupa d.d. ("Adris") for a total enterprise value of €550 million. The proposed acquisition is subject to a number of anti-trust approvals and Adris shareholder consent. The transaction is expected to complete in October 2015.

On March 3, 2015, we announced that we, through our Brazilian controlled company British American Tobacco Prestação de Serviços Ltda., had filed with the Brazilian securities regulator, the CVM, a request to register a public tender offer to acquire up to all of the 24.7 per cent of Souza Cruz shares which are not currently owned by us and to delist Souza Cruz.

On July 15, 2014, we announced an investment of $4.7 billion in Reynolds American subject to the completion of its proposed acquisition of Lorillard Inc. This will maintain our 42 per cent equity position in a larger, more competitive Reynolds American. A consent decree from the FTC has been received by Reynolds American and the transaction is expected to complete before the end of June 2015.

On August 30, 2013, we announced that CTBAT, a joint investment incorporated in Hong Kong between subsidiaries of CNTC and the Group, had commenced official business operations. The joint venture owns and manages the worldwide international cigarette trademark State Express 555, and also, the worldwide rights outside China to the leading CNTC brand, Shuang Xi. All sales to mainland China are via CNTC.

On July 8, 2013, we announced the completion of a joint venture in Myanmar with I.M.U. Enterprise Limited to manufacture, distribute and market our brands. Under the terms of the agreement, we have contributed plant and machinery and cash to the venture in return for a controlling stake, and will therefore account for the transaction as a business combination.

On December 18, 2012, we acquired CN Creative Limited, a UK-based start-up company specializing in the development of e-cigarette technologies. The company's entire share capital was acquired for £40 million, of which £14 million was paid in 2012 and a further £16 million paid during 2013. The remaining balance of the consideration payable is contingent upon the achievements of certain post-acquisition events. The only material asset acquired was the company's intellectual property.

Our results of operation have also been, and will continue to be, impacted by the corporate transactions of our associated companies.

Industry Trends Affecting Revenue and Profit

Our revenue and profit have been and will continue to be affected by various industry trends including tobacco consumption rates, regulatory developments, taxation, tobacco trafficking, macro-economic challenges and competitive dynamics.

The aggregate number of tobacco consumers worldwide and average consumption rates impact upon our results of operation. Individual smokers are consuming fewer cigarettes on average and it is predicted that in the future smaller percentages of populations will smoke, although this is partially offset by population growth in the emerging markets. The overall value of the tobacco market continues to grow and we believe that global population growth, consumer demand for premium brands and innovative tobacco products, and emerging next-generation product categories will continue to provide strong growth opportunities.

Supported by the World Health Organization's FCTC, regulation of the tobacco industry and our products is becoming increasingly stringent, including plain packaging, the placement of larger graphic health warnings on packs, restrictions on advertising and promotion activities, restrictions on smoking in public places and on the use of ingredients such as flavorings. Driven by the FCTC and U.S. Food and Drug Administration, we expect that the trend toward increased regulation will continue.

The tobacco industry is also exposed to significant product liabilities litigation, including in the United States. We anticipate that we will continue to be exposed to new litigation. Our consolidated results of operations, cash flows and financial position could be materially affected in a particular reporting period by an unfavorable outcome or settlement of certain pending or future litigation. See "*Business — Legal Proceedings*".

In general, rates of excise, duties and other taxes have increased in recent years and we expect this trend to continue. Significant increases in excise rates can drive volume reductions and lead consumers to purchase and consume cheaper brands and/or illicit cigarettes.

The tobacco market has attracted illicit manufacturers and distributors of tobacco. It has been estimated that up to 660 billion illicit cigarettes are smoked every year. We believe that trafficking of tobacco products represents a key challenge for the tobacco industry. Tobacco trafficking is caused by many factors, including tax-driven price increases, weak criminal penalties, poor enforcement of borders and intellectual property rights, corruption, insufficient legislation in certain markets, loosely regulated free trade zones and the growth of the Internet as a trading medium.

The global tobacco market in which we operate is highly competitive and quality and innovation will play an increasing role in delivering market share. These innovations will include next-generation products: new-style tobacco and nicotine products that employ a range of new technologies. Substantial investments have been made in developing cigarette alternatives, including nicotine inhalation products, electronic cigarettes, aerosol nicotine-delivery systems and products that heat tobacco rather than burn it.

Foreign Exchange Movements

Our results are impacted by currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint ventures into our reporting currency, pounds sterling. Our exposure also arises from foreign currency denominated trading transactions undertaken by subsidiaries and forecast dividend flows from subsidiaries. Additionally, in order to prepare our consolidated financial information, we translate the net assets of foreign currency subsidiaries and associates into pounds sterling. Our primary balance sheet translation exposures are to the U.S. dollar, Canadian dollar, euro, Danish krone, Turkish lira, South African rand, Russian ruble, Brazilian real, Australian dollar and Japanese yen.

Movements in foreign exchange rates have impacted our profit from operations. In 2012 Year and 2013 Year, our results were affected by adverse exchange rate movements. In 2014 Year, at the prevailing exchange rates, revenue decreased by 8 per cent and adjusted profit from operations decreased by 7 per cent. At constant rates of exchange, revenue would have increased by 3 per cent and adjusted profit from operations would have increased by 4 per cent.

As a result of the global nature of our business, we expect to continue to be exposed to foreign currency fluctuations.

Restructuring and Integration Costs

Our profit for the three years under review was impacted by initiatives to improve our effectiveness and efficiency as a globally integrated enterprise, including the implementation of a new operating model, which includes revised organization structures, standardized processes and shared back-office services underpinned by a global single instance of SAP. These initiatives also include a review of our manufacturing operations, supply chain overheads and indirect costs, organizational structure and systems and software used.

In 2014 Year, our restructuring and integration costs were £452 million, compared to £246 million in 2013 Year and £206 million in 2012 Year. These costs principally relate to the implementation of a new operating model and the cost of separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover the factory closure and downsizing activities in Australia, Colombia and the Democratic Republic of Congo, and restructurings in Argentina, Indonesia, Canada, Switzerland and Germany.

Discussion of Principal Income Statement Items

Gross Turnover

Gross turnover represents revenue earned from sales of cigarettes, cigars, leaf and other tobacco products, and includes duty, excise and other taxes payable in respect of such sales. Gross turnover is presented because we believe that it and similar measurements are widely used in our industry as a means of evaluating our performance. As such, gross turnover is not a replacement for measures such as revenue or any other performance measures derived in accordance with IFRS or any other body of generally accepted accounting principles, and should not be considered as a substitute for the IFRS-compliant information contained in our audited consolidated financial statements.

Revenue

Revenue principally comprises sales of cigarettes and other tobacco products to external customers. Revenue excludes duty, excise and other taxes and is after deducting rebates, returns and other similar discounts. Revenue is recognized when the significant risks and rewards of ownership are transferred to a third party.

Raw Materials and Consumables Used

Raw materials and consumables include, among other things, tobacco leaf, paper, filters and other packaging materials, and the freight costs of transporting these materials. These costs represented 22 per cent, 22 per cent and 23 per cent of revenue in 2014 Year, 2013 Year and 2012 Year, respectively.

Employee Benefit Costs

Employee benefit costs include wages and salaries, social security costs, pension and other retirement benefit costs and share based payments. These costs, excluding adjusting items, represented 16 per cent, 16 per cent and 16 per cent of revenue in 2014 Year, 2013 Year and 2012 Year, respectively.

Other Operating Expenses

Other operating expenses consist of other costs not separately disclosed on our income statement, and include such items as marketing spend and other costs of secondary supply chains. These costs, excluding adjusting items, represented 28 per cent, 26 per cent and 25 per cent of revenue in 2014 Year, 2013 Year and 2012 Year, respectively.

Results of Associates and Joint Ventures

Associates principally comprise Reynolds American and ITC. In 2014, our interest in ITC decreased from 30.47 per cent to 30.26 per cent as a result of ITC issuing ordinary shares under its employee share option scheme. Our ownership interest in Reynolds American and ITC means we may be affected by their businesses and respective financial performances, as they are subject to tobacco-related industry and business risks similar to those we face.

Consolidated Results from Operations

The discussion of our consolidated results from operations is based on our historical results. Except as set out below, the selected historical financial data discussed in this section for 2014 Year, 2013 Year and 2012 Year has been prepared in accordance with IFRS.

BAT's audited consolidated financial statements for 2014 Year and 2013 Year can be found at F-2 and F-100 of this Offering Memorandum, respectively.

The following table sets forth our historical consolidated financial data. The BAT Financial Information and related notes have been prepared in accordance with IFRS and have been audited or reviewed, as applicable. The selected financial and operating data have been prepared in accordance with IFRS for each of 2014 Year, 2013 Year and 2012 Year, and have been extracted from, and should be read in conjunction with and are qualified in their entirety by reference to, the BAT Financial Information, including the notes thereto, and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*", each of which is included elsewhere in this Offering Memorandum. See "*Available Information and Reports to Noteholders" and "Presentation of Financial and Other Data*".

	Year ended December 31,		
	2014	**2013**	**2012**
		(£ millions) **(audited)**	
Selected Income Statement Data:			
Gross turnover (including duty, excise and other taxes)[1]	42,506	46,185	45,872
Revenue	13,971	15,260	15,190
Raw materials and consumables used	(3,088)	(3,348)	(3,445)
Changes in inventories of finished goods and work in progress	58	105	133
Employee benefit costs	(2,194)	(2,384)	(2,426)
Depreciation, amortization and impairment costs	(523)	(477)	(475)
Other operating income	178	302	245
Other operating expenses	(3,856)	(3,932)	(3,850)
Profit from operations	4,546	5,526	5,372
Analyzed as:			
– adjusted profit from operations[1]	5,403	5,820	5,641
– restructuring and integration costs	(452)	(246)	(206)
– amortization of trademarks and similar intangibles	(58)	(74)	(63)
– gain on deemed partial disposal of a trademark	—	26	—
– Fox River	27	—	—
– Flintkote	(374)	—	—
	4,546	5,526	5,372
Net finance costs	(417)	(466)	(456)
Share of post-tax results of associates and joint ventures	719	739	676
Analyzed as:			
– adjusted share of post-tax results of associates and joint ventures[1]	712	723	681
– issue of shares and change in shareholding	14	22	20
– restructuring and integration costs	4	(4)	(24)
– MSA receipts	5	33	—
– other	(16)	(35)	(1)
	719	739	676
Profit before taxation	4,848	5,799	5,592
Taxation on ordinary activities	(1,455)	(1,600)	(1,516)
Profit for the year	3,393	4,199	4,076

Note:

(1) Gross turnover, adjusted profit from operations and adjusted share of post-tax results of associates and joint ventures are non-GAAP measures and are defined within the section entitled "*Presentation of Financial and Other Data*".

2014 Year compared with 2013 Year

Gross Turnover and Revenue

Our gross turnover (including duty, excise and other taxes) decreased by £3,679 million, or 8 per cent, from £46,185 million for 2013 Year to £42,506 million for 2014 Year.

Over the same period, duty, excise and other taxes paid decreased by £2,390 million, or 8 per cent, from £30,925 million for 2013 Year to £28,535 million for 2014 Year.

Revenue decreased by £1,289 million, or 8 per cent, from £15,260 million for 2013 Year to £13,971 million for 2014 Year. Our results were impacted by the adverse movement of a number of key currencies and this is reflected in an adverse translational exchange rate movement of 11 per cent. Revenue would have been up by 3 per cent at £15,682 million at constant rates of exchange driven by strong pricing in a number of key markets, partly offset by adverse geographic mix and the growth of the lower priced segment in some markets.

Raw Material and Consumables Used

Raw material and consumables costs decreased by £260 million, or 8 per cent, from £3,348 million in 2013 Year to £3,088 million in 2014 Year. Raw material and consumables costs as a percentage of revenue are broadly flat at 22 per cent for 2013 Year and 2014 Year. This is primarily due to efficiencies within our manufacturing and logistics operations and initiatives surrounding the specification, purchase and usage of packaging and leaf materials.

Employee Benefit Costs

Employee benefit costs decreased by £190 million, or 8 per cent, from £2,384 million for 2013 Year to £2,194 million for 2014 Year. This was mainly attributable to decreases in wages and salaries and other pension costs and retirement benefit costs.

Depreciation, Amortization and Impairment Costs

Depreciation, amortization and impairment costs increased by £46 million, or 10 per cent from £477 million for 2013 Year to £523 million for 2014 Year. This was primarily due to impairment in respect of certain property, plant and equipment included in restructuring costs.

Other Operating Expenses

Other operating expenses decreased by £76 million, or 2 per cent, from £3,932 million for 2013 Year to £3,856 million for 2014 Year.

Profit from Operations

As a result of the above, profit from operations decreased by £980 million, or 18 per cent from £5,526 million for 2013 Year to £4,546 million for 2014 Year.

Adjusting Items

In 2014, we continued the implementation of a new operating model. We incurred restructuring and integration costs principally relating to the implementation of the new operating model, the continuation of factory closures in Australia, Colombia and in the Democratic Republic of Congo, and restructurings in Argentina, Indonesia, Canada, Switzerland and Germany, offset by profits on the sale of land and buildings in Turkey, Uganda and the Democratic Republic of Congo. In addition, restructuring and integration costs also include separation packages in respect of permanent headcount reductions and permanent employee benefit reductions. The total restructuring and integration costs were £452 million in 2014 Year, compared with £246 million in 2013 Year.

Adjusting items in 2014 Year also include a payment of £56 million with legal costs of £7 million in connection with a funding agreement entered into by a subsidiary and the parties in respect of the clean-up cost of the Fox River in Wisconsin, which led to a partial release of £27 million from the provision set up in 2011. Adjusting items further include the contingent settlement of the Flintkote asbestos related liability claims, which led to a charge of £374 million.

Adjusted Profit from Operations

Adjusted profit from operations decreased by £417 million, or 7 per cent from £5,820 million for 2013 Year to £5,403 million for 2014 Year. Adjusted profit from operations as a percentage of revenue increased from 38.1 per cent for 2013 Year to 38.7 per cent for 2014 Year. We continue to improve our operating margin through pricing, portfolio development through GDBs, tight cost control, factory rationalization, the implementation of the new operating model, systems standardization and productivity savings.

Net Finance Costs

Net finance costs decreased by £49 million, or 11 per cent, from £466 million for 2013 Year to £417 million for 2014 Year. This decrease principally reflects the lower interest paid as a result of lower borrowing costs, increased net fair value gains and the impact of exchange rate movements.

Taxation

Taxation on ordinary activities decreased by £145 million, or 9 per cent, from £1,600 million for 2013 Year to £1,455 million for 2014 Year. Our effective tax rates of 30.0 per cent for 2014 Year and 27.6 per cent for 2013 Year are affected by the inclusion of the share of associates' post-tax profit in our pre-tax results and by adjusting items. The underlying tax rate for subsidiaries reflected in the adjusted earnings per share was 30.6 per cent for 2014 and 30.7 per cent for 2013. The slight decrease is a result of a change in the mix of profits.

Results of Associates and Joint Ventures

Associates principally comprised of Reynolds American and ITC.

Our share of the post-tax results of associates and joint ventures, included at the pre-tax profit level under IFRS, decreased by £20 million, or 2.7 per cent, from £739 million for 2013 Year to £719 million for 2014 Year, after net adjusting income of £7 million (compared to a £16 million charge in 2013 Year). Our share of adjusted post-tax results of associates and joint ventures decreased by 1.5 per cent to £712 million (compared to £723 million in 2013 Year), or 5.4 per cent at constant rates of exchange.

Our share of the net adjusting items from Reynolds American in 2014 Year amounted to an expense of £7 million (net of tax) compared to an expense of £6 million (net of tax) in 2013 Year, and related to costs in respect of litigation charges, offset by net gains from discontinued activities and settlement of disputed claims.

Our share of the net adjusting items from ITC in 2014 Year amounted to income of £14 million (net of tax), compared to income of £22 million (net of tax) in 2013 Year. Our interest in ITC decreased from 30.47 per cent to 30.26 per cent as a result of ITC issuing ordinary shares under its employee share option scheme, which is treated as a partial deemed disposal and included in our income statement.

Dividends

The total dividend declared per share for 2014 Year was 148.1 pence, an increase of 4 per cent over the 142.4 pence dividend paid for 2013 Year. See *"— Dividends and Dividend Policy"*.

2013 Year compared with 2012 Year

Gross Turnover and Revenue

Gross turnover (including duty, excise and other taxes) increased by £313 million, or 1 per cent, from £45,872 million for 2012 Year to £46,185 million for 2013 Year.

Over the same period, the amount of duty, excise and other taxes paid increased by £243 million, or 1 per cent, from £30,682 million for 2012 Year to £30,925 million for 2013 Year.

Revenue increased by £70 million, or 0.5 per cent, from £15,190 million for 2012 Year to £15,260 million for 2013 Year. Our results were impacted by the adverse movement of a number of key currencies and this is reflected in an adverse translational exchange rate movement. Revenue would have been up 4 per cent at £15,822 million at constant rates of exchange, driven by a price-mix of 7 per cent.

Raw Material and Consumables Used

Raw material and consumables costs decreased by £97 million, or 3 per cent, from £3,445 million for 2012 Year to £3,348 million for 2013 Year. Raw material and consumables costs as a percentage of revenue decreased slightly from 23 per cent for 2012 Year to 22 per cent for 2013 Year.

Employee Benefit Costs

Employee benefit costs decreased by £42 million, or 2 per cent from £2,426 million for 2012 Year to £2,384 million for 2013 Year. This decrease was attributable to a decrease in social security, other pension and retirement benefit costs, marginally offset by an increase in wages and salaries.

Depreciation, Amortization and Impairment Costs

Depreciation, amortization and impairment costs increased by £2 million, or 0.4 per cent, from £475 million for 2012 Year to £477 million for 2013 Year. This was primarily attributable to the impairment of property, plant and equipment and the amortization of trademarks and similar intangibles.

Other Operating Expenses

Other operating expenses increased by £82 million, or 2 per cent, from £3,850 million for 2012 Year to £3,932 million for 2013 Year.

Profit from Operations

As a result of the above, profit from operations increased by £154 million, or 3 per cent, from £5,372 million for 2012 Year to £5,526 million for 2013 Year.

Adjusting Items

Restructuring and integration costs in 2013 Year principally relate to the implementation of a new operating model and the continuation of factory closures in Australia and Russia, and restructurings in Democratic Republic of the Congo, Switzerland and Germany, offset by profits on the sale of land and buildings in Australia, Russia and Denmark. The costs also covered separation packages in respect of permanent headcount reductions and permanent employee benefit reductions. The total restructuring and integration costs were £246 million in 2013 Year, compared to £206 million in 2012 Year.

Adjusted Profit from Operations

Adjusted profit from operations increased by £179 million, or 3 per cent, from £5,641 million for 2012 Year to £5,820 million for 2013 Year. Adjusted profit from operations as a percentage of revenue increased from 37 per cent for 2012 Year to 38 per cent for 2013 Year. We continue to improve operating margin through pricing, portfolio development through GDBs, tight cost control, factory rationalization, the implementation of the new operating model, systems standardization and productivity savings.

Net Finance Costs

Net finance costs increased by £10 million, or 2 per cent from £456 million in 2012 Year to £466 million in 2013 Year. This increase reflects the additional interest costs due on increased borrowings.

Taxation

Taxation on ordinary activities increased by £84 million, or 5.5 per cent from £1,516 million in 2012 Year to £1,600 million in 2013 Year. Our tax rates in the income statement of 27.6 per cent for 2013 Year and 27.1 per cent for 2012 Year were affected by the inclusion of the share of associates' post-tax profit in our pre-tax results and by adjusting items.

The underlying tax rate for subsidiaries, reflected in the adjusted earnings per share, was 30.7 per cent for 2013 Year and 30.6 per cent for 2012 Year. The slight increase is the result of a change in the mix of profits.

Results of Associates and Joint Ventures

Associates principally comprised of Reynolds American and ITC.

Our share of the post-tax results of associates and joint ventures, included at the pre-tax profit level under IFRS, increased by £63 million or 9 per cent, from £676 million for 2012 Year to £739 million for 2013 Year, after net adjusting income of £16 million (compared to an adjusting charge of £5 million for 2012 Year). Our share of the adjusted post-tax results of associates and joint ventures increased by 6 per cent to £723 million (compared to £681 million for 2012 Year), or 8 per cent at constant rates of exchange.

Our share of the net adjusting items from Reynolds American in 2013 Year amounted to an expense of £6 million (net of tax), compared to £22 million (net of tax) in 2012 Year and included losses on extinguishment of debt, litigation related charges, trademark amortization and impairment charges, and adjustment credits under the Master Settlement Agreement between the major U.S. cigarette manufacturers and certain U.S. state attorneys general entered into in 1998 (the "MSA"). Our share of the net adjusting items from ITC in 2013 Year amounted to income of £22 million (net of tax), compared to income of £20 million (net of tax) in 2012 Year. Our interest in ITC decreased from 30.72 per cent to 30.47 per cent as a result of ITC issuing ordinary shares under its employee share option scheme, which is treated as a partial deemed disposal and included in our income statement.

Dividends

The total dividend paid per share for 2013 Year was 142.4 pence, an increase of 6 per cent over the 134.9 pence dividend paid for 2012 Year. See *"— Dividends and Dividend Policy*".

Results of Operations by Geographic Region

We are currently organized into four geographic regions: Asia-Pacific; Americas; Western Europe; and EEMEA (excluding our associate undertakings).

2014 Year compared with 2013 Year

The following table sets forth a breakdown of the sales volume, revenue and adjusted profit from operations by geographic region for 2014 Year and 2013 Year. Reference to "profit" in connection with the discussion of our performance on a by-region basis shall mean adjusted profit from operations, which excludes the effect of adjusting items.

	Sales volume(1)		Revenue(2)		Adjusted profit from operations(2)	
	2014	2013	2014	2013	2014	2013
	(billion) (unaudited)		(£ million) (audited)		(£ million) (audited)	
Asia-Pacific	197	197	3,873	4,203	1,548	1,693
Americas	131	134	2,990	3,317	1,286	1,364
Western Europe	112	119	3,359	3,635	1,189	1,273
EEMEA	227	226	3,749	4,105	1,380	1,490
Total	667	676	13,971	15,260	5,403	5,820

Notes:

(1) Data relating to sales volume by region for 2014 Year and 2013 Year is unaudited and has been extracted from our marketing records.

(2) The selected historical financial data for 2014 Year and 2013 Year has been prepared in accordance with IFRS and extracted, without material adjustment, from our audited consolidated financial statements.

Asia-Pacific

In Asia-Pacific, profit decreased by £145 million to £1,548 million in 2014 Year as a result of a combination of adverse foreign exchange rates and a challenging pricing environment in Australia, partly offset by strong profit performances in Bangladesh, Pakistan and South Korea. At constant rates of exchange, profit would have increased by £20 million or 1 per cent. Sales volume at 197 billion, was the same as 2012 Year, with increases in Bangladesh, Pakistan and Indonesia partially offset by lower sales volume in Vietnam, Australia and South Korea.

In Australia, market contraction and higher illicit trade in 2014 Year impacted industry volume. Profit decreased as a result of a challenging pricing environment. Market share was lower due to down-trading.

Market share declined in Malaysia, driven by down-trading, although total industry volume was lower following industry contraction. Profit was higher, mainly as a result of strong pricing.

In Japan, we delivered exceptionally strong growth in our market share, driven by a strong performance by *Kent*, supported by innovations. Our profits declined as a result of negative mix.

In Vietnam, sales volume in *State Express 555* and *Kent* grew but total share decreased due to share reductions in lower price segments. Profit was adversely impacted by lower volume, which was driven by significant growth in illicit trade and market contraction, caused by an excise driven price increase and economic slowdown.

Profit in South Korea increased as a result of cost savings which more than offset the impact of lower volume. Lower sales volume also led to a reduction in market share, although *Dunhill* maintained its share of the market.

In Taiwan, profit decline was driven by marketing investment. Good performances by *Pall Mall* and *Lucky Strike* achieved a record high market share.

Profit grew in Indonesia following improved mix, reflecting the focus on investment. Sales volume grew due to the strong performance of *Dunhill*, more than offsetting declines in our local brands.

In New Zealand, sales volume and market share fell due to pricing activity related to excise absorption, leading to lower profit.

Sales volume and share growth in Pakistan was due to a strong increase in market share of *Pall Mall*. Profit increased as a result of total volume growth and pricing.

Sales volume and market share growth in the Philippines was driven by the launch of *Pall Mall* during the year, which further developed the portfolio following our market entry in 2013 Year.

Americas

Profit fell by £78 million to £1,286 million in 2014 Year, mainly attributable to exchange rate movements in Brazil, Canada and Venezuela. At constant rates of exchange, adjusted profit would have increased by

£111 million or 8 per cent, driven by good performances from Brazil, Canada, Mexico, Venezuela and Chile. Regional sales volume decreased by 2.3 per cent at 131 billion, mainly as a result of decreases in Brazil, Canada, Chile and Argentina, partially offset by higher volume in Venezuela and Mexico.

In Brazil, strong profit growth was driven by higher pricing and cost saving. Market share grew to a record high, with *Dunhill* performing particularly well in the premium sector. Overall sales volume was lower due to market contraction.

Industry volume was lower in Canada as a result of increases in federal and provincial excise. This was more than offset by higher pricing which led to increased profit.

Profit in Chile grew strongly, driven by pricing partly offset by lower volume. While *Pall Mall* continued to perform well, our volume was lower due to an overall market decline and an increase in illicit trade.

Profit in Venezuela grew strongly as a result of volume and pricing by *Viceroy*, more than offsetting significant local inflation. Sales volume increased due to a strong performance by *Viceroy*.

In Mexico, industry volume increased as a result of the successful roll-out of *Lucky Strike* additive free and the continued growth of *Pall Mall* capsules. Profit was significantly higher, benefiting from increased volume and pricing.

In Colombia, market share was higher driven by *Kool*. Sales volume was lower and increased marketing investment adversely impacted profit.

In Argentina, pricing more than offset the impact of lower volume and led to an improvement in profitability. *Lucky Strike* continued to deliver good share growth in the premium segment.

Western Europe

Profit in Western Europe decreased by £84 million to £1,189 million in 2014 Year. At constant rates of exchange, profit would have decreased by £11 million or 1 per cent, reflecting continued difficult trading conditions. Increased profit in Germany, Hungary and Belgium was offset by reductions in Denmark, Italy and France. Cigarette volume was 5.9 per cent lower at 112 billion in 2014 Year as lower volume in Denmark, Poland, Romania, Hungary and Germany was partly offset by growth in Spain and the UK. *Fine Cut* volume of 21 billion sticks equivalent was up 1.7 per cent as a result of increases in Hungary, Belgium, Luxembourg and Germany.

Profit increased in Germany as a result of higher pricing, which more than offset the impact of lower cigarette volume. *Fine Cut* sales volumes increased, driven by the performance of *Pall Mall*.

Profit and sales volume in Switzerland decreased as a result of market contraction, although *Pall Mall*'s market share increased.

In Italy, market share was lower although market share grew in the final quarter of the year as *Rothmans* continued to perform well. Profit decline was the result of the industry absorption on a 2013 Year VAT increase.

In Romania, decreases in profit and sales volume were as a result of market contraction and down-trading. Market share was maintained.

In France, sales volume was lower due to market contraction and market share was higher due to good growth in *Lucky Strike*. The industry absorbed an increase in excise, which led to a decrease in profit.

Profit significantly decreased in Denmark where industry volume was adversely affected by the trade destocking following a 2013 excise stock build. Market share decreased as a result of competitive pricing activity at the lower end of the market. Profit declined as a result of this.

Volume in the Netherlands was higher as *Lucky Strike* and *Pall Mall* performed well. Profit was flat partly due to down-trading.

Profit in Belgium was higher due to pricing and increased volume. Market share increased as *Lucky Strike* performed well. *Fine Cut* volume and market share also increased.

In the United Kingdom, volume and market share increased due to the growth of *Rothmans*. Profit decreased as investment in the market increased.

In Spain, volume was higher as *Lucky Strike* and *Pall Mall* continued to grow. Profit was stable as increased marketing investment offset the benefit of higher volume.

The roll-out of a new distribution model in Poland increased market share, especially in *Pall Mall*, and improved profitability. Total sales volume declined as a result of market contraction.

EEMEA

Profit in the EEMEA region decreased by £110 million to £1,380 million in 2014 Year. This was principally due to a strong performance in the Middle East and good pricing across the region which was offset by competitive pricing activity in a number of markets, including South Africa, and significant adverse exchange rate movements, notably in Russia, South Africa, Nigeria and Ukraine. At constant rates of exchange, profit would have increased by £135 million or 9 per cent. Regional sales volume at 227 billion in 2014 Year was marginally higher than 2013 Year, with increases in Iran, Turkey and Ukraine more than offset by the effect of industry volume contraction in Russia.

In Russia, market share grew, driven by the strong growth of *Rothmans* and *Lucky Strike*. Total sales volume was lower as a result of market contraction. Strong profit growth was the result of strong pricing and cost savings.

In Turkey, volume growth and stable share were driven by strong performances by *Kent* and *Viceroy*. Profit decreased due to significant price competition in the market.

Market share in South Africa decreased in the second half of the year, driven by competitor pricing activity in the low price segment. Profit was lower as economic weakness and down-trading were not fully offset by pricing and significant cost reduction programs.

In the Gulf Cooperation Council ("GCC") markets, total market share declined. Profit increased as pricing, supported by strong growth in *John Player Gold Leaf*, more than offset lower *Dunhill* volume.

In Nigeria, total sales volume was lower. A drive in cost savings and higher *Benson & Hedges* volume led to an increase in profit.

In Iran, a very strong performance by *Kent* led to significantly higher volume and an increase in profit.

Sales volume in Ukraine was higher as *Rothmans* underpinned strong growth in market share. Profit improved due to robust pricing and increased volume.

A good performance by *Viceroy* in Egypt was more than offset by lower *Rothmans* volume, while excise changes led to down-trading, which adversely affected profit.

2013 Year compared with 2012 Year

The following table sets out a breakdown of the sales volume, revenue and adjusted profit from operations by geographic region for 2013 Year and 2012 Year. Reference to "profit" in connection with the discussion of our performance on a by-region basis shall mean adjusted profit from operations, which excludes the effect of adjusting items.

	Sales volume(1)		Revenue(2)		Adjusted profit from operations(2)	
	2013	2012	2013	2012	2013	2012
	(billions) (unaudited)		(£ millions) (audited)		(£ millions) (audited)	
Asia-Pacific	197	188	4,203	4,214	1,693	1,663
Americas	134	142	3,317	3,460	1,364	1,391
Western Europe	119	129	3,635	3,442	1,273	1,175
EEMEA	226	235	4,105	4,074	1,490	1,412
Total	676	694	15,260	15,190	5,820	5,641

Notes:

(1) Data relating to sales volume by region for 2013 Year and 2012 Year is unaudited and has been extracted from our marketing records.

(2) The selected historical financial data for 2013 Year and 2012 Year has been prepared in accordance with IFRS and extracted, without material adjustment, from our audited consolidated financial statements.

Asia-Pacific

In Asia-Pacific, profit increased by £30 million to £1,693 million in 2013 Year as a result of strong performances in Japan, Australia, New Zealand, Pakistan, Bangladesh and Taiwan, partially offset by South Korea and Japan, as well as continued investment in Indonesia and unfavorable exchange rate movements. At constant rates of exchange, profit would have increased by £124 million, or 7 per cent. Sales volume at 197 billion increased by 5 per cent, with increases in Pakistan, Bangladesh, Vietnam, Indonesia and the Philippines, partially offset by lower volumes in Japan and Malaysia.

In Australia, profit increased as a result of higher pricing and continued cost saving initiatives, partially offset by lower volume. Illicit trade increased following the introduction of plain packaging and the market share was lower.

In New Zealand, market share was higher however volume was impacted by the industry contraction. Profit increased strongly due to price increases and cost savings.

Market share grew strongly in Malaysia, driven by the strong performance of *Dunhill*, strengthening our leadership position. Profit was higher mainly as a result of the adverse impact of lower volume due to market contraction which was offset by higher pricing.

In Japan, despite significant competitor activity, there was good market share momentum exiting 2013 Year, driven by the introduction of innovations. Profit was adversely affected by a decrease in volume as a result of industry contraction, as well as exchange rate movements.

In Vietnam, sales volume and market share grew, driven by the strong performance of *State Express 555*. Profit increased as a result of growth in the premium segment, higher pricing and increased volume.

In South Korea, higher sales volume also led to a reduction in market share, despite intense competitor activities resulting in market share slightly lower than last year. *Dunhill* held share and grew volume. Profit was impacted by higher marketing investment, partially offset by cost savings.

In the Philippines, as a result of the market entry following the removal of the discriminatory excise structure, *Lucky Strike* increased in volume and market share.

In Pakistan, strong performances by *Pall Mall* and *John Player Gold Leaf* drove market share to a record high, strengthening our leadership position. Profit increased significantly as a result of the higher volume, cost savings and increased pricing.

In Bangladesh, significant growth in profit was the result of a strong increase in market share and higher volume.

In Indonesia, the significant increase in volume was driven by *Dunhill*, the fastest growing brand in one of the largest tobacco markets in the world. Profitability was impacted by higher marketing investment, lower volume in low-priced brands and higher clove prices.

Americas

Profit decreased by £27 million in 2013 Year, mainly attributable to exchange rate movements in Brazil and Venezuela. At constant rates of exchange, profits would have increased by £62 million or 4 per cent. Good performances from Brazil, Canada and Mexico were partially offset by adverse exchange rate movements and lower contributions from Chile and Colombia. Regional sales volume decreased by 6 per cent to 134 billion, mainly as a result of decreases in Brazil, Argentina and Chile, partially offset by increases in Mexico and Venezuela.

In Brazil, strong profit growth was driven by higher pricing and cost savings. This good result was more than offset by adverse exchange rate movements. Market share rose strongly but sales volume was down due to market contraction after significant excise increases and a subsequent rise in illicit trade.

Profit increased in Canada, benefiting from the stronger performance in the premium segment, price increases and a lower cost base. Volume and market share were lower.

In Mexico, substantial market share growth was led by the strong performance of *Pall Mall* and the capsules innovation. A significant increase in profit was the result of higher volume and improved pricing, while illicit trade volume reduced.

In Argentina, the strong performance of *Lucky Strike* led to a higher market share and also to an increased share of the premium segment. Profit was lower as a result of reduced volume and inflation-driven cost pressures which were not fully recovered through higher pricing.

In Chile, although *Dunhill* and *Pall Mall* performed very well, profit was lower, impacted by a decrease in volume, while market share was slightly down.

Market share in Venezuela was higher, boosted by *Viceroy* and *Lucky Strike*, and overall volume increased. Profit was significantly down, driven by the transactional impact of the currency devaluation.

In Colombia, volume increased; however, market share was slightly lower. Profit was adversely impacted by one-off costs.

Western Europe

Profit in Western Europe increased by £98 million to £1,273 million in 2013 Year, mainly as a result of strong performances in Germany, Switzerland, Belgium, Denmark, Sweden, the United Kingdom and Romania, partially offset by declines in Italy, the Netherlands and Spain. At constant rates of exchange, profit would have increased by £47 million or 4 per cent. Regional sales volume was lower at 119 billion as a result of market contractions in Italy, Spain, Poland, the Netherlands, Germany and France. *Fine Cut* volume at 21 billion sticks equivalent was up 1.3 per cent as a result of increases in Italy, Germany, Poland and Belgium, partly offset by decreases in the Netherlands and Greece.

In Italy, after its successful re-launch, *Rothmans* had good share growth and exited the year with continued momentum. Despite this, difficult trading conditions persisted, which resulted in a profit decline. Share and volume in the *Fine Cut* segment grew.

Profit increased strongly in Germany. Sales volume was lower, in line with industry decline. Good share growth by *Lucky Strike* resulted in a stable overall market share. In the *Fine Cut* segment, share and volume grew due to the performance of *Pall Mall*.

In France, sales volume was lower and market share was stable and, together with a good performance from *Lucky Strike*, profit was stable, benefiting from exchange rate movements.

Sales volume in Spain continued to decrease sharply. Profit was adversely affected by volume decline and lower market share, partially offset by a lower cost base.

Profit increased in Switzerland as a result of higher pricing and lower costs, partially offset by volume and market share decline.

Profit increased in Belgium as a result of price increases, lower costs and strong growth in *Fine Cut* as a result of the good performance by *Pall Mall*. Sales volume and market share was lower despite a strong growth by *Lucky Strike*.

Profit decreased in the Netherlands as a result of declining market share and lower sales volume.

Decline in industry volume in Poland continued, which adversely impacted volume and profit. The market share decreased, however, *Lucky Strike* performed well and *Fine Cut* volume grew.

Profit and volume in Denmark was higher due to higher sales in December 2013 in anticipation of an excise duty increase in January 2014.

The significant increase in market share in Romania was the result of the good performances of *Dunhill* and *Pall Mall*, although volume was lower. Profit was up, benefiting from price increases.

Good performances from *Pall Mall* and *Rothmans* in the United Kingdom led to increased market share although volume was lower. Profit grew strongly due to price increases, cost management and increased *Fine Cut* volume.

EEMEA

Profit in EEMEA increased by £78 million to £1,490 million in 2013 Year. This was principally due to strong performances in Russia, the GCC and Ukraine and price increases, partially offset by a decrease in profit from Nigeria and the adverse impact of exchange rate movements. At constant rates of exchange, profit would have increased by £167 million or 12 per cent. Sales volume at 226 billion was 4 per cent lower in 2013 Year with the declines in Russia, Ukraine, Turkey, Egypt and South Africa, partially offset by an increase in the GCC.

Strong share growth in Russia was driven by the strong performance of *Rothmans* and the encouraging launch of *Lucky Strike*. *Kent* maintained its leadership position of the premium segment, contributing to the good profit growth. Sales volume was down.

In Ukraine, market share increased strongly and strong profit growth was achieved as a result of pricing and an improved product mix, and strong performances from *Kent* and *Rothmans*. Our sales volume decreased as a result of sharp industry volume decline and increased illicit trade.

In Turkey, sales volume declined which adversely impacted profit and market share, despite growth by *Viceroy* and *Kent*.

In the GCC markets, higher market share was due to the performance of *Dunhill*. Profit increased significantly due to higher volume and price increases.

In Egypt, sales volume decreased mainly due to market instability, despite a good performance from *Viceroy*. Profit was impacted by the lower volumes.

In Nigeria, sales volume was lower due to increased instability and competitor activities in the north and southeastern parts of the country. This led to a decrease in profit.

In South Africa, market share and volumes weakened due to price competition. As a result of price increases profit increased in 2013 Year but this was more than offset by the adverse exchange rate movement.

Results of Operations by Sales Volume by Brand

In addition to revenue and the other IFRS measures discussed above, our management focuses on sales volume as a key measure to evaluate our performance. Sales volume is a non-GAAP operating measure of the number of cigarettes sold, which is unaudited. Sales volume is calculated as the total global sales volume of our brands sold by our subsidiaries. Sales volume serves as an additional indicator of our performance and not as a replacement for measures such as revenue or any other performance measures derived in accordance with IFRS. We believe that sales volume is a measure commonly used by analysts and investors in our industry. Accordingly, this information has been disclosed to permit a more complete analysis of our operating performance.

2014 Year compared with 2013 Year

Overall sales volume decreased by 9 billion, or 1.4 per cent, from 676 billion for 2013 Year to 667 billion for 2014 Year, with the industry estimated to have declined by 2.5 per cent. Despite this decline in industry volume, our market share grew by 0.10 per cent in our "key markets", being the approximately 40 markets we regard to be most important to us and/or the industry. Our GDBs sales volume grew by 5.8 per cent in 2014 Year, driven by the addition of *Rothmans* as a GDB, as well as the continued strong performance of our other GDBs. Our other International Brands, excluding GDBs, declined by 3.0 per cent, as growth in *State Express 555* and *Shuang Xi* were more than offset by lower volume in *Craven A*, *Peter Stuyvesant* and *Viceroy*, driven by market decline.

The following table sets out a breakdown of the sales volume and the percentage change for each of the GDBs for the periods indicated:

	Year Ended December 31,		
GDBs	**2014**	**2013**	**Percentage change**
		(billions)[1] (unaudited)	
Dunhill	55	54	3
Kent	64	65	(3)
Lucky Strike	31	31	1
Pall Mall	92	87	6
Rothmans	36	26	40
Total	278	263	6

Note:
(1) Data relating to sales volume by GDB for 2014 Year and 2013 Year is unaudited and has been extracted from our marketing records.

Dunhill delivered sales volume growth of 3 per cent, driven by strong performance in Indonesia and growth in Brazil, partially offset by declines in Malaysia, South Korea and the GCC. Innovations accounted for 81 per cent of *Dunhill*'s 2014 sales volume.

Kent sales volume decreased by 3 per cent due to industry decline in Russia, Romania and Ukraine, partially offset by growth in Iran, Uzbekistan, Japan and Turkey. Innovations, including the *Kent HD* range, accounted for 83 per cent of *Kent*'s sales volume.

Lucky Strike, our original American brand, saw volume growth of 1 per cent to 31 billion cigarettes in 2014 Year. The growth was driven by Mexico and an improved performance in Western European markets such as Spain, Belgium and France. This was partially offset by volume decline in Chile, Poland and the Philippines. Innovations now account for 33 per cent of *Lucky Strike* volume, including our additive-free offer which continues to grow strongly. *Lucky Strike Fine Cut* also had a successful year, with volume up by 12.7 per cent, driven by gains in Luxembourg, Germany, France, Spain and Belgium.

Pall Mall sales volume grew by 6 per cent and is our leading brand in terms of volume. Volume growth is a result of increases in Pakistan, South Africa, Mexico and Chile, partially offset by lower volume in Italy, Russia, the UK and Belarus. Innovations accounted for 20 per cent of *Pall Mall's* sales volume. *Pall Mall* remains the largest *Fine Cut* brand in Western Europe.

Rothmans became part of our portfolio of GDBs at the start of 2014. Sales volume was up by 40 per cent resulting from growth in Russia, Italy, Ukraine and the UK. Innovations accounted for 31 per cent of *Rothmans*' sales volume.

2013 Year compared with 2012 Year

Overall sales volume decreased by 18 billion, or 2.7 per cent, from 694 billion in 2012 Year to 676 billion in 2013 Year. Despite decline in industry volume in some markets, mainly Brazil, Russia, Turkey, Ukraine, Egypt and Western Europe, partially offset by sales volume growth in many other markets, our market share grew by 0.2 per cent in our key markets. Our GDBs sales volume (excluding *Rothmans*) grew by grew by 1.9 per cent. Our International Brands (excluding the GDBs, but including *Rothmans*) experienced a growth in sales volume by 2.1 per cent.

The following table sets out a breakdown of the sales volume and the percentage change for each of the GDBs for 2013 Year and 2012 Year:

	Year Ended December 31,		
GDBs	**2013**	**2012**	**Percentage change**
		(billions)[(1)] (unaudited)	
Kent	54	49	10
Lucky Strike	65	67	(3)
Dunhill	31	33	(7)
Pall Mall	87	83	4
Total	237	232	2

Note:

(1) Data relating to sales volume by GDB for 2013 Year and 2012 Year is unaudited and has been extracted from our marketing records.

Sales volume for *Kent* increased by 10 per cent, mainly as a result of growth in the Middle East and Uzbekistan, partially offset by declines in Russia, Japan and Romania.

Sales volume for *Lucky Strike* decreased by 7 per cent, mainly as a result of an industry decline in Spain. However, this was partially offset by significant growth in the Philippines and Russia.

Sales volume for *Dunhill* decreased by 7 per cent, mainly as a result of declines in Malaysia and West Africa. This was partially offset by strong performances in Indonesia, South Korea and the GCC.

Sales volume for *Pall Mall* increased by 4 per cent, mainly as a result of growth in Germany, Uzbekistan, Italy, Spain, Pakistan, Nigeria and Chile. This was partially offset by lower sales volume in Russia, Romania, Hungary and Turkey.

Liquidity and Capital Resources

Cash Flow

We produce two cash flow statements for our annual report and financial statements; one cash flow statement is audited and prepared in accordance with IFRS, and the alternative cash flow statement which is unaudited and is not prepared in accordance with IFRS. The IFRS cash flow statement includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow statement illustrates the cash flows before transactions relating to borrowings, which we believe enables investors to undertake a more complete analysis of our performance.

Our cash inflows derive principally from our operating activities. They are supplemented when required by cash flows from financing activities, typically to support acquisitions. The following table sets out extracts from our consolidated IFRS cash flow statements for the periods indicated:

	Year Ended December 31,		
	2014(1)	2013(1)	2012(1)
		(£ millions) (audited)	
Cash generated from operations	4,634	5,366	5,437
Dividends received from associates	515	510	486
Tax paid	(1,433)	(1,440)	(1,496)
Net cash from operating activities	3,716	4,436	4,427
Net cash used in investing activities	(470)	(335)	(400)
Net cash used in financing activities	(3,467)	(3,967)	(3,954)
Net cash flows (used in)/from operating, investing and financing activities	(221)	134	73
Differences on exchange	(63)	(197)	(176)
(Decrease)/increase in net cash and cash equivalents in the year	(284)	(63)	(103)
Opening net cash and cash equivalents	1,776	1,839	1,942
Closing net cash and cash equivalents	1,492	1,776	1,839

Note:

(1) The selected historical financial data for 2014 Year, 2013 Year and 2012 Year has been extracted, without material adjustment, from our 2014 Year and 2013 Year audited consolidated financial statements.

The alternative cash flow statement is set out below. This is not a replacement for the IFRS cash flow statement.

	Year Ended December 31,		
	2014(1)	2013(1)	2012(1)
		(£ millions) (unaudited)	
Adjusted profit from operations	5,403	5,820	5,641
Depreciation, amortization and impairment	396	392	385
Other non-cash items in operating profit	45	30	45
Profit from operations before depreciation and impairment	5,844	6,242	6,071
Increase in working capital	(309)	(375)	(242)
Net capital expenditure	(627)	(547)	(742)
Operating cash flow	4,908	5,320	5,087
Net interest paid	(426)	(443)	(429)
Pension funds' shortfall funding	(140)	(190)	(164)
Tax paid	(1,433)	(1,440)	(1,496)
Dividends paid to non-controlling interests	(249)	(265)	(259)
Cash generated from operations	2,660	2,982	2,739
Restructuring costs	(325)	(310)	(228)
Non-tobacco litigation: Flintkote and Fox River	(437)	—	—
Dividends and other appropriations from associates	609	699	748
Free cash flow	2,507	3,371	3,259
Dividends paid to shareholders	(2,712)	(2,611)	(2,538)
Share buy-back (including transaction costs)	(800)	(1,509)	(1,258)
Net investment activities	(6)	(19)	(43)
Net flow from share schemes and other	108	(79)	(57)
Net cash (outflow)/inflow	(903)	(847)	(637)

Note:

(1) The selected historical financial data for 2014 Year, 2013 Year and 2012 Year has been extracted, without material adjustment, from our annual report for 2014 Year and 2013 Year.

2014 Year compared with 2013 Year

Discussion of alternative cash flow statement

Operating cash flow decreased by £412 million, or 8 per cent, to £4,908 million, reflecting adverse foreign exchange rates, partially offset by growth in underlying operating performance. Taking into account lower outflows relating to taxation, payments relating to pension funds, net interest paid, dividends to non-controlling interests, appropriations from associates following the completion of the Reynolds American share buy-back program and the increase in restructuring costs and payments in respect of Flintkote and Fox River, our free cash flow decreased by £864 million or 26 per cent to £2,507 million.

Due to payments in relation to Flintkote and Fox River, the ratio of free cash flow per share to adjusted diluted earnings per share was 64 per cent (compared to 82 per cent in 2013 Year).

Below free cash flow, the principal cash outflows for 2014 Year comprise the payment of the prior year final dividend and the 2014 interim dividend, which was £101 million higher at £2,712 million, as well as a £800 million outflow due to the continuation of the on-market share buy-back program, including transactions costs. The share buy-back was suspended on July 30, 2014 to support the proposed investment in Reynolds American following a completion of its proposed acquisition of Lorillard Inc.

During 2014 Year, the cash outflow from net investing activities of £6 million relates to the acquisition of non-controlling interests in subsidiaries.

The other net flows principally relate to the impact of the level of shares purchased by the employee share ownership trusts and cash flows in respect of certain derivative financial instruments.

These flows resulted in a net cash outflow of £903 million (compared to a £847 million outflow in 2013 Year). After taking account of transactions related to borrowings and foreign exchange movements, the above flows resulted in a net decrease of cash and cash equivalents of £284 million compared to a net decrease of £63 million in 2013 Year, as shown in the above IFRS cash flow statement.

Borrowings, excluding overdrafts but taking into account derivatives relating to borrowings, were £11,708 million as of December 31, 2014 compared to £11,346 million as of December 31, 2013.

Current available-for-sale investments as of December 31, 2014 were £50 million compared to £54 million as of December 31, 2013.

As a result of the above, net debt, comprising borrowings, overdrafts, related derivatives, cash and cash equivalents and current available-for-sale investments, as of December 31, 2014 was £10,165 million compared to £9,515 million as of December 31, 2013.

Discussion of investing and financing activities in the IFRS cash flow statement

Interest and dividends received include dividends received from investments of £2 million for both 2014 Year and 2013 Year.

Purchases and proceeds on disposals of investments, which comprise available-for-sale investments and loans and receivables, include a net cash inflow in respect of current investments of £3 million in 2014 Year. This compares to a net cash outflow of £32 million for 2013 Year.

Proceeds from associates' share buy-backs in 2014 Year include proceeds of £94 million in respect of our participation in the share buy-back program conducted by Reynolds American (compared to £189 million for 2013 Year).

As of December 31, 2014, a total of £160 million of commercial paper was outstanding under the $2 billion commercial paper program and our £1 billion euro commercial paper program. In March 2014, we issued €400 million and €600 million bonds maturing in 2018 and 2029, respectively. In June 2014, we repurchased and cancelled a $40 million bond with a maturity of 2029. The repurchase was financed from our cash balances. In August 2014, we repaid a maturing MYR 250 million bond. The repayment was financed from our cash balances. In September 2014, we repaid a maturing €600 million bond. The repayment was financed from our cash balances. In September 2014, we issued CHF 350 million, CHF 400 million and CHF 250 million bonds maturing in 2016, 2021 and 2026, respectively.

In May 2014, we negotiated a new central banking facility of £3 billion with a final maturity date of May 2019 (with two additional one-year extensions). This facility is provided by 22 banks. The existing central banking facility of £2 billion, with a final maturity date of December 2015, was cancelled at the same time. The facilities were undrawn as at the end of both 2014 Year and 2013 Year.

Purchases of own shares of £849 million outflow in total include the share buy-back program as described above (£800 million), together with purchases of shares held in employee share ownership trusts of £49 million for 2014 Year.

Dividends paid during 2014 Year of £2,961 million include £2,712 million of dividends to our shareholders and £249 million in respect of non-controlling interests. Dividends for 2013 Year of £2,876 million include £2,611 million and £265 million, respectively.

2013 Year compared with 2012 Year

Discussion of alternative cash flow statement

Operating cash flow increased by £233 million, or 5 per cent, to £5,320 million, reflecting growth in underlying operating performance. Taking into account lower outflows relating to taxation and net capital expenditure, partially offset by increased outflows relating to pension funds, restructuring costs, net interest paid, higher dividends to non-controlling interests and lower appropriations from associates due to the Reynolds American share buy-back, our free cash flow was £112 million or 3 per cent higher at £3,371 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 82 per cent (compared to 81 per cent in 2012 Year).

Below free cash flow, the principal cash outflows for 2013 Year comprise the payment of the prior year final dividend and the 2013 Year interim dividend, which was £73 million higher at £2,611 million, as well as a £1,509 million outflow due to the continuation of the on-market share buy-back program in 2013 Year, £251 million higher than in 2012 Year, including transaction costs.

During 2013 Year, the cash outflow from net investing activities of £19 million mainly relates to the further payment on the purchase of CN Creative.

In 2012 Year, the cash outflow of £43 million mainly relates to the cash consideration paid on the purchase of CN Creative and for the acquisition of non-controlling interests in Bangladesh.

The other net flows in 2013 Year principally relate to the impact of the level of shares purchased by the employee share ownership trusts and cash flows in respect of certain derivative financial instruments.

The above flows resulted in a net cash outflow of £847 million, compared to £637 million in 2012 Year. After taking account of transactions related to borrowings and foreign exchange movements, the above flows resulted in a net decrease of cash and cash equivalents of £63 million compared to a net decrease of £103 million in 2012 Year, as shown in the above IFRS cash flow statement.

Borrowings, excluding overdrafts but taking into account derivatives relating to borrowings, were £11,346 million as of December 31, 2013 compared to £10,338 million as of December 31, 2012.

Current available-for-sale investments as of December 31, 2013 were £54 million compared to £26 million as of December 31, 2012.

As a result of the above, net debt, comprising borrowings, overdrafts, related derivatives, cash and cash equivalents and current available-for-sale investments, as of December 31, 2013 was £9,515 million compared to £8,473 million as of December 31, 2012.

Discussion of investing and financing activities in the IFRS cash flow statement

Interest and dividends received include dividends received from investment of £2 million for both 2013 Year and 2012 Year.

Purchases and proceeds on disposals of investments, which comprise available-for-sale investments and loans and receivables, include a net cash outflow in respect of current investments of £32 million. This compares to a net cash inflow of £24 million for 2012 Year.

Purchases of subsidiaries of £16 million in 2013 Year reflect the further cash consideration paid on the purchase of CN Creative. In 2012 Year, there was a net cash outflow of £12 million, which relates to the cash consideration paid on the purchase of CN Creative of £14 million, offset by a £2 million inflow relating to the adjustment of the purchase price for Protabaco.

The proceeds from associates' share buy-backs reflect proceeds of £189 million (compared to £262 million in 2012 Year), in respect of our participation in the share buy-back program conducted by Reynolds American.

As of December 31, 2013, a total of £521 million of commercial paper was outstanding (compared to a balance of nil as of December 31, 2012).

In March 2013, we issued €650 million and $300 million bonds maturing in 2025 and 2016, respectively. In July 2013, we repaid a maturing €519 million bond. The repayment was financed from our cash balances. In September 2013, we issued £650 million bonds maturing in 2026. In November 2013, we repaid a maturing $300 million bond. The repayment was financed from our cash balances. In December 2013, we repaid a maturing £152 million bond. The repayment was financed from our cash balances.

We continued to have a central banking facility of £2 billion with a final maturity date of December 2015. This facility was provided by 22 banks. This facility was undrawn as at the end of both 2013 Year and 2012 Year.

Purchases of own shares of £1,583 million outflow in total include the share buy-back program as described above (£1,509 million), together with purchases of shares held in employee share ownership trusts of £74 million for 2013 Year.

In 2012, the purchase of non-controlling interest of £24 million relates to the acquisition of part of the non-controlling interests in British American Tobacco Bangladesh Company Limited ("BATBC").

Dividends paid during 2013 Year of £2,876 million include £2,611 million of dividends to shareholders and £265 million in respect of non-controlling interests. Dividends for 2012 Year of £2,797 million include £2,538 million and £259 million, respectively.

Capital Expenditure

Capital expenditure is met by cash flows provided by operating activities, cash balances and borrowing facilities and primarily relates to upgrade work on existing factories and cigarette machinery, as well as purchases of IT equipment used by our employees and the development of internal systems and software.

Capital Resources

Policy

It is our policy to maximize financial flexibility and minimize refinancing risk by issuing debt with a range of maturities, generally matching our projected cash flows, and obtaining this financing from a wide range of providers. We have a target average centrally managed debt maturity of at least five years with no more than 20 per cent of centrally managed debt maturing in a single rolling 12 months. As of 2014 Year, the average centrally managed debt maturity was 6.8 years and the highest proportion of centrally managed debt maturing in a single rolling 12 months was 18.7 per cent. We continue to target investment-grade credit ratings; as of 2014 Year the ratings from Moody's and Standard & Poor's were A- (stable outlook) and A3 (stable outlook), respectively (compared to A- and A3, respectively, as of 2013 Year).

We utilize cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to ensure that there is the maximum mobilization of cash within the Group. The key objectives of Treasury in respect of cash and cash equivalents, are to protect the principal value of our cash and cash equivalents, to concentrate cash at the center to minimize the required long-term debt issuance and to optimize our yield earned. The amount of debt we issue is determined by forecasting the net debt requirement after the mobilization of cash.

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies. All contractual borrowing covenants have been met and none of them is expected to inhibit our operations or funding plans.

Borrowings

The following table sets out our long- and short-term borrowings as of the dates indicated:

	Currency	Maturity dates	Interest rates	Year ended December 31, 2014	2013	2012
				(£ millions)		
Eurobonds	Euro	2015 to 2029	2.4% to 5.9%	5,211	5,372	5,208
	Euro	2018	3m EURIBOR +50bps	309	0	0
	Pound sterling	2016 to 2040	4.0% to 7.3%	3,083	3,118	2,670
	U.S. dollar	2016	1.1%	192	182	0
	Swiss franc	2016	CHF 3m LIBOR + 16bps	226	0	0
	Swiss franc	2021 to 2026	0.7% to 1.4%	419	0	0
U.S. dollar bonds	U.S. dollar	2015 to 2022	1.4% to 9.5%	1,726	1,620	1,840
Other notes	Malaysian ringgit	2014	4.1% to 4.5%	0	47	51
	Other currencies	—	—	0	24	25
Commercial Paper				160	521	0
Other loans				223	136	135
Bank loans				374	341	543
Bank Overdrafts				325	329	242
Finance leases				10	6	5
Total				12,258	11,696	10,719

Note:

(1) The interest on the commercial paper referred to in the table above is based on U.S.$ LIBOR plus a margin ranging between 10 and 43 basis points (2013: 10 and 15 basis points, 2012: nil).

Facilities Agreements and EMTN Program

Syndicated £3 billion Committed Revolving Credit Facility

On May 29, 2014, BAT, BATIF, BATHTN and BATNF (as borrowers and, in the case of BAT, as a borrower and guarantor) entered into a revolving credit facility agreement with HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers a revolving credit and swingline facility of £3 billion for a term of five years (with two additional one-year extension options). In 2015, the first of the one-year extension options was exercised and the facility was extended on existing terms. As of May 1, 2015, the amount available for drawdown under the facility was £3 billion.

Interest on revolving advances is payable at LIBOR or EURIBOR (as the case may be) plus a margin of between 0.250 per cent and 0.500 per cent depending on the credit rating of BAT. Interest on U.S. dollar swingline advances is payable at the higher of HSBC Bank USA National Association's prime commercial lending rate and Federal Funds Rate plus 1 per cent. Interest on euro swingline advances is payable at the Euro OverNight Index Average plus the then current margin for revolving advances.

The facility contains representations, undertakings and events of default that are customary for facilities of this type. Where there is a change of control in respect of BAT, the lenders can require all amounts outstanding under the facility to be repaid.

Syndicated $4.7 billion Term Loan Facility

On September 12, 2014, BATIF (as borrower) and BAT (as guarantor) entered into a term loan facility agreement with HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrower $4.7 billion to, directly or indirectly, finance the subscription for additional ordinary shares in Reynolds American in connection with the acquisition by Reynolds American of all the shares in Lorillard Inc. The final maturity date is September 12, 2015 (with extension options for twelve additional months in total). As of May 1, 2015, the amount available for drawdown under the facility was £4.7 billion.

Interest is payable at LIBOR or EURIBOR (as the case may be) plus a margin of between 0.25 per cent and 1.00 per cent.

The facility contains representations, undertakings and events of default that are customary for facilities of this type. Where there is a change of control in respect of BAT, the lenders can require all amounts outstanding under the facility to be repaid.

Syndicated £2.5 billion Term Loan Facilities

On February 27, 2015, BATIF (as borrower) and BAT (as guarantor) entered into a term loan facilities agreement with Santander UK Plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrower £2.5 billion to, directly or indirectly, finance the proposed acquisition by a member of the Group of additional shares in Souza Cruz. The maturity date is February 27, 2016 (with extension options for twelve additional months in total). As of May 1, 2015, the amount available for drawdown was £2.5 billion.

Interest is payable at LIBOR or EURIBOR (as the case may be) plus a margin of between 0.275 per cent and 1.375 per cent.

The facility contains representations, undertakings and events of default that are customary for facilities of this type. Where there is a change of control in respect of BAT, the lenders can require all amounts outstanding under the facility to be repaid.

Euro Medium Term Note Program

BATIF, BATHTN and BATNF (each an issuer and together, the issuers) operate a euro medium term note program for the issue of euro medium term notes, pursuant to a trust deed dated July 6, 1998 (as modified and/or supplemented and/or restated from time to time (the "EMTN Program"). Notes issued pursuant to the trust deed are guaranteed by BAT and each of the issuers (except where it is the relevant issuer) and, in respect of notes issued prior to December 9, 2011, B.A.T Capital Corporation (each a guarantor and together the guarantors). The Law Debenture Trust Corporation p.l.c. is a party to the trust deed as trustee. The maximum aggregate amount of notes which may be outstanding (determined based on the date of issue) under the EMTN Program is £15 billion. The form of the notes, the aggregate nominal amount of the notes, interest payable (if any), the issue price and other terms and conditions with respect to an issue are set out in the base prospectus and the relevant final terms document.

Under the terms of the trust deed, the guarantors have unconditionally, jointly and severally guaranteed the payment of principal and interest on the notes. The obligations of an issuer or guarantor are direct, unconditional and unsecured, subject to a negative pledge. The negative pledge restricts an issuer or guarantor from granting securities over its assets or undertaking, as security for payment (whether as principal or as guarantor) with respect to certain quoted or listed notes and debentures.

Each note will be redeemed by the issuer at its final redemption amount on the maturity date.

Under the EMTN Program, notes were issued during 2014 Year, 2013 Year and 2012 Year, the proceeds of which were used in part to refinance maturing note issues. Notes were also issued in 2015.

The Issuer and the Guarantors have the following outstanding series of notes as of May 1, 2015:

Issuer	Issue Date	Currency	Amount	Interest Rate	Maturity Date
BATIF	Mar. 22, 1999	EUR	20,000,000	Fixed/Floating	Mar. 22, 2019
BATIF	Dec. 12, 2003	GBP	500,000,000	6.375%	Dec. 12, 2019
BATNF	Mar. 15, 2006	GBP	325,000,000	5.500%	Sep. 15, 2016
BATIF	Jun. 29, 2007	EUR	1,250,000,000	5.375%	Jun. 29, 2017
BATIF	Mar. 12, 2008	GBP	500,000,000	7.250%	Mar. 12, 2024
BATIF	Jun. 29, 2009	GBP	250,000,000	6.000%	Jun. 29, 2022
BATNF	Nov. 24, 2009	EUR	650,000,000	4.875%	Feb. 24, 2021
BATIF	Nov. 24, 2009	GBP	500,000,000	6.000%	Nov. 24, 2034
BATNF	Jul. 7, 2010	EUR	600,000,000	4.000%	Jul. 7, 2020
BATIF	Jul. 5, 2010	GBP	275,000,000	5.750%	Jul. 5, 2040
BATIF	Nov. 9, 2011	EUR	600,000,000	3.625%	Nov. 9, 2021
BATNF	Nov. 19, 2012	EUR	750,000,000	2.375%	Jan. 19, 2023
BATIF	Mar. 25, 2013	U.S.$	300,000,000	1.125%	Mar. 29, 2016
BATIF	Mar. 25, 2013	EUR	650,000,000	2.750%	Mar. 25, 2025
BATIF	Sep. 6, 2013	GBP	650,000,000	4.000%	Sep. 4, 2026
BATNF	Mar. 6, 2014	EUR	600,000,000	3.125%	Mar. 6, 2029
BATIF	Mar. 6, 2014	EUR	400,000,000	FRN	Mar. 6, 2018
BATIF	Sep. 5, 2014	CHF	350,000,000	FRN	Aug. 5, 2016
BATIF	Sep. 5, 2014	CHF	400,000,000	0.625%	Sep. 8, 2021
BATIF	Sep. 5, 2014	CHF	250,000,000	1.375%	Sep. 8, 2026
BATIF	Mar. 13, 2015	EUR	800,000,000	0.375%	Mar. 13, 2019
BATIF	Mar. 13, 2015	EUR	800,000,000	0.875%	Oct. 13, 2023
BATIF	Mar. 13, 2015	EUR	800,000,000	1.250%	Mar. 13, 2027
BATIF	Mar. 13, 2015	EUR	600,000,000	2.000%	Mar. 13, 2045

Repayment of the notes may be accelerated upon the occurrence of customary events of default, including where an issuer defaults on payment of principal or interest, where an issuer or a guarantor fails to perform or observe other obligations under the trust deed or notes, and where an issuer or guarantor is subject to certain insolvency events.

U.S. Dollar Issuance

Separately from our EMTN Program during 2008, BATIF issued $700 million bonds maturing in 2018 and during 2012, BATIF issued $500 million, $600 million and $900 million bonds maturing in 2015, 2017 and 2022, respectively. BAT and BATHTN act as guarantors of the bonds.

The bonds are direct, unsecured and unsubordinated obligations of BATIF, and rank equally among themselves and with all other direct, unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of BATIF.

The Issuer and Guarantors have the following outstanding series of U.S. dollar bonds as of May 1, 2015.

Issuer	Issue Date	Currency	Amount	Interest Rate	Maturity Date
BATIF	Nov. 21, 2008	U.S.$	700,000,000	9.500%	Nov. 15, 2018
BATIF	Jun. 7, 2012	U.S.$	500,000,000	1.400%	Jun. 5, 2015
BATIF	Jun. 7, 2012	U.S.$	600,000,000	2.125%	Jun. 7, 2017
BATIF	Jun. 7, 2012	U.S.$	900,000,000	3.250%	Jun. 7, 2022

Off-balance Sheet Arrangements and Contractual Commitments

Except for operating leases, we have no significant off-balance sheet arrangements. We have contractual obligations to make future payments on debt agreements. See "*— Facilities Agreements and EMTN Program*". In the normal course of business, we enter into contractual arrangements where we commit to future purchases of services from unaffiliated and related parties.

The following table sets forth our total future minimum payments under non-cancellable operating leases which comprises leases where payments fall due:

	Year ended December 31,		
	2014	2013	2012
		(£ millions)	
Property			
Within one year	52	55	56
Between one and five years	117	114	126
Beyond five years	25	29	49
	194	198	231
Plant and Equipment			
Within one year	24	25	26
Between one and five years	40	40	37
	64	65	63

Share Buyback Program

On July 30, 2014, we suspended our £1,500 million share buyback program following our announcement on July 15, 2014 to support the proposed investment in Reynolds American following the completion of its proposed acquisition of Lorillard Inc.

During 2014 Year, 23 million shares were bought at a value of £795 million, excluding transaction costs. During 2013 Year, 44 million shares were bought at a value of £1,500 million, excluding transaction costs and during 2012 Year, 39 million shares were bought at a cost of £1,250 million, excluding transaction costs.

Financial Risk Management

The multi-national nature of our operations and their financing expose us to a variety of financial risks. Treasury is responsible for raising finance for the Group, managing our cash resources and managing the financial risks arising from underlying operations. All such activities are carried out under defined policies, procedures and limits.

BAT's Board of Directors reviews and agrees the overall treasury policies and procedures, delegating appropriate authority to the Finance Director and the Treasury function. The policies include a set of financing principles and key performance indicators, including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which our capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-backs are decided. The key objective of the financing principles is to appropriately balance the interests of equity and debt holders in driving an efficient financing mix. We manage our financial risks in line with the classification of our financial assets and liabilities in our balance sheet and related notes.

Clear parameters have been established, including levels of authority on the type and use of financial instruments, to manage the financial risks facing us. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under our treasury policy. Our treasury position is monitored by a Corporate Finance Committee, chaired by the Finance Director. Treasury operations are subject to periodic independent review and audits, both internal and external.

One of the principal responsibilities of Treasury is to manage the financial risks arising from our underlying operations. Specifically, Treasury manages, within an overall policy framework set by BAT's Board of Directors and the Corporate Finance Committee, our exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks.

Our management of specific risks is dealt with as follows:

Liquidity Risk

As stated above, it is our policy to maximize financial flexibility and minimize refinancing risk by issuing debt with a range of maturities, generally matching our projected cash flows and obtaining this financing from a wide range of providers. It is our policy that short-term sources of funds (including drawings under both U.S. dollar and euro commercial paper programs) are backed by undrawn committed lines of credit and cash.

As part of our short-term cash management, we invest in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below.

Currency Risk

We are subject to exposure on the translation of the net assets of foreign currency subsidiaries and associates into our reporting currency, the pound sterling. Our primary balance sheet translation exposures are to the U.S. dollar, Canadian dollar, euro, Danish krone, Swiss franc, South African rand, Russian ruble, Brazilian real, Australian dollar, Malaysian ringgit and Singapore dollar. These exposures are kept under continuous review. Our policy on borrowings is to broadly match the currency of these borrowings with the currency of cash flows arising from our underlying operations. Within this overall policy, we aim to minimize all balance sheet translation exposure where it is practicable and cost effective to do so through matching currency assets with currency borrowings. The main objective of these policies is to protect shareholder value by increasing certainty and minimizing volatility in earnings per share.

For 2014 Year, the currency profile of our gross debt, after taking into account derivative contracts, was 19 per cent (compared to 21 per cent at 2013 Year) U.S. dollar, 40 per cent (compared to 41 per cent at 2013 Year) euro, 2 per cent (compared to 2 per cent at 2013 Year) Canadian dollar, 26 per cent (compared to 21 per cent at 2013 Year) pound sterling, and 13 per cent (compared to 15 per cent at 2013 Year) other currencies.

We face currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint arrangements; these exposures are not normally hedged. Exposures also arise from:

- foreign currency denominated trading transactions undertaken by our subsidiaries. These exposures comprise committed and highly probable forecast sales and purchases, which are offset wherever possible. The remaining exposures are hedged within the Treasury policies and procedures with forward foreign exchange contracts and options, which are designated as hedges of the foreign exchange risk of the identified future transactions; and
- forecast dividend flows from subsidiaries to the center. To ensure cash flow certainty, we hedge such flows using forward foreign exchange contracts designated as net investment hedges of the foreign exchange risk arising from the investments in these subsidiaries.

Interest Rate Risk

The objectives of our interest rate risk management policy are to lessen the impact of adverse interest rate movements on our earnings, cash flow and economic value and to safeguard against any possible breach of our financial covenants. Additional objectives are to minimize the cost of hedging and the associated counterparty risk.

We target an interest cover ratio, as calculated under our key central banking facilities, of greater than 5, and for 2014 it was 12 times (compared to 12.3 times in 2013). The only externally imposed capital requirement we have is in respect of our centrally managed banking facilities, which require a gross interest cover of 4.5 times.

In order to manage our interest rate risk, we maintain both floating rate and fixed rate debt. We set targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on both a gross and net basis (at least 50 per cent fixed on a net basis in the short to the medium-term) as a result of regular reviews of market conditions and strategy by the Corporate Finance Committee and the board of the main central finance company. As of December 31, 2014, the relevant ratios of floating to fixed rate borrowing were 45:55 (compared to 43:57 at 2013 Year) on a gross basis and 30:70 (compared to 25:75 at 2013 Year) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, we use derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

Credit Risk

We have no significant concentrations of customer credit risk. Subsidiaries have policies in place requiring appropriate credit checks on potential customers before sales commence. The process for monitoring and managing credit risk once sales to customers have been made varies depending on local practice in the countries concerned.

Certain territories have bank guarantees, other guarantees and credit insurance provided in our favor in respect of our trade receivables, the issuance and terms of which are dependent on local practices in the countries concerned.

All derivatives are subject to ISDA agreements or equivalent documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally we target a long-term counterparty credit rating of at least A-/A3. However, we recognize that due to the need to operate over a large geographic footprint, sovereign risk can be the determining factor on the suitability of a counterparty. From time to time we may invest in short-dated corporate commercial paper and for this, we have identified specific counterparties with a minimum short-term rating of A1/P1.

Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

We ensure that we have sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions throughout our geographic footprint while at the same time ensuring that there is no geographic concentration in the location of counterparties.

Price Risk

We are exposed to equity price risk on equity investments we hold, which are included in available-for-sale investments on the consolidated balance sheet, but the quantum is not material.

Additional Information

Additional information on our financial risk management policies can be found at note 24 to our audited consolidated financial statements for 2014 Year, which can be found on page F-63 of this Offering Memorandum.

Dividends and Dividend Policy

The BAT Board of Directors' dividend policy is to ensure that our shareholders benefit from the successful growth of the business, while continuing to provide sufficient funds to invest in future growth.

Our dividend policy is to pay dividends of 65 per cent of long-term sustainable earnings, calculated with reference to the adjusted diluted earnings per share.

In relation to interim dividends, the BAT Board of Directors' policy is that the interim dividend will be approximately one-third of the total dividends declared for the previous financial year.

At the 2015 AGM, our shareholders approved the payment of a final dividend of 100.6 pence per share which, when combined with the 47.5 pence per share interim dividend, means the total dividend for 2014 was 148.1 pence per share. The pay-out ratio was 71.2 per cent for 2014.

For 2014 Year, 2013 Year and 2012 Year, the total dividend paid per share was 148.1 pence, 142.4 pence and 134.9 pence, respectively.

Critical Accounting Policies

We present the discussion and analysis of our financial condition and results of operations based upon our consolidated financial information, which we prepare in accordance with IFRS as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In order to prepare our consolidated financial information in accordance with the accounting policies set out therein, management has used estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The most significant items include:

- the review of asset values, especially goodwill and impairment testing. The key assumptions used in respect of goodwill and impairment testing are the determination of cash-generating units, the budgeted cash flows of these units, the long-term growth rate for cash flow projections and the rate used to discount the cash flow projections. These are described in note 9 of our audited consolidated financial statements for 2014 Year;
- the estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, and amounts recognized in other comprehensive income, involves judgments made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, salary and pension increases, inflation, as well as discount rates and asset values at the year end. The assumptions we use and our sensitivity analysis are described in note 12 of our audited consolidated financial statements for 2014 Year;
- the estimation of amounts to be recognized in respect of taxation and legal matters, and the estimation of other provisions for liabilities and charges are subject to uncertain future events, may extend over

several years and so the amount and/or timing may differ from current assumptions. The accounting policy for taxation is explained in note 1 of our audited consolidated financial statements for 2014 Year. The recognized deferred tax assets and liabilities, together with a note of unrecognized amounts, are shown in note 13 of our audited consolidated financial statements for 2014 Year, and a contingent tax asset is explained in note 6(b) of our audited consolidated financial statements for 2014 Year. Other provisions for liabilities and charges are as set out in note 22 of our audited consolidated financial statements for 2014 Year. The accounting policy on contingent liabilities, which are not provided for, is set out in note 1 of our audited consolidated financial statements for 2014 Year, and our contingent liabilities are explained in note 30 of our audited consolidated financial statements for 2014 Year. The application of these accounting policies to the payments made and credits recognized under the MSA by Reynolds American is described in note 5 of our audited consolidated financial statements for 2014 Year;

- the definition of adjusting items, which are separately disclosed as memorandum information, is explained within note 1 of our audited consolidated financial statements for 2014 Year (see also "*Presentation of Financial and Other Data*") and the impact of these on the calculation of adjusted earnings is described in note 7 of our audited consolidated financial statements for 2014 Year;
- the estimation of the fair values of acquired net assets arising in a business combination and the allocation of the purchase consideration between the underlying net assets acquired, including intangible assets other than goodwill, on the basis of their fair values. These estimates are prepared in conjunction with the advice of independent valuation experts, where appropriate. The relevant transactions for 2013 Year are described in note 26 of our audited consolidated financial statements for 2014 Year;
- the determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exists in relation to the investments held by the Group. This is assessed after taking into account the Group's ability to appoint directors to the entity's board, its relative shareholding compared with other shareholders, any significant contracts or arrangements with the entity or its other shareholders and other relevant facts and circumstances. The application of this judgment in respect of the Group's investment in Reynolds American is explained in note 11 of our audited consolidated financial statements for 2014 Year;
- the review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency, or multiple exchange rates; and
- the exemptions taken under IFRS 1 on the first time adoption of IFRS at January 1, 2004 and, in particular, those relating to goodwill on business combinations, which are explained in note 1 of our audited consolidated financial statements for 2014 Year.

Such estimates and assumptions are based on historical experience and various other factors that we believe to be reasonable in the circumstances and constitute our best judgment as of 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 key estimates and assumptions are set out in the accounting policies which can be found at note 1 to our audited consolidated financial statements for 2014 Year.

TRADING UPDATE AND OTHER RECENT DEVELOPMENTS

Trading Update

Revenue for the three months ended March 31, 2015, at constant rates of exchange, grew by 1.7 per cent compared to the same period in 2014, driven by strong pricing, in part due to price increases in high inflation markets. At current exchange rates, revenue decreased by 5.8 per cent as movements in the majority of our key trading currencies continued to adversely impact reported revenue.

Cigarette volume from subsidiaries decreased by 3.6 per cent to 152 billion and was principally driven by industry volume decline (in particular in Brazil, Russia and Vietnam), inventory movements and a strong volume comparator in the same period last year, the impact of which is expected to moderate during the year.

For the three months ended March 31, 2015, our Global Drive Brands sales volume grew 5.7 per cent from the same period in 2014. *Kent* was down 1.6 per cent driven by lower volume in Russia, Japan and Romania. *Dunhill*'s sales volume was up 1.2 per cent driven by growth in Indonesia and Brazil. *Lucky Strike* was up 5 per cent driven by growth in Mexico, France and Belgium. *Pall Mall* was up 2.4 per cent driven by growth in Pakistan, Poland and Mexico. *Rothmans* was up 36.9 per cent, driven by a strong performance in a number of markets, including Russia, Australia, Kazakhstan, Turkey and Italy.

The segmental analysis of our sales volumes of subsidiaries was as follows:

	Three months ended March 31,	
	2015	2014
	(billions)(1) (unaudited)	
Asia-Pacific	49	50
Americas	29	31
Western Europe	23	24
EEMEA	51	53
Total	152	158

Note:

(1) Data relating to sales volume by region for the three months ended March 31, 2015 and 2014 is unaudited and has been extracted from our marketing records.

Recent Developments

On March 24, 2015, we announced that following the completion of a competitive tender process, KPMG LLP was appointed as our new external auditors for 2015 onwards. PricewaterhouseCoopers LLP, who had been our auditors since we were listed on the London Stock Exchange in September 1998, resigned with effect from March 23, 2015. Shareholder approval to confirm the appointment of KPMG LLP was granted at the annual general meeting on April 29, 2015.

On July 15, 2014, we announced that we had agreed to invest $4.7 billion as part of Reynolds American's proposed acquisition of Lorillard Inc., enabling us to maintain our 42 per cent equity position in the enlarged business. The transaction has been approved by the shareholders of both Reynolds American and Lorillard Inc. A consent decree from the FTC has been received by Reynolds American and the transaction is expected to complete before the end of June 2015.

In March 2015, we announced that we, through our Brazilian controlled company British American Tobacco Prestação de Serviços Ltda., had filed with the Brazilian securities regulator, the CVM, a request to register a public tender offer to acquire up to all of the 24.7 per cent of Souza Cruz shares which are not currently owned by us and to delist Souza Cruz. In accordance with Brazilian regulatory procedures, on April 9, 2015 a special free float Souza Cruz shareholders' meeting approved the appointment of Credit Suisse (Brasil) S.A. to undertake a new valuation of Souza Cruz shares within 30 days of that date. Any actual offer which may be made by us for the Souza Cruz shares which we do not own must be at a price which is within or above such valuation. If an offer is made, we expect that the financial settlement relating to such offer would occur in the third quarter of 2015. In February 2015, we signed a bridge facility of £2.5 billion in respect of the proposed investment in Sonza Cruz. As of May 1, 2015, the amount available for drawdown was £2.5 billion.

On June 1, 2015, we announced that we had signed an agreement to acquire TDR d.o.o. and other tobacco and retail assets ("TDR") from Adris Grupa d.d. ("Adris") for a total enterprise value of €550 million. The proposed acquisition is subject to a number of anti-trust approvals and Adris shareholder consent. The transaction is expected to complete in October 2015.

On March 13, 2015, BATIF issued €800,000,000, €800,000,000, €800,000,000 and €600,000,000 of notes under its EMTN Program maturing in 2019, 2023, 2027 and 2045, respectively. BAT, BATNF and BATHTN act as guarantors of the notes. The notes are direct, unconditional and unsecured obligations of BATIF, and rank equally among themselves and with all other unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of BATIF.

BUSINESS

Overview

We are a global tobacco group with a portfolio of over 200 international and local brands sold in over 200 markets. We maintain the second largest global market share (excluding China and associates) and are organized into four regions: Asia-Pacific; Americas; Western Europe; and EEMEA (excluding our associated companies, consisting primarily of Reynolds American in the United States and ITC in India). We hold significant market positions in each of these regions and have leadership positions in more than 60 countries.

In 2014 Year, we sold approximately 630 billion cigarettes (excluding sales of our associates) produced by 42 cigarette factories in 38 countries. Our five Global Drive Brands — *Dunhill*, *Kent*, *Lucky Strike*, *Pall Mall* and *Rothmans* — account for 42 per cent of our total cigarette volume. Our products are balanced across consumer segments and price points and backed by market-leading innovations. We are investing in building a portfolio of innovative new tobacco and nicotine-based products alongside our traditional tobacco business. These next-generation products include e-cigarettes, medicinal nicotine products and tobacco heating products.

We manage a globally integrated supply chain with a focus on flexible and consumer-centric operations, and our products are distributed to retail outlets worldwide. During 2014 Year, we employed more than 57,000 people worldwide. Our workforce is strongly multicultural and we have a devolved structure, with each local company having responsibility for its operations.

In 2014 Year, our revenue was £13,971 million and our profit from operations was £4,546 million.

History

We have had a significant global presence for over 100 years. BAT Ltd. was established in 1902, when the Imperial Tobacco Company and the American Tobacco Company agreed to form a joint venture company. BAT Ltd. inherited companies and quickly expanded into major markets, including India and Ceylon, Egypt, Malaya, Northern Europe and East Africa. In 1927, BAT Ltd. expanded into the U.S. market through its acquisition of B&W.

During the 1960s, 1970s and 1980s, the Group diversified its business under the umbrella of B.A.T Industries p.l.c., with acquisitions in the paper, cosmetics, retail and financial services industries. Various business reorganizations followed as the business was eventually refocused on BAT's core cigarette, cigars and tobacco products businesses with the creation in 1998 of British American Tobacco p.l.c. as a separately listed entity on the London Stock Exchange.

BAT was established in July 1997 under the laws of England and Wales as a public limited company and is domiciled in the United Kingdom. BAT is the parent holding company of our group of companies which are involved in activities directly or indirectly related to the manufacture, distribution or sale of cigarettes and other tobacco products.

In 1999, BAT announced a global merger with Rothmans International, the then fourth largest tobacco company in the world. We acquired Imperial Tobacco Canada in 2000, and in 2003 we acquired Ente Tabacchi Italiani S.p.A., Italy's state-owned tobacco company. Investments were made in Peru and Serbia in 2003. In 2008, we acquired Tekel, the Turkish state-owned tobacco company, as well as 100 per cent of the cigarette and snus business of Skandinavisk Tobakskompagni A/S. Following the acquisition of its business during 2009, we recognize an effective 99 per cent interest in Bentoel in Indonesia. In 2011, we completed the acquisition of 100 per cent of Protabaco in Colombia. In 2012, we acquired CN Creative Limited, a UK-based start-up company specializing in the development of e-cigarette technologies. During 2013, we entered into joint operations in China and Myanmar.

Business Combination between B&W and RJRT

In 2004, B&W completed the combination of the assets, liabilities and operations of its U.S. tobacco business with RJRT, a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which Reynolds American was formed (the "Business Combination"). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its U.S. cigarette and tobacco business, subject to specified exceptions, in exchange for a 42 per cent equity ownership interest in Reynolds American.

In connection with the Business Combination, we entered into a non-competition agreement with Reynolds American (the "Non-Competition Agreement") under which, subject to exceptions, we are prohibited from manufacturing and marketing certain tobacco products in the United States for a period of ten years and Reynolds American are prohibited from manufacturing and marketing certain tobacco products outside of the United States for a period of five years.

BAT, B&W and Reynolds American have also entered into a governance agreement (the "Governance Agreement"). In addition to agreeing not to take certain actions, including not seeking additional representation on the Reynolds American's board of directors, BAT and B&W have agreed, with specific exceptions, not to acquire additional shares of Reynolds American if, as a result, the voting interest of the Group would exceed approximately 42 per cent until the tenth anniversary of the completion of the Business Combination unless terminated in accordance with its provisions prior to such date. The Governance Agreement also restricts our ability to sell or transfer shares of Reynolds American during the term of the Governance Agreement, subject to certain exceptions. See "— *Legal Proceedings*".

We currently hold an approximate 42 per cent ownership interest in Reynolds American, through B&W. The remaining 58 per cent of the shares in Reynolds American are publicly traded and listed on the NYSE MKT. On July 15, 2014, we announced an investment of $4.7 billion in Reynolds American subject to the completion of its proposed acquisition of Lorillard Inc. This will maintain our 42 per cent equity position in a larger, more competitive Reynolds American. A consent decree from the FTC has been received by Reynolds American and the transaction is expected to complete before the end of June 2015.

Significant Business Combinations and Acquisitions

In 2015, 2014 Year, 2013 Year and 2012 Year, we made the following significant business combinations and acquisitions:

- In June 2015, we announced that we had signed an agreement to acquire TDR d.o.o. and other tobacco and retail assets ("TDR") from Adris Grupa d.d. ("Adris") for a total enterprise value of €550 million. The proposed acquisition is subject to a number of anti-trust approvals and Adris shareholder consent. The transaction is expected to complete in October 2015.
- In March 2015, we announced that we, through our Brazilian controlled company British American Tobacco Prestação de Serviços Ltda., had filed with the Brazilian securities regulator, the CVM, a request to register a public tender offer to acquire up to all of the 24.7 per cent of Souza Cruz shares which are not currently owned by us and to delist Souza Cruz. In accordance with Brazilian regulatory procedures, on April 9, 2015 a special free float Souza Cruz shareholders' meeting approved the appointment of Credit Suisse (Brasil) S.A. to undertake a new valuation of Souza Cruz shares within 30 days of that date. Any actual offer which may be made by us for the Souza Cruz shares which we do not own must be at a price which is within or above such valuation. If an offer is made, we expect that the financial settlement relating to such offer would occur in the third quarter of 2015.
- In July 2014, we announced an investment of $4.7 billion in Reynolds American subject to the completion of its proposed acquisition of Lorillard Inc. This will maintain our 42 per cent equity position in a larger, more competitive Reynolds American. A consent decree from the FTC has been received by Reynolds American and the transaction is expected to complete before the end of June 2015.
- In August 2013, we announced that CTBAT, a joint investment incorporated in Hong Kong between subsidiaries of CNTC and the Group, had commenced official business operations. The joint venture owns and manages the worldwide international cigarette trademark, State Express 555, and also, the worldwide rights outside China to the leading CNTC brand, Shuang Xi. All sales to mainland China are via CNTC.
- In July 2013, we announced the completion of a joint venture in Myanmar with I.M.U. Enterprise Limited to manufacture, distribute and market our brands. Under the terms of the agreement, we have contributed plant and machinery and cash to the venture in return for a controlling stake, and will therefore account for the transaction as a business combination.
- In December 2012, we acquired CN Creative Limited, a UK-based start-up company specializing in the development of e-cigarette technologies. The company's entire share capital was acquired for £40 million, of which £14 million was paid in 2012 and a further £16 million paid during 2013. The remaining balance of the consideration payable is contingent upon the achievements of certain post-acquisition events. The only material asset acquired was the company's intellectual property.

Strengths

We believe that our principal strengths are the following:

Brand Portfolio

Our balanced and internationally recognized portfolio of brands is designed to deliver continued growth and includes our five GDBs, *Dunhill*, *Kent*, *Lucky Strike*, *Pall Mall* and *Rothmans*, our other International Brands and local brands. Our GDBs represent 42 per cent of our total portfolio, but we have many other internationally recognizable brands and local brands that play a key role in our strategy, including *Vogue, Viceroy, Kool,* *Peter Stuyvesant, Craven A, Benson & Hedges, State Express 555* and *Shuang Xi*. Our business is about understanding and meeting the different profiles and preferences of adult smokers and our range of brands means that we can offer adult consumers a choice across all price points, with our total portfolio being split roughly equally across the premium, mid/value-for-money and low price segments. Our product portfolio includes a wide range of cigarettes and other tobacco products, including cigars, roll-your-own tobacco and snus.

Geographic Spread

Our products are sold in more than 200 markets around the world and we have a leadership position in more than 60 markets. We are currently organized into four regions: Asia-Pacific; the Americas; EEMEA and Western Europe and hold significant market positions in each of these four regions. In addition, we are the major shareholder in Reynolds American, the second largest tobacco company in the U.S., and in ITC, the largest tobacco company in India. Our geographic diversity means that we have strong positions in mature, developing and emerging markets and are less exposed to specific markets or market types.

Innovation Pipeline

We focus on developing new products and packaging that will meet adult consumers' evolving tastes and preferences. With a highly integrated supply chain and strong in-house research and development capabilities, we have introduced innovative tobacco products throughout the world, such as capsule products, additive-free products, tube filters and *Reloc*, our resealable pack technology. These innovations now account for nearly one quarter of our total cigarette sales. Our strong and well-established routes to market allow us to quickly roll out our innovations on a global scale and are a critical enabler of our growth strategy.

Global Scale

We have a global approach to managing our supply chain, which spans from crop to consumer, covering direct agronomy services support to leaf growers, direct and indirect procurement, tobacco products manufacturing and distribution, with the aim of reducing complexity and rationalizing manufacturing sites and suppliers (where appropriate) to leverage economies of scale while enhancing quality standards.

People and Relationships

We employ more than 57,000 people worldwide. Our workforce is strongly multicultural and we have a devolved structure, with each local company having responsibility for its operations. We encourage a culture of personal ownership and value our employees' talents. Their diverse perspectives help us to succeed. We have a large network of suppliers, including more than 100,000 tobacco farmers worldwide. Our 'Social Responsibility in Tobacco Production' program encourages continual improvement of the social and environmental performance of the suppliers we buy tobacco leaf from. Trade marketing is a large part of our activity and involves managing business-to-business relationships with the retailers our adult consumers buy from. We place a strong emphasis on being a high-quality supplier to the trade.

Next-Generation Products

We are complementing our core tobacco business by offering adult consumers a wide choice of alternative products, including e-cigarettes, medicinal nicotine products and tobacco heating products. We are investing significantly in this category because we believe that it will create long-term growth opportunities for the Group, while meeting adult consumer demand for less risky alternatives to tobacco. We are well placed to deliver these new products as we understand the needs of smokers and have world class research and development capabilities.

Strategy

Our vision is to be the world's best at satisfying consumer moments in tobacco and beyond. By doing so, we will become the leader in our industry. Adult consumers are at the core of everything we do and our success depends on addressing their evolving concerns, needs and behaviors. Tobacco remains at the core of our business and will continue to provide us with opportunities for growth. We are also committed to developing and promoting a range of next-generation tobacco and nicotine products.

Our mission is to deliver our commitments to society, while championing informed consumer choice. Our strategy is based on four factors: *growth, productivity, building a winning organization* and *sustainability*.

Growth

We will grow by understanding and delivering enjoyable consumer moments in combustibles and next-generation products. Our approach is to be consumer led, product obsessed, brand distinct and excellent in execution.

We aim to increase our market share in our key markets. A key part of this is the ongoing development and expansion of our five GDBs, *Dunhill, Kent, Lucky Strike, Pall Mall* and *Rothmans*. Our objective is to increase the share of our GDBs faster than the rest of our portfolio. We will do this by expanding the geographic footprint of the GDBs and rolling out consumer relevant innovations under these brands. We continue to invest in the development of innovative products that offer adult consumers meaningful, value added differentiation, and to take measures to ensure the successful deployment of such innovations, in order to achieve organic growth.

We also seek to continue to invest in our other internationally recognized, regional and local brands that play an important role in our portfolios in many markets. Examples include *Viceroy, John Player Gold Leaf, Benson & Hedges, State Express 555* and *Shuang Xi*, as well as key local brands like *Yava*, a key brand in Russia and *Derby* and *Free* in Brazil.

We focus on key market segments that offer the best long-term growth prospects. An example is the premium segment, where products are sold at a higher price than the average in a particular market. We also aim to maintain or develop strong positions in our largest and most profitable markets. Strategically important and financially attractive mergers and acquisitions may also provide us with growth opportunities. See *"— History — Significant Business Combinations and Acquisitions*".

We are committed to leading in next-generation tobacco and nicotine products. We will continue to complement our core tobacco business by offering adult consumers a wide choice of alternative products, including e-cigarettes, medicinal nicotine products and tobacco heating products. We are investing significantly in this category because we believe that it will create long-term growth opportunities while meeting consumer demand for less risky alternatives to smoking.

Productivity

Productivity is a key pillar to support growth. It is about effectively deploying resources to increase profits and generate funds to invest behind growth. Our approach is to be operationally best, globally integrated and to ensure cost and capital effectiveness.

Being operationally best means being more efficient and effective across our entire supply chain to deliver market-leading products and innovations to our markets to satisfy adult consumers, drive share growth and create value for our partners. This involves investing in new machinery and equipment, as well as in global planning systems and processes.

We are becoming a faster and more effective globally integrated enterprise through the implementation of a standard operating model underpinned by a global SAP system. With consistent ways of working, better information and higher levels of automation we will be able to operate faster and move more services above market.

Becoming more integrated will also deliver cost savings with the on-going optimization of our manufacturing footprint and procurement initiatives that take full advantage of our global scale. Our strategy is to further reduce our cost base by focusing on making our operations flexible, agile and truly consumer-centric. We are also continuing to focus on reducing overheads and indirect costs. We will continue to deploy our capital productively by ensuring that resources are allocated in the right areas and by effectively using our cash and other assets.

Building a Winning Organization

To achieve our vision, we recognize that we must continue to have the right people, organized in the right teams and in the right working environment. Our aim is to maintain a high-performing organization that attracts, develops and retains talented people. When we recruit, we seek to bring in people who will provide additional knowledge and skills that will strengthen our teams and ultimately make us a stronger business. We develop our leaders from within our business and have clear leadership capabilities. We continue to improve our retention of high-performing leaders and focus on having strong succession plans for critical roles. We value diversity and have a specific ambition to achieve a sustainable improvement in senior representation of women and nationalities across the business.

Sustainability

We want to ensure we continue to have a sustainable future so we can continue to meet the expectations of our adult consumers, our shareholders and other stakeholders. Our approach is focused on three areas that are most significant for a sustainable future: harm reduction, sustainable agriculture and corporate behavior.

We research, develop and promote a range of innovative tobacco and nicotine products which could offer adult consumers a choice of less risky alternatives to regular cigarettes. This could benefit public health, while also supporting the future growth of our business.

We work to enable prosperous livelihoods for all farmers who supply our tobacco leaf. This involves: helping farmers to have profitable businesses; preserving natural resources; investing in farming communities; developing skills, knowledge and labor; and strengthening community networks.

We are committed to operating to the highest standards of corporate conduct and transparency across our business. This is reflected in our International Marketing Principles, our youth smoking prevention activities, our Principles for Engagement; our approach to human rights; and our efforts to reduce the impact of our operations on the environment.

We use external benchmarks to assess our performance in terms of sustainability. The Dow Jones Sustainability Index ("DJSI") is a global measure tracking the performance of leading companies worldwide. We have been included in the DJSI for the past 13 years, 12 of them as the industry leader.

Business Segments

Our operations are organized into four regions (which excludes our associated companies, principally Reynolds American in the United States and ITC in India).

The Western Europe region encompasses over 40 markets in Western Europe and parts of Central Europe, including Poland, Romania, Bulgaria, Serbia, Montenegro, Albania and Kosovo. In 2014, the sales volume for the Western Europe region was 112 billion cigarettes. In 2014, revenue from the Western Europe region was £3,359 million, which is 24 per cent of our total consolidated revenue, and adjusted profit from operations was £1,189 million.

The Asia-Pacific region encompasses South Korea, the markets of South-East Asia, South Asia and Australasia. In 2014, the sales volume for the Asia-Pacific region was 197 billion cigarettes. In 2014, revenue from the Asia-Pacific region was £3,873 million, which is 28 per cent of our total consolidated revenue, and adjusted profit from operations was £1,548 million.

The Americas region encompasses the markets of Central America and South America, the Caribbean, Canada and Mexico. In 2014, the sales volume for the Americas was 131 billion cigarettes. In 2014, revenue from the Americas was £2,990 million, which is 21 per cent of our total consolidated revenue, and adjusted profit from operations was £1,286 million.

The EEMEA region encompasses Eastern Europe, which includes Russia, Ukraine, Moldova, Belarus, Caucasus, the Middle East, and Africa. In 2014, the sales volume for the EEMEA region was 227 billion cigarettes. In 2014, revenue from the EEMEA region was £3,749 million, which is 27 per cent of our total consolidated revenue, and adjusted profit from operations was £1,380 million.

Brands and Products

Our five Global Drive Brands are:

- *Dunhill;*
- *Kent;*
- *Lucky Strike;*
- *Pall Mall; and*
- *Rothmans*

and our other International Brands include:

- *Vogue;*
- *Viceroy;*
- *Kool;*
- *Benson & Hedges;*
- *Peter Stuyvesant;*
- *John Player Gold Leaf;* and
- *Craven A.*

Our product portfolio includes cigarettes and other tobacco products including cigars, roll-your-own tobacco and snus.

We have focused our growth strategy on developing our GDBs in our key market segments (*Premium, Fresh Taste* and *ASU30*), where such brands are well represented. In 2014, GDB sales volume represented 43 per cent of BATs global cigarette volume and GDB sales in our key markets accounted for 82 per cent of the GDBs global volume. We continue to focus on growing our GDBs, which in 2014, contributed to approximately 37.7 per cent of Group global cigarette revenue.

Global Drive Brands

Dunhill

The *Dunhill* brand for tobacco products was launched in 1907. In 1999, as part of our merger with Rothmans International, we acquired *Dunhill Tobacco of London Limited*, including all cigarettes, cigars and tobacco products. The *Dunhill* brand range includes a diverse range of premium and super premium cigars and cigarettes that can command premium or above premium prices. Our *Dunhill* brand is sold in more than 90 markets, with key markets in South Korea, Brazil, Malaysia, GCC and South Africa. In 2014, total *Dunhill* sales volume was 55 billion cigarettes.

In recent years, we have enhanced *Dunhill's* position in various key markets, including the successful entry into Indonesia with *Kretek Milds*, and through the deployment of innovation; with new capsule offers and our *Reloc* product innovation, the re-sealable pack distinctive of *Dunhill*. The roll-out of our super-premium products: *Fine Cut* and *Special Reserve* have also helped the expansion of *Dunhill* to many other markets.

Kent

We consider *Kent* to be a market leader in innovation. *Kent* is sold in more than 70 markets, with its key markets in Russia, Japan, Romania, Ukraine, the Middle East and Chile. In 2014, total *Kent* sales volume was 63.6 billion cigarettes. We have increased the brand's global footprint through growth in existing markets, new market entries and migrations.

In recent years, we have developed a number of innovations in respect of the *Kent* brand. *Kent Convertibles*, the innovative range of capsule products launched in 2010, continues to expand to new markets and has played a key role in generating volume growth and reinforcing *Kent's* status as a leader in innovation. Also *Kent* has recently expanded its slimmer formats to continue driving share growth on super slim premium segment. Packaging improvements implemented across our core range and a recent launch of the tube filter have also strengthened our brand and resulted in share gains in important markets such as Ukraine and Japan.

Lucky Strike

Lucky Strike was launched in 1871 and in 2014 total *Lucky Strike* sales volume was 33 billion cigarettes. *Lucky Strike* has continued its success through *Lucky Strike Click & Roll* capsule product which has proven to be popular particularly in Americas region and in France, as well as through *Lucky Strike additive free* in Germany and Mexico.

The *Lucky Strike* brand is sold in more than 70 markets, with key markets in Germany, France, Spain, Argentina, Japan, Poland and Chile. The *ASU30* market segment accounts for a significant percentage of the brand's franchise and we continue to focus on this market segment through consumer relevant innovation.

Pall Mall

Pall Mall was introduced in 1899 and is our leading global value-for-money ("VFM") brand. *Pall Mall* is the third biggest cigarette brand in the world. The House of *Pall Mall* range includes cigarettes and other tobacco products. In 2014, total *Pall Mall* sales volume was 101.9 billion sticks (91.6 billion cigarettes and 10.3 billion sticks in other tobacco products ("OTP").

Pall Mall is sold in more than 100 markets, with key markets in Germany, Romania, Mexico, Chile, Pakistan, and Uzbekistan. Our product line-up includes our global core offer, along with successful Menthol, Capsules, Extra Cut, and Additive Free ranges.

Rothmans

Rothmans was born in 1890, when it was established in London by its founder, Louis Rothman. A contemporary brand with a strong heritage, the strategic potential of *Rothmans* was recognized by its very strong growth of 21.1 per cent in 2013, with the brand subsequently established as a GDB in 2014. In its first year in this status, *Rothmans* became the fastest growing GDB, delivering 36.2 billion cigarettes in volume — an increase of 39.8 per cent from 2013.

Rothmans is currently available in 70 markets around the world with key markets of Russia, Ukraine, Italy, Nigeria, UK, Egypt and Australia.

International Brands

Our GDBs remain central to our strategy, however our other International Brands (*Benson & Hedges, Craven A, John Player Gold Leaf, Peter Stuvvesant, Kool, Viceroy* and *Vogue*) continue to provide success.

Local Brands

Our portfolio also includes key local brands which enjoy high consumer loyalty, such as *Yava* in Russia and *Derby* and *Free* in Brazil. These brands assist us in maintaining a broad brand portfolio.

Procurement

We purchase approximately 430,000 tons of tobacco leaf a year from our internal and third party suppliers around the globe. We also purchase other raw materials, such as packaging and paper, from other international suppliers.

We run leaf programs that provide direct agronomy support to farmers through our field technicians. Our agronomy support services involve providing seed and giving training, advice and support on all aspects of tobacco crop production and environmental best practice. In 2014, we ran agronomy services in 16 markets reaching approximately 114,000 growers directly contracted from internal sources and covering more than 125,000 hectares under cultivation. On average, we buy over 70 per cent of our leaf from internal sources.

Additionally, BAT has two major supplier programs — Business Enabler Survey Tool ("BEST") and Social Responsibility in Tobacco Production ("SRTP") programme. BEST is designed for non-tobacco suppliers, of which we have over 88,000, and SRTP is designed for suppliers of tobacco, i.e., leaf suppliers. Both programs promote best practice and provide a framework for continual improvement.

BEST assesses suppliers across 108 performance criteria, covering, for example, suppliers' business ethics, environment, occupational health and safety management, employee rights and the supplier's ability to trace the sources of raw materials, including sourcing wood from sustainably managed forestry. Established in 2000, SRTP addresses the social and environmental issues associated with leaf growing and processing and reaches all the farmers who supply the leaf we buy. SRTP covers farmers' standard of living and efforts to eliminate child labor (including access to schooling, the prevention of long working hours and hazardous work) while including a long-term program of reviewing and examining suppliers' operations to stimulate good agricultural practices. SRTP also promotes afforestation initiatives, so that farmers who require wood for tobacco curing can obtain it from sustainable sources. Suppliers are encouraged to monitor and measure their environmental impacts using a scorecard which was developed jointly in 2010 and covers energy, water, waste and CO2e. It helps us monitor performance and identify areas for joint improvements.

Manufacturing

In 2014 we sold approximately 667 billion cigarettes produced by 42 cigarette factories in 38 countries. Our factory outputs and establishments vary significantly in size and production capacity. For example, our site in Bayreuth, Germany, which has an annual output of about 40 billion cigarettes and over 800 employees versus one of our smallest factories in Fiji, which has an annual output of about 400 million cigarettes and approximately 50 employees. In addition, we have 17 green leaf threshing plants, where leaf is processed after being received from the farmers, and three factories that produce other tobacco products, such as roll-your-own tobacco, make-your-own and snus. In total, approximately 18,000 employees work within our manufacturing.

The technology employed in cigarette factories is sophisticated, especially in the area of cigarette making and packing where throughputs can reach over 12,000 cigarettes per minute. We can produce many different pack formats (e.g., the number of cigarettes per packet) and configurations (e.g., bevel edge, round corner, international) to suit marketing and consumer requirements. New technology machines are sourced from the leading machinery suppliers to the industry. Close cooperation with these organizations helps us support our marketing strategy by driving our product innovations, which are brought to the market on a regular basis.

To ensure the highest product quality levels, we utilize our quality standard called "finished product inspection", which measures many different parameters to ensure our consumers receive their products in optimal condition.

We have several improvement initiatives which we are currently managing. For example, the Integrated Work System Program is centrally led with an aim to improve the performance of our factories globally by focusing on manufacturing standards, continuous improvement, assessment and benchmarking and organizational development. We also utilize a survey process in the factories with an aim to improve factory productivity and reduce costs in the manufacturing environment. This process is known as "Bulls Eye" and has been in existence for a number of years which highlights productivity opportunities by benchmarking.

Distribution and Sales

Our products are distributed to retail outlets around the world, including supermarkets, convenience stores, hotels, restaurants, cafes, tobacconists and duty free shops. We recognize the importance of retail outlet distribution and as part of our trade communication and distribution strategy, we have adopted a direct and exclusive distribution approach, or "direct store sales", by identifying and working with the retail outlets to develop a commercially based and strategic relationship. Direct store sales provide us with visibility and control over the distribution of our products, allowing us to access both the market and consumer information. Such sales also provide a direct commercial link to our most strategic retail accounts. Half of our global volume in 2014 was sold to retailers through our own distribution capability in key markets including Canada, Brazil, South Korea, Australia, Russia, Romania, South Africa, Poland and Nigeria.

We additionally have hundreds of local and regional wholesale customers and actively work with key global corporate retailer partners. These very large businesses operate mainly in the grocery, convenience and petrol station convenience distribution channels. We continue to further develop joint programs with our global retail partners in order to better reach adult smokers in key channels such as global travel retail and convenience. We believe that our route to market is critical and allows us to roll out innovations effectively and quickly on a global scale as well as to meet consumer demand at the point of sale.

In addition, we train our distribution and sales employees to successfully support our brands and innovations in a fast-paced and rapidly changing environment to meet the demands of retailers and consumers.

Marketing

Our marketing is based on understanding consumers and giving them relevant choices. We gather insights into adult consumers' preferences and buying behavior, before investing in developments across the marketing mix to deliver relevant choices for our consumers.

We are focused on delivering quality tobacco products to consumers. Our marketing strategy is driven by four principles:

- Understanding the different profiles and preferences of our customers;
- The strength of our brands;
- Our consumer-centric innovative products; and
- World class trade marketing.

We invest in gathering comprehensive insights into adult smokers' preferences and buying behavior to help us understand the different profiles of our consumers. This assists us in ensuring our products satisfy the preferences of adult tobacco consumers.

We have a diversified GDB portfolio, rather than a "one size fits all" model. Using insights into adult consumer preferences, our GDBs — *Dunhill, Kent, Lucky Strike, Pall Mall* and *Rothmans* — deliver perceived consumer benefits through quality in product, blend, taste and price. Our GDB approach offers consumers brand, format and style choices, drives the expansion of each brand's geographic footprint and improved margins for our business. We focus resources to develop these brands where we expect both current and long-term growth opportunities to drive our share in a particular market. We additionally rely on our other international, regional and local brands in areas where they play a strategic role either in a product sector or in a key local market with high consumer loyalty, such as *Yava* in Russia and *Derby* and *Free* in Brazil.

We believe there should be marketing restrictions for products which pose real and serious risks to health, such as tobacco products. We seek to apply a consistent, responsible approach to marketing across our Group by requiring that our companies follow our International Marketing Principles, which govern our tobacco marketing across print, billboards, electronic media, promotional events and sponsorship. Our International Marketing Principles provide that our marketing should be targeted at adult tobacco consumers and not undermine their understanding of the health risks and include, for example, further procedures for adult verification and for the responsible use of new and emerging channels of consumer communication. In some markets, our International Marketing Principles are stricter than local laws. Until recently, adherence to International Marketing Principles had been monitored through self-assessments and as part of internal company audits.

Intellectual Property

Our trademarks, which include the brand names under which our products are sold, are key assets. We regard the protection and maintenance of the reputation of our brand names and trademarks as critical to our success. We rely on trademark laws together with patent, copyright and design right laws in different jurisdictions around the world to protect our intellectual property rights.

We own the trademarks to the vast majority of the brands that we use in our business. Generally, our trademarks in relation to our GDBs and our other International Brands are principally owned by our brand owning companies in the United Kingdom, United States, the Netherlands or Switzerland, which license the use of such trademarks to our relevant operating companies. Other brands tend to be owned by the local BAT operating company.

In addition to selling brands that we own, we also sell *Camel*, *Winston* and *Salem* which are licensed to us by Japan Tobacco with respect to cigarettes in certain markets in Latin America.

We also own a number of brands and trademarks which we have licensed to third parties for use in particular jurisdictions. For example:

- *Benson & Hedges* trademark is licensed to ITC for use in respect of cigarettes and tobacco products in India; and
- *Dunhill* trademark is licensed to *Reynolds American* for use in respect of cigarettes, cigars and tobacco products in the United States; and
- *Dunhill* trademark is licensed to *Rothmans*, *Benson & Hedges Inc*. for use in respect of cigarettes and tobacco products in Canada.

As well as protecting our brand names by way of trademark registration, we also protect our innovations by means of patents and designs in key global jurisdictions. As of March 23, 2015, we have:

Pending Designs: 174

Granted Designs: 706

Pending Patents: 1859

Granted Patents: 1500

Next-Generation Products

We are complementing our core tobacco business with next-generation tobacco and nicotine products, including e-cigarettes, medicinal nicotine products and tobacco heating products. We are investing significantly in this category because we believe it will create long-term growth opportunities for the Group while meeting consumer demand for less risky alternatives to smoking.

In 2013, we launched *Vype*, our first e-cigarette, in the UK. Since then, we have continued to develop this range and, in 2014, launched two new innovative products — *Vype eStick* and *Vype ePen*. We intend to use the insights from our experience in the UK to support the launch of *Vype* in further markets. We are also developing nicotine products that are or will seek to become regulated as medicines, including nicotine inhalation products. In September 2014, the Medicines and Healthcare Products Regulatory Agency (MHRA) in the UK granted our development partner Kind Consumer a medicines license for *Voke*, an innovative nicotine inhaler. We intend to commercialize and launch *Voke* in the UK by the end of 2015.

Tobacco heating products heat tobacco rather than burning it, making them a potentially less risky option. We plan to begin consumer trials of a tobacco heating product in the near future.

The regulatory environment of e-cigarettes and other non-tobacco nicotine products, including classification of products, restrictions on advertising and excise, is still developing and could stifle innovation and the growth of the category and prevent smokers becoming aware of and accessing these new products.

Research and Development

We make significant investment in research and development to deliver innovations that satisfy or anticipate consumer needs and generate growth for the business. This involves cigarette innovations that offer a superior smoking experience, such as capsule products, additive-free products, tube filters and *Reloc*, our resealable pack technology. We also look outside the cigarette market and research, develop and test innovative products such as e-cigarettes and tobacco heating products.

In a competitive market, we believe that innovation is vital to continued growth and consider that one of our key challenges in the medium- and long-term will be to provide consumers with high-quality tobacco products and alternative nicotine products that take into account their changing preferences and expectations.

We focus our research and development activities on delivering a leading pipeline of superior products leveraging the best next-generation technologies underpinned by world-class science. We have an extensive scientific research program. We have spent more than £480 million on research and development over the past three years.

We are transparent about our science and publish details of our research programs on our dedicated website, www.bat-science.com. We continue to publish research findings in peer-reviewed journals, present our findings and views at scientific conferences and seek constructive discussions about tobacco harm reduction with scientific and public health stakeholders.

Our research and development function also provides guidance on the use of ingredients in our products to ensure our current product portfolio complies with national legislative requirements and with our own internal standards.

Associates

Name of Associate	Country of incorporation	Per cent shareholding and voting rights (within the Group)
Reynolds American Inc.	United States	42
ITC Limited[(1)]	India	30

Note:

(1) In 2014 Year, our interest in ITC decreased from 30.47 per cent to 30.26 per cent as a result of ITC issuing ordinary shares under its employee stock option scheme.

Employees

During 2014 Year, our workforce amounted to 57,962 employees worldwide. We believe that our labor relations are good. The average number of persons employed by us and our associates during 2014 Year, was 90,118 worldwide (compared to 89,820 worldwide in 2013 Year).

The following table sets forth the number of our employees by region and that of our associates in 2014 Year and 2013 Year.

Region	Year Ended December 31, 2014	2013
	(number of employees worldwide)	
Asia-Pacific	17,108	17,156
Americas	16,011	16,489
Western Europe[(1)]	12,355	11,824
EEMEA	12,488	12,261
Subsidiary undertakings	57,962	57,730
Associates	32,156	32,090
Total Employees	**90,118**	**89,820**

Note:

(1) Included within the employee numbers for Western Europe are certain employees in the UK in respect of central functions. Some of the costs of these employees are allocated or charged to our various regions and markets.

Industry and Competitive Environment

According to Euromonitor International and our internal estimates, the global tobacco industry sells around 5,700 billion cigarettes each year and the value of the global tobacco market is estimated at £450-£500 billion. Over the last two decades, the world market for cigarettes has grown, predominantly due to year on year growth in China, which has offset the reducing sales volume of cigarettes in the rest of the world, especially in developed markets, such as Western Europe. Over the coming years, we expect sales volumes of cigarettes outside China to continue to decline as a lower percentage of the total adult population will choose to smoke cigarettes and individual smokers will consume fewer cigarettes; these dynamics will be offset by the impact of population growth. Additionally, increasing levels of disposable income, consumer demand for premium brands and the availability of innovative tobacco products are expected to result in a continued rise in the value of the global tobacco market in the next few years.

In 2014, the four biggest international manufacturers, according to our internal estimates, were Philip Morris International with a global market share of approximately 15 per cent, BAT (excluding associates) with approximately 12 per cent, Japan Tobacco with approximately 9 per cent and Imperial Tobacco with approximately 5 per cent. Collectively, these four players held around 41 per cent of the global market, or approximately three-quarters of the market outside China. China accounts for approximately 45 per cent of global cigarette sales volume, according to our internal estimates, and is the world's largest cigarette market.

The international tobacco companies have a very small presence in the Chinese market, where the industry is state-owned. Due to trafficking of tobacco products in many countries, up to 12 per cent of global volume is traded on the black market.

The global tobacco industry operates in a challenging environment. The size of the global cigarette market is impacted by a number of factors, including increased regulation (see "— *Regulation*"), rising excise rates on its products and tobacco trafficking.

Tobacco products are subject to substantial duty, excise and other taxes in most markets in which we operate. Increases to duty, excise and other taxes affect the size of tobacco markets. Significant and sustained increases in taxes in markets where tobacco prices are already high may lead consumers to switch to cheaper brands. This can lead to the growth in sales of lower margin products and decreases in sales of higher margin products. Additionally, increases in tobacco taxes can lead to consumers rejecting legitimate tax paid products and switching to products from illegal sources.

Trafficking of tobacco products includes the trade in counterfeit products, smuggled genuine products, including 'illicit whites' (also known as "made for smuggling brands"), and locally manufactured products on which applicable taxes are evaded. Illicit trade remains a key challenge for the legitimate tobacco industry. Illicit trade is driven by many factors, including tax-driven price increases, weak criminal penalties, poor enforcement of border controls, weak laws, corruption, loosely regulated free trade zones, a less rigorous approach to intellectual property rights protection and the use of the internet as a medium of trading. Bodies such as the Framework Convention Alliance estimate that approximately 660 billion cigarettes per year are smuggled, manufactured illegally or counterfeited. We are liaising with governments and law enforcement agencies around the world to combat illicit trade. We also undertake a range of measures to protect our trademarks and strengthen the security of our supply chain, such as digital coding and tax verification, which help governments ensure taxes and duties are paid, and a track and trace system, which means we can monitor our products as they move through the supply chain. We also destroy all old machinery and spares, while cooperating with suppliers and customers to fight trafficking.

Quality and innovation will play an increasing role in delivering market share, as tobacco companies operate in a highly competitive marketplace. Innovations will include next-generation products: new-style tobacco and nicotine products that employ a range of new technologies. Substantial investments have also been made in developing cigarette alternatives, including nicotine inhalation products, electronic cigarettes, aerosol nicotine-delivery systems and products that heat tobacco rather than burn it. Although still in the early stages of development, sales of next-generation products have risen sharply in a number of markets in recent years, such as the U.S., France, the UK and Poland.

Regulation

Our businesses operate under increasingly stringent regulatory regimes worldwide. Regulation of the tobacco industry and its products has increased in recent years. We believe that further tobacco-control and regulation in most of the markets in which we operate is inevitable over the medium term, driven by guidelines and protocols derived from the World Health Organization's FCTC and other tobacco-control activities undertaken outside the FCTC (e.g. U.S. Food and Drug Administration, European Union and domestic regulation). The FCTC is an international public health treaty that establishes a global agenda to regulate tobacco in an effort to reduce tobacco initiation and to encourage tobacco cessation. Over 170 governments worldwide have ratified the FCTC. The FCTC has led to increased efforts by tobacco-control advocates and public health organizations to reduce the supply and demand of tobacco products, and to encourage governments to further regulate the tobacco industry. As national regulations increasingly reflect global influences, the scope of areas regulated will likely further expand.

In particular, product regulations may restrict product design and attributes — for example, restrictions on the use of ingredients such as flavorings (including menthol), as well as requiring product disclosures such as ingredients, additives and emissions. Packaging regulations are likely to result in an increase in requirements to include pictorial health warnings, sometimes graphic in nature, and to employ plain packaging (the world's first plain packaging law was passed in Australia in November 2011). Promotional regulations are likely to result in an increase in restrictions on advertising and communications regarding our products at both retail and trade levels. Sales and pricing regulations may include restrictions on how cigarettes are sold and the price we can charge for our products. Regulations imposing restrictions on smoking in enclosed public places, workplaces and, in certain instances, in public outdoor places such as beaches and parks are likely to proliferate.

Regulation is expected to increase and can be summarized as follows:

- *Place:* regulations and restrictions on smoking in public and work places (e.g. smoking bans);

- *Product:* regulation on use of ingredients, product design and attributes (e.g. ceilings regarding tar, nicotine and carbon monoxide yields), as well as product disclosures (e.g. ingredients and emissions);
- *Packaging and labeling:* regulation on pictorial health warnings, rotating health warnings, use of descriptors, size of warnings and other government mandated messages, and plain packaging with all the attendant implications for the ability to fully utilize trademarks and other intellectual property rights;
- *Promotion and advertising:* regulation on communications to consumers regarding tobacco products;
- *Purchase:* regulation on the manner in which tobacco products are sold, such as type of outlet (e.g. supermarkets and vending machines) and how they are sold (e.g. above the counter versus beneath the counter); and
- *Price:* regulations which have implications on the prices which manufacturers can charge for their tobacco products (e.g. by excise or minimum prices).

We support tobacco regulation that balances the preferences of consumers and interests of our stakeholders with the interests of society and enables our business to compete and prosper.

We believe that as a responsible tobacco business, we can contribute through information, ideas and practical steps, to help regulators address the key issues regarding our products, including under-age access, illicit trade, product information, product design, involuntary exposure to smoke and the development of potentially less harmful products, while maintaining a competitive market that accommodates the significant percentage of adults who choose to be tobacco consumers. We are committed to working with national governments and multilateral organizations and welcome opportunities to participate in good faith to achieve sensible and balanced regulation of tobacco products.

Environmental Matters

We are subject to extensive environmental laws and regulations with respect to water and air quality, greenhouse gas emissions, solid waste disposal and odor and noise control. We conduct an on-going program designed to comply with these environmental laws and regulations. We believe that we are in compliance with all applicable environmental laws and regulations. However, we cannot predict whether future changes in environmental laws or regulations might increase the cost of operating our facilities and conducting our business. Any such changes could have adverse consequences on our business, financial condition and results of operations.

Our Environment, Health and Safety policy ("EHS policy") sets out detailed requirements for all of our operating companies, designed to achieve our aim of applying the best international standards in environmental, occupational health and safety management, and to ensure that our companies give the necessary activities a high priority. Unless local law is more exacting, all of our operating companies must comply with EHS policy.

Legal Proceedings

Litigation

Product Liability Litigation

Group companies, notably B&W as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.

Indemnity

On July 30, 2004, B&W completed the combination of the assets, liabilities and operations of its U.S. tobacco business with R.J. Reynolds Tobacco Company ("RJRT"), a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which Reynolds American was formed (the "Business Combination"). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its U.S. cigarette and tobacco business, subject to specified exceptions, in exchange for a 42 per cent equity ownership interest in Reynolds American. As a result of the Business Combination, RJRT assumed all liabilities of B&W (except liabilities to the extent relating to businesses and assets not contributed by B&W to RJRT and other limited categories of liabilities) and contributed subsidiaries or otherwise to the extent related to B&W's tobacco business as conducted in the United States on or prior to July 30, 2004. In addition, RJRT agreed to indemnify B&W and each of its associates (other than Reynolds American and its subsidiaries) against, among other matters, all losses (including those arising from Environmental Tobacco Smoke ("ETS") claims), liabilities, damages, expenses, judgments, attorneys' fees, etc., to the extent relating to or arising from such assumed liabilities or the assets contributed by B&W to RJRT (the "RJRT Indemnification").

The scope of the RJRT Indemnification includes all expenses and contingent liabilities in connection with litigation to the extent relating to or arising from B&W's U.S. tobacco business as conducted on or prior to July 30, 2004, including smoking and health tobacco litigation, whether the litigation is commenced before or after July 30, 2004 (the "Tobacco Litigation").

Pursuant to the terms of the RJRT Indemnification, RJRT is liable for any possible judgments, the posting of appeal bonds or security, and all other expenses of and responsibility for managing the defense of the Tobacco Litigation. RJRT has assumed control of the defense of the Tobacco Litigation involving B&W, to which RJRT is also a party in most (but not all) of the same cases.

Included in the U.S. litigation section below are all significant cases where B&W and/or a UK company is named as a defendant and all cases where RJRT is named as a defendant as a successor to B&W (the "RJRT Successor Cases"). The RJRT Successor Cases are covered by the RJRT Indemnification.

U.S. Litigation

The total number of U.S. product liability cases pending at December 31, 2014 involving B&W was approximately 6,057 (compared to approximately 7,312 in 2013). Of these, 2,999 cases are RJRT Successor Cases. For all of the 6,057 cases involving B&W, British American Tobacco Group companies have the protection of the RJRT Indemnification. As at December 31, 2014, British American Tobacco (Investments) Limited ("Investments") has been served as a co-defendant in one of those cases (compared to one in 2013). No other UK-based Group company has been served as a co-defendant in any U.S. product liability case pending as at December 31, 2014. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totaling billions of U.S. dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases and other claims.

(a) Medical Reimbursement Cases

These civil actions seek to recover amounts spent by government entities and other third-party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking.

At December 31, 2014, one U.S. medical reimbursement suit was pending against B&W by an Indian tribe in an Indian tribal court in South Dakota. No other suits are pending against B&W by county or other political subdivisions of the states.

(b) Class Actions

At December 31, 2014, B&W was named as a defendant in five separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted through smoking or where classes of tobacco claimants have been certified. If the classes are or remain certified and the possibility of class-based liability is eventually established, it is likely that individual trials will be necessary to resolve any claims by individual plaintiffs. Class action suits have been filed in a number of states against individual cigarette manufacturers and their parent corporations, alleging that the use of the terms 'lights' and 'ultralights' constitutes unfair and deceptive trade practices.

Black is a 'lights' class action filed in November 2000 in the Circuit Court, City of St. Louis, Missouri. B&W removed the case to the U.S. District Court for the Eastern District of Missouri on September 23, 2005. On October 25, 2005, the plaintiffs filed a motion to remand, which was granted on March 17, 2006. On April 16, 2008, the Court stayed the case pending U.S. Supreme Court review in *Good v. Altria Group, Inc*. On June 28, 2011, the court issued a memorandum removing the case from the trial docket. A status conference is scheduled for February 22, 2016.

Howard is a 'lights' class action filed in February 2000 in the Circuit Court, Madison County, Illinois. A judge certified a class on December 18, 2001. On June 6, 2003, the trial judge issued an order staying all proceedings pending resolution of *Price v. Philip Morris, Inc*., a 'lights' class action against Philip Morris, Inc. in the Illinois state court. The plaintiffs appealed this stay order to the Illinois Fifth District Court of Appeals, which affirmed the Circuit Court's stay order on August 19, 2005. There is currently no activity in the case.

Jones is a case filed in December 1998 in the Circuit Court, Jackson County, Missouri. The defendants removed the case to the U.S. District Court for the Western District of Missouri on February 16, 1999. The action was brought by tobacco product users and purchasers on behalf of all similarly situated Missouri consumers. The plaintiffs allege that their use of the defendants' tobacco products has caused them to become addicted to nicotine. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. The case was remanded to the Circuit Court on February 17, 1999. There has been limited activity in this case.

Parsons is a case filed in February 1998 in the Circuit Court, Ohio County, West Virginia. The plaintiff sued asbestos manufacturers and U.S. cigarette manufacturers, including B&W, seeking compensatory and punitive damages (U.S.$1 million individually and an unspecified sum for the class) for alleged personal injuries arising from their exposure to respirable asbestos fibers and cigarette smoke. The case has been stayed pending a final resolution of the plaintiffs' motion to refer tobacco litigation to the judicial panel on multidistrict litigation filed in In *Re: Tobacco Litigation* in the Supreme Court of Appeals of West Virginia. Moreover, Parsons has been stayed pursuant to the Bankruptcy Code because three defendants filed bankruptcy petitions on December 26, 2000.

Young is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana. The plaintiffs brought an Environmental Tobacco Smoke ("ETS") class action on behalf of all residents of Louisiana who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes which were manufactured by the defendants, and who allegedly suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. On October 13, 2004, the trial court stayed this case pending the outcome of appellate review in the *Scott* class action in Louisiana. With appellate review completed and final judgment entered in the Scott class action, the trial court granted the plaintiffs' request to continue the stay of this action during the implementation of the *Scott* smoking cessation program on March 6, 2013.

In *Engle* (a case in Florida), a jury awarded a total of U.S.$12.7 million to three class representatives, and in a later stage of the three-phase trial procedure adopted in this case, a jury assessed U.S.$17.6 billion in punitive damages against B&W. On May 21, 2003, the intermediate appellate court reversed the trial court's judgment and remanded the case to the trial court with instructions to de-certify the class; this was upheld on July 6, 2006. Further, the Florida Supreme Court permitted the judgments entered for two of the three Engle class representatives to stand, but dismissed the judgment entered in favor of the third *Engle* class representative. Finally, the Florida Supreme Court permitted putative *Engle* class members to file individual lawsuits against the *Engle* defendants within one year of the court's decision (subsequently extended to January 11, 2008). The court's order precluded defendants from litigating certain issues of liability against the putative *Engle* class members in these individual actions. Upon the defendants' motion for rehearing before the Florida Supreme Court, the court addressed the claims on which the Engle jury's phase one verdict will be applicable to the individual lawsuits that were permitted to stand, but did not amend any of the prior significant rulings, including those decertifying the class, vacating the punitive damages judgment, and permitting individual members of the former class to file separate suits. On October 1, 2007, the United States Supreme Court denied the defendants' request for certiorari review of the Florida Supreme Court's decision.

As at December 31, 2014, B&W has been served in approximately 42 *Engle* progeny cases in both state and federal courts in Florida. These cases include approximately 98 plaintiffs. RJRT, as a successor to B&W, is named in approximately 2,988 *Engle* progeny cases. These cases include approximately 3,773 plaintiffs. These 42 B&W cases and 2,988 RJRT cases have the benefit of the RJRT Indemnification.

The first 'phase three' trial of an individual Engle class member ("Lukacs"), ended in a plaintiff's verdict on June 11, 2002, which was affirmed on appeal. RJRT expensed and paid the final judgment in the amount of approximately $15.2 million on June 18, 2010.

As at December 31, 2014, approximately 73 additional phase three *Engle* trials naming RJRT as successor to B&W have proceeded to verdict. There have been no additional phase three Engle progeny trials naming B&W individually. Of these 73 trials, approximately 42 resulted in plaintiffs' verdicts. One of these plaintiffs' verdicts apportioned no liability or damages to RJRT. As at December 31, 2014, total damages awarded against RJRT as successor to B&W in final judgments in these cases are approximately U.S.$176,923,848. This number comprises approximately U.S.$90,273,848 in compensatory damages and approximately U.S.$86,650,000 in punitive damages. As at December 31, 2014, RJRT has appealed 36 of these 42 adverse judgments. 21 of these appeals remain pending before Florida intermediate appellate courts as at December 31, 2014. In one of the appeals that was decided, the Florida intermediate appellate court affirmed the liability finding but vacated the damages award and remanded the matter to the trial court. In four of the appeals that were decided, the Florida intermediate appellate courts reversed the final judgment and remanded the matter to the trial court for a new trial on all issues. In another 13 appeals that were decided, the Florida intermediate appellate courts affirmed final judgments in favor of plaintiffs. RJRT has paid damages to the plaintiffs in ten cases that are now closed.

In June 2009, the Florida legislature amended its existing bond cap statute by adding a U.S.$200 million bond cap that applies to all phase three *Engle* progeny cases in the aggregate and establishing individual bond caps for individual cases in amounts that vary depending on the number of judgments in effect at a given time. Plaintiff challenges to the bond cap have been unsuccessful.

On April 8, 2015, a panel of the U.S. Court of Appeals for the Eleventh Circuit reversed the judgment for plaintiff in *Graham v. R.J. Reynolds Tobacco Co*., holding that *Engle* progeny claims alleging negligence and strict liability are pre-empted by federal law. The court concluded that state law may not, as it has through *Engle* jury findings, impose liability on cigarette manufacturers under these theories as to do so would amount to a ban on the product, contrary to the requirements of federal legislation.

(c) Individual Cases

Approximately 3,052 cases were pending against B&W as at December 31, 2014 (compared to 3,063 in 2013), which were filed by or on behalf of individuals and in which it is contended that diseases or deaths have been caused by cigarette smoking or by exposure to ETS. Of these cases, approximately: (a) 2,558 are ETS cases brought by flight attendants who were members of a class action ("Broin") that was settled on terms that allow compensatory but not punitive damages claims by class members; (b) 396 are cases brought in consolidated proceedings in West Virginia, where the first phase of the trial began on April 15, 2013 and on May 15, 2013 the jury returned a verdict for defendants on all but one plaintiffs' claims. The verdict is currently on appeal; (c) 42 are *Engle* progeny cases that have been filed directly against B&W; and (d) 56 are cases filed by other individuals.

In addition to the 2,988 *Engle* progeny cases which name RJRT as successor to B&W, there are 11 cases filed by other individuals naming RJRT as successor to B&W. These cases are subject to the RJRT Indemnification and are not detailed here.

In February 2005, a Missouri jury ("Lincoln Smith") awarded U.S.$500,000 in compensatory damages and U.S.$20 million in punitive damages against B&W. Following B&W's appeal, on July 31, 2007, an intermediate appellate court affirmed the compensatory damages award and reversed the punitive damages award, reasoning that the plaintiffs failed to produce sufficient evidence to justify the verdict. Following a transfer to the Missouri Supreme Court and a subsequent remand by that court, the intermediate appellate court on December 16, 2008, again upheld the award of compensatory damages, reversed the jury's award of U.S.$20 million in punitive damages, and ordered a new trial on punitive damages. On August 20, 2009, a Missouri jury awarded U.S.$1.5 million in punitive damages against B&W. On September 24, 2009, B&W filed a motion for a new trial and a motion for judgment notwithstanding the verdict. On the same date, the plaintiffs filed a motion for additur, seeking to increase the punitive damages award to U.S.$20 million, and a motion to vacate, modify or set aside judgment, or in the alternative, for a new trial.

On December 21, 2009, the court denied the plaintiffs' and B&W's post-trial motions. After an initial oral argument on both parties' appeals in September 2011, the intermediate appellate court ordered the parties to reargue the case en banc. On October 2, 2012, the intermediate appellate court reversed the jury's award of punitive damages on the grounds that the trial court had exceeded the scope of its mandate, and remanded for a new trial solely to determine the amount of punitive damages. On October 30, 2012, the intermediate appellate court denied B&W's application for transfer to the Missouri Supreme Court, and overruled B&W's motion for rehearing. B&W filed in the Missouri Supreme Court an application for transfer to that court on November 14, 2012. This application was granted on December 18, 2012. On September 10, 2013, the Missouri Supreme Court affirmed the judgment of the circuit court. B&W filed a motion for rehearing on September 25, 2013, and that motion was overruled by the Missouri Supreme Court on September 29, 2013. On November 7, 2013, the court approved a confidential settlement.

Non-Tobacco Related Litigation

Flintkote

The Flintkote Company ("Flintkote"), a U.S. company formerly engaged in the production and sale of asbestos-containing products, was included in the acquisition of Genstar Corporation by Imasco Limited in 1986 and became a Group subsidiary following the restructuring of Imasco Limited (now Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada) in 2000. Soon after this acquisition, and as part of the acquisition plan, Genstar Corporation began to sell most of its assets, including the non-asbestos related operations and subsidiaries of Flintkote. The liquidation of Flintkote assets produced cash proceeds and, having obtained advice from the law firm of Sullivan & Cromwell LLP ("S&C") and other advice that sufficient assets would remain to satisfy reasonably foreseeable liabilities, Flintkote's Board of Directors authorized the payment of a dividend of U.S.$170.2 million in 1986 and a further dividend of U.S.$355 million in 1987. In 2003, Imperial divested Flintkote and then, in 2004, Flintkote filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. In 2006, Flintkote, representatives of both the present and future asbestos plaintiffs (collectively, the "Flintkote Plaintiffs"), and certain individual asbestos plaintiffs (the "Hopkins Plaintiffs") were permitted by the Bankruptcy Court to file a complaint in the California State Court against

Imperial and numerous other defendants, including a malpractice claim against S&C, for the recovery of the dividends and other compensation under various legal and equitable theories. Following a multi-day bench trial, the California State Court issued a preliminary decision dismissing the claim against S&C. Before the decision was made final, Flintkote settled with S&C for a nominal sum. All claims and cross-claims in the litigation asserted by or against S&C have now been dismissed. After another series of bench trials, on October 6, 2011, the court issued preliminary orders deciding multiple preliminary issues regarding Flintkote's claims to recover the dividends and Flintkote's claim that Imperial is its "alter ego" for purposes of asbestos liabilities. Among other things, the court has concluded that Flintkote is barred from seeking to recover, under any theory, transfers that occurred after December 31, 1986. The court also concluded that Flintkote has no standing to pursue its claim that Imperial is its alter ego for purposes of asbestos liability, holding that any such claims must instead be pursued by individual asbestos plaintiffs. These rulings were made final on January 6, 2012. Thereafter, the Flintkote Plaintiffs agreed to dismiss certain of their claims, but continued to assert fraudulent conveyance claims and equitable restitution claims, as reflected in a Third Amended Complaint filed in January 2013. In August 2013, the Court implemented certain of its earlier decisions by granting summary judgment to Imperial on the plaintiffs' claims to recover the 1987 dividends. The Court also granted summary judgment to Imperial on the plaintiffs' fraudulent conveyance claims that were based on allegations that Flintkote was insolvent at the time of the dividend. Nonetheless, Flintkote continued to pursue claims that effectively sought recovery of the value of the 1987 dividend plus interest. Procedurally, the claims of the Flintkote Plaintiffs are now separated from the claims of the Hopkins Plaintiffs, and it was anticipated that, in the absence of the settlement described below, they would be tried separately.

On December 17, 2014, following a series of formal mediation sessions and other negotiations, Imperial and the Flintkote Plaintiffs executed a settlement agreement. In furtherance of this settlement, Imperial has placed into escrow the required settlement payment of U.S.$575 million. The settlement is contingent upon approval of the United States Bankruptcy Court for the District of Delaware, where Flintkote's bankruptcy case remains pending, and the United States District Court for the District of Delaware. Imperial filed bankruptcy motions and plan documents on February 9, 2015. The settlement will finally and completely resolve the existing Flintkote litigation, including the claims of the Hopkins Plaintiffs, and Imperial and its corporate affiliates will obtain protections from any potential future litigation related to Flintkote. The settlement was reported to the judge in the California litigation on February 3, 2015, and those proceedings have been stayed pending the settlement approval process. The judge in the California litigation retired from the bench at the end of February 2015 and a status hearing before the new judge has been set for July 8, 2015.

A hearing in the Bankruptcy Court on Flintkote's Motion to approve certain notice procedures in connection with the settlement was held on March 17, 2015. That motion was approved and Flintkote is now proceeding with a court-approved notice procedure. The approval hearing before the Bankruptcy Court is scheduled for August 2015.

Reynolds American, Inc. / Lorillard, Inc. Shareholder Litigation

On July 15, 2014, Reynolds American announced that it had entered into a definitive merger agreement with Lorillard, Inc. ("Lorillard"), whereby Reynolds American would acquire Lorillard in exchange for a combination of cash and Reynolds American stock. As part of this transaction, the Company executed a Share Purchase Agreement to acquire a sufficient number of Reynolds American shares to achieve a 42 per cent equity stake in Reynolds American after the merger with Lorillard, which is the same equity ownership it currently holds in Reynolds American. In press releases announcing the transaction, Reynolds American and BAT also announced that they had "agreed in principle" to pursue a technology-sharing initiative for the development and commercialization of next-generation tobacco products.

In summer 2014, the Company was named as a defendant in three actions stemming from the announcement of Reynolds American's intended acquisition of Lorillard and related transactions (the "Proposed Transaction"). Two of these actions were filed in the Delaware Court of Chancery on behalf of a putative class of Lorillard shareholders alleging that the directors of Lorillard breached their fiduciary duties by failing to obtain the highest value for Lorillard and that Reynolds American and the Company aided and abetted that breach. Nine other related actions were filed in Delaware by Lorillard shareholders that did not name the Company as a defendant. All eleven Delaware actions were consolidated on November 25, 2014, and the Company was not named as a defendant in the consolidated action.

The third action against the Company was filed in state court in North Carolina on August 8, 2014. The action was brought on behalf of a putative class of Reynolds American shareholders alleging that the Company is a controlling shareholder of Reynolds American and breached its fiduciary duty to the other Reynolds American shareholders by 1) entering into the Share Purchase Agreement to acquire Reynolds American shares at an allegedly unfair price in order to maintain its 42 per cent interest in Reynolds American after the Lorillard acquisition while diluting the interest of the other shareholders, and 2) entering into a purported agreement with Reynolds under which the plaintiff contends Reynolds American will share next-generation technology with BAT for inadequate consideration. The plaintiff also alleges certain claims against Reynolds American and its directors. The plaintiff seeks to enjoin the Proposed Transaction and to recover damages in an unspecified amount and attorneys' fees and costs.

On December 5 and December 8, 2014, all defendants moved to dismiss the Amended Complaint and to stay discovery pending the motions to dismiss. On January 2, 2015, the plaintiff filed a motion for a preliminary injunction to enjoin the vote of Reynolds American shareholders regarding aspects of the Proposed Transaction pending additional disclosures to shareholders regarding issues that the plaintiff contended were material to the vote. On January 17, 2015, Reynolds American and its directors settled the disclosure claims with the plaintiff pursuant to a Memorandum of Understanding filed with the Court and the plaintiff withdrew his motion for a preliminary injunction. Oral argument on the motions to dismiss took place at a hearing on May 5, 2015. A decision is expected in the coming months.

Fox River

In Wisconsin, the authorities have identified potentially responsible parties ("PRPs") to fund the clean up of river sediments in the lower Fox River. The pollution was caused by discharges of polychlorinated biphenyls ("PCBs") from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation ("NCR").

As regards the mid and lower portions of the Fox River, in March 2012, the U.S. Government filed a motion in the United States District Court for the Eastern District of Wisconsin (the "Wisconsin Court") for a preliminary injunction against NCR and Appvion Inc. ("Appvion"), seeking to establish the scope of the clean-up operations to be carried out on the Fox River in 2012. In light of a subsequent ruling by the same court that Appvion is not a PRP, the injunction was granted against NCR alone on April 27, 2012. NCR appealed this decision and it was affirmed on August 3, 2012. Full trial of the merits of the U.S. Government's application for a permanent injunction took place in December 2012 and the Court entered a permanent injunction against NCR. On May 1, 2013, the Wisconsin Court ruled that the pollution in the Fox River is not divisible.

In a series of rulings, the Wisconsin Court also held that NCR was not entitled to recover any amounts in contribution from other PRPs and that the other PRPs were entitled to recover Fox River clean-up costs from NCR. Cross-claims by Appvion against other PRPs to recover its own Fox River related expenditures were rejected by the Wisconsin Court on June 25, 2013. As a result of these decisions NCR was found wholly responsible for the clean-up of those portions of the river. NCR and Appvion appealed against these decisions before the U.S. Court of Appeals for the Seventh Circuit.

On September 25, 2014, the U.S. Court of Appeals for the Seventh Circuit vacated the decisions finding NCR wholly liable. The Court remanded the case to the district court for further consideration of defense of divisibility available to NCR. The Court also vacated the permanent injunction against NCR, reasoning that such relief is unnecessary. The Court also remanded the issue of contribution to the district court for reconsideration and found that Appvion is entitled to bring actions against other PRPs to recover its expenses, thereby reversing the trial court's finding in relation to this.

On remand, the Wisconsin Court found on May 15, 2015 that the contamination of Operable Unit 4, a key segment of the river from a cost perspective, was divisible and on the basis of the factual record available, the Court held that NCR's divisible share of the damages for that section of the river could be reasonably determined to be 28 per cent. For the remainder of the mid and lower portions of the river, NCR remains jointly and severally liable for remediation costs and its allocated share of liability will be determined during a trial on the PRP's contribution claims, which is scheduled to be heard in June 2016. The Court also denied a motion brought by the remaining PRPs to dismiss Appvion's contribution claims. On May 29, 2015, the United States Environmental Protection Agency moved the Court to reconsider its divisibility decision of May 15, 2015 and find that NCR is jointly and severally liable for all cleanup costs across the mid and lower portion of the river.

As regards the upper portion of the Fox River, a trial took place in Wisconsin in February 2012 to determine whether NCR is also liable for the clean-up costs in the upper portion of the Fox River. This trial addressed whether NCR is liable as a result of the sale, by a predecessor of NCR's Appleton Papers Division, of scrap paper, or "broke", to other PRPs which, in turn, discharged PCBs into the upper portion of the river in the course of recycling the broke. A judgment issued in July 2012 found NCR was not liable on this basis and this order was made final on June 27, 2013. On September 25, 2014, the U.S. Court of Appeals for the Seventh Circuit dismissed the other PRPs' appeal against this order.

On March 3, 2015, the Wisconsin District Court granted a motion for reconsideration brought by Glatfelter (another PRP) based on the Seventh Circuit's ruling that the portions of the Fox River are not separate sites. NCR have filed a writ of mandamus seeking to vacate the District Court's ruling.

In NCR's Form 10-K Report for the year ended December 31, 2014, the total clean-up costs for the Fox River are estimated at U.S.$825 million. This estimate is subject to uncertainties and does not include natural resource damages which NCR estimates may range from U.S.$0 to U.S.$246 million. On May 6, 2015, the U.S. Government moved for leave to withdraw its claims for natural resource damages from the PRPs. A decision on this motion is pending.

In 1978, a subsidiary of B.A.T Industries p.l.c. ("Industries"), later known as Appleton Papers Inc. and now known as Appvion, purchased what was then NCR's Appleton Papers Division from NCR. In 1978, Industries also incorporated a U.S. entity by the name of BATUS, Inc. ("BATUS"), which in 1980 became the holding company for all of Industries' U.S. subsidiaries, including Appvion. As the holding company, BATUS obtained insurance policies for itself and its subsidiaries that included coverage for certain environmental liabilities. Industries/BATUS spun off the Appvion business in 1990 via a Demerger Agreement with Wiggins Teape Appleton p.l.c., now known as Windward Prospects Ltd ("Windward"), and Wiggins Teape Appleton (Holdings) p.l.c., now known as Arjo Wiggins U.S. Holdings Ltd (collectively, the "AWA Entities"), obtaining what Industries believes were full indemnities from the AWA Entities and Appvion for past and future environmental claims.

Disputes between NCR, Appvion, and Industries as to the indemnities given and received under the original purchase agreement in 1978 have been the subject of litigation that was commenced in 1995, a settlement agreement effective from 1998 (the "Settlement Agreement"), and an arbitration award in 2005. NCR took the position that, under the terms of the Settlement Agreement and the arbitration award, Industries and Appvion generally had a joint and several obligation to bear 60 per cent of the Fox River environmental remediation costs imposed on NCR. Until May 2012, Appvion and the AWA Entities paid the 60 per cent share of the clean-up costs and Industries was never required to contribute.

Subsequent to the preliminary injunction entered and affirmed against NCR in 2012, and by letters dated May 3, 2012, NCR made demands on both Appvion and Industries for payment of the sum of U.S.$6.6 million, stated to be due on a joint and several basis pursuant to the terms of the Settlement Agreement and being 60 per cent of costs paid by NCR so that remedial work could begin in accordance with the preliminary injunction. Appvion refused to pay this sum, whereupon NCR filed a motion in Wisconsin in order to enforce the terms of the Settlement Agreement and arbitration award against Appvion. In a ruling handed down in September 2012 the court declined to enforce the terms of the Settlement Agreement and arbitration award, holding that the amount of which Appvion is liable to pay 60 per cent must be ascertained via the dispute resolution provisions of the Settlement Agreement. Industries understands that NCR subsequently invoked the dispute resolution provisions contained in the Settlement Agreement as against Appvion, and on March 29, 2013 commenced an arbitration against Appvion, seeking to recover incurred and on-going clean-up costs of at least U.S.$39.9 million (plus interest and legal costs) and a declaration that Appvion is liable to NCR under the Settlement Agreement for 60 per cent of all "Claims, Damages and Group Defense Costs" (as defined in the Settlement Agreement) it will incur. NCR has continued to make payment demands on Appvion since commencing the arbitration and, as at November 15, 2013, was seeking payment of approximately U.S.$80.7 million from Appvion. Appvion sought to join Industries to the arbitration on the basis it was a necessary party and included a new claim that Industries is liable for 50 per cent of Appvion's past liability and future liability to NCR under the Settlement Agreement. An arbitration award has now been finalized, but under the terms of the Funding Agreement described below, the parties have agreed that the award will not be released.

In December 2011, following a request by Industries to confirm its indemnity obligation, Windward asserted that it did not indemnify Industries pursuant to the terms of the 1990 Demerger Agreement in respect of Industries' obligations under the Settlement Agreement. Industries disputed Windward's position and commenced proceedings in the High Court against both Windward and Appvion (which has also denied owing Industries an indemnity) (the "English Indemnity Proceedings"). Appvion also issued a Counterclaim seeking recovery of 50 per cent of its previous clean-up related payments (alleged to be 50 per cent of U.S.$211.25 million, or U.S.$105.6 million) (the "Appvion Counterclaim"). These proceedings were scheduled to go to trial in June 2015, but have now been discontinued pursuant to the Funding Agreement, described below.

Industries is aware that Windward settled the majority of Appvion's insurance claims (over which it had control) at what Industries believes constituted a significant discount, and has made dividend payments to its former and current shareholders of approximately U.S.$810 million, leaving it holding, according to its latest accounts for the year ended October 31, 2013, approximately U.S.$60 million of net assets. Appvion's own accounts indicated that it also had limited financial resources. Accordingly, Industries considered that there was a significant risk that the assets of Windward/Appvion would be insufficient to meet their obligations under the indemnities Industries believes it was granted.

In order to preserve the value of the assets within Windward, including the risk that the limitation period would expire in relation to possible claims under French law against Windward's former shareholder, Sequana S.A. ("Sequana") in relation to the dividend payments, Industries applied to the English Court on October 2, 2013 to seek to appoint a receiver over the relevant causes of action. Judgment was handed down on November 21, 2013. The judge held that absent an appropriate undertaking from Windward, receivers should be appointed in order to commence the dividend claims in the name of Windward, Windward commenced its claim against Sequana and the former directors on May 9, 2014 ("Sequana Dividend Claims").

In addition to taking steps to protect claims which Industries considers Windward has against Sequana, Industries filed its own direct claims seeking to recover the dividend payments from Sequana (the "BAT Dividend Claims") in both the High Court of Justice of England and Wales (the "High Court") on December 9, 2013 and before the Commercial Court of Nanterre, France, on December 13, 2013. The French Court later declined jurisdiction over the claims in favour of the English court which was first seized. The Sequana and the BAT Dividend Claims will be heard together in a trial scheduled to commence in February 2016.

On September 30, 2014, Industries entered into the Funding Agreement with Windward, Appvion, NCR and BTI 2014 LLC (a wholly owned subsidiary of Industries). Pursuant to the Funding Agreement, the English Indemnity Proceedings, Appvion Counterclaim and the NCR-Appvion arbitration described above were discontinued as part of an overall agreement between the parties providing a framework through which they would together fund the ongoing costs of the Fox River clean-up. Under the agreement, NCR has agreed to accept funding by BAT at the lower level of 50 per cent of the ongoing clean-up related costs of the Fox River (rather than the 60 per cent. referenced above; this remains subject to an ability to litigate the extent to which a further 10 per cent of the costs ought to be allocated at a later stage). In addition Windward and Appvion each committed to contribute to the funding — Windward has contributed $10 million and Appvion will contribute up to a maximum of $25 million respectively for each of Fox River and Kalamazoo River (see further below). The parties have also agreed to cooperate in order to maximize recoveries from certain claims that exist against third parties, including those claims which exist against Sequana (as referenced above). Any proceeds resulting from third party claims will be applied to meet river clean-up costs first, thereby reducing Industries' obligations under the Funding Agreement and Industries then ranks first in the agreed repayment waterfall should surplus remain. Windward has provided Industries with an agreed direct indemnity to potentially cover shortfalls in recoveries by Industries against the amounts paid out. The Funding Agreement also assigned the claims which Windward has against Sequana, as well as certain claims against former advisers to Windward, to BTI 2014 LLC.

Sequana is seeking to challenge Windward's ability to enter into the Funding Agreement, on the basis of certain restrictions it alleges affect its ability to do so. The trial of this issue is scheduled to take place on June 22, 2015. The Funding Agreement contains provisions that mean that it will be set aside as between all of the parties to it if this challenge is successful, and the disputes between the parties described above will be revived.

Windward also assigned claims against its former advisers PricewaterhouseCoopers and Freshfields to BTI 2014 LLC arising out of the advice provided by those parties to Windward in respect of the disputed dividends paid in 2008 and 2009. On October 28, 2014, BTI 2014 LLC issued protective claims against those parties.

The sums Industries has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing U.S. litigation. In addition, Sequana's challenge referred to above is yet to be determined. Based on information currently at hand, Industries believes it may have a further exposure of some £177 million (as at December 31, 2014 and after payment of £56 million in 2014) in relation to clean-up related costs. Accordingly, Industries has retained a provision of £177 million, after releasing £27 million from the provision created in 2011 to the income statement as an adjusting item.

Industries is aware that NCR is also being pursued by Georgia-Pacific, as the owner of a facility on the Kalamazoo River in Michigan which released PCBs into that river. Georgia-Pacific has been designated as a PRP in respect of the river. Georgia-Pacific contends that NCR is responsible for, or should contribute to, the clean-up costs, because (i) a predecessor to NCR's Appleton Papers Division sold "broke" containing PCBs to Georgia-

Pacific or others for recycling; (ii) NCR itself sold paper containing PCBs to Georgia-Pacific or others for recycling; and/or (iii) NCR is liable for sales to Georgia-Pacific or others of PCB containing broke by Mead Corporation, which, like the predecessor to NCR's Appleton Papers Division, coated paper with the PCB containing emulsion manufactured by NCR. A full trial on liability took place in February 2013. On September 26, 2013, the Michigan Court held that NCR was liable as a PRP on the basis that broke sales constituted an arrangement for the disposal of hazardous material for the purposes of the Comprehensive Environmental Responses Compensation and Liability Act ("CERCLA"). The decision was based on NCR's knowledge of the hazards of PCBs from at least 1969, but the court did not specify directly the entity(ies) whose broke sales form the basis of NCR's liability. NCR will have the ability to appeal the ruling once a final judgment has been entered or it has been otherwise certified for appeal. The second phase of the Kalamazoo trial, scheduled to commence on September 22, 2015, will determine the apportionment of liability amongst NCR, Georgia-Pacific and the other PRPs (International Paper Company and Weyerhauser Company). Industries anticipates that NCR may seek to recover from Appvion and/or Industries 60 per cent of any Kalamazoo clean-up costs for which it is found liable on the basis, it would be asserted, that the river constitutes a "Future Site" for the purposes of the Settlement Agreement. Industries believes it may have defenses to any such claim by NCR. The Funding Agreement described above does not resolve any such claims, but does provide an agreed mechanism pursuant to which any surplus from the valuable recoveries of any third party claims that remains after all Fox River related clean-up costs have been paid and Industries and NCR have been made whole may be applied towards Kalamazoo clean-up costs, in the event that NCR were to be successful in any claim for a portion of them from Industries or Appvion. The quantum of the clean-up costs for the Kalamazoo River is presently unclear (as is the extent of NCR's liability in respect of such costs), but could run into the hundreds of millions of dollars.

As detailed above, Industries is taking active steps to protect its interests, including seeking to procure the repayment of the Windward dividends, pursuing the other valuable claims that are now within its control, and working with the other parties to the Funding Agreement to maximize recoveries from third parties with a view ensuring that amounts funded towards clean up related costs are later recouped under the agreed repayment mechanisms.

UK — Based Group Companies

Investments has been served in the following U.S. cases pending as at April 1, 2015; one class action alleging violations of Kansas antitrust and consumer protection laws, the *Daric Smith* case mentioned below; and one individual action, the Perry case.

<u>Conduct-Based Claims</u>

In the *Daric Smith* case, purchasers of cigarettes in the state of Kansas brought a class action in the Kansas State Court against B&W, Investments and certain other tobacco companies seeking injunctive relief, treble damages, interest and costs. The allegations are that the defendants participated in a conspiracy to fix or maintain the price of cigarettes sold in the U.S., including in the state of Kansas, in violation of the Kansas Restraint of Trade Act.

After the close of discovery, all defendants, including Investments, moved for summary judgment in late October and early November 2010. On May 13, 2011, Investments supplemented its summary judgment motion on the basis of its de minimis market share and the inapplicability of the Kansas Restraint of Trade Act to a non-resident (such as Investments) that did not purchase, sell or manufacture goods in the state of Kansas.

On March 26, 2012, the court entered an order granting all of the defendants' summary judgment motions and dismissing the plaintiff's first amended petition with prejudice. On July 18, 2012, the plaintiff filed a notice of appeal on various points. On or about August 1, 2012, all defendants filed notices of cross-appeal, with Investments filing its own separate notice of cross-appeal to address, among other issues, various orders denying the defendants' claims of privilege over certain categories of documents during discovery.

The plaintiff filed his appeal on January 25, 2013 and the defendants' opposition and cross-appeal briefs were filed on May 29, 2013. The plaintiff filed his combined reply/response to Investments' cross-appeal on July 19, 2013. Investments filed a reply brief addressing the novel arguments raised in the plaintiff's reply/response relating to Investments' cross-appeal on privilege issues. The Court of Appeals heard oral argument in the case on December 11, 2013.

On July 18, 2014, the Court of Appeals of Kansas affirmed the trial court's order granting summary judgment for all the defendants. On August 18, 2014, the plaintiff filed a Petition for Review by the Supreme Court of Kansas. On August 29, 2014, the defendants filed their response to the plaintiff's Petition for Review. On September 12, 2014, the plaintiff filed his reply. A decision in the matter is pending.

Product Liability Outside the United States

At April 1, 2015, active product liability claims against the Group's companies existed in 15 markets outside the U.S. (2013: 16) but the only markets with more than five claims were Argentina, Brazil, Canada, Chile, Italy and Nigeria. As at April 1, 2015, medical reimbursement actions are being brought in Argentina, Brazil, Canada, Nigeria and South Korea.

(a) Medical reimbursement cases

Argentina

In 2007, the non-governmental organization the Argentina Tort Law Association ("ATLA") and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. ("Nobleza") and Massalín Particulares. Several defenses were filed by Nobleza on October 1, 2009. Nobleza and the federal government's preliminary objections regarding lack of jurisdiction were considered by the Civil Court in late 2009. On December 23, 2009, the Civil Court declared its lack of jurisdiction to hear the claim. On March 11, 2010, the case was sent to the Contentious-Administrative Court, which determined that it had jurisdiction over the case. On June 24, 2011, the Contentious-Administrative Court issued an Order stating that it would decide defendants' outstanding procedural objections together with the merits of the case. The case is currently at the evidentiary stage. Confessional hearings took place on August 14, 2013 (Emma Mendoza Voguet) and August 29, 2013 (ATLA).

Brazil

In August 2007, the São Paulo Public Prosecutor's office filed a medical reimbursement claim against Souza Cruz. A similar claim was lodged against Philip Morris. Souza Cruz's motion to consolidate the two claims was rejected and instead this case was removed to a different lower court. Souza Cruz filed a motion to reconsider the refusal for consolidation and an interlocutory appeal against assignment to the lower court. At the same time, the Public Prosecutor filed a motion challenging the connection between the two cases, which argument the State Court of Appeals accepted in August 2010 and ordered the two cases to progress independently. On October 4, 2011, the court dismissed the action against Souza Cruz, with a judgment on the merits. The plaintiff filed an appeal on January 9, 2012 and Souza Cruz filed its counter arguments on February 17, 2012. On September 29, 2012, the case records arrived at the São Paulo Court of Appeals.

On March 7, 2013, the case records returned from the Public Prosecutor's Office with a non-binding unfavorable opinion. On April 23, 2013, the Justices of the 2nd Civil Chamber of the Court of Appeals of the State of São Paulo, by unanimous vote (3 to 0), denied the appeal of the Prosecution Office, thereby confirming the favorable Lower Court ruling. In this ruling, the Justices, citing case precedents of the Superior Court of Justice, emphasized: (i) the widespread public knowledge of the risks associated with smoking cigarettes; (ii) the free will of the smokers; (iii) the absence of any defect in the product; (iv) the absence of any duty to provide information on the risks associated with smoking before 1988; and (v) the lawfulness of manufacturing and producing cigarettes. The Public Prosecutor's Office has filed a Special Appeal and the case is anticipated to be sent for judgment to the Superior Court of Justice within several months.

Canada

In Canada there are ten active statutory actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases. These proceedings name various Group companies as defendants including BAT, Investments, Industries, Carreras Rothmans Limited (collectively the "UK Companies") and Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada. Legislation enabling provincial governments to recover the healthcare costs has been enacted in all ten provinces and two of three territories in Canada and has been proclaimed in force in ten provinces. The Acts have received Royal Assent in the Northwest Territories and Nunavut but have yet to be proclaimed into force. Actions have begun against various Group companies, including Imperial, in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island ("PEI"). In Quebec, three Canadian manufacturers, including Imperial, are challenging the enabling legislation.

In 2001, the government of British Columbia brought a claim pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2000 (the "Recovery Act") against domestic and foreign 'manufacturers' seeking to recover the plaintiff's costs of smoking-related healthcare benefits. The statement of claim does not quantify the amount sought. Imperial, Investments, Industries and certain former Rothmans Group companies are named as defendants. Certain defendants challenged the constitutionality of the Recovery Act as beyond the competence of the British Columbia legislature. In September 2005, the Supreme Court of Canada issued a decision permitting the government's claims and declaring the Recovery Act to be constitutionally valid. Non-Canadian defendants challenged the court's jurisdiction based on the lack of a "real and substantial connection" between the foreign defendants and British Columbia. The British Columbia Supreme Court dismissed the motions on June 23, 2005, which decision was upheld on appeal to the British Columbia Court of Appeal. On April 5, 2007, the Supreme Court of Canada denied the non-Canadian defendants leave to appeal. A Third-Party Notice was issued against the federal government, which moved to strike out the claim. On July 29, 2011, the Supreme Court of Canada delivered its opinion and struck out the third-party claims against the federal government.

The underlying medical reimbursement action remains at a preliminary case management stage. Given the prior pendency of the Supreme Court application, and a number of other factors including delay on the part of the plaintiff in producing damages modeling materials, the trial date was adjourned generally and no trial date is currently set. The federal government has commenced a cost assessment in connection with the motion and appeals relating to the federal government claim, seeking Cdn$5 million jointly from all the defendants and an additional Cdn$5 million from Imperial (see Knight Class Action description). The costs hearing related to both proceedings has been deferred pending resolution of certain document production issues, which are scheduled to be heard on July 9, 2015. No hearing date has been set.

The government of New Brunswick has brought a medical reimbursement claim against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Recovery Act passed in that Province in June 2006. The UK Companies and Imperial have all been named as defendants. The government filed a statement of claim on March 13, 2008. The statement of claim did not quantify the amount sought by the plaintiff. The Group defendants were served with the Notice of Action and Statement of Claim on June 2, 2008. A case management conference was held on January 8, 2009 so Imperial and other domestic defendants could challenge the use of a contingent fee arrangement for the plaintiff's lawyer. This challenge was refused at first instance. Leave to appeal was granted on limited grounds. On May 13, 2010, the New Brunswick Court of Appeal dismissed Imperial's appeal. The Supreme Court of Canada subsequently denied leave on all aspects of the contingent fee arrangement challenge, thus ending this preliminary challenge on October 21, 2010.

The UK Companies' challenge to the New Brunswick court's jurisdiction was heard in June 2010. The court of Queen's Bench dismissed the UK Companies' jurisdiction motions on November 15, 2010. The UK Companies sought leave to appeal this decision to the Court of Appeal of New Brunswick, which leave was denied on April 11, 2011 by a single judge of the Court of Appeal. The UK Companies' applications for leave to appeal that decision were dismissed by the Supreme Court of Canada on October 13, 2011. The UK Companies filed demands for particulars on November 15, 2011. The government filed statements of particulars on January 18, 2012. The UK Companies filed a motion to strike portions of the government's particulars and for further and better responses on March 27, 2012. The motion was heard on June 8, 2012 and denied. The UK Companies filed their respective statements of defense in August 2012. A first round of oral discoveries of the province began in September 2014 and will continue at least through the end of Q4 of 2015. Damages have been quantified at Cdn$19 billion. No trial date has been set. Following the July 2011 Supreme Court of Canada decision on third party issues in the British Columbia claim, the domestic defendants filed amended third party notices to distinguish the pleadings from the British Columbia pleadings. The New Brunswick Court of Queen's Bench dismissed all Third Party Notices against the federal government.

The government of the Province of Ontario has filed a Cdn$50 billion medical reimbursement claim against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2009. The UK Companies have all been named as defendants. Imperial was served on September 30, 2009 and the UK Companies were served on October 8, 2009. A case management judge has been appointed and the hearing on the UK Companies' jurisdiction motions commenced on November 23, 2011. Judgment was handed down on January 4, 2012 in favor of the plaintiff in respect of all the UK Companies. The effect of this order is that the court has determined that it has jurisdiction to hear the claim against the UK Companies. Thereafter, on April 3, 2012, the court awarded plaintiff costs in connection with the jurisdiction motions against the UK Companies on a joint and several basis. Appeals by all the UK Companies of both the jurisdictional and costs orders were heard on November 5-7, 2012. On May 30, 2013, the Court of Appeal dismissed the appeals and upheld the adverse costs award in respect of the first instance hearing. A motion for leave to appeal that decision to the Supreme Court of Canada was filed in August 2013. The Supreme Court of Canada dismissed the leave application on December 19, 2013. On October 22, 2013, the Court of Appeal issued an endorsement awarding the plaintiff its costs of the appeals. Imperial filed a third-party notice against several First Nations manufacturers claiming contribution and indemnity as well as damages in the amount of Cdn$1.5 billion. Imperial also filed a Third Party Claim against the Federal Government claiming malfeasance in public office due to the Government's failure to enforce the law against illicit manufacturers, although these latter claims have since been discontinued. Following the Supreme Court of Canada's dismissal of the jurisdiction leave application, the case is under case management. The province has stated its claim to be worth Cdn$50 billion, but has not yet tendered evidence to substantiate this figure. No trial date has been set. The Defendant's motions for further and better particulars were heard in February 2015, in respect of which the case management master has reserved judgment.

The government of the Province of Newfoundland and Labrador filed a health care reimbursement claim in February 2011 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Tobacco Health Care Costs Recovery Act enacted in that Province. The statement of claim does not quantify the amount sought by the plaintiff. The UK Companies have all been named as defendants. Imperial was served on April 1, 2011, and the UK Companies were served on March 22, 2011. A case management judge has been appointed. The UK Companies have challenged the jurisdiction of the Newfoundland and Labrador court. There have been preliminary hearings, including a successful application in January 2012 to strike certain affidavits filed by the plaintiff in opposition to the UK Companies' jurisdiction motions, and a hearing in June 2013 at which, in response to a request of the case management judge, the parties debated the elements of the "legal framework" for a jurisdiction challenge. Judgment in respect of that hearing was issued on December 19, 2013. Jurisdiction has been resolved. Particulars and other preliminary motions were filed on January 16, 2015, and a case management conference took place on January 22, 2015. The hearing on the preliminary motions occurred on March 4-6, 2015 following which judgment was reserved. Damages have not been quantified by the province. Although the province was originally ordered (in October 2007) to produce the contingency fee agreement ("CFA") in relation to these proceedings, the province has since denied the release of an amended CFA. A hearing in respect of this issue is scheduled for June 2015.

The government of the Province of Saskatchewan filed a health care reimbursement claim on June 8, 2012 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act enacted in that Province. The statement of claim does not quantify the amount sought by the plaintiff. The UK Companies have all been named as defendants. Imperial was served on July 3, 2012, and the UK Companies were served on July 18, 2012. A case management judge has been appointed. The UK Companies challenged the jurisdiction of the Saskatchewan court at a hearing that commenced on April 29, 2013. On October 1, 2013, the court denied the UK Companies' challenges. Leave to appeal this ruling was sought and a hearing was scheduled for December 11, 2013. This hearing was adjourned on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge, which was dismissed on December 19, 2013. The plaintiffs have yet to respond and no further dates have been scheduled by the court. There are no discovery motions to date in this jurisdiction. Damages have not been quantified by the province. No trial date has been set. Imperial served a motion (which was granted) to defer filing defenses until pending jurisdictional challenges were resolved. Jurisdiction has been resolved. A standstill agreement has been negotiated under which the next step was to file defenses by February 27, 2015 (which were so filed) and the matter will remain in abeyance until document production which is to commence on or before September 2017.

The government of the Province of Manitoba filed a health care reimbursement claim on May 31, 2012 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Tobacco Damages Health Care Costs Recovery Act enacted in that Province. The statement of claim does not quantify the amount sought by the plaintiff. The UK Companies have all been named as defendants. Imperial was served on July 4, 2012, and the UK Companies were served on July 18, 2012. The UK Companies have challenged the jurisdiction of the Manitoba court. Imperial served a motion (which was denied) to defer filing defenses until pending jurisdictional challenges have been resolved. Imperial delivered a request for particulars on September 30, 2013. The province filed a response on January 16, 2014. The jurisdiction motions were scheduled to be heard on November 25-28, 2013. This hearing was adjourned on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on December 19, 2013. Particulars motions have been argued and defenses have been filed. Damages have not been quantified by the province. No trial date has been set. A standstill agreement has been negotiated, under which the next step will be document production, which is to commence on or before January 2017.

The government of the Province of Alberta filed a health care reimbursement claim on June 8, 2012 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Crown's Right of Recovery Act enacted in that Province. According to the statement of claim the plaintiff seeks recovery in an amount of "at least Cdn$10 billion". The UK Companies have all been named as defendants. Imperial was served on August 8, 2012 and the UK Companies were served on May 15, 2013. The UK Companies informed the plaintiff that they intended to challenge the jurisdiction of the Alberta court. A case management judge was appointed and an initial case management meeting was held on December 17, 2013 at which it was agreed to put preliminary matters on hold pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on December 19, 2013. Case management is ongoing. Particulars motions have been filed and were argued on January 26 and 27, 2015. Judgment was reserved. The province has stated its claim to be worth Cdn$10 billion, but has not yet tendered evidence to substantiate this figure. No trial date has been set.

The government of the Province of Quebec filed a health care reimbursement claim on June 8, 2012 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Tobacco Related Damages and Health Care Costs Recovery Act enacted in that Province. According to the statement of claim the plaintiff seeks recovery in an amount of Cdn$60 billion. Imperial, Investments, Industries, and Carreras Rothmans Limited have been named as defendants. Imperial was served on June 8, 2012 and the three UK Companies were served on June 13, 2012. A case management judge has been appointed. Imperial and other Canadian defendants challenged the constitutionality of the Act as beyond the competence of the Quebec legislature. The Constitutional Challenge was heard on September 30-October 3, 2013 and denied on March 5, 2014. Imperial and the other Canadian defendants have appealed this ruling, the hearing of which is scheduled for June 18, 2015. The three UK Companies filed jurisdictional challenges on March 15, 2013 which were heard on June 3-5, 2013. On July 4, 2013, the court denied the jurisdictional objections. Leave to appeal the ruling was refused in a judgment issued by a Court of Appeal judge on October 4, 2013. Defendants' motions for further and better particulars and concerning other pleadings issues were heard on November 15 and 22 and December 20, 2013. The court granted particulars in part but denied the motions to strike. On March 28, 2014 the plaintiff filed its amended and particularized claim. A case management judge has been appointed. Motions for particulars have been completed, defenses filed, document subpoenas served on the AG and requests to admit the authenticity of documents were responded to on January 21, 2015. The province has since filed a motion challenging certain of the Defendant's responses to requests for document admissions, though no hearing date has been set. No trial date has been set.

The government of the Province of PEI filed a health care reimbursement claim on September 12, 2012 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act enacted in that Province. The statement of claim does not quantify the amount sought by the plaintiff. The UK Companies have all been named as defendants. Imperial was served on November 15, 2012 and the UK Companies were served on November 13, 2012. Motions to challenge jurisdiction were filed and served by the UK Companies on January 11, 2013 but no hearing was scheduled on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on December 19, 2013. Accordingly, the jurisdictional challenges in this case were abandoned. The UK Companies filed requests for particulars on February 17, 2014. A case management judge has been appointed. A standstill agreement has been negotiated. Defenses were filed before February 27, 2015 and the next step will be document production, which will commence on or before September 2017.

The government of the Province of Nova Scotia filed a health care reimbursement claim on January 2, 2015 against tobacco industry defendants pursuant to the provisions of the Tobacco Health Care Costs Recovery Act enacted in that Province. On January 22, 2015 Imperial and the UK Companies were served with the Nova Scotia Medicaid suit. Damages have not been quantified by the province. A standstill agreement has been negotiated. Pursuant to the agreement, the provinces responded to the Defendant's demands for further and better particulars on May 15, 2015 and Statements of Defence are to be filed by July 3, 2015. The next step is document production by the parties, which is to commence on or before September 1, 2017.

Nigeria

As at December 31, 2014, six medical reimbursement actions filed by the federal government and five Nigerian states (Lagos, Kano, Gombe, Oyo, Ogun) were pending in the Nigerian courts. British American Tobacco (Nigeria) Limited, BAT and Investments have been named as defendants in each of the cases. The plaintiffs in the six cases seek a total of approximately £44.8 billion in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief. On May 13 and 25, 2010, respectively, the plaintiffs in the Kano and Ogun state cases filed motions for preliminary injunctive relief, seeking, *inter alia*, orders to restrain the defendants from various alleged marketing and distribution practices including the sale of tobacco products within 1,000 meters of any public places that are predominantly locations for minors. BAT and Investments have filed preliminary objections challenging the jurisdiction of the Nigerian courts over them. On June 22, 2010, the Oyo High Court partially granted BAT's and Investments' preliminary objections and set aside the service of the writ of summons. BAT and Investments appealed the court's order insofar as it denied the remainder of the relief requested, and the Court of Appeal has yet to set a date for hearing of the appeals.

The Federal High Court and the High Courts of Lagos, Kano, Gombe and Ogun states denied the preliminary objections filed by BAT and Investments, and the companies have appealed. High Court proceedings in the Lagos and Kano state cases have been stayed pending the appeals filed by BAT and Investments. In the Gombe and Ogun cases, the High Courts have adjourned proceedings without date pending the resolution of appeals filed by BAT and Investments. As at December 31, 2014, the appeal filed by BAT in the Lagos case and the appeals filed by BAT and Investments in the Federal and Kano cases remain pending and have yet to be heard by the Court of Appeal. On April 23, 2013 and May 16, 2013, the Court of Appeal (Ibadan Judicial Division) issued decisions affirming the Ogun High Court's denial of the preliminary objections filed by BAT, Investments and British American Tobacco (Nigeria) Limited. On June 13, 2014, the Court of Appeal (Jos Judicial Division) affirmed the denial of BAT's and Investments' preliminary objections in the Gombe action, and on June 30, 2014 the Court of Appeal (Lagos Judicial Division) affirmed the denial of Investments' preliminary objections in the Lagos action. The companies have appealed the decisions to the Supreme Court of Nigeria.

South Korea

In April 2014, Korea's National Health Insurance Service ("NHIS") filed a healthcare recoupment action against KT&G (the state-owned former monopoly), PM Korea and BAT Korea (including BAT Korea Manufacturing). The lawsuit relates to health care costs allegedly incurred by the NHIS treating patients with lung (small cell and squamous cell) and laryngeal cancer between 2003 and 2012. The claim is based on allegations of defective design, failure to warn, fraud/misrepresentation, marketing to youth, use of additives and causing addiction. The NHIS is seeking damages of roughly £32 million from the defendants. The trial started in September 2014 and is expected to last for several years.

Spain

In early 2006, the Government of Andalusia and the Andalusian Health Services (hereinafter referred to as the "Junta"), in Spain, filed a medical reimbursement action against the State and tobacco companies (including BAT España S.A.) before the contentious-administrative courts. The State filed preliminary objections to the Junta's claim, with tobacco companies filing supporting briefs. The court upheld these preliminary objections and dismissed the claim in November 2007. The Junta's appeal of this ruling to the Supreme Court was dismissed in September 2009. However, in May 2009, the Junta filed a new contentious-administrative claim with similar allegations. The defendants filed procedural objections, which were rejected by the court.

On May 31, 2013, the court notified BAT España S.A. of the commencement of a 20 day period to answer the Junta's claim and produced copies of the documents attached to the statement of claim. BAT España S.A. filed its response to the claim by the deadline of June 27, 2013.

By order dated July 26, 2013, the court refused to open the evidence phase of the proceedings. The court accepted the defendants' allegations that the Junta did not fulfil its procedural duty to establish the issues of fact to which the evidence would relate. In October 2013, the court declared the proceedings closed pending its judgment. In a judgment dated December 23, 2013, the court rejected the Junta's claim against the tobacco companies as inadmissible. BAT España S.A. have confirmed that the Junta did not file an appeal and that the judgment is now final. This case is now closed.

(b) Class actions

Brazil

There are currently two class actions being brought in Brazil. One is also a medical reimbursement claim (*São Paulo Public Prosecutor's Office*), and is therefore discussed above. A third class action ended in July 2014 when a judgment in favour of the defendants became final, as described below.

In 1995, the *Associação de Defesa da Saúde do Fumante* ("ADESF") class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the Lower Civil Court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health. On November 12, 2008, the São Paulo Court of Appeals overturned the lower court's unfavorable decision of 2004, finding that the lower court had failed to provide the defendants with an opportunity to produce evidence. The case was returned to the lower court for production of evidence and a new judgment. On March 19, 2009, the Lower Civil Court ordered designation of court-appointed medical and advertising experts. The parties submitted questions to these court-appointed experts who subsequently delivered their reports. Each party also provided expert reports commenting on the court appointed experts' conclusions. On May 16, 2011, the court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. Plaintiffs filed an appeal of the dismissal on July 22, 2011. Souza Cruz filed its response on October 5, 2011. On December 20, 2011, the Public Prosecutor's Office presented a non-binding, advisory opinion that rejected most of Souza Cruz's legal defense arguments. The case records were sent to the São Paulo State Court of Appeals and were immediately sent to the Public Prosecutor's office for General Public and Collective Interest. On March 1, 2012, the case files returned with an unfavorable opinion given by the Public Prosecutor, who advised that the Court should find in favor of the appeal brought by ADESF and thereby fully reverse the appealed judgment. On October 10, 2013, a Reporting Justice in the 7th Chamber of Private Law of the São Paulo Court of Appeals was designated. At a hearing on January 28, 2015, two of the three judges ruled in favor of Souza Cruz. The third judge stayed the trial and requested the case files for further examination. On February 25, 2015, the third judge also ruled in favor of Souza Cruz (though there were unfavorable elements to his opinion). The Plaintiff has filed a request for clarification to the Court, and Souza Cruz presented its answer to the request on April 16, 2015. The parties are now awaiting the decision of the Reporting Justice regarding this request for clarification.

The Brazilian Association for the Defense of Consumers' Health ("Saudecon") filed a class action against Souza Cruz and Philip Morris in the City of Porto Alegre, Brazil on November 3, 2008. The plaintiff purported to represent all Brazilian smokers whom, it alleged were unable to quit smoking and lack access to cessation treatments. The plaintiff is seeking an order requiring the named defendants to fund, according to their market share, the purchase of cessation treatments for these smokers over a minimum period of two years. Souza Cruz was served with this complaint on November 19, 2008. On May 18, 2009, the case was dismissed with judgment on the merits. The plaintiffs appealed in August 2009 and Souza Cruz and Philip Morris both responded. On July 22, 2011, the Public Prosecutor's Office issued a non-binding opinion saying that the favorable first instance ruling should be vacated based on procedural issues. On August 25, 2011, the reporting justice of the appellate court rejected the Public Prosecutor's Office's opinion, finding that the trial court ruling should not be nullified. On November 1, 2011, the 9th Chamber of the Rio Grande do Sul State Court of Appeals granted the Public Prosecutor's Office special appeal, ordering the remittance of the case records in the first instance to complete proper notification to the Public Prosecutor's Office of the sentence. On December 14, 2011, the Public Prosecutor's Office filed a special appeal. Souza Cruz's counter arguments were submitted on February 10, 2012. On March 28, 2012, the Rio Grande do Sul State Court of Appeals recognized the applicability of the special appeal and ordered it sent up to the Superior Court of Justice. On June 5, 2013, the Superior Court dismissed the interlocutory appeal filed by the Public Prosecution Office. On June 7, 2013, the case records were sent to 15th Civil Chamber of Rio Grande do Sul State Court of appeals and Justice Angelo Maraninchi Giammakos was designated as Reporting Justice. On July 4, 2013, the case records returned from the Public Prosecutor's Office with a non-binding favorable opinion, based on the free will and awareness of smokers, the fact that the products were not defective, and the lawfulness of manufacturing cigarettes. On December 18, 2013, the Rio Grande do Sul State Court of Appeal rendered a decision in favor of defendants, based on free will, awareness and lawful activity. The plaintiff did not appeal the decision and the judgment became final on July 2, 2014. The case is now closed.

In 2004, the State of Sergipe instigated a class action seeking compensation for smokers in Sergipe State who purportedly tried to quit smoking. The lower court denied the plaintiffs' request for early relief and determined ANVISA (a federal government health agency) be ordered to join the case as co-defendants. As ANVISA is a federal agency, the case was removed to the federal court where ANVISA successfully argued that it lacked standing to be sued. The claim against ANVISA was dismissed and the federal court sent the case back to the lower state court for proceedings to continue. However, the action was stayed on December 18, 2009 pending a decision by the Superior Court on which court has jurisdiction. On March 26, 2010 the Superior Court determined that the civil court had jurisdiction of the matter. On October 19, 2011, the court dismissed the action with judgment on the merits. The plaintiff filed an appeal on January 9, 2012. Souza Cruz's counter-arguments were submitted on February 9, 2012. The case records were sent to the 1st Chamber of the Sergipe State Court of

Appeals as well as to the Public Prosecutor's Office for it to consider an advisory opinion. On July 9, 2012, the 1st Chamber of the Sergipe State Court of Appeals by unanimous decision upheld the lower court ruling that dismissed the case. Plaintiffs did not file a Special Appeal from this judgment and the case is now closed.

Italy

In or about June 2010, BAT Italia was served with a class action filed in the Civil Court of Rome by the consumer association, Codacons, and three class representatives. Plaintiffs primarily asserted addiction-related claims. The class action lawsuit was rejected at the first instance (Civil Court of Rome) and appellate (Rome Court of Appeal) court levels. In July 2012, Codacons filed an appeal before the Italian Supreme Court. BAT Italia filed its answer to the appeal on November 13, 2012. At a hearing on January 21, 2015, the Public Prosecutor's Office agreed that the appeal should be rejected, and the Supreme Court reserved its decision with no firm date for issuing judgment.

Canada

There are eleven class actions being brought in Canada against Group companies.

Knight is a 'lights' class action in which the plaintiff alleges that the marketing of light and mild cigarettes is deceptive because it conveys a false and misleading message that those cigarettes are less harmful than regular cigarettes. Although the claim arises from health concerns, it does not seek compensation for personal injury. Instead it seeks compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial.

The Supreme Court of British Columbia certified a class of all consumers who purchased in British-Columbia Imperial cigarettes bearing 'light' or 'mild' descriptors since 1974. Imperial filed an appeal against the certification which was heard in February 2006. The appellate court confirmed the certification of the class but has limited any financial liability, if proven, to 1997 onward.

The motion of the federal government to strike out the third-party notice issued against it by Imperial was upheld by the Supreme Court which dismissed the third-party claim on the basis that the federal government's impugned conduct constituted valid policy benefiting public health and was therefore not subject to civil liability. The federal government is seeking a parallel cost order in this action (Cdn$5 million) as it is in the British Columbia government recoupment case. The costs hearing related to both proceedings has been deferred pending resolution of certain document production issues, which are scheduled to be heard on July 9, 2015.

On December 9, 2009, Imperial was served with a class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board ("Growers' claim"). The plaintiffs allege that, during a specific timeframe, Imperial and two other domestic defendants improperly paid lower prices for tobacco leaf destined for duty-free products that were then smuggled back into Canada and sold in the domestic market. In reaction to the suit, Imperial deposited the amount owing to the Government of Ontario pursuant to the Comprehensive Agreement into an escrow account, alleging that the Comprehensive Agreement permitted Imperial to set-off that amount against costs incurred as a result of the claim (including damages, if any). In response, the Ontario Government commenced an application against Imperial, seeking the release of the funds ("Ontario claim"). No monetary damages are being claimed against Imperial by the Government of Ontario.

On July 26, 2010, Imperial argued a preliminary motion in the Ontario claim seeking a stay in favor of arbitration given an arbitration clause in the Comprehensive Agreement. Imperial was successful in its application and the Court ordered that the Ontario claim be stayed. The Court of Appeal denied the Ontario Government's appeal in July 2011, but also ruled that the question of whether the Growers' Claim constitutes a 'Released Claim' under the Comprehensive Agreement must be determined by the courts, thereby splitting the issues. On January 2, 2013, the Court rendered a decision in favor of Ontario and held that the Grower's claim is not a "Released Claim" brought by a "Releasing Entity". On July 16, 2013, the Court of Appeal dismissed Imperial's appeal on whether the Growers' claim is a "Released Claim" made by a "Released Entity", allowing the class action to proceed.

The question of whether Imperial may continue to set-off payments due to Ontario under the Comprehensive Agreement against costs incurred as a result of the Growers' claim proceeded to arbitration in September 2014. The ruling has since been rendered and is confidential pursuant to the arbitration process. The decision effectively releases the funds from escrow plus accrued interest, but has no immediate or determinative effect on the underlying class action suit.

As a further preliminary challenge, Imperial has alleged that the Growers' claim is time barred. The other domestic defendants have made the same preliminary challenge. That preliminary issue was heard by the Court on January 30 and 31, 2014. By decision dated June 30, 2014, the Court dismissed the preliminary challenge. Imperial and the domestic defendants have sought leave to appeal that decision. If Imperial is ultimately successful, the Growers' claim will be dismissed; if not successful, the action will proceed to a class action certification hearing.

There are currently two class actions in Quebec. On February 21, 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers, which have a combined value of Cdn$21 billion plus interest and costs. The court certified two classes, which include residents of Quebec who suffered from lung, throat and laryngeal cancer or emphysema as of November 1998 or developed these diseases thereafter and who smoked a minimum of 15 cigarettes a day for at least five years, and residents who were addicted to nicotine at the time the proceedings were filed and who have since remained addicted. The plaintiffs' application to amend the scope of the definition of the disease and addiction classes was granted on July 3, 2013. The trial in this matter commenced on March 12, 2012 and was completed in December 2014. Judgment against Imperial and two other domestic manufacturers was released on June 1, 2015, in which the Court awarded punitive damages in the amount of Cdn$131 million and – in the case of one of the actions – compensatory damages in the amount of Cdn$15.5 billion to the amended classes of claimants. Provisional execution was also ordered against all three companies for Cdn$1.13 billion, of which Imperial has to pay Cdn$743 million, within 60 days of the judgment, even if the judgment is appealed. Imperial will appeal both the judgment and the provisional execution in the Quebec Court of Appeal.

In June 2009, four new smoking and health class actions were filed in Nova Scotia, Manitoba, Saskatchewan and Alberta, against Canadian manufacturers and foreign companies, including the UK Companies and Imperial. In Saskatchewan, BAT and Carreras Rothmans have been released from the action. No date has been set for the certification motion hearing. There are service issues in relation to the UK Companies in Alberta and Manitoba.

In July 2010, two further smoking and health class actions in British Columbia were served on Imperial and the UK Companies. The *Bourassa* claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the *McDermid* claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have "smoked a minimum of 25,000 cigarettes". The UK Companies objected to the court's jurisdiction. Subsequently a number of the UK Companies were released from the action. No certification motion hearing date has been set. In Bourassa, the case management judge ordered the claim to be amended which has been done. Plaintiffs were initially due to deliver certification motion materials by January 31, 2015, which deadline was subsequently amended by the plaintiffs to March 31, 2015, but no such materials have been delivered to date. Once the materials are delivered, the motions regarding abuse of process will be dealt with.

In June 2012, a new smoking and health class action was filed in Ontario against the domestic manufacturers and foreign companies, including Imperial and the UK Companies. Imperial was served on November 20, 2012, and the UK Companies were served on November 30, 2012. The claim is presently in abeyance.

Venezuela

The Venezuelan Federation of Associations of Users and Consumers filed a class action against the Venezuelan Government seeking regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. On January 19, 2009, C.A Cigarrera Bigott Sucs. ("Cigarrera Bigott") notified the court of its intention to appear as a third party. The court adjourned a public hearing, initially scheduled for July 28, 2009, where Cigarrera Bigott's status as a third party would be determined and parties would present evidence and make arguments. On September 16, 2009, the Venezuelan Republic ordered the court to continue the judicial process.

On April 12, 2011, however, the Constitutional Chamber of the Supreme Court of Justice issued decision number 494, which established the rules for class action procedures. On December 5, 2012 Cigarrera Bigott was admitted as a third party and presented its defenses and evidence on February 26, 2013. The parties will now be asked to attend a hearing at the Constitutional Chamber; however, no date for the hearing has yet been scheduled by the Court. On October 23, 2014, ASUSELECTRIC, which is not a party to the case, filed a petition requiring the Constitutional Chamber to schedule the hearing.

(c) Individual personal injury claims

As at April 1, 2015, the jurisdictions with the most number of active individual cases against Group companies were, in descending order: Brazil (135), Italy (23), Argentina (21), Chile (11), Canada (5) and Ireland (2). There were a further seven jurisdictions with one active case only.

Litigation Conclusion

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, we believe that the defenses of our companies to all these various claims are meritorious on both the law and the facts, and a vigorous defense is being made everywhere. If an adverse judgment is entered against any of our companies in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. In any event, with regard to U.S. litigation, we have the benefit of the RJRT Indemnification, excluding the litigation brought by the shareholders of Reynolds American and Lorillard. At least in the aggregate, and despite the quality of defenses available to us, it is not impossible that our results of operations or cash flows in particular quarterly or annual periods could be materially affected by this and by the final outcome of any particular litigation.

Having regard to all these matters, with the exception of Fox River, we (i) do not consider it appropriate to make any provision in respect of any pending litigation and (ii) do not believe that the ultimate outcome of this litigation will significantly impair our financial condition.

Tax Disputes

We have exposures in respect of the payment or recovery of a numbers of taxes. We are and have been subject to a number of tax audits covering, among others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes. The estimated costs of known tax obligations have been provided in our accounts in accordance with our accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognized as an expense.

The following matters may proceed to litigation:

Brazil

The Brazilian Federal Tax Authority has filed two claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The first reassessment was for the years 2004–2006 in the sum of R$495 million (£119 million) to cover tax, interest and penalties. The second reassessment was for the years 2007 and 2008 in the amount of R$248m (£60 million) to cover tax, interest and penalties. Souza Cruz appealed both reassessments and the matters are at the second tier administrative appeal process. Regarding the first assessment the Souza Cruz appeal was rejected although the written judgment of that tribunal is still awaited. The appeal against the second assessment was upheld at the second tier tribunal and is closed. There is one further administrative appeal level before the matter enters the judicial system. Souza Cruz received a further reassessment in 2014 for 2009 in the sum of R$219m (£53m) covering tax, interest and penalties and have appealed against the reassessment in full.

Canada

The Canada Revenue Agency ("CRA") had challenged the treatment of dividend income received by Imperial from its investments in fellow group subsidiaries. Following the outcome of other cases in Canada, CRA have decided not to pursue the matter. A refund of payments made by Imperial to pursue the appeal has been received from the federal and provincial authorities, including interest, with Cdn$53m (£29m) being refunded in 2014 and the final balance of Cdn$10m (£5m) being received in January 2015.

South Africa

In 2011 SARS challenged the debt financing of British American Tobacco South Africa ("BATSA") and reassessed the years 2006 to 2008. BATSA has objected to and appealed this reassessment. In 2014, SARS have also reassessed the years 2009 and 2010. BATSA have filed a detailed objection letter to the 2009/10 reassessments. Across the period from 2006 to 2010 the reassessments are for R1.74bn (£96m) covering both tax and interest.

We believe that our companies have meritorious defenses in law and fact in each of the above matters and intend to pursue each dispute through the judicial system as necessary. We do not consider it appropriate to make provision for these amounts assessed nor for any potential further amounts which may be assessed in subsequent years. While the amounts that may be payable or receivable in relation to tax disputes could be material to our results or cash flows in the period in which they are recognized, the Board does not expect these amounts to have a material effect on our financial condition.

VAT and Duty Disputes

BATBC received a retrospective notice of imposition and realization of VAT and supplementary duty on low price category brands from the National Board of Revenue (“NBR”) for approximately £158 million. BATBC is alleged to have evaded tax by selling the products in the low price segments rather than the mid-tier price segments. Litigation has proceeded during 2014. A High Court Order to conclude the NBR hearing in 120 days (by March 24, 2015) was served to the Commissioner on November 24, 2014. Hearings scheduled for January and February 2015 were postponed and a new date for the hearing of the case by the NBR has not been set. The Ministry of Law has issued an opinion in respect of retrospective claims, supporting BATBC’s view.

Franked Investment Income Group Litigation Order

BAT is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs in the Franked Investment Income Group Litigation Order (“FII GLO”). There are 25 corporate groups in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK. The claim was filed in 2003 and the case was heard in the European Court of Justice (“ECJ”) in 2005 and a decision of the ECJ received in December 2006. In July 2008, the case reverted to a trial in the UK High Court for the UK Court to determine how the principles of the ECJ decision should be applied in a UK context. The High Court judgment in November 2008 concluded, amongst other things, that the corporation tax provisions relating to dividend income from EU subsidiaries breached EU law. It also concluded that certain dividends received before April 5, 1999 from the EU and, in some limited circumstances after 1993 from outside the EU, should have been creditable against advance corporation tax (“ACT”) liabilities with the consequence that ACT need not have been paid. Claims for the repayment of UK tax incurred where the dividends were from the EU were allowed back to 1973.

The case was heard by the Court of Appeal in October 2009 and the judgment handed down on February 23, 2010. The Court of Appeal determined that various questions, including which companies in the corporate tree can be included in a claim, should be referred back to the ECJ for further clarification. In addition, the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973. The issue of time limits was heard by the Supreme Court in February 2012 and in May 2012 the Supreme Court decided in BAT’s favor, that claims submitted before September 8, 2003 can go back to 1973. A hearing took place in February 2012 at the ECJ on the questions referred from the Court of Appeal. The ECJ judgment of November 13, 2012 confirms that the UK treatment of EU dividends was discriminatory and produces the same outcome for third country dividends from 1994 in certain circumstances. The judgment also confirms that the claim can cover dividends from all indirect, as well as direct EU subsidiaries and also ACT paid by a superior holding company. The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgment handed down on December 18, 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advanced corporation tax, the law of restitution including the defense on change of position and questions concerning the calculation of overpaid interest, the approach of the Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for BAT. Appeals on a majority of the issues have been made to the Court of Appeal, which is likely to hear the case in 2016.

No potential receipt has been recognized in the current period or the prior year, in the results of the Group, due to the uncertainty of the amounts and eventual outcome.

MANAGEMENT

Board of Directors of BAT

Overview

The Board of Directors of BAT ("BAT's Board of Directors") currently consists of thirteen directors: the Chairman, two executives (the Chief Executive and the Finance Director together the "Executive Directors") and ten directors who serve in a non-executive capacity (the "Non-Executive Directors"). BAT's Board of Directors considers all of the Non-Executive Directors to be independent pursuant to the provisions of the UK Corporate Governance Code.

BAT's Board of Directors is collectively responsible to the Group's shareholders for the Group's long-term success and overall strategic direction, its values and its governance. Among the key matters on which BAT's Board of Directors alone may make decisions are the Group's business strategy, Group's budget, dividends and major corporate activities. It is also responsible for agreeing the Group's governance framework, reviewing the risk management systems, and for approving the Standards of Business Conduct and other Group policies. BAT's Board of Directors held nine meetings in 2014.

Responsibility for overseeing the implementation by BAT's operating subsidiaries of the policies and strategy which BAT's Board of Directors sets and for creating the framework for their successful day-to-day operation is delegated to the Management Board, which met nine times in 2014. The Management Board is chaired by the Chief Executive and comprises the other Executive Director together with the Senior Managers (as defined below).

BAT's Board of Directors is also responsible for determining the nature and extent of the significant risks that we are willing to take to achieve our strategic objectives and for maintaining sound risk management and internal control systems. It carries out a review of the effectiveness of the Group's risk management and internal control systems annually and reports to shareholders that it has done so. This review covers all material controls including financial, operational and compliance controls and risk management systems. The systems are designed to identify, evaluate and manage risks that may impede the achievement of our business objectives rather than to eliminate them entirely. The system therefore provides a reasonable, not absolute, assurance against material misstatement or loss.

Board Committees

BAT's Board of Directors has established four principal committees to which it has delegated certain responsibilities: the Audit Committee, the Corporate Social Responsibility Committee, the Nominations Committee and the Remuneration Committee.

The Audit Committee is responsible for monitoring the integrity of the Group's financial information and any formal announcements concerning the Company's performance, for considering any significant issues and judgments reflected in them, and for keeping under review the consistency of the Group's accounting policies. The Audit Committee is also responsible for reviewing the effectiveness of the Group's accounting, internal control and risk systems, and for monitoring compliance with the Group's Standards of Business Conduct. Additionally, the Audit Committee monitors and reviews the performance, independence and objectivity of the Company's external auditors, making recommendations as to their reappointment (or for a tender of audit services), and approving their terms of engagement and the level of audit fees.

The Corporate Social Responsibility Committee monitors and reviews BAT's management of CSR and the conduct of business in accordance with our Statement of Business Principles, making appropriate recommendations to BAT's Board of Directors on CSR matters. The Corporate Social Responsibility Committee is also responsible for monitoring and reviewing the effectiveness of the Group's strategy for, and management of, significant social, environmental and reputational issues, and the Group's sustainability plans and activities. In addition, it reviews and monitors the effectiveness of the CSR governance including, on an exceptional basis, reports from the regional Audit and CSR committees.

The Nominations Committee is responsible for reviewing the structure, size and composition of BAT's Board of Directors and Management Board to ensure that both boards have an appropriate balance of skills, expertise, knowledge and (in the case of BAT's Board of Directors) independence, and for making recommendations to BAT's Board of Directors on suitable candidates for appointment to BAT's Board of Directors and Management Board. It is also responsible for ensuring that the procedure for appointing new Directors is rigorous, transparent, objective, merit-based and has regard to diversity. It assesses the time needed to fulfill the roles of Chairman, Senior Independent Director and Non-Executive Director and ensures that Non-Executive Directors have sufficient time to fulfill their duties. Additionally, the Nominations Committee reviews the succession plans for the Executive Directors and members of the Management Board.

The Remuneration Committee is responsible for agreeing and proposing the Remuneration policy (covering salary, benefits, performance-based variable rewards and pensions) (the "Policy") for shareholder approval. It is also responsible for determining, within the terms of the agreed Policy, the specific remuneration packages for the Chairman and the Executive Directors, both on appointment and on review and, if appropriate, any compensation payment due on termination of appointment. The Remuneration Committee also sets targets applicable for the Company's performance-based variable reward schemes and determines achievement against those targets, exercising discretion where appropriate and as provided by the applicable scheme rules and the Policy. In addition, it monitors and advises BAT's Board of Directors on any major changes to the policy on employee benefit structures for the Group.

Directors

Each of the two Executive Directors has a one year rolling contract (executed at the time of each Executive Director's original appointment) which is considered for renewal around the time of the Company's Annual General Meeting when, in accordance with the requirements of the UK Corporate Governance Code, each Executive Director is subject to election or re-election by the shareholders. The contract may be varied from time to time to take account of variations in terms and conditions as well as to incorporate best practice. The contractual term will continue to be of a one year rolling period. However, the Remuneration Committee may, when appropriate, offer a contract with an initial period of two or three years to those future directors who may be recruited externally or from overseas, reducing its duration to a one year rolling contract after the expiry of the initial period. It is our policy that each contract incorporates a provision for a termination payment in lieu of notice.

An Executive Director's compensation payment, in lieu of notice, would comprise twelve months' salary, at his then current base pay, and either (i) a cash payment in respect of other benefits under the contract such as medical insurance, or (ii) the Company may at its option continue those benefits for a twelve month period. Executive Directors do not have contractual rights to the value inherent in any awards held under the share incentive schemes, whose rules make provisions for vesting in different leaver scenarios. The Remuneration Committee retains discretion in determining 'good leaver' status which is intended to provide flexibility in certain circumstances. The Remuneration Committee also retains discretion to settle any other amounts reasonably due to an individual. Pension entitlements are dealt with in accordance with the terms and conditions of the applicable pension scheme and do not form part of the contractual compensation payment.

The compensation payment is payable where the requisite twelve months' notice is not given to the Executive Director or when such Executive Director terminates by giving twelve months' notice and the Company does not wish him or her to serve the applicable notice period. If a period of notice is served, the compensation payment is reduced on a *pro rata* basis. In the event that the contract is terminated for cause (such as gross misconduct), the Company may terminate the contract with immediate effect and no compensation amount would be payable.

The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment. All Non-Executive Directors have terms of appointment of one year only which are considered for renewal around the time of the Company's Annual General Meeting when, in accordance with the requirements of the UK Corporate Governance Code, each Director is subject to election or re-election by the shareholders. On termination, at any time, a Non-Executive Director is entitled to any accrued but unpaid Director's fees but not to any other compensation.

The Chairman has a term of appointment of one year only which is considered for renewal around the time of the Company's Annual General Meeting each year, unless the appointment is terminated earlier by either the Company giving three months' notice or a discretionary compensation payment in lieu of notice, or by him giving one month's written notice, with the Company having discretion to make a compensation payment in lieu of such notice. The compensation payment is limited to any fees which are payable for such part of the relevant notice period as BAT's Board of Directors does not require him as Chairman to perform his duties. In accordance with the UK Corporate Governance Code, every year, the Chairman is subject to re-election by the shareholders at the Company's Annual General Meeting. In common with the Non-Executive Directors, he does not participate in our share schemes, bonus schemes or incentive plans and is not a member of any Group pension plan.

Executive Directors

Nicandro Durante (58)*, Chief Executive.* Mr. Durante was appointed as Chief Executive in March 2011, after previously holding the positions of Chief Operating Officer since January 2008, and Regional Director for Africa and the Middle East since 2006. He has experience in senior financial and management roles within the

Group having overseen operations in the United Kingdom, Hong Kong and Brazil, including his time as President of Souza Cruz. Mr Durante is currently a Non-Executive Director of Reckitt Benckiser Group plc.

Ben Stevens (55)*, Finance Director.* Mr. Stevens has been the Finance Director since March 2008. He previously held the position of Regional Director for Europe since 2004, after having originally joined the Management Board in 2001 as Development Director. He has experience in a number of senior group finance and general management roles, particularly in Europe and Russia, and was Head of Merger Integration following the merger with Rothmans in 1999.

The Chairman

Richard Burrows (69), *Chairman.* Mr. Burrows was appointed as Chairman in November 2009, having been a Non-Executive Director since his appointment to BAT's Board of Directors in September 2009. He is currently a Non-Executive Director of Rentokil Initial plc, and a Supervisory Board Member at Carlsberg A/S. He was formerly the Governor of the Bank of Ireland, Chief Executive of Irish Distillers and Co-Chief Executive of Pernod Ricard. He is Chairman of the Nominations Committee.

Non-Executive Directors

Sue Farr (59)*, Non-Executive Director.* Ms. Farr was appointed as a Non-Executive Director in February 2015 and is currently Director of Strategic Business and Development of Chime plc. She is a Non-Executive Director of Dairy Crest Group, Millennium & Copthorne Hotels and Accsys Technologies. She was formerly the Chairwoman of the Marketing Society and the Marketing Group of Great Britain. She is a member of the Corporate Social Responsibility and Nominations Committees.

Ann Godbehere (60)*, Independent Non-Executive Director*. Ms. Godbehere was appointed as a Non-Executive Director in October 2011 and is currently a Non-Executive Director of Rio Tinto plc and Rio Tinto Limited, UBS Group AG and UBS AG and Prudential plc. She was formerly the Chief Financial Officer of both the Swiss Re Group and Northern Rock. She is a member of the Audit, Nominations and Remuneration Committees.

Savio Kwan, (67)*, Non-Executive Director*. Mr. Kwan was appointed as a Non-Executive Director in January 2014. He is the Co-Founder and Chief Executive Officer of A&K Consulting Co Ltd and a visiting Professor at Henley Business School. He was Chief Operating Officer and a Non-Executive Director of Alibaba Group, China's largest internet business. He is a member of the Corporate Social Responsibility and Nominations Committees.

Dr. Pedro Malan, (72)*, Non-Executive Director.* Dr. Malan was appointed as a Non-Executive Director in February 2015. He is the Chairman of the International Advisory Board of Itaú Unibanco, a member of the Advisory Board of EDP – Energias do Brasil SA and a Non-Executive Director of Mills Estruturas e Servicos de Engenharia SA. He was previously a Non-Executive Director of Souza Cruz and the Minister of Finance for Brazil, President of the Central Bank of Brazil and Chief External Debt Negotiator for Brazil. He is a member of the Corporate Social Responsibility and Nominations Committees.

Christine Morin-Postel (68)*, Senior Independent Director, Independent Non-Executive Director* and *Chairman of the Audit Committee*. Ms. Morin-Postel was appointed as a Non-Executive Director in 2007 and as a Senior Independent Director in April 2013. She is a Non-Executive Director and member of the Nominations and Remuneration Committee of Groupe Bruxelles Lambert S.A.. She was previously Chief Executive of Société Générale de Belgique, Executive Vice-President and member of the Executive Committee of Suez and Chairman and Chief Executive Officer of Crédisuez S.A. She is the Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees.

Dr. Gerard Murphy (59)*, Independent Non-Executive Director*. Dr. Murphy was appointed as a Non-Executive Director in 2009. He is a member and Chairman of the Executive Committee of The Blackstone Group International Partners LLP and a board member of Jack Wolfskin and Intertrust Group. He was formerly the Chief Executive Officer of Kingfisher plc, Carlton Communications plc, Exel plc and Greencore Group plc. He is a member of the Audit and Nominations Committees.

Dimitri Panayotopoulos (63)*, Non-Executive Director.* Mr. Panayotopoulos was appointed as a Non-Executive Director in February 2015. He is a senior advisor at Boston Consulting Group and a board member of Logitech. He was previously Vice Chairman and Advisor to the Chairman and Chief Executive Officer of Procter & Gamble. He is a member of the Nominations and Remuneration Committees.

Kieran Poynter (64)*, Independent Non-Executive Director* and *Chairman of the Remuneration Committee.* Mr. Poynter was appointed as a Non-Executive Director in 2010. He is a Non-Executive Director of International Consolidated Airlines Group S.A., F&C Asset Management PLC and Nomura International PLC. A Chartered Accountant, he was Chairman and Senior Partner of PricewaterhouseCoopers until 2008 and served on the President's Committee of the Confederation of British Industry and as member of an advisory committee for the Chancellor of the Exchequer. He is the Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

Karen de Segundo (68)*, Independent Non-Executive Director and Chair of the Corporate Social Responsibility Committee*. Ms. de Segundo was appointed as a Non-Executive Director in 2007. She is currently a Supervisory Board Member of E.ON SE and a member of the Board of Pöyry Oyj. She was a Non-Executive Director of Lonmin plc until January 2015 and Chief Executive Officer of Shell International Renewables and President of Shell Hydrogen before retiring in 2005. She is the Chair of the Corporate Social Responsibility Committee and a member of the Nominations Committee.

Dr Richard Tubb (55)*, Non-Executive Director.* Dr. Tubb was appointed as a Non-Executive Director in January 2013. He is White House Physician Emeritus, a member of the Board of Reference for Project Rescue and a Senior Managing Director for Shoreland, Inc. He was the White House physician from 1995 to 2009, including physician to the President of the United States from 2002 until retirement in 2009, Clinical Assistant Professor at the Uniformed Services University and was a Brigadier General in the US Air Force. He is a member of the Corporate Social Responsibility and Nominations Committees.

None of the non-executive directors listed above performs activities outside the Company or the Group which are significant with respect to the Group.

As disclosed above, Richard Burrows is a Non-Executive Director of Rentokil Initial plc; Sue Farr is a Director of Chime plc, a Non-Executive Director of Dairy Crest Group, Millennium & Copthorne Hotels and Accsys Technologies; Ann Godbehere is a Non-Executive Director of Rio Tinto plc and Rio Tinto Limited, UBS Group AG, UBS AG and Prudential plc; Dr Pedro Malan is a Non-Executive Director of Mills Estruturas e Servicos de Engenharia SA and Member of the Advisory Board of EDP — Energias do Brasil SA; Christine Morin-Postel is a Non-Executive Director of Groupe Bruxelles Lambert S.A.; Dr. Gerard Murphy is a member and Chairman of the Executive Committee of The Blackstone Group International Partners LLP and a Non-Executive Director of Merlin Entertainments plc; Kieran Poynter is a Non-Executive Director of International Consolidated Airlines Group S.A. and F&C Asset Management plc and the Non-Executive Chairman of Nomura International PLC; and Karen de Segundo is a Supervisory Board Member of E.ON AG and a member of the Board of Pöyry Oyj. From time to time any such role may give rise to an actual or potential conflict of interest between such director's duties to BAT and their duties arising from such other roles. During the last 12 months, a number of conflicts were notified to the Company in accordance with the conflicts of interest procedures. All matters authorized by the Board and the Conflicts Committee were recorded in the register of interests maintained by the Company Secretary.

A potential conflict of interest for Christine Morin-Postel arose in respect of our exposure to clean-up costs for pollution in the Lower Fox River, Wisconsin. On April 24, 2009, BAT's Board of Directors authorized Ms Morin-Postel's appointment to the Board of Exor S.p.a. ("Exor") with effect from April 15, 2009. On February 20, 2012 Ms Morin-Postel resigned from the Audit Committee of BAT. On February 21, 2012 BAT's Board of Directors discussed her appointment to the Board of Exor again in connection with BAT's exposure to clean-up costs for pollution in the Lower Fox River, Wisconsin in relation to which BAT has potential claims against Sequana SA, a subsidiary of Exor. In May 2012 Ms Morin-Postel's position as a Director of Exor ended. In January 2014 Ms Morin-Postel was reappointed to the Audit Committee of BAT. In February 2015 BAT's Board of Directors reviewed and authorized the conflict again, as proceedings against Sequana have reached a critical point, and it appears that for a brief period of time, Ms Morin-Postel may have been on the board of Exor at the same time as the issues in dispute took place.

A potential conflict of interest for Kieran Poynter arose in February 2015. Mr. Poynter was Chairman and Senior Partner of PwC (retired in June 2008). Given that potential proceedings against PwC may be pursued (or potentially settled) in relation to Fox River, and that Mr Poynter was a partner at PwC during the period in which PwC was auditing the Group's accounts, it is possible that a conflict may arise. Mr Poynter was not involved in the account or audit in question and did not therefore have any personal involvement in, or knowledge of, the matters underlying the dispute, but he indicated that a potential situational conflict might arise by virtue of the fact that he benefits from pension entitlements under a PwC pension scheme. In February 2015, BAT's Board of Directors authorized this potential situational conflict of interest given the possibility of litigation against PwC.

BAT's Board of Directors conflicts procedures require that if a director becomes aware that they have an actual or potential conflict of interest, such director is required to notify BAT's Company Secretary. Such conflicts can be authorized by BAT's Board of Directors or the Conflicts Committee under such procedures, in accordance with the requirements of the UK Companies Act 2006 and BAT's Articles of Association. Each year

BAT's Board of Directors considers afresh all previously authorized situational conflicts. Directors are excluded from the quorum and the vote in respect of any matters in which they have an interest. No material conflicts were reported by the Non-Executive Directors in 2014 Year.

Save as disclosed in the preceding two paragraphs relating to Christine Morin-Postel and Kieran Poynter, the duties owed by the directors do not give rise to any potential conflicts of interest with such directors' private interests and/or other duties.

The business address of the directors of BAT is Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom.

Senior Managers

Our senior managers, all of whom are members of the Management Board, are permanent employees of the Group (the "Senior Group Executives").

Jack Bowles (51)*, Regional Director, Asia-Pacific*. Mr. Bowles was appointed as Regional Director for Asia-Pacific in January 2013. He was Regional Director, Americas from October 2011 after joining the Management Board originally as Regional Director, Western Europe in October 2009. He joined the Group in 2004, becoming Chairman of British American Tobacco France in 2005 before being appointed Managing Director of British American Tobacco Malaysia in 2007.

Giovanni Giordano (49)*, Director, Group Human Resources.* Mr. Giordano joined the Group and the Management Board as the Group Human Resources Director in June 2011. Prior to this appointment his international human resources career included senior roles at Procter & Gamble and Ferrero, where he was Chief Corporate Officer.

Andrew Gray (50)*, Director, Marketing.* Mr. Gray was appointed as Marketing Director in September 2014. He originally joined the Management Board as Regional Director for Africa and the Middle East in 2008 prior to being appointed Regional Director for Eastern Europe, Middle East and Africa (EEMEA) in January 2011. He has held a number of senior management positions across South America, Central America, the Caribbean and Malaysia, including President of Souza Cruz in Brazil.

Dr. David O'Reilly (49)*, Group Scientific Director*. Dr. O'Reilly joined the Management Board as Group Scientific Director in January 2012. He was previously Head of International Public Health & Scientific Affairs and has held various positions in Group Research & Development (GR&D), most recently as Head of GR&D.

Naresh Sethi (49)*, Western Europe Regional Director.* Mr. Sethi was appointed Regional Director for Western Europe in January 2013. He joined the Management Board as Group Business Development Director in January 2012. He has held various marketing roles in Australia, India, Indonesia, West Africa and Japan, where he was Marketing Director and, later, General Manager.

Kingsley Wheaton (42)*, Next-Generation Products Managing Director.* Mr Wheaton was appointed Managing Director, Next-Generation Products in January 2015. Mr. Wheaton joined the Management Board as Deputy Corporate and Regulatory Affairs Director in January 2012 and in June 2012 he was appointed Director, Corporate and Regulatory Affairs. Prior to his present appointment he was Global Brand Manager for Kent and Vogue, and previously also held various marketing roles in the Middle East and West Africa, becoming Marketing Director in Nigeria and Russia and, later, General Manager in Russia.

Jerome Abelman (51), *Director, Legal & External Affairs and General Counsel*. Mr Abelman joined the Management Board as Group Corporate and Regulatory Affairs Director in January 2015 and as of May 1, 2015, Mr Abelman took the role of Director, Legal & External Affairs and General Counsel. Prior to his present appointment he was Regional General Counsel, Asia-Pacific, before becoming Assistant General Counsel — Corporate & Commercial in 2014. He has previously held a number of roles in the Legal function and has been with the Group for 12 years.

Alan Davy (51), *Operations Director.* Mr Davy joined the Management Board as Group Operations Director in March 2013. Prior to his present appointment he was Group Head of Supply Chain. He joined the Group in 1988 and has held various roles in manufacturing, supply chain and general management.

Tadeu Marroco (49), *Business Development Director*. Mr Marroco joined the Management Board as Business Development Director in September 2014. Mr Marroco is responsible for Strategy and Mergers and Acquisitions, along with IT. He joined the Group in 1993 holding various senior finance positions including Regional Finance Controller, EEMEA and Group Finance Controller.

Ricardo Oberlander (51), A*mericas Regional Director*. Mr Oberlander joined the Management Board as Regional Director for the Americas in January 2013. He was previously Global Consumer Director, General Manager in France and Regional Marketing Manager for the Americas. He joined the Board of Reynolds American in December 2014. He joined the Group 25 years ago.

Johan Vandermuelen (47), *Regional Director Eastern Europe, Middle East and Africa*. Mr Vandermuelen joined the Management Board as Regional Director for Eastern Europe, Middle East and Africa in September 2014. He was previously General Manager in Russia and Turkey, and Global Brand Director for Kent. He has been with the Group for more than 20 years.

RELATED PARTY TRANSACTIONS

We have a number of transactions and relationships with related parties, as defined in IAS 24 on related party disclosures, all of which are undertaken in the normal course of business. Details of these are set out below (transactions with CTBAT International Limited are not included in these disclosures as it is a joint operation).

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. Amounts receivable from associates in respect of dividends included in the table below were £96 million (compared to £86 million in 2013 Year). Our share of dividends from associates, included in other net income in the table below, was £518 million (compared to £512 million in 2013 Year).

	Year ended December 31,	
Transactions	**2014**	**2013**
	(£ million)	
– revenue	38	54
– purchases	(279)	(345)
– other net income	512	501
Amounts receivable at December 31	98	96
Amounts payable at December 31	(25)	(33)

On December 17, 2012, our wholly owned subsidiary, BATUS Japan Inc. ("BATUSJ"), entered into an Amendment and Extension Agreement (the "Amendment") with a wholly owned subsidiary of Reynolds American, R.J. Reynolds Tobacco Company ("RJRTC"). The Amendment modifies the American blend Cigarette Manufacturing Agreement (the "2010 Agreement"), effective as of January 1, 2010.

Prior to the Amendment, the term of the 2010 Agreement was scheduled to expire on December 31, 2014, subject to early termination and extension provisions. Pursuant to the Amendment, the Manufacturing Agreement has remained in effect beyond December 31, 2014, however either RJRTC or BATUSJ may terminate the Manufacturing Agreement by furnishing three years' notice to the other party, with any such notice to be given no earlier than January 1, 2016.

During 2014 Year, we received proceeds of £94 million (compared to £189 million in 2013 Year) in respect of our participation in the share buy-back program conducted by Reynolds American. This program ceased in the second quarter of 2014.

On July 15, 2014, we announced that we have agreed to invest U.S.$4.7 billion as part of Reynolds American's proposed acquisition of Lorillard enabling us to maintain our 42 per cent equity position in the enlarged business. The investment is contingent upon the completion of Reynolds American's acquisition of Lorillard, which has been approved by the shareholders of Reynolds American and Lorillard, and the proposed acquisition, while subject to a number of regulatory approvals in the US, is anticipated to be complete before the end of June 2015.

In addition, BAT and Reynolds American have agreed in principle to collaborate on next-generation products and negotiations are ongoing.

During 2014, we acquired a further 1 per cent interest in BAT Chile Operaciones, S.A. at a cost of £3 million. This increased our shareholding to 99 per cent.

On December 15, 2014, we acquired a further 1 per cent interest in BAT Central America S.A. at a cost of £1 million. This increased our shareholding to 79 per cent.

Contributions to the British American Tobacco UK Pension Fund are secured by a charge over our head office (Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom) up to a maximum of £150 million.

Our key management personnel consist of the members of the Board of Directors of BAT and the members of the Management Board. No such person had any material interest during 2014 Year in a contract of significance (other than a service contract) with BAT or any subsidiary company. The term key management personnel in this context includes the respective members of their households.

There were no other long-term benefits applicable in respect of key personnel other than those disclosed in the remuneration report in the annual report for 2014 Year.

	Year ended December 31,	
	2014	**2013**
	(£ million)	
The total compensation for key management personnel, including Directors, was:		
– salaries and other short-term employee benefits	20	20
– post-employment benefits	3	3
– share-based payments	13	11
Total	36	34

DESCRIPTION OF THE NOTES AND THE GUARANTEES

The following is a summary of the material provisions of the Fiscal and Paying Agency Agreements (as described below) and the Notes. The summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Fiscal and Paying Agency Agreements and the Notes. A copy of each Fiscal and Paying Agency Agreement will be available for inspection during normal business hours at any time after the closing date of the offering of the Notes at the offices of the Fiscal and Paying Agent. Any capitalized term used herein but not defined shall have the meaning assigned to such term in the Fiscal and Paying Agency Agreements.

General

The $750,000,000 principal amount of 1.850 per cent Notes due 2018 (the "2018 Fixed Rate Notes"), the $1,250,000,000 principal amount of 2.750 per cent Notes due 2020 (the "2020 Fixed Rate Notes"), the $500,000,000 principal amount of 3.500 per cent Notes due 2022 (the "2022 Fixed Rate Notes") and the $1,500,000,000 principal amount of 3.950 per cent Notes due 2025 (the "2025 Fixed Rate Notes" and, together with the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes and the 2022 Fixed Rate Notes, the "Fixed Rate Notes") and the $500,000,000 principal amount of floating rate notes due 2018 (the "Floating Rate Notes"; the Floating Rate Notes, together with the Fixed Rate Notes, the "Notes").

The 2018 Fixed Rate Notes will mature on June 15, 2018. The 2020 Fixed Rate Notes will mature on June 15, 2020. The 2022 Fixed Rate Notes will mature on June 15, 2022. The 2025 Fixed Rate Notes will mature on June 15, 2025. The Floating Rate Notes will mature on June 15, 2018.

The Notes will be issued in registered form and treated as six separate series of debt securities each under a Fiscal and Paying Agency Agreement to be dated, in each case, as of June 15, 2015, between B.A.T. International Finance p.l.c., (the "Issuer"), British American Tobacco p.l.c. (the "Parent Guarantor"), British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN"), B.A.T. Netherlands Finance B.V. ("BATNF" and together with BATHTN, the "Dutch Guarantors" and, together with the Parent Guarantor and BATHTN, the "Guarantors"), and Citibank, N.A., London Branch as paying agent, transfer agent, calculation agent and registrar (referred to collectively in such capacities as the "Fiscal and Paying Agent" and, in each such several capacities as the "Fiscal Agent", "Paying Agent", "Transfer Agent", "Registrar" and "Calculation Agent"). The Fiscal and Paying Agency Agreements will not be qualified under the U.S. Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). Consequently, the holders of Notes generally will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture. In this "Description of the Notes and the Guarantees", the terms "holder", "Noteholder" and other similar terms refer to a "registered holder" of Notes, and not to a beneficial owner of a book-entry interest in any Notes, unless the context otherwise clearly requires.

For so long as any Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any registered holder of Notes (or any beneficial owner of a book-entry interest in such Notes designated by the registered holder thereof) in connection with any sale thereof and to any prospective purchaser of Notes or a book-entry interest in Notes designated by such holder, in each case upon request of such holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act. As of the date of this Offering Memorandum, the Issuer is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

Principal, Maturity and Interest

The Notes will be unsecured and unsubordinated obligations of the Issuer and will be unconditionally guaranteed on a senior, unsecured basis by each Guarantor (the "Guarantees"). The 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes, the 2025 Fixed Rate Notes and the Floating Rate Notes are initially issuable in aggregate principal amounts not to exceed $750,000,000, $1,250,000,000, $500,000,000, $1,500,000,000 and $500,000,000, respectively, and will mature on June 15, 2018, June 15, 2020, June 15, 2022, June 15, 2025 and June 15, 2018, respectively.

Interest

Fixed Rate Notes

The 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes will bear interest at 1.850 per cent, 2.750 per cent, 3.500 per cent and 3.950 per cent per annum, respectively, from the date of the initial issuance of such Notes or from the most recent interest payment date to which interest has been paid or provided for, payable semi-annually in arrear on June 15 and December 15 of each year, commencing December 15, 2015 (each, an "Interest Payment Date") until June 15, 2018, June 15, 2020, June 15, 2022 and June 15, 2025 for the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes, respectively, unless previously purchased or redeemed by the Issuer, to the person in whose name any 2018 Fixed Rate Note, 2020 Fixed Rate Notes, 2022 Fixed Rate Note or 2025 Fixed Rate Note, as applicable, is registered at the close of business on May 31 or November 30 (whether or not a Business Day, as defined below) immediately preceding such Interest Payment Date (each, a "Record Date") notwithstanding any transfer or exchange of such Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names the outstanding Notes are registered at the close of business on a subsequent Record Date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice given by mail by or on behalf of the Issuer to the holders (which term means registered holders) of the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes or the 2025 Fixed Rate Notes, as applicable, not less than 15 days preceding such subsequent Record Date. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months or in the case of an incomplete month, the number of days elapsed. If the date on which any interest payment or principal payment is to be made is not a Business Day, such payment will be made on the next day which is a Business Day, without any further interest or other amounts being paid or payable in connection therewith. A "Business Day" refers to any day which is not, in London or New York City, or any other place of payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized or obligated by law or regulation to close.

Floating Rate Notes

Interest will be payable on the Floating Rate Notes quarterly on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2015. Interest will be paid to the person in whose name such note is registered at the close of business on the second Business Day that precedes the related interest payment date. The Floating Rate Notes will bear interest at a rate per annum equal to LIBOR (as defined below) plus 0.51 per cent which will be reset as described below.

The initial interest rates on the Floating Rate Notes will be determined by the Calculation Agent on June 11, 2015.

If any interest payment date (other than a redemption date or other maturity date) for the Floating Rate Notes would fall on a day that is not a Business Day, the interest payment date will be postponed to the next succeeding business day, except that if that Business Day falls in the next succeeding calendar month, the interest payment date will be the immediately preceding Business Day, in each case with interest accruing to but excluding the date of payment. If a redemption date or other maturity date for the Floating Rate Notes would fall on a day that is not a Business Day, the payment of interest and principal will be made on the next succeeding Business Day, and no interest will accrue or be payable unless the Issuer fails to make payment on such next succeeding Business Day.

The initial rate of interest on the Floating Rate Notes will be set on June 11, 2015. The rate of interest on the Floating Rate Notes will be reset quarterly on March 15, June 15, September 15 and December 15 of each year, commencing on September 15, 2015 (collectively, the "Interest Reset Dates" and each, an "Interest Reset Date"). If any Interest Reset Date would fall on a day that is not a Business Day, the Interest Reset Date will be postponed to the next succeeding Business Day, except that if that Business Day falls in the next succeeding calendar month, the Interest Reset Date will be the immediately preceding Business Day.

The Calculation Agent for the Floating Rate Notes will be the Fiscal and Paying Agent, or its successor appointed by the Issuer. The Calculation Agent will determine the initial interest rate for the Floating Rate Notes by reference to LIBOR on the second London banking day preceding the issue date and the interest rate for each interest reset date by reference to LIBOR on the second London banking day preceding the applicable interest reset date, each of which is referred to herein as an "Interest Determination Date".

Promptly upon such determination, the Calculation Agent will notify the Issuer and the Fiscal and Paying Agent (if the Calculation Agent is not the Fiscal and Paying Agent) of the new interest rate. Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate that will become effective on the next interest reset date.

"London banking day" means any day on which dealings in U.S. dollars are transacted in the London interbank market. "LIBOR" will be determined by the Calculation Agent in accordance with the following provisions:

- With respect to any Interest Determination Date, LIBOR will be the rate (expressed as a percentage per annum) for deposits in U.S. dollars having a maturity of three months commencing on the related interest reset date that appears on Reuters Page LIBOR01 as of 11:00 a.m. (London time) on that Interest Determination Date. If no such rate appears, then LIBOR, in respect of that Interest Determination Date will be determined in accordance with the following provisions.
- With respect to an Interest Determination Date on which no rate appears on Reuters Page LIBOR01, the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market (which may include affiliates of the initial purchasers), as selected by the Calculation Agent, to provide its offered quotation (expressed as a percentage per annum) for deposits in U.S. dollars for the period of three months, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Interest Determination Date and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time. If at least two quotations are provided, then LIBOR on that Interest Determination Date will be the arithmetic mean of those quotations.
- If fewer than two quotations are provided, then LIBOR on the Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. (New York City time) on the Interest Determination Date by three major banks in New York City (which may include affiliates of the initial purchasers) selected by the Calculation Agent for loans in U.S. dollars to leading European banks, for a period of three months, commencing on the related interest reset date, and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time. If at least two such rates are so provided, LIBOR on the interest determination date will be the arithmetic mean of such rates.
- If fewer than two such rates are so provided, LIBOR on the interest determination date will be LIBOR in effect with respect to the immediately preceding interest determination date. "Reuters Page LIBOR01" means the display that appears on Reuters (or any successor service) on page LIBOR01 (or any page as may replace such page on such service) for the purpose of displaying London interbank offered rates of major banks for U.S. dollars.

Interest on the Floating Rate Notes will be calculated on the basis of a 360-day year and the actual number of days elapsed.

All percentages resulting from any calculation of any interest rate for the Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 5.876545 per cent (or .05876545) would be rounded to 5.87655 per cent (or .0587655)), and all dollar amounts would be rounded to the nearest cent with one-half cent being rounded upward.

The interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by applicable law.

All calculations made by the Calculation Agent for the purposes of calculating interest on the Floating Rate Notes will be conclusive and binding on the holders and the Issuer, absent manifest error.

Form and Denomination

The Notes will be issued in fully registered form and only in denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will be issued initially as Global Notes.

Further Issues

The aggregate principal amount of Notes issuable under each Fiscal and Paying Agency Agreement is unlimited. The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, "reopen" any series of the Notes and create and issue additional notes having identical terms and conditions as the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes, the 2025 Fixed Rate Notes or the Floating Rate Notes, as the case may be (or in all respects except for the issue date, issue price, the payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series of Notes with the Notes, as the case may be (a "Further Issue"), provided that if the additional notes are not fungible with the Notes for United States federal income tax purposes, the additional notes will have separate CUSIPs, ISINs, or other identifying numbers.

Status of the Notes and Guarantees

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* in right of payment among themselves and with all other direct, unsecured and unsubordinated obligations of the Issuer (except those obligations preferred by statute or operation of law). Each Guarantor will unconditionally guarantee, on a senior, unsecured basis, the due and punctual payment (and not collectibility) of the principal of and interest on the Notes (and the payment of additional amounts described under "— *Payment of Additional Amounts*" below) when and as the same shall become due and payable, whether at stated maturity, by declaration of acceleration, call for redemption or otherwise. Each Guarantee will be an unsecured and unsubordinated obligation of the respective Guarantor and will rank *pari passu* in right of payment with all other direct, unsecured and unsubordinated obligations of such Guarantor (except those obligations preferred by statute or operation of law). The Issuer and each Guarantor will be subject to a negative pledge with respect to certain types of indebtedness, which are discussed in "— *Covenants of the Issuer and the Guarantors — Negative Pledge*" below.

Payment of Additional Amounts

The Issuer or, if applicable, each Guarantor (pursuant to the terms of the applicable Guarantee) will make payments of, or in respect of, principal, premium (if any) and interest on the Notes, or any payment pursuant to the Guarantees, as the case may be, without withholding or deduction for or on account of any present or future tax, levy, impost or other governmental charge whatsoever imposed, assessed, levied or collected ("Taxes") by or for the account of the United Kingdom or any other jurisdiction in which the Issuer or any Guarantor is organized or resident for tax purposes or through which payment is made (or any political subdivision thereof or any authority thereof having the power to tax) (a "Relevant Taxing Jurisdiction"), unless such withholding or deduction is required by law.

If the Issuer or, if applicable, any Guarantor, is required by a Relevant Taxing Jurisdiction to deduct or withhold Taxes, the Issuer or, if applicable, such Guarantor, will pay to the holder of a Note such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by such holder will not be less than the amount such holder would have received if such Taxes had not been withheld or deducted; *provided, however,* that neither the Issuer nor such Guarantor shall be required to pay any Additional Amounts for or on account of:

(i) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that the holder or beneficial owner of the applicable Note or Guarantee (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such holder, if such holder is an estate, trust, partnership or corporation) is or has been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business or maintaining or having maintained a permanent establishment or being or having been physically present in, a Relevant Taxing Jurisdiction or otherwise having or having had some connection with a Relevant Taxing Jurisdiction other than the holding or ownership of, or the collection of principal of, and premium (if any) or interest on, a Note or the enforcement of the applicable Guarantee, as the case may be;

(ii) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the applicable Note or Guarantee was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later except to the extent that the holder or beneficial owner thereof would have been entitled to Additional Amounts had the applicable Note or Guarantee been presented for payment on any day during such 30 day period;

(iii) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(iv) any Taxes that are payable otherwise than by deduction or withholding from payments on or in respect of the applicable Note or Guarantee;

(v) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the holder or the beneficial owner of the applicable Note or Guarantee to comply with a written request addressed to the holders (A) to provide any certification, identification, information, documents or other evidence concerning the nationality, residence or identity of the holder or the beneficial owner or its connection with the Relevant Taxing Jurisdiction or (B) to make any valid or timely declaration or claim or satisfy any other reporting, information or procedural requirements relating to such matters if, in either case, compliance is required by statute, regulation or administrative practice of the Relevant Taxing Jurisdiction as a condition to relief or exemption from such Taxes;

(vi) any withholding or deduction imposed on a payment to or secured for the benefit of an individual that is required to be made pursuant to Council Directive 2003/48/EC, as amended from time to time, or any other Directive on the taxation of savings implementing the conclusions of the Economic and Financial Affairs Council meeting of November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive;

(vii) any withholding or deduction that is imposed on the applicable Note or Guarantee that is presented for payment, where presentation is required, by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Guarantee to another paying agent in a member state of the European Union; or

(viii) any combination of the Taxes described in (i) through (vii) above.

In addition, Additional Amounts will not be paid with respect to any payment of the principal of, or any interest on, any of the applicable Notes or Guarantees to any holder of the applicable Notes or Guarantees that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of a Relevant Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the holder of the relevant Notes or Guarantees.

Unless otherwise stated, references in any context to the payment of principal of, and any premium or interest on, any Note, or any payment pursuant to the Guarantees, will be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption

The Fixed Rate Notes will be subject to optional redemption by the Issuer as described below under "— *Optional Redemption*". The Floating Rate Notes will not be subject to such optional redemption by the Issuer.

The 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes will be subject to redemption by the Issuer in the event that the acquisition of Lorillard Inc. by Reynolds American is not completed as described below under *"— Early Redemption in case the acquisition of Lorillard by Reynolds American is not completed*."

Both the Fixed Rate Notes and the Floating Rate Notes will be subject to optional redemption by the Issuer in the event of certain changes in tax laws applicable to payments in respect of the Notes as described below under "— *Redemption for Tax Reasons*".

Optional Redemption

The Issuer may redeem the Fixed Rate Notes, in whole or in part, at the Issuer's option, at any time and from time to time at a redemption price equal to the greater of (i) 100 per cent of the principal amount of the Fixed Rate Notes to be redeemed and (ii) as determined by the Independent Investment Banker (as defined below), the sum of the present values of the applicable Remaining Scheduled Payments (as defined below) discounted to the date of redemption (the "Redemption Date") on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate (as defined below) plus in the case of the 2018 Fixed Rate Notes, 12.5 basis points, in the case of the 2020 Fixed Rate Notes, 15 basis points, in the case of the 2022 Fixed Rate Notes, 20 basis points, and in the case of the 2025 Fixed Rate Notes, 25 basis points, together with, in each case, accrued and unpaid interest on the principal amount of the Fixed Rate Notes to be redeemed to the Redemption Date. In connection with such optional redemption the following defined terms apply:

- *Comparable Treasury Issue* means the United States Treasury security selected by the Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to, the remaining term of the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes or the 2025 Fixed Rate Notes, as the case may be.
- *Comparable Treasury Price* means, with respect to any Redemption Date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding that Redemption Date, as set forth in the daily statistical

release designated H.15 (519) (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Notes" or (ii) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (A) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (B) if the Independent Investment Banker for the Fixed Rate Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.

- *Independent Investment Banker* means one of the Reference Treasury Dealers (as defined below) appointed by the Issuer to act as the "Independent Investment Banker".

- *Reference Treasury Dealer* means each of Citigroup Global Markets Inc., Deutsche Bank Securities Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities LLC and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Issuer; *provided, however,* that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), the Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

- *Reference Treasury Dealer Quotation* means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that Redemption Date.

- *Remaining Scheduled Payments* means, with respect to each Fixed Rate Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Redemption Date but for such redemption; *provided, however,* that if that Redemption Date is not an Interest Payment Date with respect to such Fixed Rate Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.

- *Treasury Rate* means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

Notice of any optional redemption will be given in accordance with "— *Notice*" below at least 30 days but not more than 60 days before the Redemption Date to each holder of the Fixed Rate Notes to be redeemed.

If less than all the Fixed Rate Notes are to be redeemed, in the case of a redemption at the Issuer's option as discussed in this section, the Fixed Rate Notes to be redeemed shall be selected by the Fiscal and Paying Agent by such method as the Fiscal and Paying Agent shall deem fair and appropriate and is consistent with the rules of DTC.

Early Redemption in Case the Acquisition of Lorillard Inc. by Reynolds American is Not Completed

If an Acquisition Event (as defined below) occurs, the Issuer shall call and redeem the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes, in whole but not in part, at a redemption price equal to 101 per cent of the principal amount of such Notes, plus accrued and unpaid interest on the principal amount of such Notes to the date of redemption.

In connection with such redemption, an "Acquisition Event" shall occur if Reynolds American has not completed and closed the acquisition of Lorillard Inc. on or prior to January 15, 2016 (the "Longstop Date").

Notice of redemption in case of an Acquisition Event will be given in accordance with *"— Notice*" below by the Issuer (i) to the Fiscal and Paying Agent, accompanied by a certificate of the Issuer, in form and substance satisfactory to the Fiscal and Paying Agent, certifying that the acquisition of Lorillard Inc. by Reynolds American has not been completed on or prior to the Longstop Date, such notice to be given not later than two Business Days after the Longstop Date and at least three Business Days prior to the notice of redemption being given to the holders of 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes, and (ii) to each holder of the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes, at least 30 days but not more than 60 days before the Redemption Date.

Redemption for Tax Reasons

Each series of Notes is also redeemable by the Issuer, in whole but not in part, at 100 per cent of the principal amount of such Notes plus any accrued and unpaid interest to the applicable Redemption Date (including any Additional Amounts) at the Issuer's option at any time prior to their maturity if, due to a Change in Tax Law (as defined below): (i) the Issuer or a Guarantor, in accordance with the terms of the applicable Notes or applicable Guarantee, has, or would, become obligated to pay any Additional Amounts to the holders or beneficial owners of the Notes of that series; (ii) in the case of a Guarantor, (A) the Parent Guarantor would be unable, for reasons outside its control, to procure payment by the Issuer or (B) the procuring of such payment by the Issuer would be subject to withholding taxes imposed by a Relevant Taxing Jurisdiction; and (iii) such obligation cannot be avoided by such Guarantor, the Parent Guarantor or the Issuer, taking reasonable measures available to it. In such case, the Issuer may redeem the applicable Notes upon not less than 30 nor more than 60 days' notice as provided in "— *Notice*" below, at 100 per cent of the principal amount of such Notes plus accrued and unpaid interest to the Redemption Date (including Additional Amounts); *provided,* that, (a) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as the case may be, would be obligated to pay any such Additional Amounts in respect of the applicable Notes or applicable Guarantee, as applicable, then due and (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. The Issuer's right to redeem the applicable Notes shall continue as long as the Issuer or a Guarantor is obligated to pay such Additional Amounts, notwithstanding that the Issuer or such Guarantor, as the case may be, shall have made payments of Additional Amounts. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Fiscal and Paying Agent: (i) an officer's certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (ii) an opinion of independent counsel or an independent accountant of recognized standing, selected by the Issuer or any Guarantor, as applicable, with respect to tax matters of the Relevant Taxing Jurisdiction to the effect that the Issuer or such Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such Change in Tax Law.

For the purposes hereof, "Change in Tax Law" shall mean: (i) any changes in, or amendment to, any law of a Relevant Taxing Jurisdiction (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after June 15, 2015; or (ii) if the Issuer or a Guarantor consolidates, merges, amalgamates or combines with, or transfers or leases its assets substantially as an entirety to, any person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Taxing Jurisdiction (a "successor") and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor in respect of Additional Amounts that may become payable (in which case, for purposes of this redemption provision, all references to the Issuer or such Guarantor shall be deemed to be and include references to such person), any change in, or amendment to, any law of the jurisdiction of organization or tax residence of such successor, or the jurisdiction through which payments will be made by the successor, or any political subdivision or taxing authority thereof or thereon for purposes of taxation (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by such jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the date of such consolidation, merger, amalgamation, combination or other transaction.

General

Upon presentation of any Fixed Rate Note redeemed in part only, the Issuer will execute and the Fiscal and Paying Agent will authenticate and deliver (or cause to be transferred by book-entry) to, or on, the order of the holder thereof, at the expense of the Issuer, a new Fixed Rate Note or Fixed Rate Notes, of authorized denominations, in principal amount equal to the unredeemed portion of the Note so presented.

On or before any Redemption Date (as defined above), the Issuer shall deposit with the Fiscal and Paying Agent money sufficient to pay the redemption price of and accrued and unpaid interest on the Notes to be redeemed on such date. The redemption price shall be calculated by the Independent Investment Banker and the Issuer, and the Fiscal and Paying Agent shall be entitled to rely on such calculation.

On and after any Redemption Date, interest will cease to accrue on the Notes or any portion thereof called for redemption.

Maturity

Unless previously purchased or redeemed by the Issuer, and cancelled, the principal amount of the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes, the 2025 Fixed Rate Notes and the Floating Rate Notes will mature on June 15, 2018, June 15, 2020, June 15, 2022, June 15, 2025 and June 15, 2018, respectively, in an amount equal, in each case, to their principal amount, with accrued and unpaid interest to such date.

Reacquisition

There is no restriction on the ability of the Issuer to purchase or repurchase Notes, *provided,* that any Notes so repurchased shall be cancelled and not reissued.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Notes and the applicable Fiscal and Paying Agency Agreements. You should refer to the Notes and the applicable Fiscal and Paying Agency Agreement for the full definition of all defined terms as well as any other terms used herein for which no definition is provided.

"Person" means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Quoted Borrowing" means any indebtedness which: (a) is represented by notes, debentures or other securities issued otherwise than to constitute or represent advances made by banks and/or other lending institutions; (b) is denominated, or confers any right to payment of principal and/or interest, in or by reference to any currency other than the currency of the country in which the issuer of the indebtedness has its principal place of business or is denominated, or confers any right to payment of principal and/or interest, in or by reference to the currency of such country but is placed or offered for subscription or sale by or on behalf of, or by agreement with, the issuer of such indebtedness as to over 20 per cent outside such country; and (c) at its date of issue is, or is intended by the issuer of such indebtedness to become, quoted, listed, traded or dealt in on any stock exchange or other organized and regulated securities market in any part of the world.

Covenants of the Issuer and the Guarantors

Negative Pledge

Each Fiscal and Paying Agency Agreement will provide that so long as any of the applicable Notes remains outstanding, neither the Issuer nor any Guarantor will secure or allow to be secured any Quoted Borrowing or any payment under any guarantee by any of them of any Quoted Borrowing by any mortgage, charge, pledge or lien (other than arising by operation of law) upon any of its undertaking or assets, whether present or future, unless at the same time the same mortgage, charge, pledge or lien is extended, or security which is not materially less beneficial to the holders of the applicable Notes than the security given as aforesaid or which shall be approved by consent of the holders of not less than 75 per cent in aggregate principal amount of the applicable Notes at the time outstanding is extended or created (as the case may be), to secure equally and ratably the principal of, and interest on, and all other payments (if any) in respect of the applicable Notes.

Limitation on Mergers, Consolidations, Amalgamations and Combinations

So long as any of the Notes remain outstanding, neither the Issuer nor any Guarantor may consolidate with or merge into any other person or sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person (other than any sale or conveyance by way of a lease in the ordinary course of business), unless: (i) in the case of the Issuer, any successor person assumes the Issuer's obligations on the applicable Notes and under the applicable Fiscal and Paying Agency Agreement and, in the case of any Guarantor, any successor person assumes such Guarantor's obligations on the applicable Guarantee and under the applicable Fiscal and Paying Agency Agreement; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; (iii) such successor person is organized under the laws of the United States, the United Kingdom, the Netherlands or any other country that is a member of the Organization for Economic Cooperation and Development as of the date of such succession; (iv) such successor person agrees to pay any Additional Amounts imposed by the jurisdiction in which such successor person is incorporated or otherwise a resident for tax purposes or through which payments are made and resulting therefrom or otherwise; and (v) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or a Guarantor which would not be permitted by the applicable Notes or under the applicable Fiscal and Paying Agency Agreement, the Issuer or any Guarantor or such successor person, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The limitation on mergers, consolidations, amalgamations and combinations contained in this section "*— Limitation on Mergers, Consolidations, Amalgamations and Combinations*" shall not apply to any consolidation, merger, amalgamation or combination in which the Issuer or applicable Guarantor is the surviving corporation except that, in such case, the provisions of (ii) and (v) above shall apply such that: (x) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and (y) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or a Guarantor which would not be permitted by the applicable Notes or under the applicable Fiscal and Paying Agency Agreement, the Issuer or any Guarantor, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

No Fiscal and Paying Agency Agreement will contain covenants or other provisions to afford protection to holders of the Notes in the event of a highly leveraged transaction or a change in control of the Issuer or any Guarantor except as provided above.

Upon certain mergers or consolidations involving the Issuer or a Guarantor, or upon certain sales or conveyances of the properties of the Issuer or a Guarantor, the obligations of the Issuer or such Guarantor, under the applicable Notes or the applicable Guarantee, shall be assumed by the person formed by such merger or consolidation or which shall have acquired such property and upon such assumptions such person shall succeed to and be substituted for the Issuer or such Guarantor, as the case may be, and then the Issuer or such Guarantor will be relieved from all obligations under the Notes and the applicable Guarantee, as the case may be. The terms "Issuer" and "Guarantor", as used in the Notes and the Fiscal and Paying Agency Agreements, also refer to any such successors or assigns so substituted.

Events of Default

The following will be Events of Default (each an "Event of Default") with respect to the applicable Notes:

(i) *Non-Payment:* default is made in the payment of: (a) any installment of interest (excluding Additional Amounts) upon any applicable Note as and when the same shall become due and payable, and continuance of such default for a period of 14 days or more; (b) applicable Additional Amounts as and when the same shall become due and payable, and continuance of such default for a period of 14 days; or (c) all or any part of the principal or premium, if any, of any applicable Note as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise, and continuance of such default for 3 days;

(ii) *Breach of Other Obligations:* the Issuer or any Guarantor does not perform or comply with any one or more of its other obligations under the applicable Notes or the applicable Fiscal and Paying Agency Agreement (other than those described in paragraph (i) above) which is not remedied within 30 days after written notice of such default shall have been given to the Issuer by the Fiscal and Paying Agent;

(iii) *Cross-Default:* (a) any other present or future indebtedness for borrowed money of the Issuer or any Guarantor, other than the Notes, becomes due and payable prior to its stated maturity by reason of any default or event of default in respect thereof by the Issuer or any Guarantor and remains unpaid; or (b) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period; or (c) the Issuer or any Guarantor fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid; provided that (x) payment of the indebtedness for borrowed money is not being contested in good faith and in accordance with legal advice or (y) the aggregate amount of the indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in (a), (b) and (c) has or have occurred and is or are continuing, equals or exceeds £100 million or its equivalent in any other currency of the indebtedness for borrowed money (as determined by the Fiscal and Paying Agent) or, if greater, 1.25 per cent of the Total Equity of the Parent Guarantor, as set out in the "Total Equity" line item in the most recent consolidated group balance sheet of the Parent Guarantor and its subsidiaries in the Parent Guarantor's most recent Annual Report;

(iv) *Cessation of Guarantees:* any Guarantee ceases to be in full force and effect (except as contemplated by the terms of the applicable Fiscal and Paying Agency Agreement) or any Guarantor denies or disaffirms in writing its obligations under the applicable Fiscal and Paying Agency Agreement or Guarantee;

(v) *Enforcement Proceedings:* a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a substantial part of the property, assets or revenues of the Issuer or any Guarantor having a value exceeding £100 million following upon a decree or judgment of a court of competent jurisdiction and is not discharged or stayed within 45 days of having been so levied, enforced or sued out;

(vi) *Security Enforced:* any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) against all or substantially all of the assets of the Issuer or any Guarantor and is not discharged within 45 days;

(vii) *Insolvency:* the Issuer or any Guarantor is insolvent or bankrupt or unable to pay its debts (within the meaning of Sections 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer;

(viii) *Winding-up:* an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Guarantor, or the Issuer or any Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement; or

(ix) *Analogous Events:* any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs (vii) and (viii).

Each Fiscal and Paying Agency Agreement will provide that if an Event of Default occurs and is continuing, then and in each and every such case (other than certain Events of Default specified in paragraphs (vii), (viii) and (ix) above with respect to the Issuer or any Guarantor), unless the principal of all the applicable Notes shall have already become due and payable, the holders of not less than 25 per cent in aggregate principal amount of the applicable Notes then outstanding, by notice in writing to the Issuer, each Guarantor and the Fiscal and Paying Agent, may declare the entire principal amount of all applicable Notes issued pursuant to the applicable Fiscal and Paying Agency Agreement and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of any holder. If certain Events of Default described in paragraph (vii), (viii) or (ix) above occur with respect to the Issuer and are continuing, the principal amount of and accrued and unpaid interest on all the applicable Notes issued pursuant to the applicable Fiscal and Paying Agency Agreement shall become immediately due and payable, without any declaration or other act on the part of the Fiscal and Paying Agent or any holder. Under certain circumstances, the holders of a majority in aggregate principal amount of the applicable Notes then outstanding, by written notice to the Issuer, each Guarantor and the Fiscal and Paying Agent, may waive defaults and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impart any right consequent thereon.

The holders of a majority in aggregate principal amount of the applicable Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Fiscal and Paying Agent, or exercising any trust or power conferred on the Fiscal and Paying Agent, subject to certain limitations to be specified in the applicable Fiscal and Paying Agency Agreement.

An Event of Default with respect to any series of Notes would not necessarily constitute an event of default with respect to the other series of Notes.

Each Fiscal and Paying Agency Agreement will also provide that no holder of any Notes governed by the applicable Fiscal and Paying Agency Agreement may institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the applicable Fiscal and Paying Agency Agreement, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the applicable Fiscal and Paying Agency Agreement (except suits for the enforcement of payment of overdue principal or interest) unless the holders of not less than 25 per cent in aggregate principal amount of Notes outstanding shall have collectively instituted such action or proceeding and shall have provided notice in writing of the institution of such action or proceeding to the Issuer, each Guarantor and the Fiscal and Paying Agent.

Defeasance

Each Fiscal and Paying Agency Agreement will provide that the Issuer will have the option either (a) to be deemed (together with each Guarantor) to have paid and discharged the entire indebtedness represented by, and obligations under, the applicable Notes and the applicable Guarantees and to have satisfied all the obligations under the applicable Fiscal and Paying Agency Agreement relating to the applicable Notes (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the 91st day after the applicable conditions described below have been satisfied or (b) to cease (together with each Guarantor) to be under any obligation to comply with the covenant described above under "*— Covenants of the Issuer and the Guarantors — Negative Pledge*" and the condition relating to the absence of any events of default under "*— Covenants of the Issuer and the Guarantors — Limitation on Mergers, Consolidations, Amalgamations and Combinations*" under the applicable Fiscal and Paying Agency Agreement, and non-compliance with such covenants and the occurrence of certain events described above under "*— Events of Default*" will not give rise to any Event of Default under the applicable Fiscal and Paying Agency Agreement, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must (i) deposit with the Fiscal and Paying Agent, irrevocably in money or Government Obligations (as defined in the applicable Fiscal and Paying Agency Agreement) for the payment of principal of and interest on the applicable outstanding Notes to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (ii) comply with certain other conditions, including delivering to the Fiscal and Paying Agent an opinion of U.S. counsel to the effect that holders of the applicable Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of such option and will be subject to United States federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised and which opinion, in the case of (i) above, must state that such opinion is based on a ruling received from or published by the United States Internal Revenue Service or on a change of law after June 15, 2015.

Modification and Waiver

Without Consent of Noteholders

Each Fiscal and Paying Agency Agreement will contain provisions permitting the Issuer, each Guarantor and the Fiscal and Paying Agent, without the consent of the holders of any of the applicable Notes at any time outstanding under the applicable Fiscal and Paying Agency Agreement, from time to time and at any time, to enter into a fiscal and paying agency agreement or fiscal and paying agency agreement supplemental thereto:

- to convey, transfer, assign, mortgage or pledge to the holders of the applicable Notes or any person acting on their behalf as security for the applicable Notes any property or assets;
- to evidence the succession of another person to the Issuer or any Guarantor, as the case may be, or successive successions, and the assumption by the successor person(s) of the covenants, agreements and obligations of the Issuer or any Guarantor, as the case may be, pursuant to the applicable Fiscal and Paying Agency Agreement;
- to evidence and provide for the acceptance of appointment of a successor or successors to the Fiscal and Paying Agent and/or the Paying Agent, Transfer Agent and Registrar, as applicable;
- to add to the covenants of the Issuer and any Guarantor, as the case may be, such further covenants, restrictions, conditions or provisions as the Issuer and any Guarantor, as the case may be, and the Fiscal and Paying Agent, shall consider to be for the protection of the holders of the applicable Notes issued pursuant to the applicable Fiscal and Paying Agency Agreement, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the applicable Fiscal and Paying Agency Agreement permitting the enforcement of all or any of the several remedies provided in the applicable Fiscal and Paying Agency Agreement; *provided* that, in respect of any such additional covenant, restriction, condition or

provision, such supplemental fiscal and paying agency agreement may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Fiscal and Paying Agent upon such an Event of Default;

- to modify the restrictions on, and procedures for, resale and other transfers of the applicable Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;
- to cure any ambiguity or to correct or supplement any provision contained in the applicable Fiscal and Paying Agency Agreement which may be defective or inconsistent with any other provision contained therein or to make such other provision in regard to matters or questions arising under the applicable Fiscal and Paying Agency Agreement as the Issuer, any Guarantor or the Fiscal and Paying Agent may deem necessary or desirable and which will not, in the opinion of the Issuer or any Guarantor, adversely affect the interests of the holders of the applicable Notes in any material respect; and
- to issue an unlimited aggregate principal amount of Notes under each Fiscal and Paying Agency Agreement or to "reopen" the applicable series of Notes and create and issue additional notes having identical terms and conditions as the applicable Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series with the outstanding applicable Notes.

With Consent of Noteholders

Each Fiscal and Paying Agency Agreement will contain provisions permitting the Issuer, each Guarantor and the Fiscal and Paying Agent, with the consent of the holders of not less than a majority in aggregate principal amount of the applicable Notes at the time outstanding under the applicable Fiscal and Paying Agency Agreement (including consents obtained in connection with a tender offer or exchange offer for the applicable Notes), from time to time and at any time, to enter into a fiscal and paying agency agreement or fiscal and paying agency agreements supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the applicable Notes or of modifying in any manner the rights of the holders of the applicable Notes; *provided,* that no such fiscal and paying agency agreement may, without the consent of the holder of each of the Notes so affected:

- change the stated maturity of the applicable Note of, or the date for payment of any principal of, or installment of interest on, any applicable Note; or
- reduce the principal amount of or the rate or amount of interest on any applicable Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default or change the method for determining the interest rate thereon; or
- change the currency of payment of principal of or interest on any applicable Note or Additional Amounts payable with respect thereto; or
- change the obligation of the Issuer or any Guarantor, as the case may be, to pay Additional Amounts (except as otherwise permitted by such applicable Note); or
- impair the right to institute suit for the enforcement of any such payment on or with respect to any applicable Note; or
- reduce the percentage of the aggregate principal amount of the applicable Notes outstanding the consent of whose holders is required for any such supplemental fiscal and paying agency agreement; or
- reduce the aggregate principal amount of any applicable Note outstanding necessary to modify or amend the applicable Fiscal and Paying Agency Agreement or any such Note or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any applicable Notes outstanding required for the adoption of any action at any meeting of holders of such Notes or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of all accrued and unpaid interest on any Note to be due and payable,

provided, that no consent of any holder of any applicable Note shall be necessary to permit the Fiscal and Paying Agent, the Issuer and each of the Guarantors to execute supplemental fiscal and paying agency agreements as described under "— *Without Consent of Noteholders*" above.

Any modifications, amendments or waivers to an applicable Fiscal and Paying Agency Agreement or to the conditions of the applicable Notes will be conclusive and binding on all holders of the applicable Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future holders of the applicable Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered holders of such Note.

Restrictions on Transfer

The Initial Purchasers propose to resell the Rule 144A Notes (as defined below) to certain institutions in the United States in reliance upon Rule 144A under the Securities Act. Notes that are initially offered and sold in the United States to "qualified institutional buyers", or "QIBs" (the "Rule 144A Notes") may not be sold or otherwise transferred except, in the United States, pursuant to registration under the Securities Act or in accordance with Rule 144A or, outside the United States to non-U.S. persons, pursuant to Rule 904 of Regulation S thereunder (the "Regulation S Notes") or, in either case, in a resale transaction that is otherwise exempt from such registration requirements, and each of the Global Notes will bear a legend to this effect. In light of current U.S. securities laws, subject to certain exceptions, an exemption should be available for a sale or transfer of a Rule 144A Note after its Specified Date. The "Specified Date" means, (A) with respect to any Rule 144A Note, the date following the expiration of the applicable required holding period determined pursuant to Rule 144 of the Securities Act (such period, the "applicable holding period") after the later of (i) the date of acquisition of such Rule 144A Note from the Issuer or an affiliate of the Issuer, or (ii) any resale of such Rule 144A Note in reliance on Rule 144 under the Securities Act for the account of either the acquiror or any subsequent holder of such Rule 144A Note, in each case demonstrated to the reasonable satisfaction of the Issuer or applicable Guarantor (which may require delivery of legal opinions); or (B) with respect to any Regulation S Note, the date which is 40 days after the later of the commencement of the offering or the closing date (such period, the "distribution compliance period").

Unless a holder of a Rule 144A Note holds such Rule 144A Note for the entire applicable holding period, such holder may not be able to determine the Specified Date because such holder may not be able to determine the last date on which the Issuer, any Guarantor, or any affiliate thereof, was the beneficial holder of such holder's Rule 144A Note. The Fiscal and Paying Agent will not be required to accept for registration or transfer any Rule 144A Notes, except upon presentation of satisfactory evidence (which may include legal opinions) that the restrictions on transfer have been complied with, all in accordance with such reasonable regulations as the Issuer and all Guarantors may from time to time agree with such Fiscal and Paying Agent.

Prescription

Under New York's statute of limitations, any legal action upon the Notes in respect of interest or principal must be commenced within six years after the payment thereof is due. Thereafter the Notes will become generally unenforceable.

Notice

So long as the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange, notices to holders of Notes will be given by publication in a leading newspaper having general circulation in London, England (which is expected initially to be the *Financial Times*). Notices to holders of Notes will also be given by first-class mail postage prepaid to the last addresses of such holders as they appear in the Notes register. Such notices will be deemed to have been given on the date of such publication or mailing.

So long as any global notes representing the Notes are held in their entirety on behalf of a clearing system, or any of its participants, there may be substituted for the publication described above the delivery of the relevant notices to the clearing system, and its participants, for communication by them to the entitled accountholders. Any such notice shall be deemed to have been given to the accountholders on the third day after the day on which the said notice was given to the clearing system, and its participants.

Listing

Application has been made for the admission of Notes to listing on the Official List of the UK Listing Authority and to trading on the PSM. The Issuer has agreed to use its reasonable best efforts to maintain any such listing and admission to trading of the Notes for so long as any of the Notes remain outstanding.

Consent to Service

Each of the Issuer and the Guarantors will initially designate Corporation Service Company as their authorized agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the applicable Fiscal and Paying Agency Agreement and the Notes brought in any state or federal court in the Borough of Manhattan, the City of New York, and will irrevocably submit (but for those purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

Governing Law

The Fiscal and Paying Agency Agreement, Notes and the Guarantees shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws thereof.

Regarding the Fiscal and Paying Agent

In acting under the Fiscal and Paying Agency Agreement and in connection with the Notes, the Fiscal Agent, Registrar, Transfer Agent, Paying Agent and Calculation Agent are acting solely as agents of the Issuer and do not assume any obligation towards or relationship of agency or trust for or with the owners or holders of the Notes, except that any funds held by any Paying Agent or Registrar for payment of principal of or interest on the Notes or Additional Amounts with respect thereto shall be applied as set forth in the Notes, but need not be segregated from other funds held by it except as required by law. For a description of the duties and immunities and rights of the Fiscal Agent, Registrar, Transfer Agent, Paying Agent and Calculation Agent under the Fiscal and Paying Agency Agreement, reference is made to the Fiscal and Paying Agency Agreement, and the obligations of the Fiscal Agent, Registrar, Transfer Agent, Paying Agent and Calculation Agent are subject to such immunities and rights.

BOOK ENTRY, DELIVERY AND FORM

The Rule 144A Notes will be represented by beneficial interests in two or more Rule 144A Global Notes in registered form without interest coupons, which will be deposited on or about the closing date of the offering of the Notes with Citibank, N.A., London Branch as custodian (the "Custodian") for DTC and registered in the name of Cede & Co. as nominee of DTC.

The Regulation S Notes will be represented by beneficial interests in two or more Regulation S Global Notes in registered form without interest coupons, which will be deposited on or about the closing date of the offering of the Notes with the Custodian and registered in the name of Cede & Co. as nominee of DTC. Investors may hold their interests in the Regulation S Global Notes directly through DTC if they are participants in, or indirectly through organizations that are participants in, DTC. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

So long as DTC or its nominee is the registered holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the applicable Notes represented by the applicable Global Note for all purposes under the applicable Fiscal and Paying Agency Agreement and the applicable Notes (except as the context otherwise requires in respect of Additional Amounts). The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer set forth therein and in the applicable Fiscal and Paying Agency Agreement and will bear a legend regarding such restrictions as set forth under "— *Transfer Restrictions*", unless DTC or its nominee determines otherwise in accordance with applicable law. Under certain circumstances, transfers may be made only upon receipt by the Transfer Agent of a written certification (in the form set out in the applicable Fiscal and Paying Agency Agreement).

Transfers within Global Notes

Subject to the procedures and limitations described herein, transfers of beneficial interests within a Global Note may be made without delivery to the Issuer, each of the Guarantors or the Fiscal and Paying Agent of any written certifications or other documentation by the transferor or transferee.

Transfers between the Global Notes

A beneficial interest in a Rule 144A Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Regulation S Global Note only upon receipt by the Fiscal and Paying Agent of a written certification (in the form set out in the applicable Fiscal and Paying Agency Agreement) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or, in the case of an exchange occurring following the expiration of the distribution compliance period, Rule 144. Prior to the expiration of the distribution compliance period, a beneficial interest in a Regulation S Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the applicable Rule 144A Global Note only upon receipt by the Fiscal and Paying Agent of a written certification (in the form set out in the applicable Fiscal and Paying Agency Agreement) from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. After the expiration of the distribution compliance period, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to applicable transfer restrictions under the Securities Act and the laws of any state of the United States and other jurisdictions. Any beneficial interest in a Rule 144A Global Note or a Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

Transfers or Exchanges from a Global Note to Definitive Notes

No Global Note may be exchanged in whole or in part for Notes in definitive registered form ("Definitive Notes") unless:

- DTC notifies the Issuer that it is unwilling or unable to hold the applicable Global Note or DTC ceases to be a clearing agency registered under the Exchange Act, and in each case the Issuer does not appoint a successor depositary that is registered under the Exchange Act within 90 days after receipt of such notice or becoming aware that DTC is no longer so registered;
- a payment default has occurred and is continuing;

- in the event of a bankruptcy default, the Issuer fails to make payment on the applicable Notes when due; or
- the Issuer shall have determined in its sole discretion that the applicable Notes shall no longer be represented by the applicable Global Notes.

The holder of a Definitive Note may transfer such Note by surrendering it at the specified office of the Registrar or any Fiscal and Paying Agent. Upon the transfer, exchange or replacement of Definitive Notes bearing the applicable legend set forth under "*Notice to Investors*" herein, or upon specific request for removal of such legend on a Definitive Note, the Issuer will deliver only Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Each such Definitive Note will be endorsed with the applicable Guarantees from each of the Guarantors in the form set out in the applicable Fiscal and Paying Agency Agreements and will include terms substantially in the form of those set forth in the applicable Fiscal and Paying Agency Agreements. Except as set forth in this paragraph, no Global Note may be exchanged in whole or in part for Definitive Notes.

Clearing and Settlement

The information set out below in connection with DTC is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect. The information about DTC set forth below has been obtained from sources that the Issuer and each of the Guarantors believe to be reliable, but none of the Issuer, the Guarantors or any of the Initial Purchasers takes any responsibility for or makes any representation or warranty with respect to the accuracy of the information. None of the Issuer, the Guarantors or any of the Initial Purchasers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of interests in Notes held through, the facilities of any clearing system, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC has advised the Issuer and each of the Guarantors as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC participants and to facilitate the clearance and settlement of transactions between DTC participants through electronic book entry changes in accounts of DTC participants, thereby eliminating the need for physical movement of certificates. DTC participants include certain of the Initial Purchasers, securities brokers and dealers, banks, trust companies, and clearing corporations, and may in the future include certain other organizations ("DTC participants"). Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly ("indirect DTC participants").

Under the rules, regulations, and procedures creating and affecting DTC and its operations (the "Rules"), DTC is required to make book-entry transfers of Notes among DTC participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system as described below (the "DTC Notes") and to receive and transmit distributions of the nominal amount and interest on the DTC Notes. DTC participants and indirect DTC participants with which beneficial owners of DTC Notes ("Owners") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through DTC participants or indirect DTC participants will not possess Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which such Owners will receive payments and will be able to transfer their interests with respect to the Notes.

Transfers of ownership or other interests in the Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant. DTC has no knowledge of the actual beneficial owners of the Notes. DTC's records reflect only the identity of the DTC participants to whose accounts the Notes are credited, which may not be the beneficial owners. DTC participants will remain responsible for keeping account of their holdings on behalf of their customers and for forwarding all notices concerning the Notes to their customers. So long as DTC, or its nominee, is the registered holder of a Global Note, payments on the applicable Notes will be made in immediately available funds to DTC. DTC's practice is to credit DTC participants' accounts on the applicable payment date in accordance with their respective holdings shown on its records, unless DTC has reason to believe that it will not receive payment on that date. Payments by

DTC participants to beneficial owners will be governed by standing instructions and customary practices, and will be the responsibility of the DTC participants and not of DTC, or any other party, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the Fiscal and Paying Agent. Disbursement of payments for DTC participants will be DTC's responsibility, and disbursement of payments to the beneficial owners will be the responsibility of DTC participants and indirect DTC participants.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants, and because owners of beneficial interests in the Notes holding through DTC will hold interests in the Notes through DTC participants or indirect DTC participants, the ability of the owners of the beneficial interests to pledge Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to the Notes, may be limited. DTC will take any action permitted to be taken by an Owner only at the direction of one or more DTC participants to whose account with DTC such Owner's DTC Notes are credited. Additionally, DTC has advised the Issuer that it will take such actions with respect to any percentage of the beneficial interest of Owners who hold Notes through DTC participants or indirect participants only at the direction of and on behalf of DTC participants whose account holders include undivided interests that satisfy any such percentage.

To the extent permitted under applicable law and regulations, DTC may take conflicting actions with respect to other undivided interests to the extent that such actions are taken on behalf of DTC participants whose account holders include such undivided interests.

Ownership of interests in the Rule 144A Global Notes and the Regulation S Global Notes will be shown on, and the transfer of that ownership will be effected only through records maintained by, DTC, the DTC participants and the indirect DTC participants, including Euroclear and Clearstream, Luxembourg. Transfers between participants in DTC, as well as transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with DTC rules.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and participants in Euroclear or Clearstream, Luxembourg on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg as the case may be. Such cross-market transactions, however, will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to DTC to take action to effect final settlement on its behalf by delivering or receiving payment in accordance with DTC's Same-Day Funds Settlement System.

According to DTC, the foregoing information with respect to DTC has been provided to the industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at anytime. None of the Issuer, the Guarantors or the Fiscal and Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement in Relation to DTC Notes

Upon the issuance of a DTC Note deposited with DTC or a custodian therefor, DTC or its custodian, as the case may be, will credit, on its internal system, the respective nominal amount of the individual beneficial interest represented by such relevant DTC Note or Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Initial Purchasers. Ownership of beneficial interest in a DTC Note will be limited to DTC participants, including Euroclear and Clearstream, Luxembourg or indirect DTC participants. Ownership of beneficial interests in DTC Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of indirect DTC participants). Investors that hold their interests in a DTC Note will follow the settlement procedures applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Secondary Market Trading in Relation to DTC Notes

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date. Although DTC has agreed to the following procedures in order to facilitate transfers of interests in Global Notes deposited with DTC or a custodian therefor among participants of DTC, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any agent of the Issuer will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Secondary market trading between DTC participants will be settled using the procedures applicable to global bond issues in same-day funds.

Payments

So long as any of the Notes remains outstanding, the Issuer will maintain in London, England, so long as the Notes are admitted to listing on the Official List of the UK Listing Authority and to trading on the Professional Securities Market of the London Stock Exchange, an office or agency (a) where the applicable Notes may be presented for payment, (b) in the case of the Issuer, where the applicable Notes may be presented for registration of transfer and for exchange and (c) where notices and demands to or upon the Issuer in respect of the applicable Notes or the applicable Fiscal and Paying Agency Agreement may be served. The Issuer will give the Fiscal and Paying Agent written notice of the location of any such office or agency and of any change of location thereof. The Issuer will initially designate the Fiscal and Paying Agent for such purposes. The Issuer may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes or where such notices or demands may be served and may from time to time rescind such designations; *provided, however,* that no such designation or rescission shall in any manner relieve the Issuer of any obligation to maintain an office or agency in London, England for such purposes; and *provided further, however,* that the Issuer will, to the extent possible as a matter of law, maintain a paying agent with a specified office in a Member State of the EU that will not be obligated to withhold or deduct tax pursuant to EU Directive 2003/48/EC, as amended from time to time, or any other Directive on the taxation of savings implementing the conclusions of the Economic and Financial Affairs Council meeting of November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, the Directive. The Issuer shall give written notice to the Fiscal and Paying Agent of any such designation or rescission and of any such change in the location of any other office or agency.

A holder of Notes may transfer or exchange Notes in accordance with their terms. The Registrar and Fiscal and Paying Agent for the Notes will not be required to accept for registration or transfer any Notes, except upon presentation of satisfactory evidence (which may include legal opinions) that the restrictions on transfer have been complied with, all in accordance with such reasonable regulations as the Issuer may from time to time agree with such Registrar and Fiscal and Paying Agent.

Notwithstanding any statement herein, the Issuer reserves the right to impose or remove such transfer, certification, substitution or other requirements, and to require such restrictive legends on the Notes, as they may determine are necessary to ensure compliance with the securities laws of the United States and the states therein and any other applicable laws or as may be required by any stock exchange on which the Notes are listed. The Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of Notes and any other expenses (including the fees and expenses of the Fiscal and Paying Agent). No service charge will be made for any such transaction.

The Registrar and Fiscal and Paying Agent will not be required to exchange or register a transfer of (i) any Notes for a period of 15 days ending the due date for any payment of principal in respect of the Notes or the first mailing of any notice of redemption of Notes to be redeemed or (ii) any Notes selected, called or being called for redemption.

The Notes will be issued in registered form without coupons and transferable in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

The laws of some jurisdictions require that certain persons take physical delivery in definitive form of securities which they own. Consequently, the ability to transfer beneficial interests in the Global Notes is limited to such extent.

CERTAIN TAXATION CONSIDERATIONS

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes in light of their own particular circumstances including the effect of the laws of their country of citizenship, residence or domicile. The discussions that follow for each jurisdiction are based upon the applicable laws and interpretations thereof as in effect as of the date hereof, all of which laws and interpretations are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

Material United Kingdom Income Tax Consequences

The comments below are of a general nature and are based on the Issuer's understanding of current United Kingdom tax law as applied in England and Wales and H.M. Revenue & Customs ("HMRC") generally published practice (which may not be binding on HMRC) as of the date of this Offering Memorandum. They are not exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes, relate only to the position of persons who hold their Notes as investments, and may not apply to certain classes of persons that are subject to special rules, such as collective investment schemes, financial traders or dealers, persons connected with the Issuer or persons who acquire (or are deemed to acquire) their Notes by reason of an office or employment. Any Noteholders who are in doubt as to their personal tax position should consult their professional advisers.

Interest

Withholding and Deduction

The Notes issued will constitute "quoted Eurobonds" within the meaning of Section 987 of the Income Tax Act 2007 ("ITA"), provided they are and continue to be listed on a "recognised stock exchange" within the meaning of Section 1005 ITA, and they continue to carry a right to interest. The London Stock Exchange is a recognized stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and are admitted to trading on the Professional Securities Market of the London Stock Exchange, as the Notes are expected to be.

While the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where the Issuer reasonably believes at the time the relevant payments are made that the person beneficially entitled to interest: (i) is a company resident in the United Kingdom; (ii) is a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which is required to bring the interest into account in computing its profits chargeable to United Kingdom corporation tax; (iii) is a partnership each member of which is a company described in (i) or (ii) or the European Investment Fund; or (iv) falls within a list of specified entities and bodies. This is subject to the proviso that HMRC does not give a direction that it has reasonable grounds for believing that the payment will not be an excepted payment at the time it is made.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent). However, where an applicable double tax treaty provides for a lower rate of withholding tax or for no tax to be withheld in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty.

If the Guarantors are required to make payments under the guarantees and any such payment can be characterized as interest or an annual payment, in either case, with a United Kingdom source, it may have to be paid under deduction of United Kingdom income tax (currently at the rate of 20 per cent), subject to the availability of exemptions including a direction to the Issuer by HMRC pursuant to the provisions of an applicable double tax treaty. Such payments by the Guarantors may not be eligible for the exemption in respect of securities listed on a recognized stock exchange described above in relation to payments of interest by the Issuer.

Tax on Interest

Noteholders who are not subject to United Kingdom corporation tax but who are subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Notes on a receipts basis.

Noteholders within the charge to United Kingdom corporation tax will not be taxed in accordance with the preceding paragraph but will generally be charged to tax as income in each accounting period by reference to interest that, in accordance with generally accepted accounting practice (as applied for United Kingdom tax purposes) is recognized in determining the Noteholder's profit or loss for that period.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable or, where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable, in which case tax may be levied on the branch or agency (or, as the case may be, permanent establishment). There are exemptions for interest received by certain categories of agents (such as some brokers and investment managers). Noteholders should note that provisions relating to Additional Amounts referred to in "*Description of the Notes and the Guarantees — Payment of Additional Amounts*" above would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, Noteholders who are not resident in the United Kingdom for tax purposes may be able to obtain an exemption from or a reduction in or a refund of United Kingdom tax payable on such interest under the provisions of an applicable double tax treaty.

Provision of Information

Information relating to securities may be required to be provided to HM Revenue & Customs in certain circumstances. This may include the value of the Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

EU Directive on the Taxation of Savings Income

Under EU Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive") each member state of the European Union (each an "EU Member State") is required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to, or secured by such a person for the benefit of, an individual resident or to, or secured for, certain other types of entity established in that other EU Member State, except that, for a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other markets and territories and subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld).

The Council of the European Union has adopted a Directive (the "Amending Directive") which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by January 1, 2016, which legislation must apply from January 1, 2017.

The Council of the European Union has also adopted a Directive (the "Amending Cooperation Directive") amending Council Directive 2011/16/EU on administrative cooperation in the field of taxation so as to introduce an extended automatic exchange of information regime in accordance with the Global Standard released by the OECD Council in July 2014. The Amending Cooperation Directive requires EU Member States to adopt national legislation necessary to comply with it by December 31, 2015, which legislation must apply from January 1, 2016 (January 1, 2017 in the case of Austria). The Amending Cooperation Directive is generally broader in scope than the Savings Directive, although it does not impose withholding taxes, and provides that to the extent there is overlap of scope, the Amending Cooperation Directive prevails. The European Commission has therefore published a proposal for a Council Directive repealing the Savings Directive from January 1, 2016 (January 1, 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Directive. Information reporting and exchange will however still be required under Council Directive 2011/16/EU (as amended).

Disposal (including redemption)

Withholding and Deductions

Payments of principal on the Notes will not be subject to United Kingdom withholding tax.

Noteholders Outside the Charge to United Kingdom Corporation or Capital Gains Tax

Corporate Noteholders who are not resident for tax purposes in the United Kingdom and who do not carry on a trade in the United Kingdom through a permanent establishment are outside the charge to United Kingdom taxation with respect to the disposal (including redemption) of the Notes.

Non-corporate Noteholders who are not resident for tax purposes in the United Kingdom and who do not hold the Notes for the purposes of a trade, profession, vocation or branch or agency through which the trade, profession or vocation is carried on in the United Kingdom are outside the charge to United Kingdom capital gains tax with respect to the disposal (including redemption) of the Notes.

Noteholders within the Charge to United Kingdom Corporation Tax

On a disposal (including redemption) of the Notes, corporate Noteholders within the charge to United Kingdom Corporation Tax will normally recognize any gain or loss for United Kingdom corporation tax purposes under the "loan relationships" rules in Part 5 of the Corporation Tax Act 2009. Under these rules, all interest, profits, gains and losses, measured and recognized in accordance with generally accepted accounting practice, are taxed or relieved as income.

Any exchange gains or losses arising to corporate Noteholders within the charge to United Kingdom corporation tax will in general also be dealt with under the provisions of the loan relationships legislation referred to in the preceding paragraph.

Noteholders within the Charge to United Kingdom Income Tax

The Notes will not constitute "qualifying corporate bonds" in the hands of persons within the charge to United Kingdom income tax. Accordingly, a disposal (including redemption) of a Note by an individual Noteholder who is resident for tax purposes in the United Kingdom or who holds the Notes for the purposes of a trade, profession, vocation or branch or agency through which the trade, profession or vocation is carried on in the United Kingdom may give rise to a capital gain or a capital loss for the purposes of United Kingdom capital gains tax.

A transfer of a Note by such a Noteholder resident for tax purposes in the United Kingdom or who holds the Note for the purposes of a branch or agency in the United Kingdom through which a trade, profession or vocation is carried on in the United Kingdom may give rise to a charge to tax on income in respect of an amount representing interest on the Note which has accrued since the preceding interest payment date under the provisions of Chapter 2 of Part 12 of the ITA 2007 (Accrued Income Profits and Losses). This amount will be taken into account in determining any capital gain or loss arising on the disposal (including redemption) of the Notes.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue or transfer of a Note.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the "issue price" that are U.S. Holders and that will hold the Notes as capital assets. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as certain financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, certain persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, U.S. citizens or lawful permanent residents living abroad, persons holding the Notes in connection with a trade or business conducted outside of the United States or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

The Issuer expects, and this summary assumes, that the Notes will have an issue price equal to their stated redemption price at maturity or will be issued with no more than a de minimis amount of original issue discount, or OID, and, as such, assumes that the Notes will be considered to be issued without OID.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes.

Sale and Retirement of the Notes

A U.S. Holder generally will recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. dollar cost. The amount realized does not include any amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes, by or through a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding.

U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes, including requirements related to the holding of certain foreign financial assets.

PLAN OF DISTRIBUTION

Pursuant to a Purchase Agreement dated June 10, 2015 (the "Purchase Agreement"), the Initial Purchasers have severally agreed with the Issuer and each of the Guarantors, subject to the satisfaction of certain conditions, to purchase $750,000,000 principal amount of the 2018 Fixed Rate Notes, $1,250,000,000 principal amount of the 2020 Fixed Rate Notes, $500,000,000 principal amount of the 2022 Fixed Rate Notes, $1,500,000,000 principal amount of the 2025 Fixed Rate Notes and $500,000,000 principal amount of the Floating Rate Notes. The respective principal amount of Notes to be purchased by each of the Initial Purchasers from the Issuer and the Guarantors is set forth opposite their respective names below.

	Principal Amount of 2018 Fixed Rate Notes	Principal Amount of 2020 Fixed Rate Notes	Principal Amount of 2022 Fixed Rate Notes	Principal Amount of 2025 Fixed Rate Notes	Principal Amount of Floating Rate Notes
Citigroup Global Markets Inc.	$108,000,000	$ 179,000,000	$ 72,000,000	$ 215,000,000	$ 72,000,000
Deutsche Bank Securities Inc.	$108,000,000	$ 179,000,000	$ 72,000,000	$ 215,000,000	$ 72,000,000
HSBC Securities (USA) Inc.	$108,000,000	$ 179,000,000	$ 72,000,000	$ 215,000,000	$ 72,000,000
J.P. Morgan Securities LLC	$108,000,000	$ 179,000,000	$ 72,000,000	$ 215,000,000	$ 72,000,000
BNP Paribas	$106,000,000	$ 178,000,000	$ 70,667,000	$ 213,333,000	$ 70,667,000
RBS Securities Inc.	$106,000,000	$ 178,000,000	$ 70,667,000	$ 213,333,000	$ 70,667,000
Société Générale	$106,000,000	$ 178,000,000	$ 70,666,000	$ 213,334,000	$ 70,666,000
Total	$750,000,000	$1,250,000,000	$500,000,000	$1,500,000,000	$500,000,000

The Purchase Agreement entitles the Initial Purchasers to terminate the purchase of the Notes in certain circumstances prior to payment to the Issuer. The Issuer and each of the Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities in connection with the offer and sale of the Notes and may be required to contribute to payments that the Initial Purchasers may be required to make in respect thereof.

The Initial Purchasers initially propose to offer part of the Notes at the offering prices set forth on the cover page hereof. After the initial offering of the Notes, the offering prices may from time to time be varied by the Initial Purchasers.

The Issuer and each of the Guarantors have agreed with the Initial Purchasers that none of them and no person acting on their behalf will without the prior written consent of Citigroup Global Markets Inc., Deutsche Bank Securities Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities, LLC, (the "Representatives") for the period from and including the date of the Purchase Agreement through and including the closing date, offer, sell, contract to sell or otherwise dispose of any debt securities (other than short-term debt securities) of or guaranteed by the Issuer or Guarantors which are substantially similar to the Notes.

The Notes are new issues of securities with no established trading market. The Notes are expected to be admitted to the Official List of the UK Listing Authority and to trading on the PSM. The Initial Purchasers are not obligated to make a market in the Notes and accordingly, no assurance can be given as to the liquidity of, or trading market for, the Notes. In connection with the offering, the Representatives may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of the Notes to be purchased by the Representatives in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of pegging, fixing or maintaining the price of the Notes.

The Representatives may impose a penalty bid. Penalty bids permit the Representatives to reclaim selling concessions from a syndicate member when they, in covering syndicate positions or making stabilizing purchases, repurchase Notes originally sold by that syndicate member.

Any of these activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time at the sole discretion of the Representatives, as applicable.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or the possession, circulation or distribution of any material relating to the Issuer or Guarantors, in any jurisdiction where action for such purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, nor may any offering material or advertisement in connection with the Notes be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The Initial Purchasers and their affiliates have performed certain investment and commercial banking or financial advisory services for us and our affiliates from time to time for which they have received customary fees and commissions, and they expect to provide these services to us and our affiliates in the future, for which they expect to receive customary fees and commissions. In addition, affiliates of some of the Initial Purchasers are lenders under certain of our credit facilities. We intend to use a portion of the proceeds from the offering of the Notes for general corporate purposes including repayment of maturing indebtedness. In the event that we repay indebtedness under certain credit facilities to which the Issuer is a party and under which affiliates of certain of the Initial Purchasers are lenders, affiliates of the Initial Purchasers will receive a portion of the net proceeds from the offering.

BNP Paribas and Société Générale, which are Initial Purchasers, are not broker-dealers registered with the Commission. BNP Paribas and Société Générale will only make sales of Notes in the United States, or to nationals or residents of the United States, through BNP Paribas Securities Corp. or SG Americas Securities, LLC, respectively, which are their respective affiliated U.S. registered broker-dealers.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only to (i) QIBs within the United States in accordance with Rule 144A and (ii) non-U.S. persons located outside the United States in reliance on Regulation S under the Securities Act.

In connection with sales outside of the United States, each Initial Purchaser has represented and agreed with the Issuer and each of the Guarantors that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes to, or for the account or benefit of, U.S. persons, (i) as part of their distribution at any time or (ii) otherwise until and including the fortieth day after the later of the commencement of the offer and the closing date for the sale of any Notes pursuant to the Purchase Agreement, except in accordance with Rule 903 of Regulation S. Each Initial Purchaser has also agreed that it, each of its affiliates and each person acting on its or their behalf have complied and will comply with the offering restriction requirements of Regulation S; and at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A, if permitted) it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of U.S. persons. Each Initial Purchaser has also represented and agreed with the Issuer and each of the Guarantors that no directed selling efforts (as defined in Regulation S) have been made or will be made in the United States by the Initial Purchasers, any of their affiliates or any person acting on behalf of any of the Initial Purchasers or their affiliates in respect to the Notes; and neither it, any of its affiliates, nor anyone acting on its or their behalf has solicited offers for, offered or sold the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in the United States in connection with the offering of the Notes or otherwise in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act.

Terms used in the preceding two paragraphs have the meanings ascribed to them by Rule 144A and Regulation S under the Securities Act, as applicable.

In addition, until forty days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

United Kingdom

Each Initial Purchaser has represented and agreed with the Issuer and each of the Guarantors that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed with the Issuer and each of the Guarantors that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Representative or Representatives nominated by the Company for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Company, the Guarantors or any of the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Other

Each Initial Purchaser has represented and agreed with the Issuer and each of the Guarantors that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers the Notes or has in its possession or distributes this Offering Memorandum or any amendment or supplement thereto, in so far as such laws, regulations and directives relate to the purchase, offer, sale or delivery of the Notes or the possession or distribution of this Offering Memorandum or any amendment or supplement thereto, and neither the Issuer nor the Guarantors shall have any responsibility therefor.

NOTICE TO INVESTORS

The following restrictions will apply to the Notes (including the Guarantees). Prospective investors are advised to consult legal counsel prior to making any offer, sale, resale, pledge or transfer of the Notes offered hereby.

The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes and the Guarantees are being offered and sold only (i) within the United States to QIBs (as defined in Rule 144A), in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; and (ii) in offers and sales that occur outside the United States to purchasers who are not U.S. persons in reliance on Regulation S (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein).

In addition, until 40 days after the later of the commencement of the offering and the closing date an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

By its purchase of Notes, each purchaser of Notes (other than the Initial Purchasers) will be deemed to:

1. Represent that it is not an "affiliate", as defined under Rule 144A, of the Issuer or the Guarantors or acting on their behalf and that it (A)(i) is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it, (ii) is a QIB, and (iii) is aware that the sale to it is being made in reliance on Rule 144A (and is acquiring such Notes for its own account or for the account of another QIB) or (B) is not a U.S. person and is purchasing the Notes in an offshore transaction pursuant to Regulation S.

2. Acknowledge and understand that the Notes (including the Guarantees) have not been registered under the Securities Act or any other applicable securities laws and that the Notes are being offered for resale in a transaction not requiring registration under the Securities Act or any other securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below.

3. Understand and agree that if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes (including the Guarantees) or any beneficial interest in the Notes, it will only do so (i) to the Issuer or the Guarantors or any of their respective subsidiaries, (ii) for so long as the Notes are eligible pursuant to Rule 144A under the Securities Act, in the United States to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 904 under the Securities Act, (iv) pursuant to another available exemption from registration under the Securities Act, (v) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (v) in accordance with any applicable securities laws of any state of the United States. Subject to the procedures set forth under "*Book Entry, Delivery and Form*", prior to any proposed transfer of any Note the holder thereof must check the appropriate box set forth on its Note relating to the manner of such transfer and submit the Note to the Fiscal and Paying Agent.

4. Agree that it will deliver to each person to whom it transfers Notes notice of any restrictions on transfer of such Notes.

5. If it is not a U.S. person outside the United States, understand that the Notes offered under Regulation S will be represented by two or more Regulation S Global Notes, which will initially be restricted as described under "*Book Entry, Delivery and Form*" for a period ending 40 days after the later of the commencement of the offering and the closing date. If it is a QIB, it understands that the Notes offered in reliance of Rule 144A will be represented by two or more Rule 144A Global Notes (together with the Regulation S Global Notes, the "Global Notes"). Before any interest in the Global Notes may be offered, sold, pledged or otherwise transferred to a purchaser outside the United States in compliance with Rule 904 under the Securities Act, the transferor will be required to provide the Fiscal and Paying Agent with a written certificate (the form of which certification can be obtained from the Fiscal and Paying Agent) as to compliance with the transfer restriction referred to above.

6. Understand that the Notes will, until the expiration of the applicable holding period with respect to the Notes set forth in Rule 144(k) of the Securities Act, unless otherwise agreed by the Issuer and holder thereof, bear a legend to the following effect unless otherwise agreed by the Issuer and the holder thereof:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY PERSONS, EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"); (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT PRIOR TO (A) THE DATE WHICH IS 40 DAYS IN THE CASE OF SECURITIES SOLD IN RELIANCE ON REGULATION S OR ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) IN THE CASE OF SECURITIES SOLD IN RELIANCE ON RULE 144A AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS SECURITY) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) AND (B) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (i) TO THE ISSUER OR THE GUARANTORS OR ANY OF THEIR RESPECTIVE SUBSIDIARIES, (ii) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (iii) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (iv) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, OR (v) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAW IN ANY STATE OF THE UNITED STATES; (3) AGREES THE NOTES HAVE NOT BEEN OFFERED TO IT BY MEANS OF ANY DIRECTED SELLING EFFORTS AS DEFINED IN REGULATION S; AND (4) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS SECURITY WITHIN ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUANCE OF THIS SECURITY AND THE LAST DATE ON WHICH THIS SECURITY WAS HELD BY THE ISSUER, THE FISCAL AND PAYING AGENT OR ANY AFFILIATE OF SUCH PERSONS, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS SECURITY TO THE FISCAL AND PAYING AGENT. THE FISCAL AND PAYING AGENCY AGREEMENTS CONTAIN PROVISIONS REQUIRING THE FISCAL AND PAYING AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS SECURITY IN VIOLATION OF THE FOREGOING RESTRICTIONS. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT".

7. Represent and agree that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

8. Represent and agree that: (i) it is able to fend for itself in the transactions contemplated by this Offering Memorandum; (ii) no other representation with respect to the offer or sale of the Notes has been made, other than the information contained in this Offering Memorandum; (iii) the investment decision is solely based on the information contained in the Offering Memorandum; (iv) the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum; and (v) it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment and can afford the complete loss of such investment.

9. Represent and agree that it has received a copy of this Offering Memorandum and acknowledge that it has had access to such financial and other information and has been afforded the opportunity to ask questions of the Issuer and the Guarantors and receive answers thereto, as it deemed necessary in connection with its decision to purchase the Notes.

10. Acknowledge that this Offering Memorandum has been prepared on the basis that all offers of Notes will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of securities.

11. Acknowledge that this Offering Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (as amended, the "Financial Promotions Order"), (ii) are persons falling within Article 49(2)(a) through (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Promotions Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

12. Acknowledge that the Issuer, the Guarantors, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements and agree that, if any of the acknowledgments, representations, warranties and agreements deemed to have been made by its purchase of the Notes is no longer accurate, it shall promptly notify the Issuer and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent of one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such investor account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Fiscal and Paying Agency Agreements to effect exchanges or transfer of interests in the Global Notes, see "*Book Entry, Delivery and Form*".

LEGAL MATTERS

The validity of the Notes and the Guarantees offered by this Offering Memorandum and certain legal matters will be passed upon for the Issuer and the Guarantors by Linklaters LLP, U.S. counsel for the Issuer and the Guarantors. Certain English law matters will be passed upon for the Issuer and the Guarantors by Linklaters LLP. Certain Dutch legal matters will be passed upon for the Issuer and the Guarantors by Stibbe N.V. Certain U.S. legal matters in connection with the Notes will be passed upon for the Initial Purchasers by Davis Polk & Wardwell London LLP, U.S. counsel for the Initial Purchasers.

INDEPENDENT AUDITORS

As of March 23, 2015, KPMG LLP are our independent auditors.

The audited consolidated financial statements of BAT and the Issuer as of and for the years ended December 31, 2014 and 2013, included in this Offering Memorandum, have been audited by PricewaterhouseCoopers LLP, who were previously our independent auditors. PricewaterhouseCoopers LLP are members of The Institute of Chartered Accountants in England & Wales, with an address at 1 Embankment Place, London WC2N 6RH United Kingdom, as stated in their reports appearing herein. In the February 25, 2015 and February 26, 2014 reports of PricewaterhouseCoopers LLP, with respect to BAT's audited consolidated financial information and in the February 25, 2015 and April 4, 2014 reports of PricewaterhouseCoopers LLP with respect to the Issuer's audited consolidated financial information, PricewaterhouseCoopers LLP, in accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, state: "This report, including the opinions, has been prepared for, and only for, the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing". Investors in the Notes should understand these statements are intended to disclaim any liability to parties (such as the purchasers of the Notes) other than BAT and its members or the Issuer and its members, as applicable, with respect to those reports. In the context of the offering of the Notes, PricewaterhouseCoopers LLP have reconfirmed to us that they do not intend their duty of care to extend to any party other than those to whom their reports were originally addressed (i.e. the Company and its members or the Issuer and its members, as applicable).

The Commission would not permit the language quoted in the above paragraph to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act or in a report filed under the Exchange Act. The effect of such language is untested by a U.S. court (or any other court) and thus may or may not be effective to limit the direct liability of PricewaterhouseCoopers LLP under U.S. law or under any other law to persons such as investors in the Notes.

ADDITIONAL INFORMATION

Listing

An application has been made for the Notes to be listed on the Official List of the UK Listing Authority and for admission of the Notes to trading on the PSM. The estimated fees and expenses related to the admission of the Notes to trading will be approximately £2,975.

Clearing Reference Numbers

The Notes have been accepted for clearance through DTC's book-entry settlement system and through Euroclear and Clearstream, Luxembourg. The CUSIP and ISIN numbers for the Notes are as follows:

144A	CUSIP Numbers	ISIN Numbers
2018 Fixed Rate Notes	05530Q AM2	US05530QAM24
2020 Fixed Rate Notes	05530Q AG5	US05530QAG55
2022 Fixed Rate Notes	05530Q AL4	US05530QAL41
2025 Fixed Rate Notes	05530Q AK6	US05530QAK67
Floating Rate Notes	05530Q AJ9	US05530QAJ94
Regulation S		
2018 Fixed Rate Notes	G08820 CK9	USG08820CK98
2020 Fixed Rate Notes	G08820 CD5	USG08820CD55
2022 Fixed Rate Notes	G08820 CJ2	USG08820CJ26
2025 Fixed Rate Notes	G08820 CH6	USG08820CH69
Floating Rate Notes	G08820 CG8	USG08820CG86

Interests of Natural and Legal Persons Involved in the Issuance of the Notes

Save as discussed in the section of this Offering Memorandum entitled "*Plan of Distribution*", so far as the Issuer and each of the Guarantors are aware, no person involved in the offer of the Notes has an interest material to such offer.

Incorporation of the Issuer

BATIF was incorporated as a private limited company under the laws of England and Wales on July 10, 1972 with registration no. 1060930 and was re-registered as a public limited liability company on September 8, 1981. BATIF is domiciled in the United Kingdom and is a wholly owned subsidiary of BAT. BATIF has two subsidiaries, B.A.T Finance B.V. and BATIF Dollar Limited. The registered office of the Issuer is located at Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom, Tel: +44 (0)20 7845 1000.

The following is a list of the directors of BATIF:

Name	Function
R.R. Bakker	Director
R.J. Casey	Director
S.G. Dale	Director
T.L. Marroco	Director
J.B. Stevens	Director
N.A. Wadey	Director

None of the directors listed above performs activities outside BATIF or the Group which are significant with respect to the Group. The business address of the directors of BATIF is Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom. The duties owed by the directors do not give rise to any potential conflicts of interests with such directors' private interests and other duties.

Incorporation of the Guarantors

Parent Guarantor

BAT was incorporated on July 23, 1997 under the laws of England and Wales with registration no. 03407696 as a public limited liability company. BAT was registered as an external company in the Republic of South Africa on October 13, 2008 with the registration number 2008/023963/10. The principal place of business and registered office of the Parent Guarantor is located at Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom, tel: +44 (0)20 7845 1000. The Parent Guarantor's representative office in South Africa is located at 34 Alexander Street, Stellenbosch 7600, South Africa (P.O. Box 631, Cape Town, 8000, South Africa). The Parent Guarantor is domiciled in the United Kingdom.

The Parent Guarantor's ordinary shares are listed on the London Stock Exchange and the JSE Limited. They are also traded on the NYSE MKT, New York, in the form of American Depositary Receipt ("ADRs") under the symbol BTI with a CUSIP number 110448107. Each ADR represents two ordinary shares of the Company. As of December 31, 2014, 39,375,710 ADRs were outstanding, represented by 78,751,420 ordinary shares.

BATHTN

British American Tobacco Holdings (The Netherlands) B.V. was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on February 24, 1992. It has its statutory seat (*statutaire zetel*) in Amstelveen, the Netherlands and is registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce under registration no. 33236251. BATHTN is a wholly-owned indirect subsidiary of BAT and is the investment holding company for the Dutch tobacco interests and a number of foreign tobacco interests of the Group. The principal place of business and registered office of BATHTN are located at Handelsweg 53A, 1181 ZA Amstelveen, the Netherlands, tel: +31 (0)20 644 5366. BATHTN is domiciled in the Netherlands.

The following is a list of the directors of BATHTN:

Name	Function
J.E.P. Bollen	Director
D.P.I. Booth	Director
H.M.J. Lina	Director
J.C. Nooij	Director
N.A. Wadey	Director
M. Wiechers	Director

None of the directors listed above performs activities outside BATHTN or the Group which are significant with respect to the Group. Except for D.P.I. Booth and N.A. Wadey, whose business address is Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom, the business address of the directors of BATHTN is Handelsweg 53A, 1181 ZA Amstelveen, the Netherlands. The duties owed by the directors do not give rise to any potential conflicts of interests with such directors' private interests and other duties.

BATNF

B.A.T. Netherlands Finance B.V. was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on April 23, 2014. It has its statutory seat (*statutaire zetel*) in Amstelveen, the Netherlands and is registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce under registration no. 60533536. BATNF is a wholly-owned subsidiary of BATHTN and its principal function is to operate as a financing company for the Group. The principal place of business and registered office of BATNF are located at Handelsweg 53A, 1181 ZA Amstelveen, the Netherlands, tel: +31 (0)20 644 5366. BATNF is domiciled in the Netherlands.

The following is a list of the directors of BATNF:

Name	Function
J.E.P. Bollen	Director
D.P.I. Booth	Director
H.M.J. Lina	Director
J.C. Nooij	Director
N.A. Wadey	Director
M. Wiechers	Director

None of the directors listed above performs activities outside BATNF or the Group which are significant with respect to the Group. Except for D.P.I. Booth and N.A. Wadey, whose business address is Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom, the business address of the directors of BATNF is Handelsweg 53A, 1181 ZA Amstelveen, the Netherlands. The duties owed by the directors do not give rise to any potential conflicts of interests with such directors' private interests and other duties.

Corporate Authority

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes. Resolutions of the Issuer's board of directors, dated April 24, 2015, authorized the issuance of the Notes. The Guarantees of the Notes have been authorized by resolutions of the Transactions Committee of BAT's Board of Directors, dated April 23, 2015 (as duly authorized by a resolution of BAT's Board of Directors, dated July 7, 2014), the resolutions of BATHTN's board of directors, dated April 28, 2015 and the resolutions of BATNF's board of directors, dated April 28, 2015.

Persons Responsible

The Issuer and each of the Guarantors accept responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Issuer and each of the Guarantors (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

Absence of Significant Changes

There has been no material adverse change in the prospects of the Issuer or the Guarantors since December 31, 2014. Save as discussed in the second, third and fourth paragraphs, relating to the investment in Reynolds American, the acquisition of the remainder of Souza Cruz and the issuances of notes, respectively, under the heading "*Recent Developments*" in "*Trading Update and Other Recent Developments*", there has been no significant change in the financial or trading position of the Group taken as a whole since December 31, 2014.

Absence of Litigation

Except as disclosed on pages 60 to 76 in this Offering Memorandum, there are no governmental, legal or arbitration proceedings which are pending or threatened of which the Issuer, the Guarantors and/or any of their subsidiaries are aware) which may have or have had in the recent past, significant effects on the financial position or profitability of the Issuer, the Guarantors or any of their subsidiaries taken as a whole. Since many of the pending cases seek unspecified damages, it is not possible to quantify the total amount being claimed.

Third-Party Information

The information contained in this Offering Memorandum which has been sourced from a third party has been correctly reproduced and, as far as the Guarantors and the Issuer are aware and able to ascertain from information published by that third party, no facts have been omitted which could render the reproduced information inaccurate or misleading.

Yield

The yield of the 2018 Fixed Rate Notes, the 2020 Fixed Rate Notes, the 2022 Fixed Rate Notes and the 2025 Fixed Rate Notes is 1.870 per cent, 2.784 per cent, 3.515 per cent and 3.987 per cent respectively, on an annual basis. The yield in each case is calculated as of June 10, 2015, on the basis of the Issue Price set out on the cover of this Offering Memorandum. It is not an indication of future yield.

Periodic Reporting under the Exchange Act

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act.

Documents Available for Inspection

For so long as any Notes remain outstanding, copies of the documents listed in (a) and (c) below will be available at the offices of the Fiscal and Paying Agent and copies of the documents listed in (b), (d) and (e) below will be available for inspection only at the offices of the Fiscal and Paying Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). For so long as any Notes are listed on the London Stock Exchange, copies of the documents listed in (a) and (c) below will be available at the offices of the London paying agent and copies of the documents listed in (b), (d) and (e) below will be available for inspection only at the offices of the London paying agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted).

(a) this Offering Memorandum;

(b) the Guarantees for the Notes;

(c) the articles of association of each of the Guarantors and the Issuer;

(d) the annual reports and financial information of the Parent Guarantor and the Issuer, including the audited consolidated financial information for the periods ended December 31, 2014, 2013, and 2012;

(e) the interim management statement of the Parent Guarantor for the three months ended March 31, 2015; and

(f) the Fiscal and Paying Agency Agreements.

INDEX TO FINANCIAL STATEMENTS

The financial statements contained herein (which appear on pages with number preceded by "F-" use different defined terms to those used elsewhere in this Offering Memorandum. For the purposes of this section only, unless otherwise specified, on any given such page, the term "company", "Company", "parent Company", or "Parent Company" means the company identified at the top right-hand corner of that page and "British American Tobacco p.l.c.", "group", or "Group" means such identified company together with its consolidated subsidiaries.

The above mentioned financial statements have been extracted without material adjustments from various U.K. statutory annual reports and financial statements of the Parent Company and B.A.T. International Finance p.l.c. and Parent Company's interim financial statements (see "Presentation of Financial Information and Other Data") and contain cross-references to other parts of such U.K. statutory annual reports and financial statements or other sources. Such cross-referenced material is not part of, and is not incorporated by reference into, this Offering Memorandum and should be disregarded for the purpose of this Offering Memorandum as it is either not relevant for prospective investors in the Notes or is covered elsewhere herein.

British American Tobacco, p.l.c.

Independent auditors' report
To the members of British American Tobacco p.l.c.

Report on the Group financial statements

Our opinion

In our opinion, British American Tobacco p.l.c.'s Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

British American Tobacco p.l.c.'s financial statements comprise:

- the Group Balance Sheet as at 31 December 2014;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the Notes on the Accounts, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the Notes on the Accounts. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Materiality	• Overall Group materiality is £260 million (2013: £290 million).
Audit Scope	• Out of over 400 reporting units, we identified 51 which, in our view, required an audit of their complete financial information.
	• Specific audit procedures on certain balances and transactions were performed on a further 65 reporting units, one of which represents the results of an associate.
	• Together these accounted for 79% of Group reported profit before taxation.
Areas of Focus	• Corporate tax exposures, including the uncertain tax positions in Brazil and South Africa.
	• Litigation principally in relation to claims and class actions and the recent settlement in respect of Flintkote and the Funding Agreement reached in respect of Fox River.
	• Restructuring and integration costs arising from the Group's continued implementation of its revised operating model.
	• Defined benefit pension plan assets and liabilities.
	• Goodwill impairment assessments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the following table. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. Each of the areas of focus below is referred to in the Audit and accountability section of the Directors' Report on page 58 and in the Accounting Policies on pages 127 to 132. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Corporate Tax Exposures	
Refer also to notes 6 and 30. The Group operates in many different markets and is therefore subject to varying tax regimes across the world. Where the amount of tax payable or recoverable is uncertain, management is required to apply judgement when determining whether, and how much, to provide in respect of material tax assessments leading to uncertain tax positions in a number of jurisdictions. These principally relate to Brazil, in respect of a reassessment of the profits of overseas subsidiaries to corporate income tax and social contribution tax and South Africa relating to the treatment of debt financing arrangements. We focused on this area due to the significant quantum of gross risk and exposure across the Group, and the inherent complexity and judgement in estimating the amount of provision required.	We held a programme of meetings with the Group's Corporate tax team and local management to assess the Group's process for identifying uncertain tax positions potentially requiring provisions, and the related accounting policy of provisioning for tax exposures. We gained an understanding of the current status of tax investigations and litigation, and monitored changes in circumstance in ongoing disputes through examining recent rulings and correspondence with local tax authorities. We used our specialist tax knowledge and obtained written responses from the Group's external advisers, containing their views on material tax exposures and any related litigation. These procedures assisted in our corroboration of management's position in respect of significant tax exposures, and with our assessment that the disclosures and provisions recorded in the financial statements, including whether any provisions sufficiently addressed probable penalties and interest, were appropriate and reflected the latest developments.
Litigation	
Refer also to notes 22 and 30. There are claims and class actions which could have a significant impact on the results of the Group if the potential exposures were to materialise. Management applies significant judgement when determining whether, and how much, to provide for matters of litigation. We focused on this area due to the number and magnitude of potential exposures across the Group, and the inherent complexity and judgement in whether to provide for or disclose certain exposures. Specific consideration was given to the Fox River and Flintkote matters in light of the Fox River Funding Agreement and Flintkote settlement.	We understood, evaluated and tested management's controls in respect of litigation, both tobacco and non-tobacco related, at the Group, regional and local levels. We discussed the nature and status of exposures with in-house and external legal counsel and obtained letters from the Group's external legal counsel which corroborated management's position for significant litigation matters. We also read publicly available information containing recent updates in respect of court hearings and judgements impacting the Group which also corroborated management's position. We assessed the appropriateness of provisions recorded in the financial statements, or the rationale for not recording a provision, and the completeness of disclosures in respect of contingent liabilities in light of the procedures above.

Area of focus	How our audit addressed the area of focus
	Specifically for the Flintkote and Fox River matters, we corroborated management's position with the terms of the Flintkote Settlement Agreement and the Fox River Funding Agreement. We checked that the classification of the related charges and releases was consistent with the Group's accounting policy on adjusting items.
Restructuring and Integration Costs	
Refer also to note 3. During the year the Group has continued with the implementation of its revised Operating Model and single IT operating system in a number of markets. Accounting judgement is required regarding whether costs incurred meet the criteria to be capitalised as part of the global SAP system within intangible assets, or whether they should be expensed immediately. In addition, judgement is also required when determining whether costs are directly attributable to the programme, and hence presented within adjusting items.	We challenged the appropriateness of the Group's policies in respect of project costs, including the nature of costs to be capitalised, and the timing of commencing depreciation. We did this by confirming that the project costs eligible for capitalisation set out within the policies were directly attributable to the development of the software assets, including the global single instance of SAP, associated with the Group's new operating model. We tested a sample of costs incurred during the period in order to test the appropriateness of £115 million costs capitalised versus £176 million that were expensed. We also assessed the appropriateness of the classification of the related costs as adjusting items and checked that they were consistent with the Group's accounting policy set out on page 131.
Defined benefit pension plan assets and liabilities	
Refer also to note 12. The Group has defined benefit pension plans with net post-retirement liabilities of £741 million and net post-retirement assets of £40 million, which are significant in the context of the overall Balance Sheet of the Group. The valuation of the pension liabilities requires judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including salary increases, inflation, discount rates and mortality) can have a material impact on the calculation of the liability. The Group uses external actuaries to assist in assessing these assumptions. There is also some judgement in the measurement of fair value of certain pension assets.	We used our specialist actuarial knowledge to obtain evidence that the assumptions used in calculating the pension plan liabilities, including salary increases and mortality rate assumptions, were consistent with relevant national and industry benchmarks. We also verified that the discount and inflation rates used in the valuation of the pension liabilities were consistent with our internally developed benchmarks, and, where available to us, with other companies' reporting as at 31 December 2014. For pension plan assets, we obtained third-party confirmations of ownership and valuations of pension assets.
Goodwill and intangible asset impairment assessments	
Refer also to note 9. The goodwill balance of £9.8 billion, which principally relates to the acquisitions of Rothmans, Imperial Tobacco Canada, ETI (Italy), ST (Scandinavia) and Indonesia, is supported by an annual impairment review. No impairment charge has been recorded by management against these balances in the current financial year. The risk is that the goodwill balance may be overstated and that an impairment charge may be required. The value-in-use assessment for these assets involves subjective judgements about future business performance.	We evaluated the future cash flow forecasts and the process by which they were drawn up, including confirming the accuracy and the underlying calculations and checking the forecasts were consistent with the latest Board approved budgets. We obtained corroborating evidence regarding the carrying value of goodwill, and the related disclosures, through challenging: • the key business drivers of the cash flow forecasts supporting their impairment assessment, including tobacco pricing, raw

Area of focus	How our audit addressed the area of focus
Certain assumptions made by management in the impairment review are key judgements, including cash flows, the overall long-term growth rates and discount rates used. As described in note 9, management concluded that even if discounted cash flows for Cash Generating Units (‘CGUs’) should fall by 10%, or the discount rate was increased at a post-tax rate of 1%, there would be no impairment to goodwill.	material costs and market share by examining reported results for each CGU and third-party data; • key assumptions for long-term growth rates in the forecasts by comparing them to historical results, and economic forecasts; and • the discount rates by assessing the cost of capital for the Group and country risk adjustments. We examined the results of management’s sensitivity analysis around the long-term growth rates and discount rates to ascertain the extent of change in those assumptions that would be required for the goodwill in individual CGUs to be impaired.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is primarily structured across four geographic regions, being Asia-Pacific; Americas; Western Europe; and Eastern Europe, Middle East and Africa. The Group financial statements are a consolidation of over 400 reporting units, comprising the Group’s operating businesses and sales offices (often legal entities), centralised functions, and supply chain entities.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, component auditors from PwC network firms and component auditors from other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group’s operating reporting units vary significantly in size and we identified 51 which, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Audits of these reporting units were performed using materiality levels lower than the materiality level for the Group as a whole, ranging from £15 million to £60 million, and established by reference to the size of, and risks associated with, the business concerned. Specific audit procedures on certain balances and transactions were performed at a further 65 reporting units, one of which represents the results of an associate. Together these accounted for 79% of Group reported profit before taxation. We performed work centrally in the areas of IT general controls, taxation, pensions, earnings per share and treasury-related procedures.

Our Group engagement team’s involvement included various site visits and component auditor working paper reviews across each of the Group’s four regions, together with conference calls with the component audit teams and attendance at certain component audit clearance meetings.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£260 million (2013: £290 million).
How we determined it	We used Group reported profit before taxation (£4,848 million) and allowed for the one-off impact of the Flintkote settlement (£374 million). Overall materiality represents approximately 5% of Group reported profit before taxation.
Rationale for benchmark applied	We have allowed for the Flintkote charge as it is non-recurring and represents the settlement of a historical item that does not impact continuing business performance.
Misstatements to be reported to the Audit Committee	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15 million (2013: £15 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 44, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading; or	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 115, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 58, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibility of Directors set out on page 115, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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 Group'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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We have reported separately on the parent company financial statements of British American Tobacco p.l.c. for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 February 2015

British American Tobacco, p.l.c.

Group Income Statement
For the year ended 31 December

	Notes	2014	2013
		£m	**£m**
Gross turnover (including duty, excise and other taxes of £28,535 million (2013: £30,925 million))		**42,506**	46,185
Revenue	2	**13,971**	15,260
Raw materials and consumables used		**(3,088)**	(3,348)
Changes in inventories of finished goods and work in progress		**58**	105
Employee benefit costs	3(a)	**(2,194)**	(2,384)
Depreciation, amortisation and impairment costs	3(b)	**(523)**	(477)
Other operating income	3(c)	**178**	302
Other operating expenses	3(d)	**(3,856)**	(3,932)
Profit from operations	2	**4,546**	5,526
Analysed as:			
- adjusted profit from operations	2	**5,403**	5,820
- restructuring and integration costs	3(e)	**(452)**	(246)
- amortisation of trademarks and similar intangibles	3(f)	**(58)**	(74)
- gain on deemed partial disposal of a trademark	3(g)	**—**	26
- Fox River	3(h)	**27**	—
- Flintkote	3(i)	**(374)**	—
		4,546	5,526
Net finance costs	4	**(417)**	(466)
Finance income		**67**	66
Finance costs		**(484)**	(532)
Share of post-tax results of associates and joint ventures	5	**719**	739
Analysed as:			
- adjusted share of post-tax results of associates and joint ventures	2	**712**	723
- issue of shares and change in shareholding	5	**14**	22
- restructuring and integration costs	5	**4**	(4)
- MSA receipts	5	**5**	33
- other	5	**(16)**	(35)
		719	739
Profit before taxation		**4,848**	5,799
Taxation on ordinary activities	6	**(1,455)**	(1,600)
Profit for the year		**3,393**	4,199
Attributable to:			
Owners of the parent		**3,115**	3,904
Non-controlling interests		**278**	295
		3,393	4,199
Earnings per share			
Basic	7	**167.1p**	205.4p
Diluted	7	**166.6p**	204.6p

All of the activities during both years are in respect of continuing operations.

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

British American Tobacco, p.l.c.

Group Statement of Comprehensive Income
For the year ended 31 December

	Notes	2014 £m	2013 £m
Profit for the year (page 121)		**3,393**	4,199
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:		**(327)**	(1,025)
Differences on exchange			
- subsidiaries		**(539)**	(972)
- associates		**113**	(141)
Cash flow hedges			
- net fair value gains		**57**	94
- reclassified and reported in profit for the year		**(67)**	(49)
- reclassified and reported in net assets		**8**	(1)
Available-for-sale investments of associates			
- net fair value gains/(losses)		**15**	(7)
Net investment hedges			
- net fair value gains		**2**	89
- differences on exchange on borrowings		**60**	(25)
Tax on items that may be reclassified	6(e)	**24**	(13)
Items that will not be reclassified subsequently to profit or loss:		**(458)**	355
Retirement benefit schemes			
- net actuarial (losses)/gains in respect of subsidiaries	12	**(428)**	308
- surplus recognition and minimum funding obligations in respect of subsidiaries	12	**7**	(5)
- actuarial (losses)/gains in respect of associates net of tax	5	**(124)**	90
Tax on items that will not be reclassified	6(e)	**87**	(38)
Total other comprehensive income for the year, net of tax		**(785)**	(670)
Total comprehensive income for the year, net of tax		**2,608**	3,529
Attributable to:			
Owners of the parent		**2,349**	3,272
Non-controlling interests		**259**	257
		2,608	3,529

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

Group Statement of Changes in Equity
At 31 December

	Notes	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings	Total attributable to owners of parent	Non-controlling interests	Total equity
		Attributable to owners of the parent						
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2014		**507**	**3,919**	**(190)**	**2,398**	**6,634**	**301**	**6,935**
Total comprehensive income for the year (page 122)		**—**	**—**	**(308)**	**2,657**	**2,349**	**259**	**2,608**
Profit for the year		**—**	**—**	**—**	**3,115**	**3,115**	**278**	**3,393**
Other comprehensive income for the year		**—**	**—**	**(308)**	**(458)**	**(766)**	**(19)**	**(785)**
Employee share options								
- value of employee services		**—**	**—**	**—**	**66**	**66**	**—**	**66**
- proceeds from shares issued		**—**	**4**	**—**	**1**	**5**	**—**	**5**
Dividends and other appropriations								
- ordinary shares		**—**	**—**	**—**	**(2,712)**	**(2,712)**	**—**	**(2,712)**
- to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**(260)**	**(260)**
Purchase of own shares								
- held in employee share ownership trusts		**—**	**—**	**—**	**(49)**	**(49)**	**—**	**(49)**
- share buy-back programme		**—**	**—**	**—**	**(800)**	**(800)**	**—**	**(800)**
Non-controlling interests — acquisitions	29	**—**	**—**	**—**	**(4)**	**(4)**	**—**	**(4)**
Non-controlling interests — capital injection	26(c)	**—**	**—**	**—**	**—**	**—**	**4**	**4**
Other movements		**—**	**—**	**—**	**21**	**21**	**—**	**21**
Balance at 31 December 2014		**507**	**3,923**	**(498)**	**1,578**	**5,510**	**304**	**5,814**

	Notes	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings	Total attributable to owners of parent	Non-controlling interests	Total equity
		Attributable to owners of the parent						
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2013		507	3,916	796	2,253	7,472	307	7,779
Total comprehensive income for the year (page 122)		—	—	(986)	4,258	3,272	257	3,529
Profit for the year		—	—	—	3,904	3,904	295	4,199
Other comprehensive income for the year		—	—	(986)	354	(632)	(38)	(670)
Employee share options								
- value of employee services		—	—	—	61	61	—	61
- proceeds from shares issued		—	3	—	1	4	—	4
Dividends and other appropriations								
- ordinary shares		—	—	—	(2,611)	(2,611)	—	(2,611)
- to non-controlling interests		—	—	—	—	—	(271)	(271)
Purchase of own shares								
- held in employee share ownership trusts		—	—	—	(74)	(74)	—	(74)
- share buy-back programme		—	—	—	(1,509)	(1,509)	—	(1,509)
Non-controlling interests — capital injection	26(b)	—	—	—	—	—	8	8
Other movements		—	—	—	19	19	—	19
Balance at 31 December 2013		507	3,919	(190)	2,398	6,634	301	6,935

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

British American Tobacco, p.l.c.

Group Balance Sheet
At 31 December

	Notes	2014	2013
		£m	**£m**
Assets			
Non-current assets			
Intangible assets	9	**10,804**	11,205
Property, plant and equipment	10	**3,004**	3,156
Investments in associates and joint ventures	11	**2,400**	2,299
Retirement benefit assets	12	**40**	135
Deferred tax assets	13	**311**	248
Trade and other receivables	14	**153**	171
Available-for-sale investments	15	**36**	36
Derivative financial instruments	16	**287**	113
Total non-current assets		**17,035**	17,363
Current assets			
Inventories	17	**4,133**	4,042
Income tax receivable	18	**57**	95
Trade and other receivables	14	**2,768**	2,876
Available-for-sale investments	15	**50**	54
Derivative financial instruments	16	**274**	312
Cash and cash equivalents	19	**1,818**	2,106
		9,100	9,485
Assets classified as held-for-sale	26(d)	**32**	33
Total current assets		**9,132**	9,518
Total assets		**26,167**	26,881
Equity			
Capital and reserves			
Share capital		**507**	507
Share premium, capital redemption and merger reserves		**3,923**	3,919
Other reserves		**(498)**	(190)
Retained earnings		**1,578**	2,398
Owners of the parent		**5,510**	6,634
after deducting			
- cost of treasury shares		**(5,073)**	(4,325)
Non-controlling interests		**304**	301
Total equity	20	**5,814**	6,935
Liabilities			
Non-current liabilities			
Borrowings	21	**9,779**	9,716
Retirement benefit liabilities	12	**781**	632
Deferred tax liabilities	13	**495**	514
Other provisions for liabilities and charges	22	**278**	387
Trade and other payables	23	**128**	131
Derivative financial instruments	16	**123**	130
Total non-current liabilities		**11,584**	11,510
Current liabilities			
Borrowings	21	**2,479**	1,980
Income tax payable	18	**430**	487
Other provisions for liabilities and charges	22	**210**	194
Trade and other payables	23	**5,524**	5,741
Derivative financial instruments	16	**126**	34
Total current liabilities		**8,769**	8,436
Total equity and liabilities		**26,167**	26,881

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

On behalf of the Board

Richard Burrows
Chairman

25 February 2015

British American Tobacco, p.l.c.

Group Cash Flow Statement
For the year ended 31 December

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	25	**4,634**	5,366
Dividends received from associates		**515**	510
Tax paid		**(1,433)**	(1,440)
Net cash generated from operating activities		**3,716**	4,436
Cash flows from investing activities			
Interest received		**61**	70
Dividends received from investments		**2**	2
Purchases of property, plant and equipment		**(529)**	(574)
Proceeds on disposal of property, plant and equipment	25	**62**	173
Purchases of intangibles		**(163)**	(147)
Purchases of investments	25	**(31)**	(47)
Proceeds on disposals of investments	25	**34**	15
Proceeds from associates' share buy-backs	25	**94**	189
Purchase of subsidiaries	25	**—**	(16)
Net cash used in investing activities		**(470)**	(335)
Cash flows from financing activities			
Interest paid		**(571)**	**(570)**
Interest element of finance lease rental payments		**—**	(1)
Capital element of finance lease rental payments		**(2)**	(2)
Proceeds from issue of shares to owners of the parent		**4**	3
Proceeds from the exercise of options over own shares held in employee share ownership trusts		**1**	1
Proceeds from increases in and new borrowings	25	**1,967**	2,428
Movements relating to derivative financial instruments	25	**244**	54
Purchases of own shares		**(800)**	(1,509)
Purchases of own shares held in employee share ownership trusts		**(49)**	(74)
Reductions in and repayments of borrowings	25	**(1,300)**	(1,421)
Dividends paid to owners of the parent	8	**(2,712)**	(2,611)
Purchases of non-controlling interests	25	**(4)**	—
Non-controlling interests — capital injection	25	**4**	—
Dividends paid to non-controlling interests		**(249)**	(265)
Net cash used in financing activities		**(3,467)**	(3,967)
Net cash flows (used in)/generated from operating, investing and financing activities		**(221)**	134
Differences on exchange		**(63)**	(197)
Decrease in net cash and cash equivalents in the year		**(284)**	(63)
Net cash and cash equivalents at 1 January		**1,776**	1,839
Net cash and cash equivalents at 31 December	19	**1,492**	1,776

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

The net cash outflows relating to adjusting items included in the above are £750 million (2013: £175 million).

1 Accounting policies

Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments.

The Group early adopted IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* with effect from 1 January 2013 along with the revised versions of IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures.* These standards form a single package of proposals with mandatory application in the EU from 1 January 2014. The aim of these standards is to improve the quality of reporting in relation to the consolidation of subsidiaries, special purpose vehicles and accounting for joint arrangements.

The preparation of the Group financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, 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, especially goodwill and impairment testing. The key assumptions used in respect of goodwill and impairment testing are the determination of cash-generating units, the budgeted cash flows of these units, the long-term growth rate for cash flow projections and the rate used to discount the cash flow projections. These are described in note 9;
- the estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, and amounts recognised in other comprehensive income, involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, salary and pension increases, inflation, as well as discount rates and asset values at the year-end. The assumptions used by the Group and sensitivity analysis are described in note 12;
- the estimation of amounts to be recognised in respect of taxation and legal matters, and the estimation of other provisions for liabilities and charges are subject to uncertain future events, may extend over several years and so the amount and/or timing may differ from current assumptions. The accounting policy for taxation is explained below. The recognised deferred tax assets and liabilities, together with a note of unrecognised amounts, are shown in note 13, and a contingent tax asset is explained in note 6(b). Other provisions for liabilities and charges are as set out in note 22. The accounting policy on contingent liabilities, which are not provided for, is set out below and the contingent liabilities of the Group are explained in note 30. The application of these accounting policies to the payments made and credits recognised under the Master Settlement Agreement by Reynolds American Inc. is described in note 5;
- the definition of adjusting items, which are separately disclosed as memorandum information, is explained below and the impact of these on the calculation of adjusted earnings is described in note 7;
- the estimation of the fair values of acquired net assets arising in a business combination and the allocation of the purchase consideration between the underlying net assets acquired, including intangible assets other than goodwill, on the basis of their fair values. These estimates are prepared in conjunction with the advice of independent valuation experts where appropriate. The relevant transactions for 2013 are described in note 26;
- the determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exists in relation to the investments held by the Group. This is assessed after taking into account the Group's ability to appoint directors to the entity's board, its relative

shareholding compared with other shareholders, any significant contracts or arrangements with the entity or its other shareholders and other relevant facts and circumstances. The application of this judgement in respect of the Group's investment in Reynolds American Inc. is explained in note 11;

- the review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency, or multiple exchange rates; and
- the exemptions taken under IFRS 1 on the first time adoption of IFRS at 1 January 2004 and, in particular, those relating to goodwill on business combinations which are explained in the accounting policies below.

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 judgement 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.

Basis of consolidation

The consolidated financial information includes the financial statements of British American Tobacco p.l.c. and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements.

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates comprise investments in undertakings, which are not subsidiary undertakings or joint arrangements, where the Group's interest in the equity capital is long term and over whose operating and financial policies the Group exercises a significant influence. They are accounted for using the equity method.

Joint arrangements comprise contractual arrangements where two or more parties have joint control and where decisions regarding the relevant activities of the entity require unanimous consent. Joint operations are jointly-controlled arrangements where the parties to the arrangement have rights to the underlying assets and obligations for the underlying liabilities relating to the arrangement. The Group accounts for its share of the assets, liabilities, income and expenses of any such arrangement. Joint ventures comprise arrangements where the parties to the arrangement have rights to the net assets of the arrangement. They are accounted for using the equity method.

The results of subsidiary undertakings acquired during the period are included from the date of acquisition of a controlling interest at which date, for the purposes of consolidation, the purchase consideration is allocated between the underlying net assets acquired, including intangible assets other than goodwill, on the basis of their fair value. Acquisition-related costs are expensed as incurred. Similarly, the results of associates and joint arrangements are included from the date of acquiring significant influence or joint control respectively.

The results of subsidiary undertakings, associates and joint arrangements which have been sold during the year are included up to the date of disposal. The profit or loss on sale is calculated by reference to the net asset value at the date of disposal, adjusted for purchased goodwill previously consolidated in the balance sheet.

Inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

The functional currency of the parent company is sterling and this is also the presentation currency of the Group. The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at the applicable rates of exchange at the end of each year. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed.

For hyperinflationary countries, the financial statements in local currency are adjusted to reflect the impact of local inflation prior to translation into sterling.

The differences between retained profits of overseas subsidiary undertakings, associates and joint arrangements translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year. Any differences that have arisen since 1 January 2004 are presented as a separate component of equity. As permitted under IFRS 1 *First-time Adoption of International Financial Reporting Standards,* any differences prior to that date are not included in this separate component of equity.

Where a disposal of an investment in a Group undertaking results in a loss of control of a subsidiary undertaking, the loss of significant influence over an associated company or the loss of joint control over a joint arrangement, the cumulative amount of the related foreign exchange differences deferred in the separate component of equity are recognised in the income statement when the gain or loss on disposal is recognised. These related exchange differences comprise the exchange differences on all amounts deemed to be part of the net investment in the undertaking, which are recycled to the income statement when a disposal occurs. For partial disposals of subsidiary undertakings the related exchange differences are reclassified within equity. For all other partial disposals the proportional share of the related exchange differences is recycled to the income statement.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group using the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency assets and liabilities at year-end rates of exchange are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges, on inter-company net investment loans and qualifying net investment hedges. Foreign exchange gains or losses recognised in the income statement are included in profit from operations or net finance costs depending on the underlying transactions that gave rise to these exchange differences.

Revenue

Revenue principally comprises sales of cigarettes and other tobacco products to external customers. Revenue excludes duty, excise and other taxes and is after deducting rebates, returns and other similar discounts. Revenue is recognised when the significant risks and rewards of ownership are transferred to a third party.

Retirement benefit costs

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

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

The Group also has certain post-retirement health care schemes and they are accounted for on a similar basis to the defined benefit pension schemes.

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

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

Share-based payments

The Group has equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date. Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Research and development

Research expenditure is charged to income in the year in which it is incurred. Development expenditure is charged to income in the year it is incurred, unless it meets the recognition criteria of IAS 38 *Intangible Assets.*

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 substantially enacted at the balance sheet date in the countries where the Group's subsidiaries, associates and joint arrangements operate and generate taxable income.

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. Deferred tax is provided on temporary differences arising on investments in Group undertakings, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future. 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 Income Statement 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 Group 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.

Goodwill

Goodwill arising on acquisitions is capitalised and is considered to have an indefinite life subject to impairment reviews. Any impairment of goodwill is recognised immediately in the Income Statement and is not subsequently reversed.

Goodwill represents the excess of the cost of acquisition of a subsidiary, associate or joint venture over the Group's share of the fair value of identifiable net assets acquired. Goodwill is stated at cost net of accumulated impairment losses and recognised amortisation prior to 1 January 2004. The Group's policy up to and including 1997 was to eliminate goodwill against reserves. Goodwill acquired from 1998 to 31 December 2003 was capitalised and amortised over its useful economic life.

As permitted under IFRS 1 *First-time Adoption of International Financial Reporting Standards,* in respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations was not amended on transition to IFRS. Goodwill previously written off direct to reserves is not recycled to the Income Statement on the disposal of the subsidiary, associate or joint venture to which it relates.

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associates and joint ventures, goodwill is included in the carrying value of the investment in the associated company or joint venture. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets other than goodwill

The intangible assets shown on the Group Balance Sheet consist mainly of trademarks and similar intangibles, including certain intellectual property, acquired by the Group's subsidiary undertakings and computer software.

Acquired trademarks and similar assets are carried at cost less accumulated amortisation and impairment. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. Intangible assets other than goodwill classified as held-for-sale are not amortised. Other trademarks and similar assets are amortised on a straight-line basis over their remaining useful lives, consistent with the pattern of economic benefits expected to be received, which do not exceed 20 years. Any impairments of trademarks are recognised in the Income Statement but increases in trademark values are not recognised.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to five years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding 10 years.

The investments in associates and joint ventures shown in the Group Balance Sheet include trademarks arising from the combination of Brown & Williamson (B&W) and R J Reynolds (RJR) in 2004 to form Reynolds American Inc. (RAI), as well as those arising on the acquisition of Conwood by RAI in 2006. As the combination of B&W and RJR for the Group involved the partial disposal of B&W and an investment in RAI, fair values were assigned to trademarks formerly owned by RJR but not to those formerly owned by B&W. Most of the carrying value of the trademarks relates to trademarks which are deemed to have indefinite lives and each trademark is subject to an annual impairment test. Certain minor trademarks are being amortised over their remaining lives.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held for sale. Freehold and leasehold property are depreciated at rates between 2.5% and 4% per annum, and plant and equipment at rates between 7% and 25% per annum.

Capitalised interest

Borrowing costs which are directly attributable to the acquisition, construction or production of intangible assets or plant, property and equipment that takes a substantial period of time to get ready for its intended use or sale, and for which the commencement date for capitalisation was on or after 1 January 2009, are capitalised as part of the cost of the asset, in accordance with IAS 23 *Borrowing Costs.* The Group's previous policy was to expense such borrowing costs as they were incurred.

Leased assets

Assets where the Group has substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and are included as part of property, plant and equipment. Finance lease assets are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, then depreciated over the shorter of the lease term and their estimated useful lives. Leasing payments consist of capital and finance charge elements and the finance element is charged to the Income Statement.

Rental payments under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

Where arrangements are entered into which, while they are not in the legal form of a lease, are in substance a lease under IFRIC 4, then they are recognised on the same basis as the leased assets above.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of a cash-generating unit may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value-in-use.

A cash-generating unit is the smallest identifiable group of assets that generates cash flows which are largely independent of the cash flows from other assets or groups of assets. At the acquisition date, any goodwill acquired is allocated to the relevant cash-generating unit or group of cash-generating units expected to benefit from the acquisition for the purpose of impairment testing of goodwill.

Impairment of financial assets

Financial assets are reviewed at each Balance Sheet date, or whenever events indicate that the carrying amount may not be recoverable. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator that the investment is impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less costs to completion and sale. Tobacco inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognised industry practice.

Financial instruments

Financial assets and financial liabilities are recognised when the Group 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 available-for-sale investments, loans and receivables or cash and cash equivalents as follows:

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that cannot be classified as loans and receivables or cash and cash equivalents.

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

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. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in the liabilities section on the Balance Sheet.

Apart from available-for-sale investments, 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. Such evidence might include financial difficulties of the debtor, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable. Available-for-sale investments are stated at fair value, 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 Income Statement within 'finance income'. Dividend and interest income on available-for-sale investments are included within 'finance income' when the Group's right to receive payments is established.

Fair values for quoted investments are based on observable market prices. If there is no active market for a financial asset, the fair value is established by using valuation techniques principally involving discounted cash flow analysis.

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:

- 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 Income Statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the Income Statement 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 Income Statement in the same periods as the hedged item;

- for derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the Income Statement. The changes in fair value of these derivatives are also recognised in the Income Statement;

- for derivatives that are designated as hedges of net investments in foreign operations, 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 Income Statement. Where non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are reclassified to the Income Statement when the foreign operation is disposed of; and

- 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 Income Statement in the period in which they arise.

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

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the Income Statement 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 Income Statement.

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

Dividends

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

Segmental analysis

The Group is organised and managed on the basis of its geographic regions. These are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the chief operating decision maker, identified as the Management Board, for assessing performance and allocating resources.

The Group is primarily a single product business providing cigarettes and other tobacco products. While the Group has clearly differentiated brands, global segmentation between a wide portfolio of brands is not part of the regular internally reported financial information. The results of next-generation products are not currently material to the Group.

The prices agreed between Group companies for intra-group sales of materials, manufactured goods, charges for royalties, commissions, services and fees, are based on normal commercial practices which would apply between independent businesses. Royalty income, less related expenditure, is included in the region in which the licensor is based.

Adjusting items

Adjusting items are significant items in the profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. While the disclosure of adjusting items is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the Income Statement and in the segmental analyses, or in the Notes to the Accounts as appropriate.

The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance and are used to derive the Group's principal non-GAAP measures of adjusted profit from operations and adjusted diluted earnings per share.

Provisions

Provisions are recognised when either a legal or constructive obligation as a result of a past event exists at the Balance Sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets

Subsidiaries and associates companies are defendants in tobacco-related and other litigation. Provision for this litigation (including legal costs) would be made at such time as an unfavourable outcome became 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.

Where a provision has not been recognised, the Group records its external legal fees and other external defence costs for tobacco-related and other litigation as these costs are incurred.

Repurchase of share capital

When share capital is repurchased the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

Future changes to accounting policies

Certain changes to IFRS will be applicable to the Group financial statements in future years. Set out below are those which are considered to be most relevant to the Group.

IFRS 9 *Financial Instruments.* This standard was finalised and published in July 2014 as the replacement for IAS 39 *Financial Instruments: Recognition and Measurement.* Further due diligence will be carried out before implementation, but the anticipated impact from restatement on the Group's reported profit and equity for 2014 and 2013 is not expected to be material. The Standard is largely retrospective in application. Subject to EU endorsement, the expected mandatory effective date of implementation is 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers.* This standard was finalised and published in May 2014 and harmonises IFRS and US GAAP with a single revenue recognition standard. Further due diligence will be carried out before implementation, but the anticipated impact from restatement on the Group's operating profit for 2014 and 2013 is not expected to be material. However, this standard may require changes to the allocation of costs between operating expenses and deductions from revenue, for example, payments to customers currently classed as expenses. The Standard is retrospective in application. Subject to EU endorsement, the expected mandatory effective date of implementation is 1 January 2017.

In addition, a number of other interpretations and revisions to existing standards have been issued which will be applicable to the Group's financial statements in future years, but will not have a material effect on reported profit or equity or on the disclosures in the financial statements.

2 Segmental analyses

As the chief operating decision maker, the Management Board reviews external revenues and adjusted profit from operations to evaluate segment performance and allocate resources to the overall business. The results of next-generation products as a separate segment are currently not material to the Group and are included within the Western Europe region. Interest income, interest expense and taxation are centrally managed and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

The four geographic regions are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the Management Board for assessing performance and allocating resources.

The Management Board reviews current and prior year segmental revenue, adjusted profit from operations of subsidiaries and joint operations, and adjusted post-tax results of associates and joint ventures at constant rates of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group, including inter-company royalties payable in foreign currency to UK entities. Other than in exceptional circumstances, which will be fully disclosed, it does not adjust for the normal transactional gains and losses in operations which are generated by movements in exchange rates. As a result, the 2014 segmental results were translated using the 2013 rates of exchange. The 2013 figures are stated at the 2013 rates of exchange and are, therefore, unadjusted from those published for 2013.

The analyses of revenue for the 12 months to 31 December 2014 and 31 December 2013, based on location of sales, are as follows:

	2014			2013
	Revenue Constant rates	Translation exchange	Revenue Current rates	Revenue
	£m	£m	£m	£m
Asia-Pacific	**4,253**	**(380)**	**3,873**	4,203
Americas	**3,506**	**(516)**	**2,990**	3,317
Western Europe	**3,546**	**(187)**	**3,359**	3,635
EEMEA	**4,377**	**(628)**	**3,749**	4,105
Revenue	**15,682**	**(1,711)**	**13,971**	15,260

The analyses of profit from operations and the Group's share of the post-tax results of associates and joint ventures, reconciled to profit before taxation, are as follows:

	2014					2013		
	Adjusted* segment result Constant rates	Translation exchange	Adjusted* segment result Current rates	Adjusting items	Segment result Current rates	Adjusted* segment result	Adjusting items	Segment result
	£m	£m	£m	£m	£m	£m	£m	£m
Asia-Pacific	**1,713**	**(165)**	**1,548**	**(188)**	**1,360**	1,693	(21)	1,672
Americas	**1,475**	**(189)**	**1,286**	**(89)**	**1,197**	1,364	(61)	1,303
Western Europe	**1,262**	**(73)**	**1,189**	**(171)**	**1,018**	1,273	(140)	1,133
EEMEA	**1,625**	**(245)**	**1,380**	**(62)**	**1,318**	1,490	(72)	1,418
	6,075	**(672)**	**5,403**	**(510)**	**4,893**	5,820	(294)	5,526
Fox River**				**27**	**27**		—	—
Flintkote**				**(374)**	**(374)**		—	—
Profit from operations	**6,075**	**(672)**	**5,403**	**(857)**	**4,546**	5,820	(294)	5,526
Net finance costs	**(456)**	**39**	**(417)**	**—**	**(417)**	(466)	—	(466)
Asia-Pacific	**304**	**(27)**	**277**	**14**	**291**	272	22	294
Americas	**453**	**(22)**	**431**	**(7)**	**424**	445	(6)	439
EEMEA	**5**	**(1)**	**4**	**—**	**4**	6	—	6
Share of post-tax results of associates and joint ventures	**762**	**(50)**	**712**	**7**	**719**	723	16	739
Profit before taxation	**6,381**	**(683)**	**5,698**	**(850)**	**4,848**	6,077	(278)	5,799

* The adjustments to profit from operations and the Group's share of the post-tax results of associates and joint ventures are explained in notes 3(e) to 3(i) and in note 5, respectively.

** The Fox River credit in 2014 (see note 3(h) and note 30) and the Flintkote charge in 2014 (see note 3(i) and note 30) have not been allocated to any segment as they neither relate to current operations nor the tobacco business. They are presented separately from the segmental reporting which is used to evaluate segment performance and to allocate resources, and is reported to the chief operating decision maker on this basis.

Adjusted profit from operations at constant rates of £6,075 million (2013: £5,820 million) excludes certain depreciation, amortisation and impairment charges as explained in notes 3(b), 3(e) and 3(f). These are excluded from segmental profit from operations at constant rates as follows:

	2014					2013		
	Adjusted depreciation, amortisation and impairment Constant rates	Translation exchange	Adjusted depreciation, amortisation and impairment Current rates	Adjusting items	Depreciation, amortisation and impairment Current rates	Adjusted depreciation, amortisation and impairment	Adjusting items	Depreciation, amortisation and impairment
	£m	£m	£m	£m	£m	£m	£m	£m
Asia-Pacific	**102**	**(6)**	**96**	**52**	**148**	90	17	107
Americas	**119**	**(13)**	**106**	**17**	**123**	96	17	113
Western Europe	**100**	**(4)**	**96**	**50**	**146**	102	37	139
EEMEA	**112**	**(14)**	**98**	**8**	**106**	104	14	118
	433	**(37)**	**396**	**127**	**523**	392	85	477

External revenue and non-current assets other than financial instruments, deferred tax assets and retirement benefit assets are analysed between the UK and all foreign countries at current rates of exchange as follows:

	United Kingdom		All foreign countries		Group	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Revenue is based on location of sale						
External revenue	**143**	155	**13,828**	15,105	**13,971**	15,260

	United Kingdom		All foreign countries		Group	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Intangible assets	**499**	417	**10,305**	10,788	**10,804**	11,205
Property, plant and equipment	**343**	357	**2,661**	2,799	**3,004**	3,156
Investments in associates and joint ventures	—	—	**2,400**	2,299	**2,400**	2,299

The only foreign operation requiring separate disclosure under the requirements of IFRS 8 *Operating Segments* is Souza Cruz operating in Brazil. The results of Souza Cruz are not disclosed separately in this Segmental analysis as they are disclosed in note 31 due to the materiality of the non-controlling interests. The main acquisitions comprising the goodwill balance of £9,842 million (2013: £10,249 million), included in intangible assets, are provided in note 9. Included in investments in associates and joint ventures are amounts of £1,361 million (2013: £1,447 million) attributable to the investment in Reynolds American Inc. and £991 million (2013: £808 million) attributable to the investment in ITC Ltd. Further information is provided in note 11.

3 Profit from operations

(a) Employee benefit costs

	2014	2013
	£m	£m
Wages and salaries	**1,776**	1,914
Social security costs	**212**	234
Other pension and retirement benefit costs (note 12)	**132**	162
Share-based payments — equity-settled (note 27)	**66**	61
Share-based payments — cash-settled (note 27)	**8**	13
	2,194	2,384

(b) Depreciation, amortisation and impairment costs

		2014	2013
		£m	£m
Intangibles	- amortisation of trademarks and similar intangibles (note 3(f))	**58**	74
	- amortisation of other intangibles	**58**	48
	- impairment	**11**	—
Property, plant and equipment	- depreciation	**307**	321
	- impairment	**89**	34
		523	477

Impairment in respect of certain property, plant and equipment is included in restructuring costs (see note 3(e)).

(c) Other operating income

This represents operating income arising from the Group's activities which falls outside the definition of revenue and includes gains as a result of property disposals, service fees and other shared costs charged to third parties, manufacturing fees and trademark income.

(d) Other operating expenses include:

	2014	2013
	£m	£m
Research and development expenses (excluding employee benefit costs and depreciation)	**74**	91
Exchange differences	**7**	11
Rent of plant and equipment (operating leases)		
- minimum lease payments	**28**	38
Rent of property (operating leases)		
- minimum lease payments	**69**	81
Fees payable for audit services pursuant to legislation:		
- fees payable to PricewaterhouseCoopers LLP for Parent Company and Group audit	**2.0**	1.8
- fees payable to other PricewaterhouseCoopers firms and associates for local statutory and Group reporting audits	**7.3**	7.6
Audit fees payable to PricewaterhouseCoopers firms and associates	**9.3**	9.4
Audit fees payable to other firms	**0.4**	0.5
Total audit fees payable	**9.7**	9.9
Fees payable to PricewaterhouseCoopers firms and associates for other services:		
- audit-related assurance services	**0.3**	0.3
- other assurance services	**0.1**	0.1
- tax advisory services	**3.8**	2.9
- tax compliance	**0.8**	1.0
- other non-audit services	**0.2**	0.6
	5.2	4.9

The total fees payable to PricewaterhouseCoopers firms and associates included above are £14.5 million (2013: £14.3 million).

Total research and development costs including employee benefit costs and depreciation are £154 million (2013: £161 million).

(e) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, including the relevant operating costs of implementing the new operating model. These costs represent additional expenses incurred which are not related to the normal business and day-to-day activities. The new operating model includes revised organisation structures, standardised processes and shared back office services underpinned by a global single instance of SAP. The new organisation structures and processes are currently being implemented and the deployment of the new SAP system started in the third quarter of 2012 and will take around a total of four years to fully roll-out. These initiatives also include a review of the Group's manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of these initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	2014	2013
	£m	£m
Employee benefit costs	**223**	140
Depreciation and impairment costs	**69**	11
Other operating expenses	**180**	161
Other operating income	**(20)**	(66)
	452	246

Restructuring and integration costs in 2014 principally relate to the restructuring initiatives directly related to implementation of a new operating model and the cost of packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover factory closure and downsizing activities in Australia, Colombia and the Democratic Republic of Congo, and restructurings in Argentina, Indonesia, Canada, Switzerland and Germany.

Restructuring and integration costs in 2013 principally related to restructuring initiatives directly related to implementation of a new operating model and the continuation of the factory closure and downsizing activities in Australia and Russia, and restructuring of factories in the Democratic Republic of Congo, Switzerland and Germany. The costs also covered packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

Other operating income in 2014 includes gains from the sale of land and buildings in Turkey, Uganda and the Democratic Republic of Congo. In 2013, other operating income includes gains from the sale of land and buildings in Australia, Denmark and Russia.

(f) Amortisation of trademarks and similar intangibles

The acquisitions of Protabaco, Bentoel, Tekel, ST, CN Creative Limited and the creation of CTBAT International Limited (see note 26(a)) resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £58 million (2013: £74 million) is included in depreciation, amortisation and impairment costs in profit from operations.

(g) Gain on deemed partial disposal of a trademark

The contribution of the State Express 555 brand to CTBAT International Limited in 2013 (see note 26(a)) is accounted for at fair value in the arrangement. This resulted in a £26 million gain on a deemed partial disposal of a trademark which is included in other operating income but has been treated as an adjusting item.

(h) Fox River

As explained in note 30, a Group subsidiary has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States and in 2011, the Group provided £274 million in respect of claims in relation to environmental clean-up costs of the Fox River.

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into the Funding Agreement with regard to the costs for Fox River. Based on this Funding Agreement, £56 million has been paid with legal costs incurred of £7 million. The Fox River provision has been reviewed and £27 million has been released in 2014 (see note 22 and note 30).

(i) Flintkote

As explained in note 30, in December 2014, a Group subsidiary entered into a settlement agreement in connection with various legal cases related to a former non-tobacco business in Canada. Under the terms of the settlement, the subsidiary will obtain protection from current and potential future Flintkote-related asbestos liability claims in the US. The settlement is contingent upon further documentation and approval of certain courts in the US. This agreement has led to a charge of £374 million in 2014.

4 Net finance costs

	2014 £m	2013 £m
Finance costs		
- interest payable		
- bonds and notes	**501**	518
- other loans and commercial paper	**22**	18
- bank loans and overdrafts	**56**	70
- finance leases	**—**	1
- facility fees	**9**	7
	588	614
- fair value changes on derivative financial instruments	**(154)**	(103)
- exchange differences on financial liabilities	**50**	21
	484	532
Finance income		
- interest and dividend income		
- dividend income in respect of available-for-sale investments	**(2)**	(2)
- other interest income	**(65)**	(62)
	(67)	(64)
- exchange differences on financial assets	**—**	(2)
	(67)	(66)
Net finance costs	**417**	466

The Group manages foreign exchange gains and losses and fair value changes on a net basis, as shown below. The derivatives that generate the fair value changes are detailed in note 16.

	2014 £m	2013 £m
Fair value changes		
- cash flow hedges transferred from equity	**(31)**	(6)
- fair value hedging instruments — exchange-related movements	**12**	(4)
- fair value hedging instruments — net interest income	**(83)**	(90)
- fair value hedging instruments — interest-related movements (note (i))	**(174)**	146
- fair value changes on hedged items — interest-related movements (note (i))	**158**	(151)
- instruments held-for-trading (note (ii))	**(36)**	2
	(154)	(103)
Finance costs — exchange differences on financial liabilities	**50**	21
Finance income — exchange differences on financial assets	**—**	(2)
	(104)	(84)

Notes:

(i) Hedge ineffectiveness in respect of fair value hedges is a £16 million gain (2013: £5 million gain) being the difference between the two items above.

(ii) IFRS requires derivatives which do not meet the tests for hedge accounting under IAS 39 to be classified as instruments held-for-trading with fair value changes included in the Income Statement.

These derivatives principally consist of forward foreign currency contracts which have not been designated as hedges due to their fair value changes offsetting with other components of net finance costs relating to financial assets and liabilities.

Facility fees principally relate to the Group's central undrawn banking facilities of £3 billion and US$150 million (2013: £2 billion and US$150 million).

Exchange differences in respect of hedged items subject to fair value hedges and cash flow hedges were a gain of £12 million (2013: £4 million loss) and a loss of £36 million (2013: £14 million loss) respectively and are included in 'Finance costs — exchange differences' in the table above.

5 Associates and joint ventures

	2014		2013	
	Total	Group's share	Total	Group's share
	£m	£m	£m	£m
Gross turnover (including duty, excise and other taxes)	**12,219**	**4,576**	13,095	4,891
Duty, excise and other taxes	**(3,018)**	**(1,174)**	(3,961)	(1,485)
Revenue	**9,201**	**3,402**	9,134	3,406
Profit from operations	**3,166**	**1,163**	3,247	1,203
Net finance costs	**(169)**	**(70)**	(174)	(73)
Profit on ordinary activities before taxation	**2,997**	**1,093**	3,073	1,130
Taxation on ordinary activities	**(1,006)**	**(370)**	(1,037)	(387)
Profit on ordinary activities after taxation	**1,991**	**723**	2,036	743
Non-controlling interests	**(11)**	**(4)**	(11)	(4)
Post-tax results of associates and joint ventures	**1,980**	**719**	2,025	739
Analysed as:				
- adjusted share of post-tax results of associates and joint ventures	**1,951**	**712**	1,966	723
- issue of shares and change in shareholding	**46**	**14**	73	22
- restructuring and integration costs	**9**	**4**	(10)	(4)
- MSA receipts	**13**	**5**	79	33
- other	**(39)**	**(16)**	(83)	(35)
	1,980	**719**	2,025	739

(a) Adjusting items

The share of post-tax results of associates and joint ventures is after the following adjusting items which are excluded from the calculation of adjusted earnings per share as set out in note 7:

In 2014, the Group's interest in ITC Ltd. (ITC) decreased from 30.47% to 30.26% as a result of ITC issuing ordinary shares under the company's Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £14 million, which is treated as a deemed partial disposal and included in the Income Statement.

Reynolds American Inc. (RAI) recognised a net gain from discontinued activities of US$25 million, reduced by restructuring activities of US$16 million, resulting in a net gain of US$9 million. The Group's share of this net gain amounted to £4 million (net of tax).

As explained in note 5(b), under the Master Settlement Agreement (MSA) in the US, in June 2014, a further two states entered into a settlement agreement in relation to disputed NPM Adjustment Claims for the years 2003 to 2012. Under the settlement, RAI expects to receive more than US$170 million in MSA credits to be applied over five years. During 2014, RAI recognised income of US$34 million related to the 2013 liability as an adjusting item. The Group's share of this income amounted to £5 million (net of tax). Credits in respect of the 2014 liability and future years would be accounted for in the applicable year and will not be treated as adjusting items.

RAI has also recognised amounts which have been combined in the table of adjusting items in the Group Income Statement and are shown as 'other'. These are costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amount to US$102 million, the Group's share of which is £16 million (net of tax).

In 2013, the Group's interest in ITC decreased from 30.72% to 30.47% as a result of ITC issuing ordinary shares under the company's Employee Share Option Scheme. This resulted in a gain of £22 million, which was treated as a deemed partial disposal and included in the Income Statement.

During 2013, RAI recognised restructuring charges of US$24 million and the Group's share of these charges amounted to £4 million (net of tax).

During 2013, RAI recognised income of US$219 million related to its 2012 MSA liability as an adjusting item, the Group's share of which amounted to £33 million (net of tax). Credits in respect of the 2013 liability and future years would be accounted for in the applicable year and will not be treated as adjusting items.

In the year ended 31 December 2013, RAI recognised amounts which have been combined in the table of adjusting items and reported in 'other'. These consist of a charge of US$18 million in respect of a number of Engle progeny lawsuits, the Group's share of which amounted to £3 million (net of tax); costs of US$34 million relating to other tobacco-related litigation charges, the Group's share of which amounted to £6 million (net of tax); trademark amortisation and impairment of US$27 million, the Group's share of which amounted to £4 million (net of tax); and costs of US$124 million relating to losses on extinguishment of debt, the Group's share of which amounted to £22 million (net of tax).

(b) Master Settlement Agreement

In 1998, the major US cigarette manufacturers (including R J Reynolds and Brown & Williamson) entered into the Master Settlement Agreement (MSA) with attorney generals representing most US states and territories. The MSA imposes a perpetual stream of future payment obligations on the major US cigarette manufacturers. The amounts of money that the participating manufacturers are required to annually contribute are based upon, amongst other things, the volume of cigarettes sold and market share (based on cigarette shipments in that year). Given these facts, the Group's accounting for the MSA payments is to accrue for them in the cost of products sold as the products are shipped and no provision is made in respect of potential payments relating to future years. The event which gives rise to the obligation is the actual sales of products shipped and the MSA payments are therefore recognised as part of the costs of those business operations.

During 2013, RAI, various other tobacco manufacturers, 19 states, the District of Columbia and Puerto Rico reached a final agreement related to RAI's 2003 Master Settlement Agreement (MSA) activities. Under this agreement RAI will receive credits, currently estimated to be more than US$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits will be applied against the company's MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations.

During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. It is estimated that RAI will receive US$170 million in credits, which will be applied over a five-year period from 2014.

(c) Other financial information

	2014 Group's share £m	2013 Group's share £m
Profit on ordinary activities after taxation		
- attributable to owners of the parent	**719**	739
Other comprehensive income:		
Differences on exchange	**113**	(141)
Net fair value gains/(losses) on available-for-sale investments	**15**	(7)
Actuarial (losses)/gains relating to pensions and other post-retirement benefits (note 20)	**(124)**	90
Total comprehensive income (note 11)	**723**	681

	2014 Group's share £m	2013 Group's share £m
Dividends received		
- listed investments	**510**	504
- unlisted investments	**8**	8
Total dividends received from associates	**518**	512

Summarised financial information of the Group's associates and joint ventures:

	2014				2013			
	RAI	ITC	Others	Total	RAI	ITC	Others	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	**5,132**	**3,777**	**292**	**9,201**	5,268	3,557	309	9,134
Profit on ordinary activities before taxation	**1,551**	**1,389**	**57**	**2,997**	1,648	1,358	67	3,073
Post-tax results of associates and joint ventures	**1,000**	**938**	**42**	**1,980**	1,035	942	48	2,025
Other comprehensive income	**(166)**	**184**	**(29)**	**(11)**	130	(454)	34	(290)
Total comprehensive income	**834**	**1,122**	**13**	**1,969**	1,165	488	82	1,735

6 Taxation on ordinary activities

(a) Summary of taxation on ordinary activities

	2014	2013
	£m	£m
UK corporation tax	**—**	—
Overseas tax	**1,450**	1,567
Comprising:		
- current year tax expense	**1,439**	1,581
- adjustments in respect of prior periods	**11**	(14)
Total current tax	**1,450**	1,567
Deferred tax	**5**	33
Comprising:		
- deferred tax relating to origination and reversal of temporary differences	**7**	33
- deferred tax relating to changes in tax rates	**(2)**	—
	1,455	1,600

(b) Franked Investment Income Group Litigation Order

British American Tobacco is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs in the Franked Investment Income Group Litigation Order (FII GLO). There are 25 corporate groups in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK. The claim was filed in 2003 and the case was heard in the European Court of Justice (ECJ) in 2005 and a decision of the ECJ received in December 2006. In July 2008, the case reverted to a trial in the UK High Court for the UK Court to determine how the principles of the ECJ decision should be applied in a UK context.

The High Court judgement in November 2008 concluded, amongst other things, that the corporation tax provisions relating to dividend income from EU subsidiaries breached EU law. It also concluded that certain dividends received before 5 April 1999 from the EU and, in some limited circumstances after 1993 from outside the EU, should have been creditable against advance corporation tax (ACT) liabilities with the consequence that ACT need not have been paid. Claims for the repayment of UK tax incurred where the dividends were from the EU were allowed back to 1973.

The case was heard by the Court of Appeal in October 2009 and the judgement handed down on 23 February 2010. The Court of Appeal determined that various questions, including which companies in the corporate tree can be included in a claim, should be referred back to the ECJ for further clarification. In addition, the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973.

The issue of time limits was heard by the Supreme Court in February 2012 and in May 2012 the Supreme Court decided in British American Tobacco Group's favour, that claims submitted before 8 September 2003 can go back to 1973. A hearing took place in February 2012 at the ECJ on the questions referred from the Court of Appeal.

The ECJ judgement of 13 November 2012 confirms that the UK treatment of EU dividends was discriminatory and produces the same outcome for third country dividends from 1994 in certain circumstances. The judgement also confirms that the claim can cover dividends from all indirect as well as direct EU subsidiaries and also ACT paid by a superior holding company.

The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgement handed down on 18 December 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advanced corporation tax, the law of restitution including the defence on change of position and questions concerning the calculation of overpaid interest, the approach of the British American Tobacco Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for British American Tobacco. Appeals on a majority of the issues have been made to the Court of Appeal, which is likely to hear the case in 2016.

No potential receipt has been recognised in the current period or the prior year, in the results of the Group, due to the uncertainty of the amounts and eventual outcome.

(c) Factors affecting the taxation charge

The taxation charge differs from the standard 21% (2013: 23%) rate of corporation tax in the UK. The major causes of this difference are listed below:

	2014		2013	
	£m	%	£m	%
Profit before tax	**4,848**		5,799	
Less: share of post-tax results of associates and joint ventures	**(719)**		(739)	
	4,129		5,060	
Tax at 21% (2013: 23%) on the above	**867**	**21.0**	1,164	23.0
Factors affecting the tax rate:				
Tax at standard rates other than UK corporation tax rate	**236**	**5.7**	158	3.1
Other national tax charges	**69**	**1.7**	51	1.0
Permanent differences	**29**	**0.7**	6	0.1
Overseas withholding taxes	**157**	**3.8**	138	2.7
Double taxation relief on UK profits	**(9)**	**(0.2)**	(11)	(0.2)
Unutilised tax losses	**45**	**1.1**	62	1.2
Adjustments in respect of prior periods	**11**	**0.2**	(14)	(0.2)
Net deferred tax debits at other tax rates	**50**	**1.2**	46	0.9
	1,455	**35.2**	1,600	31.6

(d) Tax on adjusting items

The tax on adjusting items, separated between the different categories, as per note 7 to the accounts, amounted to £69 million (2013: £46 million), excluding outside shareholders' interests of £5 million (2013: £3 million).

(e) Tax on items recognised directly in other comprehensive income

	2014	2013
	£m	£m
Current tax	**17**	2
Deferred tax	**94**	(53)
Credited/(charged) to other comprehensive income	**111**	(51)

The tax relating to each component of other comprehensive income is disclosed in note 20.

7 Earnings per share

Basic earnings per share are based on profit for the year attributable to ordinary shareholders of £3,115 million (2013: £3,904 million) and 1,864 million (2013: 1,901 million) ordinary shares of 25p each, being the weighted average number of shares in issue during the year (excluding shares held as treasury shares).

For the calculation of diluted earnings per share, the weighted average number of shares in issue is increased to 1,870 million (2013: 1,908 million) to reflect the potential dilutive effect of employee share schemes.

	2014			2013		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	m	pence	£m	m	pence
Basic earnings per share	**3,115**	**1,864**	**167.1**	3,904	1,901	205.4
Share options	**—**	**6**	**(0.5)**	—	7	(0.8)
Diluted earnings per share	**3,115**	**1,870**	**166.6**	3,904	1,908	204.6

Earnings have been affected by a number of adjusting items, which are described in notes 3 and 5. To illustrate the impact of these items, an adjusted earnings per share calculation is shown below.

Adjusted earnings per share calculation

		Diluted				Basic			
		2014		2013		2014		2013	
	Notes	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share
		£m	pence	£m	pence	£m	pence	£m	pence
Unadjusted earnings per share		**3,115**	**166.6**	3,904	204.6	**3,115**	**167.1**	3,904	205.4
Effect of restructuring and integration costs	3(e)	**452**	**24.2**	246	12.9	**452**	**24.2**	246	12.9
Tax and non-controlling interests on restructuring and integration costs		**(67)**	**(3.6)**	(35)	(1.9)	**(67)**	**(3.6)**	(35)	(1.9)
Effect of amortisation of trademarks and similar intangibles	3(f)	**58**	**3.1**	74	3.9	**58**	**3.1**	74	3.9
Tax on amortisation of trademarks and similar intangibles		**(7)**	**(0.4)**	(14)	(0.7)	**(7)**	**(0.4)**	(14)	(0.7)
Gain on deemed partial disposal of a trademark	3(g)	**—**	**—**	(26)	(1.4)	**—**	**—**	(26)	(1.4)
Effect of Fox River	3(h)	**(27)**	**(1.4)**	—	—	**(27)**	**(1.4)**	—	—
Effect of Flintkote	3(i)	**374**	**20.0**	—	—	**374**	**20.1**	—	—
Effect of associates' adjusting items net of tax	5	**(7)**	**(0.4)**	(16)	(0.8)	**(7)**	**(0.4)**	(16)	(0.8)
Adjusted earnings per share		**3,891**	**208.1**	4,133	216.6	**3,891**	**208.7**	4,133	217.4

Headline earnings per share as required by the JSE Limited

The presentation of headline earnings per share, as an alternative measure of earnings per share, is mandated under the JSE Listing Requirements. It is calculated in accordance with Circular 2/2013 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

	Diluted				Basic			
	2014		2013		2014		2013	
	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share
	£m	pence	£m	pence	£m	pence	£m	pence
Unadjusted earnings per share	**3,115**	**166.6**	3,904	204.6	**3,115**	**167.1**	3,904	205.4
Effect of impairment of intangibles, property, plant and equipment, and assets held-for-sale	**107**	**5.7**	34	1.8	**107**	**5.7**	34	1.8
Tax and non-controlling interests on impairment of intangibles, and property, plant and equipment	**(20)**	**(1.0)**	(2)	(0.1)	**(20)**	**(1.0)**	(2)	(0.1)
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	**(34)**	**(1.9)**	(92)	(4.8)	**(34)**	**(1.8)**	(92)	(4.8)
Tax and non-controlling interests on disposal of property, plant and equipment and held-for-sale assets	**9**	**0.5**	25	1.3	**9**	**0.5**	25	1.3
Effect of disposal of businesses and trademarks	**—**	**—**	(26)	(1.4)	**—**	**—**	(26)	(1.4)
Effect of gains reclassified from the available-for-sale reserve	**—**	**—**	(2)	(0.1)	**—**	**—**	(2)	(0.1)
Share of associates' trademark and other asset impairments net of tax	**—**	**—**	4	0.2	**—**	**—**	4	0.2
Issue of shares and change in shareholding in associate	**(14)**	**(0.8)**	(22)	(1.1)	**(14)**	**(0.8)**	(22)	(1.2)
Headline earnings per share	**3,163**	**169.1**	3,823	200.4	**3,163**	**169.7**	3,823	201.1

An alternative measure of headline earnings per share has been presented below to take account of the effects of Fox River (note 3(h)) and Flintkote (note (3(i)); this measure is in addition to and not mandated by the JSE Listing Requirements:

Headline earnings per share amended for Fox River and Flintkote	**3,510**	**187.7**	3,823	200.4	**3,510**	**188.4**	3,823	201.1

8 Dividends and other appropriations

	2014		2013	
	Pence per share	£m	Pence per share	£m
Ordinary shares				
Interim				
2014 paid 30 September 2014	**47.5**	**881**		
2013 paid 30 September 2013			45.0	846
Final				
2013 paid 8 May 2014	**97.4**	**1,831**		
2012 paid 8 May 2013			92.7	1,765
	144.9	**2,712**	137.7	2,611

The Directors have recommended to shareholders a final dividend of 100.6p per share for the year ended 31 December 2014. If approved, this dividend will be paid to shareholders on 7 May 2015. This dividend is subject to approval by shareholders at the Annual General Meeting and therefore, in accordance with IAS 10 *Events After the Reporting Period,* it has not been included as a liability in these financial statements. The total estimated dividend to be paid is £1,866 million, which takes the total dividends declared in respect of 2014 to £2,747 million (2013: £2,677 million) representing 148.1p per share (2013: 142.4p per share).

9 Intangible assets

	Goodwill*	Computer software	Trademarks and similar intangibles	Assets in the course of development	Total
	£m	£m	£m	£m	£m
1 January 2014					
Cost	**10,249**	**631**	**891**	**283**	**12,054**
Accumulated amortisation and impairment		**(496)**	**(353)**		**(849)**
Net book value at 1 January 2014	**10,249**	**135**	**538**	**283**	**11,205**
Differences on exchange	**(407)**	**(3)**	**(31)**	**—**	**(441)**
Additions					
- internal development	**—**	**16**	**—**	**143**	**159**
- separately acquired	**—**	**4**	**3**	**—**	**7**
Reallocations	**—**	**121**	**—**	**(121)**	**—**
Amortisation charge	**—**	**(56)**	**(58)**	**—**	**(114)**
Impairment	**—**	**(12)**	**—**	**—**	**(12)**
31 December 2014					
Cost	**9,842**	**735**	**844**	**305**	**11,726**
Accumulated amortisation and impairment		**(530)**	**(392)**		**(922)**
Net book value at 31 December 2014	**9,842**	**205**	**452**	**305**	**10,804**
1 January 2013					
Cost	10,793	659	904	173	12,529
Accumulated amortisation and impairment		(509)	(310)		(819)
Net book value at 1 January 2013	10,793	150	594	173	11,710
Differences on exchange	(545)	(1)	(21)	(4)	(571)
Additions					
- internal development	—	14	—	133	147
- acquisitions (note 26(b))	1	—	25	—	26
- separately acquired	—	3	10	—	13
Reallocations	—	19	—	(19)	—
Amortisation charge	—	(50)	(70)	—	(120)
31 December 2013					
Cost	10,249	631	891	283	12,054
Accumulated amortisation and impairment		(496)	(353)		(849)
Net book value at 31 December 2013	10,249	135	538	283	11,205

* The cost of Goodwill is shown net of impairment charges made in prior years.

Included in computer software and assets in the course of development are internally developed assets with a carrying value of £493 million (2013: £398 million). The costs of internally developed assets include capitalised expenses of employees working full time on software development projects, third-party consultants, as well as software licence fees from third-party suppliers.

Acquisitions in 2013 related to the creation of CTBAT International Limited and the acquisition of British American Tobacco Myanmar Limited as explained in note 26.

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Skandinavisk Tobakskompagni (ST) £262 million (2013: £301 million), Tekel £25 million (2013: £30 million), Bentoel £30 million (2013: £38 million) and Protabaco £72 million (2013: £91 million) and intellectual property of £13 million (2013: £26 million) relating to the acquisition of CN Creative Limited in 2012.

The Group has future contractual commitments of £10 million (2013: £11 million) related to intangible assets.

Impairment testing for intangible assets with indefinite lives including goodwill

Goodwill of £9,842 million (2013: £10,249 million) is included in intangible assets in the balance sheet of which the following are the significant acquisitions: Rothmans Group £4,384 million (2013: £4,542 million); Imperial Tobacco Canada £2,223 million (2013: £2,281 million); ETI (Italy) £1,280 million (2013: £1,371 million) and ST (principally Scandinavia) £963 million (2013: £1,030 million). The principal allocations of goodwill in the Rothmans' acquisition are to the cash-generating units of Eastern Europe, Western Europe and South Africa, with the remainder mainly relating to operations in the domestic and export markets in the United Kingdom and operations in Asia-Pacific.

In 2014 and 2013, goodwill was allocated for impairment testing purposes to 14 individual cash-generating units — five in Asia-Pacific, five in the Americas, two in Western Europe and two in EEMEA.

The carrying amounts of goodwill allocated to the cash-generating units of Canada £2,223 million (2013: £2,281 million), Western Europe (includes Rothmans and other acquisitions) £3,388 million (2013: £3,624 million), Eastern Europe (includes Rothmans and other acquisitions) £851 million (2013: £908 million), South Africa £614 million (2013: £639 million), Australia (includes Rothmans and other acquisitions) £703 million (2013: £724 million), Singapore £517 million (2013: £511 million) and Malaysia £432 million (2013: £434 million) are considered significant in comparison with the total carrying amount of goodwill.

The recoverable amounts of all cash-generating units have been determined on a value-in-use basis. The key assumptions for the recoverable amounts of all units are the budgeted volumes, operating margins and long-term growth rates, which directly impact the cash flows, and the discount rates used in the calculation. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 *Impairment of Assets* and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made. These adjustments are derived from external sources and are based on the spread between bonds (or credit default swaps, or similar indicators) issued by the US or comparable governments and by the local government, adjusted for the Group's own credit market risk. For ease of use and consistency in application, these results are periodically calibrated into bands based on internationally recognised credit ratings. The long-term growth rates and discount rates have been applied to the budgeted cash flows of each cash-generating unit. These cash flows have been determined by local management based on experience, specific market and brand trends, pricing expectations and costs, and have been endorsed by Group management as part of the consolidated Group budget.

The valuations use cash flows based on detailed financial budgets prepared by management covering a one-year period, with growth in year 2 of 5% (2013: 6%). Cash flows for the years 3 to 10 are extrapolated from year 2 cash flows of each relevant operating unit at 4% (2013: 5%) per annum, including 1% (2013: 2%) inflation, where after a total growth rate of 2% (2013: 2%) per annum (including 2% (2013: 2%) inflation) has been assumed. The extrapolated growth rates are considered conservative given the Group's history of profit and cash growth, its well balanced portfolio of brands and the industry in which it operates. The long-term real growth does not exceed the expected long-term average growth rate for the combined markets in which the cash-generating units operate. In some instances, such as recent acquisitions or start-up ventures, the valuation is expanded to reflect the medium-term plan of the country or market management, spanning five years or beyond.

Pre-tax discount rates of between 7.2% and 15.0% (2013: 7.2% to 14.1%) were used, based on the Group's weighted average cost of capital, together with any premium applicable for economic and political risks.

The pre-tax discount rates used for the cash-generating units which are significant in comparison with the total carrying amount of goodwill are 8.5% for Canada (2013: 8.5%), 8.6% for Western Europe (2013: 9.3%), 8.5% for Eastern Europe (2013: 8.6%), 9.6% for South Africa (2013: 9.3%), 8.6% for Australia (2013: 8.6%), 7.2% for Singapore (2013: 7.2%) and 8.7% for Malaysia (2013: 8.7%).

If discounted cash flows for cash-generating units should fall by 10%, or the discount rate was increased at a post-tax rate of 1%, there would be no impairment.

10 Property, plant and equipment

	Freehold property	Leasehold property	Plant and equipment	Assets in the course of construction	Total
	£m	£m	£m	£m	£m
1 January 2014					
Cost	**1,034**	**258**	**4,257**	**527**	**6,076**
Accumulated depreciation and impairment	**(325)**	**(123)**	**(2,460)**	**(12)**	**(2,920)**
Net book value at 1 January 2014	**709**	**135**	**1,797**	**515**	**3,156**
Differences on exchange	**(45)**	**(1)**	**(138)**	**(33)**	**(217)**
Additions	**9**	**1**	**74**	**414**	**498**
Reallocations	**55**	**12**	**274**	**(341)**	**—**
Depreciation	**(20)**	**(9)**	**(278)**	**—**	**(307)**
Impairment	**(40)**	**(8)**	**(36)**	**(3)**	**(87)**
Disposals	**(13)**	**(2)**	**(12)**	**(1)**	**(28)**
Net reclassifications as held-for-sale	**—**	**—**	**(11)**	**—**	**(11)**
31 December 2014					
Cost	**998**	**260**	**4,109**	**570**	**5,937**
Accumulated depreciation and impairment	**(343)**	**(132)**	**(2,439)**	**(19)**	**(2,933)**
Net book value at 31 December 2014	**655**	**128**	**1,670**	**551**	**3,004**
1 January 2013					
Cost	1,138	261	4,453	483	6,335
Accumulated depreciation and impairment	(362)	(123)	(2,649)		(3,134)
Net book value at 1 January 2013	776	138	1,804	483	3,201
Differences on exchange	(47)	(6)	(137)	(37)	(227)
Additions*	12	16	117	420	565
Reallocations	24	(4)	314	(334)	—
Depreciation	(22)	(9)	(270)	—	(301)
Impairment	(2)	—	(14)	(17)	(33)
Disposals	(32)	—	(17)	—	(49)
31 December 2013					
Cost	1,034	258	4,257	527	6,076
Accumulated depreciation and impairment	(325)	(123)	(2,460)	(12)	(2,920)
Net book value at 31 December 2013	709	135	1,797	515	3,156
Assets held under finance leases					
31 December 2014					
Cost			**17**		**17**
Accumulated depreciation and impairment			**(8)**		**(8)**
Net book value at 31 December 2014			**9**		**9**
31 December 2013					
Cost			13		13
Accumulated depreciation and impairment			(8)		(8)
Net book value at 31 December 2013			5		5

* Additions in 2013 include amounts contributed by the non-controlling interest in Myanmar (note 26).

The Group's finance lease arrangements relate principally to the lease of vehicles and tobacco vending machines by the Group's subsidiaries in Pakistan and Japan respectively. Assets held under finance leases are secured under finance lease obligations included in note 21.

As explained in note 12, contributions to the British American Tobacco UK Pension Fund are secured by a charge over the Group's Head Office (Globe House). Globe House is included in freehold property above with a carrying value of £191 million (2013: £192 million).

	2014 £m	2013 £m
Cost of freehold land within freehold property on which no depreciation is provided	**200**	203
Leasehold property comprises		
- net book value of long leasehold	**113**	111
- net book value of short leasehold	**15**	24
	128	135
Contracts placed for future expenditure	**121**	82

11 Investments in associates and joint ventures

	2014 £m	2013 £m
1 January	**2,299**	2,330
Total comprehensive income (note 5)	**723**	681
Dividends (note 5)	**(518)**	(512)
Share buy-backs (note 25(d))	**(94)**	(189)
Other equity movements	**(10)**	(11)
31 December	**2,400**	2,299
Non-current assets	**4,070**	3,741
Current assets	**1,798**	1,667
Non-current liabilities	**(2,099)**	(1,983)
Current liabilities	**(1,369)**	(1,126)
	2,400	2,299
Reynolds American Inc. (Group's share of the market value is £9,205 million (2013: £6,828 million))	**1,361**	1,447
ITC Ltd. (Group's share of the market value is £9,001 million (2013: £7,587 million))	**991**	808
Other listed associates (Group's share of the market value is £98 million (2013: £83 million))	**13**	11
Unlisted associates	**35**	33
	2,400	2,299

The principal associate undertakings of the Group are Reynolds American Inc (RAI) and ITC Ltd. (ITC) as shown under principal associate undertakings.

Reynolds American Inc.

	2014 £m	2013 £m
Non-current assets	**4,481**	4,146
Current assets	**2,193**	2,257
Non-current liabilities	**(4,838)**	(4,576)
Current liabilities	**(2,162)**	(1,739)
	(326)	88
Group's share of Reynolds American Inc. (42.0%)	**(137)**	37
Goodwill	**1,498**	1,410
Total Group's share of Reynolds American Inc.	**1,361**	1,447

On 30 July 2004, the Group completed the agreement to combine the US domestic business of Brown and Williamson (B&W), one of its subsidiaries, with RJ Reynolds. This combination resulted in the formation of RAI, which is 58% owned by RJ Reynolds' shareholders and 42% owned by the Group. The Group has concluded that it does not have de facto control of RAI because of the operation of the governance agreement between the Group and RAI which ensures that the Group does not have the practical ability to direct the relevant activities of RAI; in particular, the Group cannot nominate more than five of the Directors (out of 13 or

proportionally less if there are less than 13 Directors) unless it owns 100% of RAI or some other party owns more than 50%. In addition, there are no other contractual arrangements which would give the Group the ability to direct RAI's operations. Manufacturing and cooperation agreements between RAI and the Group have been agreed on an arm's length basis (see note 29).

The Group's share of RAI includes £472 million (2013: £446 million) of trademarks arising from the RAI transaction in 2004. In addition, the Group's share of non-current assets includes £667 million (2013: £628 million) of goodwill and £308 million (2013: £291 million) of trademarks arising from the acquisition of Conwood by RAI in 2006.

Details of the Group's contingent liabilities are set out in note 30. In addition to US litigation involving Group companies, which is covered by the R.J. Reynolds Tobacco Company (RJRT) indemnity referred to in note 30, RAI group companies are named in litigation which does not involve Group companies. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, it is not impossible that the results of operations or cash flows of RAI, in particular quarterly or annual periods, could be materially affected by this and by the final outcome of any particular litigation. However, having regard to the contingent liability disclosures on litigation made by RAI in its public financial reports, the Directors are satisfied with the carrying value included above for RAI.

The Group's share of the RAI results for the year to 31 December 2014 includes £46 million (2013: £43 million) in respect of external legal fees and other external product liability defence costs.

On 15 July 2014, the Group announced that it has agreed to invest US$4.7 billion as part of RAI's proposed acquisition of Lorillard enabling the Group to maintain its 42% equity position in the enlarged business. The investment is contingent upon the completion of RAI's acquisition of Lorillard, which has been approved by the shareholders of RAI and Lorillard, and the proposed acquisition, while subject to a number of regulatory approvals in the US, is anticipated to be completed in the first half of 2015.

ITC Ltd

ITC prepares accounts on a quarterly basis with a 31 March year-end. As permitted by IAS 28 *Investments in Associates and Joint Ventures,* results up to 30 September 2014 have been used in applying the equity method. This is driven by the availability of information at the half year, to be consistent with the treatment in the Group's interim accounts. Any further information available after the date used for reporting purposes is reviewed and any material items adjusted for in the final results. The latest published information available is at 31 December 2014.

	2014	2013
	£m	£m
Non-current assets	**2,201**	1,858
Current assets	**2,713**	2,202
Non-current liabilities	**(212)**	(194)
Current liabilities	**(1,428)**	(1,214)
	3,274	2,652
Group's share of ITC Ltd (2014: 30.26% (2013: 30.47%))	**991**	808

Additional information on associates is provided in the principal associate undertaking sections to the Annual Report.

12 Retirement benefit schemes

The Group's subsidiary undertakings operate around 170 retirement benefit arrangements worldwide. The majority of scheme members belong to defined benefit schemes, most of which are funded externally and many of which are closed to new entrants. The Group also operates a number of defined contribution schemes.

The liabilities arising in the defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. All schemes are formally valued at least every three years.

The principal schemes are in the UK, Germany, Canada, the Netherlands and Switzerland. Together schemes in these territories account for over 85% of the total obligations of the Group's defined benefit schemes. These obligations consist mainly of final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. As a result of regulatory changes, with effect from 1 January 2015, the schemes in the Netherlands now accrue benefits based on lifetime average salaries.

In addition, the Group operates several health care benefit schemes, of which the most significant are in Canada. The liabilities in respect of healthcare benefits are also assessed by qualified independent actuaries, applying the projected unit credit method.

All of these arrangements, including funded schemes where formal trusts or equivalents are required, have been developed and are operated in accordance with local practices and regulations where applicable in the countries concerned. For example, in the UK, the main pension scheme is the British American Tobacco UK Pension Fund, which is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the Scheme's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pension Act 2004 and all the relevant legislation.

Responsibility for the governance of the schemes, including investment decisions and contribution schedules, lies with the trustees. The trustees for each arrangement will usually consist of representatives appointed by both the sponsoring company and the beneficiaries.

The majority of schemes are subject to local regulation regarding funding deficits. Contributions to defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes and after taking into account regulatory requirements.

Contributions to the British American Tobacco UK Pension Fund have been agreed with the trustee as part of a recovery plan to include £30 million a year to cover ongoing service costs and additional contributions to eliminate a funding shortfall. Additional contributions were £140 million in 2014 and £190 million in 2013 and are planned to be £148 million in 2015, and £78 million in each of 2016, 2017 and 2018. These contributions will be used to achieve the statutory funding objective and thereafter to support attaining a lower risk investment strategy (noted below) and may be subject to renegotiation, dependent on funding levels. Total contributions payable are secured by a charge over the Group's Head Office (Globe House) up to a maximum of £150 million. The charge would be triggered in the event that the Group defaults on agreed contributions due to the Fund or if an insolvency event occurs with respect to the UK entity responsible for making the payments. The charge is due to be released in 2039 but may be released earlier by negotiation or if the assets of the Fund are sufficient to achieve certain funding levels. Under the rules of the scheme, any future surplus would be returnable to the Group by refund at the end of the life of the scheme. The funding commitment is therefore not considered onerous and in accordance with IFRIC 14 no additional liabilities have been recognised in respect of this commitment.

Payments made to pensioners by the operating companies in Germany, net of income on scheme assets, are deemed to be company contributions to the Contractual Trust Arrangements and are anticipated to be around £27 million per annum for the next five years. Contributions to pension schemes in Canada, the Netherlands and Switzerland in total are anticipated to be around £22 million per annum for the next five years. Group contributions to pension schemes in 2015 are expected to be £243 million in total compared to £241 million in 2014.

The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded schemes where the sponsoring company meets the benefit payment obligation as it falls due. For unfunded schemes in the UK and Canada, 32% of the liabilities reported at year-end are expected to be settled by the Group within 10 years, 29% between 10 and 20 years, 20% between 20 and 30 years, and 19% thereafter.

The funded arrangements in the Group have policies on investment management, including strategies over a preferred long-term investment profile, and schemes in certain territories including Canada and the Netherlands manage their bond portfolios to match the weighted average duration of scheme liabilities. In addition, the main scheme in the UK has a target investment strategy such that, by 31 December 2018, the scheme will have moved to 20% return-seeking assets and 80% risk-reducing assets. Investments are diversified by type of investment, by investment sector, and where appropriate by country.

Through its defined benefit pension schemes and health care schemes, the Group is exposed to a number of risks, including:

Asset volatility

The plan liabilities are calculated using discount rates set by reference to bond yields; if plan assets underperform this yield e.g. due to stock market volatility, this will create a deficit. However, most schemes hold a proportion of assets which are expected to outperform bonds in the long term, and the majority of schemes by value are subject to local regulation regarding funding deficits.

Changes in bond yields

A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings or other hedging instruments.

Inflation risk

Some of the Group's pension obligations are linked to inflation and higher inflation will lead to higher liabilities, although, in most cases, caps on the level of inflationary increases are in place in the scheme rules, while some assets and derivatives provide specific inflation protection.

Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. Assumptions regarding mortality and mortality improvements are regularly reviewed in line with actuarial tables and scheme specific experience.

The amounts recognised in the Balance Sheet are determined as follows:

	Pension schemes		Health care schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Present value of funded scheme liabilities	**(6,594)**	(5,905)	**(15)**	(16)	**(6,609)**	(5,921)
Fair value of funded scheme assets	**6,253**	5,767	**13**	13	**6,266**	5,780
	(341)	(138)	**(2)**	(3)	**(343)**	(141)
Unrecognised funded scheme surpluses	**(13)**	(19)	**—**	—	**(13)**	(19)
	(354)	(157)	**(2)**	(3)	**(356)**	(160)
Present value of unfunded scheme liabilities	**(287)**	(239)	**(98)**	(98)	**(385)**	(337)
	(641)	(396)	**(100)**	(101)	**(741)**	(497)
The above net liability is recognised in the Balance Sheet as follows:						
- retirement benefit scheme liabilities	**(681)**	(531)	**(100)**	(101)	**(781)**	(632)
- retirement benefit scheme assets	**40**	135	**—**	—	**40**	135
	(641)	(396)	**(100)**	(101)	**(741)**	(497)

The net liabilities of funded pension schemes by territory are as follows:

	Liabilities		Assets		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
- UK	**(3,217)**	(2,863)	**3,198**	2,771	**(19)**	(92)
- Germany	**(929)**	(831)	**733**	762	**(196)**	(69)
- Canada	**(753)**	(704)	**762**	745	**9**	41
- Netherlands	**(704)**	(560)	**685**	633	**(19)**	73
- Switzerland	**(349)**	(348)	**272**	286	**(77)**	(62)
- Rest of Group	**(642)**	(599)	**603**	570	**(39)**	(29)
Funded schemes	**(6,594)**	(5,905)	**6,253**	5,767	**(341)**	(138)

Of the Group's unfunded pension schemes 57% (2013: 53%) relate to arrangements in the UK, while 81% (2013: 82%) of the Group's unfunded health care arrangements relate to arrangements in Canada.

The amounts recognised in the Income Statement are as follows:

	Pension schemes		Health care schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Defined benefit schemes						
Service cost						
- current service cost	**81**	92	**1**	1	**82**	93
- past service cost	**(2)**	5	**(3)**	(5)	**(5)**	—
Net interest on the net defined benefit liability						
- interest on scheme liabilities	**261**	253	**6**	7	**267**	260
- interest on scheme assets	**(252)**	(227)	**(1)**	(1)	**(253)**	(228)
- interest on unrecognised funded scheme surpluses	**1**	1	**—**	—	**1**	1
	89	124	**3**	2	**92**	126
Defined contribution schemes	**40**	36	**—**	—	**40**	36
Total amount recognised in the Income Statement (note 3(a))	**129**	160	**3**	2	**132**	162

The above charges are recognised within employee benefit costs in note 3(a) and include a charge of £4 million in 2014 (2013: £7 million charge) in respect of settlements, past service costs and defined contribution costs reported as part of the restructuring costs charged in arriving at profit from operations (see note 3(e)).

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

	Pension schemes		Healthcare schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Actuarial (losses)/gains on scheme liabilities	**(878)**	139	**(6)**	42	**(884)**	181
Actuarial gains on scheme assets	**456**	127	**—**	—	**456**	127
Net actuarial (losses)/gains in other comprehensive income (note 20)	**(422)**	266	**(6)**	42	**(428)**	308

The amounts recognised in other comprehensive income in respect of surplus restrictions of subsidiaries are as follows:

	Pension schemes		Healthcare schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Movements in the year (note 20)	**7**	(5)	**—**	—	**7**	(5)

The movements in scheme liabilities are as follows:

	Pension schemes		Health care schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Present value at 1 January	**6,144**	6,420	**114**	175	**6,258**	6,595
Differences on exchange	**(142)**	(106)	**(4)**	(15)	**(146)**	(121)
Current service cost	**80**	91	**1**	1	**81**	92
Past service cost	**(2)**	5	**(3)**	(5)	**(5)**	—
Settlements	**—**	(46)	**—**	—	**—**	(46)
Interest on scheme liabilities	**258**	244	**6**	7	**264**	251
Contributions by scheme members	**4**	2	**—**	—	**4**	2
Benefits paid	**(339)**	(327)	**(7)**	(7)	**(346)**	(334)
Actuarial losses/(gains)	**878**	(139)	**6**	(42)	**884**	(181)
Present value at 31 December	**6,881**	6,144	**113**	114	**6,994**	6,258
Scheme liabilities by scheme membership:						
Active members	**1,354**	1,279	**23**	20	**1,377**	1,299
Deferred members	**1,080**	912	**8**	11	**1,088**	923
Retired members	**4,447**	3,953	**82**	83	**4,529**	4,036
Present value at 31 December	**6,881**	6,144	**113**	114	**6,994**	6,258

Approximately 95% of scheme liabilities in both years relate to guaranteed benefits.

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

	Pension schemes		Health care schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Actuarial losses/(gains):						
- arising from changes in demographic assumptions	**120**	26	**3**	(1)	**123**	25
- arising from changes in financial assumptions	**766**	(143)	**6**	(40)	**772**	(183)
Experience gains	**(8)**	(22)	**(3)**	(1)	**(11)**	(23)
Total	**878**	(139)	**6**	(42)	**884**	(181)

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

The movements in funded scheme assets are as follows:

	Pension schemes		Health care schemes		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Fair value of scheme assets at 1 January	**5,767**	5,547	**13**	16	**5,780**	5,563
Differences on exchange	**(141)**	(93)	**(1)**	(3)	**(142)**	(96)
Settlements	**—**	(46)	**—**	—	**—**	(46)
Interest on scheme assets	**249**	219	**1**	1	**250**	220
Company contributions net of reimbursements	**241**	320	**—**	—	**241**	320
Contributions by scheme members	**4**	4	**—**	—	**4**	4
Benefits paid	**(323)**	(311)	**—**	(1)	**(323)**	(312)
Actuarial gains	**456**	127	**—**	—	**456**	127
Fair value of scheme assets at 31 December	**6,253**	5,767	**13**	13	**6,266**	5,780

Company contributions for 2014 in the table above are shown net of a reimbursement of £1 million from a Jamaican pension scheme in the course of being wound up (2013: £7 million).

Fair value of scheme assets by category:

	Pension schemes		Health care schemes		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Equities — listed	**1,759**	1,908	**5**	5	**1,764**	1,913
Equities — unlisted	**533**	513	**—**	—	**533**	513
Bonds — listed	**2,812**	2,647	**4**	8	**2,816**	2,655
Bonds — unlisted	**34**	151	**—**	—	**34**	151
Other assets — listed	**84**	137	**4**	—	**88**	137
Other assets — unlisted	**1,031**	411	**—**	—	**1,031**	411
Fair value of scheme assets at 31 December	**6,253**	5,767	**13**	13	**6,266**	5,780

Scheme assets have been diversified into equities, bonds and other assets and are typically invested via fund investment managers into both pooled and segregated mandates of listed and unlisted equities and bonds. In addition certain scheme assets, including a portion of the assets held in the main UK pension scheme, are further diversified by investing in equities listed on foreign stock exchanges via investment funds. In the above analysis investments via equity-based investment funds are shown under listed equities, and investments via bond-based investment funds are shown under listed bonds.

In Jamaica, a pension scheme holds shares in Carreras Group Ltd. (a Group subsidiary) with a fair value of £1 million (2013: £1 million). The shares are listed on the Jamaica Stock Exchange.

Other assets include cash and other deposits, derivatives and other hedges (including liability driven investments funds and inflation opportunity funds), recoverable taxes, reinsurance contracts, infrastructure investments and investment property.

The actuarial gains and losses in both years principally relate to movements in the fair values of scheme assets and actual returns are stated net of applicable taxes and fund management fees.

	Pension schemes		Health care schemes		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Actual return on scheme assets	**705**	346	**1**	1	**706**	347

The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes		Health care schemes		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Unrecognised funded scheme surpluses at 1 January	**(19)**	(15)	**—**	—	**(19)**	(15)
Differences on exchange	**—**	2	**—**	—	**—**	2
Interest on unrecognised funded scheme surpluses	**(1)**	(1)	**—**	—	**(1)**	(1)
Movement in year (note 20)	**7**	(5)	**—**	—	**7**	(5)
Unrecognised funded scheme surpluses at 31 December	**(13)**	(19)	**—**	—	**(13)**	(19)

The principal actuarial assumptions (weighted to reflect individual scheme differences) used in the following principal countries are shown below. In both years, discount rates are determined by reference to normal yields on high-quality corporate bonds at the balance sheet date. For countries where there is not a deep market in such corporate bonds, the yield on government bonds is used.

	UK	Germany	Canada	Netherlands	Switzerland
	%	%	%	%	%
31 December 2014					
Rate of increase in salaries	**4.5**	**2.5**	**3.3**	**2.0**	**1.5**
Rate of increase in pensions in payment	**3.0**	**1.8**	**Nil**	**1.6**	**Nil**
Rate of increase in deferred pensions	**2.5**	**Nil**	**Nil**	**1.6**	**—**
Discount rate	**3.4**	**1.9**	**3.8**	**2.0**	**1.1**
General inflation	**3.0**	**1.8**	**2.3**	**2.0**	**Nil**

	UK years	Germany years	Canada years	Netherlands years	Switzerland years
31 December 2014					
Weighted average duration of liabilities	**17.2**	**14.0**	**11.2**	**19.4**	**14.8**

For health care inflation in Canada, the assumption is 4.0%. For the remaining pension schemes, typical assumptions are that real salary increases will be from 0% to 4.5% per annum and discount rates will be from 0% to 5.9% above inflation. Pension increases, where allowed for, are generally assumed to be in line with inflation.

	UK %	Germany %	Canada %	Netherlands %	Switzerland %
31 December 2013					
Rate of increase in salaries	4.9	2.5	3.3	2.7	1.5
Rate of increase in pensions in payment	3.4	1.8	Nil	1.5	Nil
Rate of increase in deferred pensions	2.9	Nil	Nil	1.5	—
Discount rate	4.4	3.4	4.6	3.7	2.3
General inflation	3.4	1.8	2.3	1.5	Nil

	UK years	Germany years	Canada years	Netherlands years	Switzerland years
31 December 2013					
Weighted average duration of liabilities	16.6	11.2	11.1	16.0	15.6

For health care inflation in Canada, the assumption was 4.35% increasing to 5.0% by 2018. For the remaining pension schemes, typical assumptions were that real salary increases would be from 0.5% to 3.1% per annum and discount rates would be from 0.5% to 6.8% above inflation. Pension increases, where allowed for, were generally assumed to be in line with inflation.

Mortality assumptions are subject to regular review. The principal schemes used the following tables:

UK	2014:	91.5% S1NA (year of birth) table with the Continuous Mortality Investigation (2013) model with a 1.75% long-term improvement rate
	2013:	S1NA (year of birth) table with the Continuous Mortality Investigation (2009) model with a 1.5% long-term improvement rate
Germany		Heubeck tables 2005G (both years)
Canada	2014:	CPM-2014 Private Table
	2013:	UP94 tables
Netherlands	2014:	AG Prognosetafel 2014
	2013:	AG Prognosetafel 2012–2062 tables
Switzerland		LPP 2010 tables (both years)

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

	UK		Germany		Canada		Netherlands		Switzerland	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
31 December 2014										
Member age 65 (current life expectancy)	**23.6**	**26.1**	**18.9**	**23.0**	**20.8**	**23.3**	**20.8**	**24.7**	**21.4**	**23.9**
Member age 45 (life expectancy at age 65)	**26.3**	**28.9**	**21.6**	**25.5**	**22.0**	**24.3**	**23.3**	**26.7**	**23.2**	**25.6**
31 December 2013										
Member age 65 (current life expectancy)	22.8	25.0	18.8	22.8	19.8	22.1	20.4	24.8	21.3	23.8
Member age 45 (life expectancy at age 65)	25.1	27.4	21.4	25.4	21.3	22.9	22.4	25.7	23.1	25.5

Valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2014 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase £m	1 year decrease £m	0.25 percentage point increase £m	0.25 percentage point decrease £m
Average life expectancy — increase/(decrease) of scheme liabilities	**187**	**(186)**		
Rate of inflation — increase/(decrease) of scheme liabilities			**216**	**(204)**
Discount rate — (decrease)/increase of scheme liabilities			**(163)**	**177**

A one percentage point increase in health care inflation would increase health care scheme liabilities by £13 million, and a one percentage point decrease would decrease liabilities by £10 million. The Income Statement effect of this change in assumption is not material.

13 Deferred tax

Deferred tax assets comprise:

	Stock relief £m	Excess of depreciation over capital allowances £m	Tax losses £m	Retirement benefits £m	Fair value losses/(gains) £m	Other temporary differences £m	Total £m
At 1 January 2014	**46**	**34**	**67**	**104**	**—**	**157**	**408**
Differences on exchange	**(5)**	**(2)**	**(4)**	**(7)**	**—**	**(5)**	**(23)**
(Charged)/credited to the Income Statement	**(10)**	**2**	**(17)**	**(7)**	**62**	**(14)**	**16**
Credited to other comprehensive income	**—**	**—**	**—**	**65**	**—**	**—**	**65**
At 31 December 2014	**31**	**34**	**46**	**155**	**62**	**138**	**466**
At 1 January 2013	65	37	36	170	4	191	503
Differences on exchange	(7)	(1)	(5)	(5)	—	(15)	(33)
Credited/(charged) to the Income Statement	(12)	(2)	36	(2)	(1)	(19)	—
Charged to other comprehensive income	—	—	—	(59)	(3)	—	(62)
At 31 December 2013	46	34	67	104	—	157	408

Deferred tax liabilities comprise:

	Stock relief £m	Excess of capital allowances over depreciation £m	Undistributed earnings of associates and subsidiaries £m	Retirement benefits £m	Fair value (losses)/gains £m	Other temporary differences £m	Total £m
At 1 January 2014	**11**	**164**	**181**	**105**	**37**	**176**	**674**
Differences on exchange	**2**	**(5)**	**6**	**(8)**	**—**	**(11)**	**(16)**
(Credited)/charged to the Income Statement	**(5)**	**17**	**12**	**2**	**—**	**(5)**	**21**
Charged/(credited) to other comprehensive income	**—**	**—**	**5**	**(23)**	**(14)**	**3**	**(29)**
At 31 December 2014	**8**	**176**	**204**	**76**	**23**	**163**	**650**
At 1 January 2013	16	182	168	119	24	167	676
Differences on exchange	1	(13)	(13)	2	—	(3)	(26)
(Credited)/charged to the Income Statement	(6)	(5)	26	5	1	12	33
(Credited)/charged to other comprehensive income	—	—	—	(21)	12	—	(9)
At 31 December 2013	11	164	181	105	37	176	674

	2014 £m	2013 £m
Net deferred tax liabilities	**184**	266

The net deferred tax liabilities are reflected in the Group Balance Sheet as follows, after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

	2014	2013
	£m	£m
Deferred tax assets	**(311)**	(248)
Deferred tax liabilities	**495**	514
	184	266

Deferred tax expected to be recovered within 12 months:

	2014	2013
	£m	£m
Deferred tax assets	**(112)**	(115)
Deferred tax liabilities	**364**	300
	252	185

At the balance sheet date, the Group has unused tax losses of £704 million (2013: £598 million) which have no expiry date and unused tax losses of £642 million (2013: £558 million) which will expire within the next 10 years. No amount of deferred tax has been recognised in respect of these unused losses.

At the balance sheet date, the Group has not recognised a deferred tax asset in respect of deductible temporary differences of £971 million (2013: £1,005 million), which have no expiry date and £193 million (2013: £159 million), which will expire within the next 10 years.

At the balance sheet date, the Group has unused tax credits of £80 million (2013: £80 million) which have no expiry date. No amount of deferred tax has been recognised in respect of these unused tax credits.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries which would be subject to dividend withholding tax was £2 billion (2013: £2 billion). No liability has been recognised in respect of this withholding tax because the Group is in a position to control the timing of these distributions and it is probable that these distributions will not be made in the foreseeable future.

14 Trade and other receivables

	2014	2013
	£m	£m
Trade receivables	**2,071**	2,208
Loans and other receivables	**697**	692
Prepayments and accrued income	**153**	147
	2,921	3,047
Current	**2,768**	2,876
Non-current	**153**	171
	2,921	3,047

Amounts receivable from related parties including associated undertakings are shown in note 29.

Trade and other receivables have been reported in the Balance Sheet net of allowances as follows:

	2014	2013
	£m	£m
Gross trade and other receivables	**2,975**	3,103
Allowance account	**(54)**	(56)
Net trade and other receivables per Balance Sheet	**2,921**	3,047

The movements in the allowance account are as follows:

	2014 £m	2013 £m
1 January	**56**	52
Differences on exchange	**(3)**	(3)
Provided in the year	**11**	10
Amounts reversed during the year	**(10)**	(3)
31 December	**54**	56

Impairment of trade receivables, including write-offs and allowances, charged during the year is included as part of other operating expenses. For 2014, the net impairment charge was £4 million (2013: £9 million) of which £1 million (2013: £7 million), is reflected in the above table.

As at 31 December 2014, trade and other receivables of £39 million (2013: £46 million) were past their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default. The aged analysis of these trade receivables is as follows:

	2014 £m	2013 £m
Less than three months	**31**	34
Between three and six months	**2**	4
Between six months and one year	**3**	3
Greater than one year	**3**	5

The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

Trade and other receivables are predominantly denominated in the functional currencies of subsidiary undertakings apart from the following:

	2014 £m	2013 £m
US dollar	**141**	107
UK sterling	**195**	131
Euro	**62**	31
Other currencies	**185**	172

Trade and other receivables also include certain interest bearing amounts and their effective interest rates are as follows:

	2014 £m	2013 £m	2014 %	2013 %
UK sterling	**5**	5	**10.0**	10.0
Euro	**3**	5	**4.0**	4.0
Other currencies	**2**	3	**5.5**	5.1

There is no material difference between the above amounts for trade and other receivables and their fair value due to the short-term duration of the majority of trade and other receivables as determined using discounted cash flow analysis. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers.

15 Available-for-sale investments

	2014 £m	2013 £m
1 January	**90**	63
Differences on exchange	**(4)**	1
Additions and advances	**32**	46
Disposals and repayments	**(32)**	(20)
31 December	**86**	90
Current	**50**	54
Non-current	**36**	36
	86	90

The classification of these investments under the IFRS 13 fair value hierarchy is given in note 24.

Investments have the following maturities:

	As per Balance Sheet	
	2014 £m	2013 £m
Equity investments	**36**	36
Non-equity investments		
- within one year	**49**	53
- beyond two years and within three years	**1**	—
- beyond three years and within four years	**—**	1
	86	90

There is no material difference between the maturity profile of investments in the table above and the maturity profile on a gross contractual basis where the values in each year include the investments maturing in that year together with forecast interest receipts on all investments which are due for all or part of that year.

Included within non-equity investments are cash deposits of £32 million (2013: £nil) which do not meet the definition of cash and cash equivalents.

Investments are all denominated in the functional currency of the subsidiary undertaking holding the investments.

16 Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these derivative assets and liabilities under the IFRS 13 fair value hierarchy is given in note 24.

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Fair value hedges				
- interest rate swaps	**300**	**102**	121	63
- cross-currency swaps	**6**	**18**	6	38
Cash flow hedges				
- cross-currency swaps	**30**	**5**	—	3
- forward foreign currency contracts	**139**	**38**	106	25
Net investment hedges				
- forward foreign currency contracts	**55**	**52**	161	5
Held-for-trading *				
- forward foreign currency contracts	**31**	**34**	31	30
Total	**561**	**249**	425	164
Current	**274**	**126**	312	34
Non-current	**287**	**123**	113	130
	561	**249**	425	164
Derivatives				
- in respect of net debt	**362**	**137**	146	125
- other	**199**	**112**	279	39
	561	**249**	425	164

* As explained in note 4, some derivative financial instruments are not designated as hedges and so are required to be classified as held-for-trading.

For cash flow hedges, the timing of expected cash flows is as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Within one year	**150**	**38**	92	27
Between one and two years	**17**	**5**	14	1
Between two and three years	**2**	**—**	—	—
	169	**43**	106	28

The Group's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is broadly expected to be comparable to the time periods when the hedged item will affect profit or loss.

Notes on the Accounts (Continued)

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates. The maturity dates of all gross-settled derivative financial instruments are as follows:

	2014				2013			
	Assets		Liabilities		Assets		Liabilities	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
	£m	£m	£m	£m	£m	£m	£m	£m
Within one year								
- forward foreign currency contracts	**4,993**	**(4,803)**	**2,960**	**(2,935)**	5,681	(5,405)	2,949	(3,006)
- cross-currency swaps	**186**	**(149)**	**18**	**(4)**	4	(2)	195	(182)
Between one and two years								
- forward foreign currency contracts	**398**	**(377)**	**112**	**(115)**	276	(260)	63	(64)
- cross-currency swaps	**19**	**(16)**	**343**	**(370)**	4	(2)	33	(16)
Between two and three years								
- forward foreign currency contracts	**49**	**(46)**	**—**	**—**	—	—	—	—
- cross-currency swaps	**19**	**(20)**	**—**	**—**	4	(3)	358	(415)
Between three and four years								
- cross-currency swaps	**19**	**(22)**	**—**	**—**	4	(4)	15	(19)
Between four and five years								
- cross-currency swaps	**34**	**(23)**	**—**	**(14)**	4	(4)	15	(21)
Beyond five years								
- cross-currency swaps	**709**	**(774)**	**—**	**—**	110	(100)	461	(513)
	6,426	**(6,230)**	**3,433**	**(3,438)**	6,087	(5,780)	4,089	(4,236)

The maturity dates of net-settled derivative financial instruments are as follows:

	2014		2013	
	Assets Inflow/ (Outflow)	Liabilities (Inflow)/ Outflow	Assets Inflow/ (Outflow)	Liabilities (Inflow)/ Outflow
	£m	£m	£m	£m
Within one year	**62**	**(61)**	50	(22)
Between one and two years	**59**	**25**	27	(14)
Between two and three years	**49**	**24**	10	1
Between three and four years	**41**	**10**	9	11
Between four and five years	**35**	**9**	9	12
Beyond five years	**55**	**30**	23	89
	301	**37**	128	77

The above analysis of derivatives settled on a net basis primarily relates to the Group's interest rate swaps.

The fair value of derivative financial instruments is summarised as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Interest rate swaps	**300**	**102**	121	63
Cross-currency swaps	**36**	**23**	6	41
Forward foreign currency contracts	**225**	**124**	298	60
	561	**249**	425	164

(a) Interest rate swaps

2014

	Maturity date	Principal currency	m	£m	Interest rate % Original	Interest rate % Swapped	Assets £m	Liabilities £m
Fixed to floating	**2017**	**USD**	**600**	**385**	**2.1**	**note (a)**	**—**	**1**
	2019	**GBP**	**250**	**250**	**6.4**	**note (a)**	**47**	**—**
	2020	**EUR**	**600**	**466**	**4.0**	**note (a)**	**70**	**—**
	2020	**GBP**	**650**	**650**	**4.0**	**note (a)**	**27**	**—**
	2021	**EUR**	**600**	**466**	**3.1**	**note (a)**	**34**	**—**
	2022	**USD**	**900**	**577**	**3.3**	**note (a)**	**2**	**—**
	2023	**EUR**	**750**	**582**	**2.4**	**note (a)**	**60**	**—**
	2025	**EUR**	**650**	**504**	**2.8**	**note (a)**	**60**	**—**
Floating to fixed	**2017**	**EUR**	**600**	**466**	**note (a)**	**3.7**	**—**	**33**
	2023 *	**EUR**	**750**	**582**	**note (a)**	**2.8**	**—**	**68**
							300	**102**

2013

	Maturity date	Principal currency	m	£m	Interest rate % Original	Interest rate % Swapped	Assets £m	Liabilities £m
Fixed to floating	2014	GBP	500	500	6.0	note (a)	13	—
	2014	GBP	250	250	6.0	note (a)	11	—
	2017	USD	600	362	2.1	note (a)	—	1
	2019	GBP	250	250	6.4	note (a)	43	—
	2020	EUR	600	499	4.0	note (a)	47	—
	2020	GBP	650	650	4.0	note (a)	—	8
	2023	EUR	750	624	2.4	note (a)	—	4
	2025	EUR	650	541	2.8	note (a)	—	15
Floating to fixed	2017	EUR	600	499	note (a)	3.7	—	35
	2023 *	EUR	750	624	note (a)	2.8	7	—
							121	63

* The €750 million euro interest rate swap maturing in 2023 has a start date of 2015.

Note (a): the floating rate interest rates are based on LIBOR (or local equivalent) plus a margin ranging between 67 and 176 basis points (2013: between 67 and 268 basis points).

These swaps have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 21.

(b) Cross-currency swaps

2014

	Maturity date	Original currency	Interest rate %	Principal original currency m	£m	Swapped currency	Interest rate %	Principal swapped currency m	£m	Assets £m	Liabilities £m
Fixed to floating	**2016**	**GBP**	**5.5**	**325**	**325**	**EUR**	**note (b)**	**473**	**367**	**—**	**17**
	2019	**EUR**	**4.6**	**20**	**16**	**USD**	**note (b)**	**22**	**14**	**5**	**—**
	2021	**EUR**	**3.6**	**600**	**466**	**GBP**	**note (b)**	**518**	**518**	**1**	**—**
	2021	**CHF**	**0.6**	**320**	**207**	**GBP**	**note (b)**	**210**	**210**	**—**	**1**
Floating to fixed	**2015**	**BRL**	**note (b)**	**150**	**36**	**USD**	**1.0**	**68**	**44**	**—**	**5**
	2015	**USD**	**note (b)**	**261**	**167**	**COP**	**6.8**	**502,692**	**136**	**30**	**—**
										36	**23**

	2013										
	Maturity date	Original currency	Interest rate %	Principal original currency m	£m	Swapped currency	Interest rate %	Principal swapped currency m	£m	Assets £m	Liabilities £m
Fixed to floating	2016	GBP	5.5	325	325	EUR	note (b)	473	394	—	37
	2019	EUR	4.6	20	17	USD	note (b)	22	12	6	—
	2021	EUR	3.6	600	499	GBP	note (b)	518	518	—	1
Floating to fixed	2014	USD	note (b)	261	158	COP	7.2	504,158	158	—	3
										6	41

Note (b): the floating rate interest rates are based on LIBOR (or local equivalent) plus a margin ranging between 65 and 250 basis points (2013: between 82 and 250 basis points).

(c) Forward foreign currency contracts

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions as well as the hedging of internal and external assets and liabilities.

	2014		2013	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Purchase/Sell				
GBP/EUR	**32**	**—**	17	1
GBP/AUD	**18**	**—**	70	—
GBP/ZAR	**—**	**1**	19	—
GBP/CHF	**6**	**—**	5	1
GBP/USD	**—**	**49**	56	—
GBP/CAD	**2**	**1**	16	—
GBP/JPY	**22**	**—**	—	—
EUR/USD	**—**	**8**	5	—
USD/EUR	**38**	**—**	—	13
USD/GBP	**15**	**—**	—	14
USD/JPY	**43**	**—**	82	—
BRL/USD	**—**	**35**	—	2
Other	**49**	**30**	28	29
	225	**124**	298	60

Certain of these contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 21. The nominal values of these contracts are as follows:

	2014		2013	
	Purchase £m	Sell £m	Purchase £m	Sell £m
Purchase/Sell				
GBP/CHF	**—**	**—**	(226)	225
GBP/CAD	**(204)**	**202**	(211)	207
GBP/USD	**(192)**	**192**	(187)	181
GBP/EUR	**(76)**	**75**	(125)	124
EUR/DKK	**(339)**	**339**	(313)	313
EUR/SEK	**(116)**	**114**	(129)	131
EUR/NOK	**(137)**	**128**	(150)	149
CHF/GBP	**(223)**	**228**	—	—

17 Inventories

	2014	2013
	£m	£m
Raw materials and consumables	**1,732**	1,700
Finished goods and work in progress	**2,211**	2,144
Goods purchased for resale	**190**	198
	4,133	4,042

Inventories pledged as security for liabilities amount to £4 million (2013: £14 million). Write-offs taken to other operating expenses in the Group Income Statement comprise £47 million (2013: £45 million), including amounts relating to restructuring costs.

18 Income tax receivable and payable

Income tax balances shown on the Group Balance Sheet as current assets and current liabilities, while subject to some uncertainty as to the extent and timing of cash flows, are largely expected to be received or paid within 12 months at the balance sheet date for both 2014 and 2013.

19 Cash and cash equivalents

	2014	2013
	£m	£m
Cash and bank balances	**1,199**	1,399
Cash equivalents	**619**	707
	1,818	2,106

Cash equivalents mainly comprise short-term deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value.

Cash and cash equivalents are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	2014	2013
	£m	£m
Functional currency	**1,559**	1,804
US dollar	**115**	104
UK sterling	**13**	57
Euro	**47**	54
Other currencies	**84**	87
	1,818	2,106

At 31 December 2014, cash and cash equivalents of £nil (2013: £3 million) were pledged as collateral.

In the Group Cash Flow Statement, net cash and cash equivalents are shown after deducting bank overdrafts and accrued interest where applicable, as follows:

	2014	2013
	£m	£m
Cash and cash equivalents as above	**1,818**	2,106
Less accrued interest	**(1)**	(1)
Less overdrafts	**(325)**	(329)
Net cash and cash equivalents	**1,492**	1,776

Cash and cash equivalents include restricted amounts of £190 million (2013: £158 million), principally due to exchange control regulations in certain countries.

20 Capital and reserves — reconciliation of movement in total equity

	Attributable to owners of the parent						
	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
1 January 2014	507	3,919	(190)	2,398	6,634	301	6,935
Comprehensive income and expense							
Profit for the year	—	—	—	3,115	3,115	278	3,393
Differences on exchange							
- subsidiaries	—	—	(526)	—	(526)	(13)	(539)
- associates	—	—	113	—	113	—	113
Cash flow hedges							
- net fair value gains	—	—	75	—	75	(18)	57
- reclassified and reported in profit for the year	—	—	(76)	—	(76)	9	(67)
- reclassified and reported in net assets	—	—	8	—	8	—	8
Available-for-sale investments of associates							
- net fair value gains	—	—	15	—	15	—	15
Net investment hedges							
- net fair value gains	—	—	2	—	2	—	2
- differences on exchange on borrowings	—	—	60	—	60	—	60
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(e))	—	—	21	—	21	3	24
Retirement benefit schemes							
- net actuarial losses in respect of subsidiaries (note 12)	—	—	—	(428)	(428)	—	(428)
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	7	7	—	7
- actuarial losses in respect of associates net of tax (note 5)	—	—	—	(124)	(124)	—	(124)
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(e))	—	—	—	87	87	—	87
Other changes in equity							
Employee share options							
- value of employee services	—	—	—	66	66	—	66
- proceeds from shares issued	—	4	—	1	5	—	5
Dividends and other appropriations							
- ordinary shares	—	—	—	(2,712)	(2,712)	—	(2,712)
- to non-controlling interests	—	—	—	—	—	(260)	(260)
Purchase of own shares							
- held in employee share ownership trusts	—	—	—	(49)	(49)	—	(49)
- share buy-back programme	—	—	—	(800)	(800)	—	(800)
Non-controlling interests — acquisitions (note 29)	—	—	—	(4)	(4)	—	(4)
Non-controlling interests — capital injection (note 26(c))	—	—	—	—	—	4	4
Other movements	—	—	—	21	21	—	21
31 December 2014	507	3,923	(498)	1,578	5,510	304	5,814

	Attributable to owners of the parent						
	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
1 January 2013	507	3,916	796	2,253	7,472	307	7,779
Comprehensive income and expense							
Profit for the year	—	—	—	3,904	3,904	295	4,199
Differences on exchange							
- subsidiaries	—	—	(935)	—	(935)	(37)	(972)
- associates	—	—	(141)	—	(141)	—	(141)
Cash flow hedges							
- net fair value gains	—	—	103	—	103	(9)	94
- reclassified and reported in profit for the year	—	—	(56)	—	(56)	7	(49)
- reclassified and reported in net assets	—	—	(1)	—	(1)	—	(1)
Available-for-sale investments of associates							
- net fair value losses	—	—	(7)	—	(7)	—	(7)
Net investment hedges							
- net fair value gains	—	—	89	—	89	—	89
- differences on exchange on borrowings	—	—	(25)	—	(25)	—	(25)
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(e))	—	—	(13)	—	(13)	—	(13)
Retirement benefit schemes							
- net actuarial gains in respect of subsidiaries (note 12)	—	—	—	309	309	(1)	308
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	(6)	(6)	1	(5)
- actuarial gains in respect of associates net of tax (note 5)	—	—	—	90	90	—	90
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(e))	—	—	—	(39)	(39)	1	(38)
Other changes in equity							
Employee share options							
- value of employee services	—	—	—	61	61	—	61
- proceeds from shares issued	—	3	—	1	4	—	4
Dividends and other appropriations							
- ordinary shares	—	—	—	(2,611)	(2,611)	—	(2,611)
- to non-controlling interests	—	—	—	—	—	(271)	(271)
Purchase of own shares							
- held in employee share ownership trusts	—	—	—	(74)	(74)	—	(74)
- share buy-back programme	—	—	—	(1,509)	(1,509)	—	(1,509)
Non-controlling interests — capital injection (note 26(b))	—	—	—	—	—	8	8
Other movements	—	—	—	19	19	—	19
31 December 2013	507	3,919	(190)	2,398	6,634	301	6,935

Details relating to the allotted share capital, and movements therein, are included in note 4 of the Parent Company financial statements.

(a) Share premium account, capital redemption reserves and merger reserves comprise:

	Share premium account	Capital redemption reserves	Merger reserves	Total
	£m	£m	£m	£m
1 January 2013	67	101	3,748	3,916
31 December 2013	70	101	3,748	3,919
31 December 2014	**74**	**101**	**3,748**	**3,923**

The share premium account includes the difference between the value of shares issued and their nominal value. The increase of £4 million (2013: £3 million) relates solely to ordinary shares issued under the Company's share option schemes. These schemes are described in the Remuneration Report.

On the purchase of own shares as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of shares purchased. Purchased shares which are not cancelled are classified as treasury shares and presented as a deduction from total equity.

Total equity attributable to owners of the parent is stated after deducting the cost of treasury shares which include £4,845 million

(2013: £4,045 million) for shares repurchased and not cancelled and £228 million (2013: £280 million) in respect of the cost of own shares held in employee share ownership trusts.

During 2014, 23 million shares were bought back at a cost of £795 million (2013: 44 million shares at a cost of £1,500 million) excluding transaction costs of £5 million (2013: £9 million). The share buy-back programme was suspended from 30 July 2014.

In 1999, shares were issued for the acquisition of the Rothmans International B.V. Group, and the difference between the fair value of shares issued and their nominal value was credited to merger reserves.

(b) Information on the principal components of non-controlling interests is provided in note 31.

Movements in other reserves and retained earnings (which are after deducting treasury shares) shown above comprise:

	Translation reserve	Hedging reserve	Available-for-sale reserve	Revaluation reserve	Other	Total other reserves	Retained earnings Treasury shares	Retained earnings Other
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2014	**(1,015)**	**44**	**29**	**179**	**573**	**(190)**	**(4,325)**	**6,723**
Comprehensive income and expense								
Profit for the year	—	—	—	—	—	—	—	3,115
Differences on exchange								
- subsidiaries	(526)	—	—	—	—	(526)	—	—
- associates	113	—	—	—	—	113	—	—
Cash flow hedges								
- net fair value gains	—	75	—	—	—	75	—	—
- reclassified and reported in profit for the year	—	(76)	—	—	—	(76)	—	—
- reclassified and reported in net assets	—	8	—	—	—	8	—	—
Available-for-sale investments of associates								
- net fair value gains	—	—	15	—	—	15	—	—
Net investment hedges								
- net fair value gains	2	—	—	—	—	2	—	—
- differences on exchange on borrowings	60	—	—	—	—	60	—	—
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss	(3)	24	—	—	—	21	—	—
Retirement benefit schemes								
- net actuarial losses in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	(428)
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	7
- actuarial losses in respect of associates net of tax (note 5)	—	—	—	—	—	—	—	(124)
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss	—	—	—	—	—	—	—	87
Other changes in equity								
Employee share options								
- value of employee services	—	—	—	—	—	—	—	66
- proceeds from shares issued	—	—	—	—	—	—	1	—
Dividends and other appropriations								
- ordinary shares	—	—	—	—	—	—	—	(2,712)
Purchase of own shares								
- held in employee share ownership trusts	—	—	—	—	—	—	(49)	—
- share buy-back programme	—	—	—	—	—	—	(800)	—
Non-controlling interests — acquisitions (note 29)	—	—	—	—	—	—	—	(4)
Other movements	—	—	—	—	—	—	100	(79)
31 December 2014	**(1,369)**	**75**	**44**	**179**	**573**	**(498)**	**(5,073)**	**6,651**

	Translation reserve	Hedging reserve	Available-for-sale reserve	Revaluation reserve	Other	Total other reserves	Retained earnings Treasury shares	Retained earnings Other
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2013	(3)	11	36	179	573	796	(2,824)	5,077
Comprehensive income and expense								
Profit for the year	—	—	—	—	—	—	—	3,904
Differences on exchange								
- subsidiaries	(935)	—	—	—	—	(935)	—	—
- associates	(141)	—	—	—	—	(141)	—	—
Cash flow hedges								
- net fair value gains	—	103	—	—	—	103	—	—
- reclassified and reported in profit for the year	—	(56)	—	—	—	(56)	—	—
- reclassified and reported in net assets	—	(1)	—	—	—	(1)	—	—
Available-for-sale investments of associates								
- net fair value losses	—	—	(7)	—	—	(7)	—	—
Net investment hedges								
- net fair value gains	89	—	—	—	—	89	—	—
- differences on exchange on borrowings	(25)	—	—	—	—	(25)	—	—
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss	—	(13)	—	—	—	(13)	—	—
Retirement benefit schemes								
- net actuarial gains in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	309
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	(6)
- actuarial gains in respect of associates net of tax (note 5)	—	—	—	—	—	—	—	90
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss	—	—	—	—	—	—	—	(39)
Other changes in equity								
Employee share options								
- value of employee services	—	—	—	—	—	—	—	61
- proceeds from shares issued	—	—	—	—	—	—	1	—
Dividends and other appropriations								
- ordinary shares	—	—	—	—	—	—	—	(2,611)
Purchase of own shares								
- held in employee share ownership trusts	—	—	—	—	—	—	(74)	—
- share buy-back programme	—	—	—	—	—	—	(1,509)	—
Other movements	—	—	—	—	—	—	81	(62)
31 December 2013	(1,015)	44	29	179	573	(190)	(4,325)	6,723

The translation reserve is as explained in the accounting policy on foreign currencies in note 1.

The hedging reserve and the available-for-sale reserve are as explained in the accounting policy on financial instruments in note 1.

The revaluation reserve relates to the acquisition of the cigarette and snus business of ST in 2008.

Of the amounts released from the hedging reserve during the year, gains of £21 million (2013: £28 million gain) and gains of £27 million (2013: £11 million gain) were reported within revenue and raw materials and consumables respectively, together with a loss of £13 million (2013: £3 million loss) reported in other operating expenses and a gain of £31 million (2013: £13 million gain) reported within net finance costs.

Other reserves comprise:

(a) £483 million which arose in 1998 from merger accounting in a Scheme of Arrangement and Reconstruction whereby British American Tobacco p.l.c. acquired the entire share capital of B.A.T Industries p.l.c. and the share capital of that company's principal financial services subsidiaries was distributed, so effectively demerging them; and

(b) In the Rothmans transaction, convertible redeemable preference shares were issued as part of the consideration. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The £90 million balance in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

The tax attributable to components of other comprehensive income is as follows:

	2014 £m	2013 £m
Translation reserve		
Net investment hedges		
- difference on exchange on borrowings	**(3)**	—
	(3)	—
Hedging reserve		
Cash flow hedges		
- net fair value gains	**(3)**	(36)
- reclassified and reported in profit for the year	**27**	23
	24	(13)
Retained earnings		
- actuarial losses/(gains) in respect of subsidiaries	**89**	(41)
- surplus recognition and minimum funding obligations in respect of subsidiaries	**(2)**	2
	87	(39)
Owners of the parent	**108**	(52)
Non-controlling interests	**3**	1
Total tax recognised in other comprehensive income for the year (note 6(e))	**111**	(51)

21 Borrowings

	Currency	Maturity dates	Interest rates	2014 £m	2013 £m
Eurobonds	Euro	2015 to 2029	2.4% to 5.9%	**5,211**	5,372
	Euro	2018	3m EURIBOR + 50bps	**309**	—
	UK sterling	2016 to 2040	4.0% to 7.3%	**3,083**	3,118
	US dollar	2016	1.1%	**192**	182
	Swiss franc	2016	CHF 3m LIBOR + 16bps	**226**	—
	Swiss franc	2021 to 2026	0.7% to 1.4%	**419**	—
Bonds issued pursuant to Rule 144A and RegS under the US Securities Act (as amended)	US dollar	2015 to 2022	1.4% to 9.5%	**1,726**	1,620
Other notes	Malaysian ringgit	2014	4.1% to 4.5%	**—**	47
	Other currencies			**—**	24
Bonds and notes				**11,166**	10,363
Commercial paper				**160**	521
Other loans				**223**	136
Bank loans				**374**	341
Bank overdrafts				**325**	329
Finance leases				**10**	6
				12,258	11,696

The interest on the commercial paper referred to in the table above is based on USD LIBOR plus a margin ranging between 10 and 43 basis points (2013: 10 and 15 basis points).

	2014	2013
	£m	£m
Current	**2,479**	1,980
Non-current	**9,779**	9,716
	12,258	11,696

Current borrowings include interest payable of £240 million at 31 December 2014 (2013: £247 million). Included within borrowings are £4,522 million (2013: £4,466 million) of borrowings subject to fair value hedges where their amortised cost has been increased by £228 million (2013: £69 million) in the table above.

The fair value of borrowings is estimated to be £13,606 million (2013: £12,701 million). £12,533 million (2013: £11,873 million) has been calculated using quoted market prices and is within level 1 of the fair value hierarchy. £1,073 million (2013: £828 million) has been calculated based on discounted cash flow analysis and is within level 2 of the fair value hierarchy.

	2014	2013
	£m	£m
Amounts secured on Group assets	**14**	20

In both years amounts secured on Group assets include finance leases of £10 million (2013: £6 million) and amounts secured on certain inventory of the Group (see note 17).

Borrowings are repayable as follows:

	Per Balance Sheet		Contractual gross maturities	
	2014	2013	2014	2013
	£m	£m	£m	£m
Within one year	**2,479**	1,980	**2,656**	2,220
Between one and two years	**877**	1,343	**1,262**	1,798
Between two and three years	**1,349**	534	**1,756**	899
Between three and four years	**758**	1,513	**1,085**	1,790
Between four and five years	**560**	421	**799**	853
Beyond five years	**6,235**	5,905	**7,814**	7,732
	12,258	11,696	**15,372**	15,292

The contractual gross maturities in each year include the borrowings maturing in that year together with forecast interest payments on all borrowings which are outstanding for all or part of that year.

Borrowings are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	Functional currency	US dollar	UK sterling	Euro	Canadian dollar	Other currencies	Total
	£m	£m	£m	£m	£m	£m	£m
31 December 2014							
Total borrowings	**5,419**	**2,240**	**330**	**3,478**	**—**	**791**	**12,258**
Effect of derivative financial instruments							
- cross-currency swaps	**1,195**	**(109)**	**(325)**	**(482)**	**—**	**(207)**	**72**
- forward foreign currency contracts	**(244)**	**192**	**—**	**(517)**	**202**	**358**	**(9)**
	6,370	**2,323**	**5**	**2,479**	**202**	**942**	**12,321**
31 December 2013							
Total borrowings	5,643	2,353	329	3,248	—	123	11,696
Effect of derivative financial instruments							
- cross-currency swaps	1,070	(146)	(325)	(516)	—	—	83
- forward foreign currency contracts	(749)	181	—	(468)	207	818	(11)
	5,964	2,388	4	2,264	207	941	11,768

Details of the derivative financial instruments included in these tables are given in note 16.

The exposure to interest rate changes when borrowings are repriced is as follows:

	Within 1 year	Between 1-2 years	Between 2-3 years	Between 3-4 years	Between 4-5 years	Beyond 5 years	Total
	£m	£m	£m	£m	£m	£m	£m
31 December 2014							
Total borrowings	**2,492**	**879**	**1,347**	**758**	**559**	**6,223**	**12,258**
Effect of derivative financial instruments							
- interest rate swaps	**2,832**	**—**	**81**	**—**	**(250)**	**(2,663)**	**—**
- cross-currency swaps	**1,086**	**(325)**	**—**	**—**	**(16)**	**(673)**	**72**
	6,410	**554**	**1,428**	**758**	**293**	**2,887**	**12,330**
31 December 2013							
Total borrowings	2,013	1,341	655	1,392	420	5,875	11,696
Effect of derivative financial instruments							
- interest rate swaps	2,427	(624)	—	137	—	(1,940)	—
- cross-currency swaps	924	—	(325)	—	—	(516)	83
	5,364	717	330	1,529	420	3,419	11,779

Details of the derivative financial instruments included in these tables are given in note 16.

Finance lease liabilities per the Balance Sheet and on a contractual gross maturity basis are payable as follows:

	2014	2013
	£m	£m
Within one year	**3**	2
Between one and two years	**2**	2
Between two and three years	**2**	1
Between three and four years	**1**	1
Between four and five years	**1**	—
Beyond five years	**1**	—
	10	6

There is no material difference between the repayable principal and the total gross cash flows shown above.

Borrowings facilities — undrawn committed facilities (see note 24) expire as follows:

	2014	2013
	£m	£m
Within one year	**3,165**	169
Between one and two years	**—**	2,000
Between two and three years	**96**	—
Between three and four years	**—**	91
Between four and five years	**3,000**	—
	6,261	2,260

The Group defines net debt as follows:

	2014	2013
	£m	£m
Borrowings (note 21)	**12,258**	11,696
Derivatives in respect of net debt:		
- assets (note 16)	**(362)**	(146)
- liabilities (note 16)	**137**	125
Cash and cash equivalents (note 19)	**(1,818)**	(2,106)
Current available-for-sale investments (note 15)	**(50)**	(54)
	10,165	9,515

22 Other provisions for liabilities and charges

	Restructuring of existing businesses	Employee related benefits	Fox River	Other provisions	Total
	£m	£m	£m	£m	£m
1 January 2014	**88**	**42**	**267**	**184**	**581**
Differences on exchange	**(4)**	**(1)**	**—**	**(7)**	**(12)**
Provided/(reversed) in respect of the year	**56**	**8**	**(27)**	**47**	**84**
Utilised during the year	**(36)**	**(9)**	**(63)**	**(57)**	**(165)**
31 December 2014	**104**	**40**	**177**	**167**	**488**
Analysed on the Balance Sheet as					
- current	**49**	**13**	**36**	**112**	**210**
- non-current	**55**	**27**	**141**	**55**	**278**
	104	**40**	**177**	**167**	**488**
1 January 2013	92	45	271	221	629
Differences on exchange	(4)	(4)	—	(26)	(34)
Provided in respect of the year	42	12	—	52	106
Utilised during the year	(42)	(11)	(4)	(63)	(120)
31 December 2013	88	42	267	184	581
Analysed on the Balance Sheet as					
- current	49	18	—	127	194
- non-current	39	24	267	57	387
	88	42	267	184	581

The restructuring provisions relate to the restructuring and integration costs incurred and reported as adjusting items in the Income Statement. The principal restructuring activities in 2014 and 2013 are as described in note 3(e). While some elements of the non-current provisions of £55 million will unwind over several years, as termination payments are made over extended periods in some countries, it is estimated that approximately 25% will unwind in 2016 and over 82% within five years.

Employee related benefits mainly relate to long-term employee benefits other than post-employment benefits. As the principal components of these provisions are long service awards and 'jubilee' payments due after a certain service period, they will unwind over several years. It is estimated that approximately 46% of the non-current provisions of £27 million will unwind within five years.

A provision of £274 million was made in 2011 for a potential claim under a 1998 settlement agreement entered into by a Group subsidiary in respect of the clean-up of sediment in the Fox River. On 30 September 2014, the Group, NCR, Appvion and Windward Prospects entered into the Funding Agreement. The details of this agreement are explained in note 30. This agreement led to payments of £56 million in the year. In addition, the Group incurred other costs of £7 million which were also charged against the provision. In light of the conclusion of the Funding Agreement, the sums that the Group has agreed to pay thereunder, as well as the available information in relation to the extent of the clean-up related costs, the Group has reviewed the Fox River provision and £27 million has been released from the provision in 2014. It is expected that the non-current provision will unwind within five years.

Other provisions comprise balances set up in the ordinary course of general business that cannot be classified within the other categories, such as sales returns, onerous contracts, together with amounts in respect of supplier, excise and other disputes. The nature of the amounts provided in respect of disputes is such that the extent and timing of cash flows is difficult to estimate, and the ultimate liability may vary from the amounts provided.

Amounts provided above are shown net of reversals of unused provisions which include reversals of £18 million for restructuring of existing businesses, £nil for employee benefits and £17 million for other provisions.

23 Trade and other payables

	2014	2013
	£m	£m
Trade payables	**764**	814
Duty, excise and other taxes	**3,539**	3,642
Accrued charges and deferred income	**1,033**	1,038
Social security and other taxation	**7**	18
Sundry payables	**309**	360
	5,652	5,872
Current	**5,524**	5,741
Non-current	**128**	131
	5,652	5,872

Accrued charges and deferred income include £67 million of deferred income (2013: £87 million) and £6 million (2013: £3 million) in respect of interest payable. Deferred income relates primarily to government grants for property acquired in Brazil. Amounts payable to related parties including associated undertakings are shown in note 29.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables, as determined using discounted cash flow analysis.

Trade and other payables are predominantly denominated in the functional currencies of subsidiary undertakings with less than 5% in other currencies (2013: less than 5%).

24 Financial instruments and risk management

Management of financial risks

One of the principal responsibilities of Treasury is to manage the financial risks arising from the Group's underlying operations. Specifically Treasury manages, within an overall policy framework set by the Group's Main Board and Corporate Finance Committee (CFC), the Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group's treasury position is monitored by the CFC which meets regularly throughout the year and is chaired by the Group Finance Director. The approach is one of risk reduction within an overall framework of delivering total shareholder return.

The Group defines capital as net debt (see note 21) and equity (see note 20). The only externally imposed capital requirement for the Group is interest cover as described under interest rate risk below. The Group assesses its financial capacity by reference to cash flow, net debt and interest cover. Group policies include a set of financing principles and key performance indicators including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided. The key objective of the financing principles is to appropriately balance the interests of equity and debt holders in driving an efficient financing mix for the Group.

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's Balance Sheet and related notes.

The Group's management of specific risks is dealt with as follows:

Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of providers. The Group has a target average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2014, the average centrally managed debt maturity was 6.8 years (2013: 7.2 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 18.7% (2013: 18.3%).

It is Group policy that short-term sources of funds (including drawings under both the Group US$2 billion commercial paper programme, and the Group £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. The Group's commercial paper programme is mainly issued by B.A.T. International Finance p.l.c., British American Tobacco Holdings (The Netherlands) B.V. and B.A.T. Netherlands (Finance) B.V. At 31 December 2014, commercial paper of £160 million was outstanding (2013: £521 million).

In May 2014, the Group through B.A.T. International Finance p.l.c. negotiated a new central banking facility of £3 billion with a final maturity of May 2019 (with two additional one-year extensions at the option of the banks). This facility is provided by 22 banks. The new facility is on significantly improved terms compared to the previous central banking facility of £2 billion, with a maturity of December 2015, which was cancelled at the same time. The new facility was undrawn as at 31 December 2014 (2013: undrawn).

In September 2014, the Group signed a one-year bridge facility of US$4.7 billion with an extension option of up to one year for its proposed investment in Reynolds American Inc.

In September 2014, the Group repaid a maturing €600 million bond, this repayment was financed from Group cash balances.

In September 2014, the Group issued a new CHF 350 million bond with a maturity of 2016, a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In August 2014, the Group repaid a maturing MYR 250 million note, this repayment was financed from Group cash balances.

In June 2014, the Group purchased and cancelled an existing US$40 million bond with a maturity of 2029; this purchase was financed from Group cash balances.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018 and a new €600 million bond with a maturity of 2029.

In December 2013, a maturing £152 million bond was repaid, this repayment was financed from Group cash balances.

In November 2013, a maturing US$300 million bond was repaid, this repayment was financed from Group cash balances.

In September 2013, the Group issued a new £650 million bond with a maturity of 2026.

In July 2013, the Group repaid a maturing €519 million bond, this repayment was financed from Group cash balances.

In March 2013, the Group issued a new €650 million bond with a maturity of 2025 and a new US$300 million bond with a maturity of 2016.

During the year, the Group's subsidiary in Brazil received proceeds of £411 million (2013: £399 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £271 million (2013: £436 million).

The Group has a US$240 million facility, maturing in 2016. This facility is drawable in Chilean peso and was drawn to the value of US$225 million at 31 December 2014 (2013: US$225 million).

The Group utilises cash pooling and zero balancing bank account structures in addition to inter-company loans and borrowings to ensure that there is the maximum mobilisation of cash within the Group. The key objectives of Treasury in respect of cash and cash equivalents are to protect the principal value of cash and cash equivalents, to concentrate cash at the centre to minimise the required long-term debt issuance, and to optimise the yield earned. The amount of debt issued by the Group is determined by forecasting the net debt requirement after the mobilisation of cash.

The Group continues to target investment-grade credit ratings; as at 31 December 2014 the ratings from Moody's and S&P were A3 (stable outlook)/A- (stable outlook) (2013: A3/A-). The Moody's rating was upgraded from Baa1 to A3 on 12 March 2013. The strength of the ratings has underpinned the debt issuance during 2014 and 2013 and, despite the impact of the turbulence in financial markets, the Group is confident of its ability to successfully access the debt capital markets, as demonstrated with the issue of bonds in the Swiss franc, euro, US dollar and sterling markets in 2014 and 2013.

As part of its short-term cash management, the Group invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2014, cash and cash equivalents include £nil invested in money market funds (2013: £156 million).

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies. All contractual borrowing covenants have been met and none of them is expected to inhibit the Group's operations or funding plans.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries and associates into its reporting currency, sterling. The Group's primary balance sheet translation exposures are to the US dollar, Canadian dollar, euro, Danish krone, Swiss franc, South African rand, Russian rouble, Brazilian real, Australian dollar, Malaysian ringgit and Singapore dollar. These exposures are kept under continuous review. The Group's policy on borrowings is to broadly match the currency of these borrowings with the currency of cash flows arising from the Group's underlying operations. Within this overall policy, the Group aims to minimise all balance sheet translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency borrowings. The main objective of these policies is to protect shareholder value by increasing certainty and minimising volatility in earnings per share. At 31 December 2014, the currency profile of the Group's gross debt, after taking into account derivative contracts, was 19% (2013: 21%) US dollar, 40% (2013: 41%) euro, 2% (2013: 2%) Canadian dollar, 26% (2013: 21%) sterling, and 13% (2013: 15%) other currencies.

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint arrangements; these exposures are not normally hedged. Exposures also arise from:

(i) foreign currency denominated trading transactions undertaken by subsidiaries. These exposures comprise committed and highly probable forecast sales and purchases, which are offset wherever possible. The remaining exposures are hedged within the Treasury policies and procedures with forward foreign exchange contracts and options, which are designated as hedges of the foreign exchange risk of the identified future transactions; and

(ii) forecast dividend flows from subsidiaries to the centre. To ensure cash flow certainty, the Group enters into forward foreign exchange contracts which are designated as net investment hedges of the foreign exchange risk arising from the investments in these subsidiaries.

IFRS 7 *Financial Instruments: Disclosures* requires a sensitivity analysis that shows the impact on the Income Statement and on items recognised directly in other comprehensive income of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held across the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. Financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 10% strengthening of functional currencies against non-functional currencies would result in pre-tax profit being £2 million higher (2013: £24 million higher) and items recognised directly in other comprehensive income being £49 million higher (2013: £15 million higher). A 10% weakening of functional currencies against non-functional currencies would result in pre-tax profit being £3 million lower (2013: £31 million lower) and items recognised directly in other comprehensive income being £59 million lower (2013: £19 million lower).

The exchange sensitivities on items recognised directly in other comprehensive income relate to hedging of certain net asset currency positions in the Group as well as on cash flow hedges in respect of future transactions, but does not include sensitivities in respect of exchange on non-financial assets or liabilities.

Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on the earnings, cash flow and economic value of the Group and to safeguard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

The Group targets an interest cover ratio, as calculated under its key central banking facilities, of greater than 5 and for 2014 it is 12.0 times (2013: 12.3 times). The only externally imposed capital requirement the Group has is in respect of its centrally managed banking facilities, which require a gross interest cover of 4.5.

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on both a gross and net basis (at least 50% fixed on a net basis in the short to the medium term) as a result of regular reviews of market conditions and strategy by the Corporate Finance Committee and the Board of the main central finance company. At 31 December 2014, the relevant ratios of floating to fixed rate borrowings were 45:55 (2013: 43:57) on a gross basis and 30:70 (2013: 25:75) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 *Financial Instruments: Disclosures* requires a sensitivity analysis that shows the impact on the Income Statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of financial assets and liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analysis, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being £35 million lower (2013: £22 million lower). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being £20 million higher (2013: £1 million higher). The effect of these interest rate changes on items recognised directly in other comprehensive income is not material in either year.

Credit risk

The Group has no significant concentrations of customer credit risk. Subsidiaries have policies in place requiring appropriate credit checks on potential customers before sales commence. The process for monitoring and managing credit risk once sales to customers have been made varies depending on local practice in the countries concerned.

Certain territories have bank guarantees, other guarantees and credit insurance provided in the Group's favour in respect of Group trade receivables, the issuance and terms of which are dependent on local practices in the countries concerned.

All derivatives are subject to ISDA agreements or equivalent documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally the Group targets a long-term counterparty credit rating of at least A-/A3. However, the Group recognises that due to the need to operate over a large geographic footprint, sovereign risk can be the determining factor on the suitability of a counterparty. From time to time the Group may invest in short-dated corporate commercial paper and for this, the Group identifies specific counterparties with a minimum short-term rating of A1/P1.

Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions throughout its geographic footprint, while at the same time ensuring that there is no geographic concentration in the location of counterparties.

With the following exceptions, the maximum exposure to the credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group's Balance Sheet. The Group has issued guarantees to third parties, part of which has been recognised on the Balance Sheet in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* The unrecognised portion of these guaranteed amounts was £28 million (2013: £30 million). During 2014, the Group has guaranteed the borrowings of the non-controlling interest in respect of the capital injection made to the Group's Algerian business (see note 26(c)). In addition, the Group has entered into short-term risk participation agreements in relation to certain leaf supply arrangements and the maximum exposure under these would be £106 million (2013: £91 million).

The impact of own credit risk on the fair value of derivatives and other obligations held at fair value is not material.

Price risk

The Group is exposed to equity price risk on equity investments held by the Group, which are included in available-for-sale investments on the Consolidated Balance Sheet, but the quantum of such is not material.

Hedge accounting

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

Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the Balance Sheet, the basis for fair values is described below.

Fair value hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value in accordance with the IFRS 13 classification hierarchy:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets at fair value				
Available-for-sale investments (note 15)	**50**	**—**	**36**	**86**
Derivatives relating to				
- interest rate swaps (note 16)	**—**	**300**	**—**	**300**
- cross-currency swaps (note 16)	**—**	**36**	**—**	**36**
- forward foreign currency contracts (note 16)	**—**	**225**	**—**	**225**
Assets at fair value	**50**	**561**	**36**	**647**
Liabilities at fair value				
Derivatives relating to				
- interest rate swaps (note 16)	**—**	**102**	**—**	**102**
- cross-currency swaps (note 16)	**—**	**23**	**—**	**23**
- forward foreign currency contracts (note 16)	**—**	**124**	**—**	**124**
Liabilities at fair value	**—**	**249**	**—**	**249**

	2013			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets at fair value				
Available-for-sale investments (note 15)	54	—	36	90
Derivatives relating to				
- interest rate swaps (note 16)	—	121	—	121
- cross-currency swaps (note 16)	—	6	—	6
- forward foreign currency contracts (note 16)	—	298	—	298
Assets at fair value	54	425	36	515
Liabilities at fair value				
Derivatives relating to				
- interest rate swaps (note 16)	—	63	—	63
- cross-currency swaps (note 16)	—	41	—	41
- forward foreign currency contracts (note 16)	—	60	—	60
Liabilities at fair value	—	164	—	164

Level 1 financial instruments are traded in an active market and fair value is based on quoted prices at the year-end.

Level 2 financial instruments are not traded in an active market, but the fair values are based on quoted market prices, broker/dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives.

The fair values of level 3 financial instruments have been determined using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. The Group's level 3 financial instruments primarily consist of an equity investment in an unquoted entity which is valued using the discounted cash flows of estimated future dividends. The valuation assumes the following:

- future dividends grow by 2.0% (2013: 2.0%) and a 100 basis points decrease in the growth rate would result in the valuation being £6 million lower (2013: £6 million lower); and
- discount rate of 6.5% (2013: 6.5%) and a 100 basis points decrease in the discount rate would result in the valuation being £10 million higher (2013: £10 million higher).

The following table presents the changes in level 3 financial instruments:

	2014	2013
	Available-for-sale investments	Available-for-sale investments
	£m	£m
1 January	**36**	37
Differences on exchange	**—**	(1)
31 December	**36**	36

Netting arrangements of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group Balance Sheet, together with the Group's rights of offset associated with recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	2014			2013		
	Amount presented in the Group Balance Sheet*	Related amounts not offset in the Group Balance Sheet	Net amount	Amount presented in the Group Balance Sheet*	Related amounts not offset in the Group Balance Sheet	Net amount
	£m	£m	£m	£m	£m	£m
Financial assets						
- Derivative financial instruments (note 16)	**561**	**(227)**	**334**	425	(144)	281
Financial liabilities						
- Derivative financial instruments (note 16)	**(249)**	**227**	**(22)**	(164)	144	(20)
	312	**—**	**312**	261	—	261

* No financial instruments have been offset in the Group Balance Sheet.

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trades derivatives.

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transactions and amounts owed to it by the defaulting party. If that sum exceeds the amounts owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

25 Cash flow

Cash generated from operations

	2014	2013
	£m	£m
Profit from operations	**4,546**	5,526
Adjustments for		
- amortisation of trademarks and similar intangibles	**58**	74
- amortisation and impairment of other intangible assets	**69**	48
- gain on deemed partial disposal of a trademark	**—**	(26)
- depreciation and impairment of property, plant and equipment	**396**	355
- increase in inventories	**(405)**	(386)
- increase in trade and other receivables	**(36)**	(246)
- increase in trade and other payables	**203**	311
- decrease in net retirement benefit liabilities	**(170)**	(222)
- decrease in provisions for liabilities and charges	**(76)**	(19)
- other non-cash items	**49**	(49)
Cash generated from operations	**4,634**	5,366

Profit from operations includes charges in respect of Group restructuring and integration costs referred to in note 3(e). These are also reflected in the movements in depreciation, amortisation, impairment, inventories, receivables, payables and provisions above and in the proceeds on disposal of property, plant and equipment shown in the Group Cash Flow Statement. The cash outflow in respect of the Group's restructuring costs was £325 million (2013: £310 million).

Profit from operations includes a release in respect of the Fox River provision referred to in note 3(h) and is reflected in the movement in provisions, above. The cash outflow in respect of this provision was £63 million (2013: £nil).

Profit from operations includes a charge in respect of Flintkote referred to in note 3(i) and this corresponds with the cash outflow of £374 million (2013: £nil).

Cash flows from investing activities

(a) Property, plant and equipment

In 2014, proceeds on disposal of property, plant and equipment include receipts in respect of Turkey, Uganda and the Democratic Republic of Congo, the gains on which have been included in restructuring and integration costs (note 3(e)).

In 2013, proceeds on disposal of property, plant and equipment include receipts in respect of Australia, Denmark and Russia, the gains on which have been included in restructuring and integration costs (note 3(e)).

(b) Purchases of investments

The purchases of investments (which comprise available-for-sale investments and loans and receivables) comprise a cash outflow in respect of current investments of £31 million (2013: £47 million outflow).

(c) Proceeds from disposals of investments

The disposals of investments (which comprise available-for-sale investments and loans and receivables) comprise a cash inflow in respect of current investments of £34 million (2013: £15 million inflow).

(d) Proceeds from associates' share buy-backs

The proceeds from associates' share buy-backs reflect proceeds of £94 million (2013: £189 million) in respect of the Group's participation in the share buy-back programme conducted by Reynolds American Inc.

(e) Purchase of subsidiaries

In 2013, the cash outflow relates to further cash consideration paid on the purchase of CN Creative Limited of £16 million.

Cash flows from financing activities

(a) Cash flows from borrowings

In September 2014, the Group repaid a maturing €600 million bond, this repayment was financed from Group cash balances.

In September 2014, the Group issued a new CHF 350 million bond with a maturity of 2016; a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In August 2014, the Group repaid a maturing MYR 250 million note, this repayment was financed from Group cash balances.

In June 2014, the Group purchased and cancelled an existing US$40 million bond with a maturity of 2029; this purchase was financed from Group cash balances.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018 and a new €600 million bond with a maturity of 2029.

In December 2013, a maturing £152 million bond was repaid, this repayment was financed from Group cash balances.

In November 2013, a maturing US$300 million bond was repaid, this repayment was financed from Group cash balances.

In September 2013, the Group issued a new £650 million bond with a maturity of 2026.

In July 2013, the Group repaid a maturing €519 million bond, this repayment was financed from Group cash balances.

In March 2013, the Group issued a new €650 million bond with a maturity of 2025 and a new US$300 million bond with a maturity of 2016.

During the year, the Group's subsidiary in Brazil received proceeds of £411 million (2013: £399 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £271 million (2013: £436 million).

(b) Movements relating to derivative financial instruments

The movement relating to derivative financial instruments is in respect of derivatives taken out to hedge cash and cash equivalents and external borrowings, derivatives taken out to hedge inter-company loans and borrowings and derivatives treated as net investment hedges. Derivatives taken out as cash flow hedges in respect of financing activities are also included in the movement relating to derivative financial instruments, while other such derivatives in respect of operating and investing activities are reflected along with the underlying transactions.

(c) Purchases of non-controlling interests

In 2014, the purchases of non-controlling interests of £4 million (2013: £nil) relates to the acquisition of part of the non-controlling interests in BAT Chile Operaciones, S.A. and BAT Central America S.A. (see note 26 (c)).

(d) Non-controlling interests — capital injection

In 2014, a £4 million capital injection (2013: £nil) was made by the non-controlling interest to BAT Algérie S.P.A. (see note 26 (c)).

26 Business combinations, disposals and other changes in the Group

(a) CTBAT International Limited

On 30 August 2013 the Group announced that CTBAT International Limited (CTBAT), a joint investment incorporated in Hong Kong between subsidiaries of China National Tobacco Corporation (CNTC) and the Group, had commenced official business operations. The joint venture was created in accordance with the Joint Venture Agreement signed by both companies. It owns and manages the worldwide international cigarette trademark State Express 555, and also, the worldwide rights outside China to the leading CNTC brand, Shuang Xi.

CTBAT is reported as part of the Asia-Pacific region with the majority of its international sales (non-China domestic sales) made through existing end markets of the Group in that region. All sales to mainland China are via CNTC. CTBAT operates as an extension of the existing tobacco businesses of its investors and is therefore treated as a joint operation as defined under IFRS 11 *Joint Arrangements.* The Group recognises its share (50%) of the assets, liabilities, income and expenses of the arrangement on a line-by-line basis in the consolidated financial statements.

The contribution of brands and businesses into CTBAT were recognised by the new entity at fair value, resulting in a gain on the deemed partial disposal of the State Express 555 brand, which was treated as an adjusting item (see note 3(g)).

The impact of the arrangement on operating results for 2014 and 2013 is not material.

(b) British American Tobacco Myanmar Limited

On 8 July 2013, the Group announced the completion of a joint venture in Myanmar with I.M.U. Enterprise Limited to manufacture, distribute and market the Group's brands. Under the terms of the agreement, the Group has contributed plant and machinery and cash to the venture in return for a controlling stake, and will therefore, account for the transaction as a business combination. Goodwill of £1 million in relation to the acquisition of the 51% stake in the business reflects the strategic premium to acquire the opportunity to re-enter the Myanmar market. The Group's proportion of the total net assets acquired at fair value amounted to £8 million with non-controlling interests of £8 million.

(c) Non-controlling interests

BAT Algérie S.P.A.

On 8 June 2014, the Group made a capital injection to BAT Algérie S.P.A. at a cost of £4 million. This injection was in proportion to a capital injection made by the non-controlling interest to the Group company and as such, the Group's shareholding remains unchanged.

BAT Chile Operaciones, S.A.

During 2014, the Group acquired in total a further 1% interest in BAT Chile Operaciones, S.A. at a cost of £3 million. This increased the Group's shareholding to 99%.

BAT Central America S.A.

On 15 December 2014, the Group acquired a further 1% interest in BAT Central America S.A. at a cost of £1 million. This increased the Group's shareholding to 79%.

(d) Items classified as held-for-sale

At 31 December 2014, held-for-sale assets comprised mainly plant and equipment in Souza Cruz and land and buildings in Denmark which were being actively marketed for sale. At 31 December 2013, held-for-sale assets comprised mainly land and buildings in Denmark.

27 Share-based payments

The Group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive Plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. Payout is subject to performance conditions based on earnings per share (50% of grant), total shareholder return (25% of grant) and net turnover (25% of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Prior to 2014, payout is subject to performance conditions based on earnings per share relative to inflation (50% of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50% of grant).

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled deferred shares are granted in March each year.

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

Share Option Scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of 10 years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options.

The granting of options under this scheme ceased with the last grant made in March 2004 and final outstanding awards were exercised by March 2014.

Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20% discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three-year or five-year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £6,000 (2013: £3,000) in any tax year.

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c. The maximum amount that can be allocated in this way to any individual is £1,800 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

Further details on the operation of share-based payment arrangements can be found in the Remuneration Report.

Share-based payment expense

The amounts recognised in the Income Statement in respect of share-based payments were as follows:

	2014		2013	
	Equity-settled	Cash-settled	Equity-settled	Cash-settled
	£m	£m	£m	£m
LTIP (note (a))	**6**	**1**	8	2
DSBS (note (b))	**54**	**7**	48	11
SAYE (note (c))	**1**	**—**	1	—
SRS (note (c))	**5**	**—**	4	—
Total recognised in the Income Statement (note 3(a))	**66**	**8**	61	13

Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Group has recorded liabilities in respect of vested and unvested grants at the end of 2014 and 2013:

	2014		2013	
	Vested	Unvested	Vested	Unvested
	£m	£m	£m	£m
LTIP	**2.1**	**3.4**	3.8	3.6
DSBS	**0.3**	**17.4**	0.2	14.7
Total liability	**2.4**	**20.8**	4.0	18.3

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2014 and 31 December 2013, were as follows:

	2014		2013	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	**5,592**	**709**	5,949	779
Granted during the period	**2,477**	**112**	1,697	131
Exercised during the period	**(1,278)**	**(281)**	(1,508)	(179)
Forfeited during the period	**(1,593)**	**(55)**	(546)	(22)
Outstanding at end of year	**5,198**	**485**	5,592	709
Exercisable at end of year	**376**	**56**	770	123

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £34.40 (2013: £35.41) for equity-settled and £34.57 (2013: £34.97) for cash-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 8.4 years (2013: 7.8 years) for the equity-settled scheme, and 8.0 years (2013: 7.6 years) for the cash-settled share-based payment arrangements.

(b) Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2014 and 31 December 2013, were as follows:

	2014		2013	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	**5,105**	**754**	5,368	878
Granted during the period	**1,695**	**175**	1,628	158
Exercised during the period	**(2,486)**	**(367)**	(1,796)	(270)
Forfeited during the period	**(52)**	**(7)**	(95)	(12)
Outstanding at end of year	**4,262**	**555**	5,105	754
Exercisable at end of year	**18**	**4**	—	5

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the financial year was £33.70 (2013: £34.96) for equity-settled and £33.43 (2013: £34.99) for cash-settled options.

The outstanding shares for the year ended 31 December 2014 had a weighted average contractual life of 1.1 years (2013: 1.2 years) for the equity-settled scheme, and 1.0 year (2013: 1.0 year) for the cash-settled scheme.

(c) Other schemes

ESOS

The number of outstanding equity-settled options at the end of the year was nil (2013: 95,266).

SAYE

The number of outstanding options at the end of the year for the three-year scheme was 352,504 (2013: 263,599) and for the five-year scheme was 558,756 (2013: 465,274).

SRS and ISRS

The number of outstanding shares at the end of the year for the Share Reward Scheme was 456,057 (2013: 546,983) and for the International Share Reward Scheme was 34,748 (2013: 41,205).

Valuation assumptions

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

	2014		2013	
	LTIP	**DSBS**	**LTIP**	**DSBS**
Expected volatility (%)	**18**	**18**	25	25
Average expected term to exercise (years)	**3.5**	**3.0**	3.5	3.0
Risk-free rate (%)	**1.4**	**1.1**	0.4	0.3
Expected dividend yield (%)	**4.2**	**4.2**	3.8	3.8
Share price at date of grant (£)	**32.60**	**32.60**	35.05	35.05
Fair value at grant date (£)*	**17.72**	**19.55**	23.69/23.44	31.23

* Where two figures have been quoted for the Long-Term Incentive Plan, the first number represents the awards made to employees below Management Board level and the second number to awards made to the members of the Management Board, as at the date of award.

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2014	2013
	%	%
Average share price volatility FTSE 100 comparator group	**—**	37
Average share price volatility FMCG comparator group	**20**	26
Average correlation FTSE 100 comparator group	**—**	37
Average correlation FMCG comparator group	**31**	37

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five-year period. The respective FMCG and FTSE 100 share price volatility, and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This pay-out calculation is based on expectations published in analysts' forecasts.

28 Group employees

The average number of persons employed by the Group and its associates during the year, including Directors, was 90,118 (2013: 89,820).

	2014 Number	2013 Number
Asia-Pacific	**17,108**	17,156
Americas	**16,011**	16,489
Western Europe	**12,355**	11,824
EEMEA	**12,488**	12,261
Subsidiary undertakings	**57,962**	57,730
Associates	**32,156**	32,090
	90,118	89,820

Details of Directors' remuneration, share options and retirement benefits are given in the Remuneration Report.

Included within the employee numbers for Western Europe are certain employees in the UK in respect of central functions. Some of the costs of these employees are allocated or charged to the various regions and markets in the Group.

29 Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 *Related Party Disclosures,* all of which are undertaken in the normal course of business. Transactions with CTBAT International Limited (see note 26(a)) are not included in these disclosures as it is a joint operation.

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. Amounts receivable from associates in respect of dividends included in the table below were £96 million (2013: £86 million). The Group's share of dividends from associates, included in other net income in the table below, was £518 million (2013: £512 million).

	2014	2013
	£m	£m
Transactions		
- revenue	**38**	54
- purchases	**(279)**	(345)
- other net income	**512**	501
Amounts receivable at 31 December	**98**	96
Amounts payable at 31 December	**(25)**	(33)

On 17 December 2012, a wholly-owned subsidiary of the Group, BATUS Japan Inc. (BATUSJ), entered into an Amendment and Extension Agreement (referred to as the Amendment) with a wholly-owned subsidiary of Reynolds American Inc (RAI), R.J. Reynolds Tobacco Company (referred to as RJRTC). The Amendment modifies the American blend Cigarette Manufacturing Agreement (referred to as the 2010 Agreement), effective as of 1 January 2010.

Prior to the Amendment, the term of the 2010 Agreement was scheduled to expire on 31 December 2014, subject to early termination and extension provisions. Pursuant to the Amendment, the Manufacturing Agreement will remain in effect beyond 31 December 2014, provided that either RJRTC or BATUSJ may terminate the Manufacturing Agreement by furnishing three years' notice to the other party, with any such notice to be given no earlier than 1 January 2016.

During the year, the Group received proceeds of £94 million (2013: £189 million) in respect of its participation in the share buy-back programme conducted by RAI. This programme ceased in the second quarter of 2014.

On 15 July 2014, the Group announced that it has agreed to invest US$4.7 billion as part of RAI's proposed acquisition of Lorillard enabling the Group to maintain its 42% equity position in the enlarged business. The investment is contingent upon the completion of RAI's acquisition of Lorillard, which has been approved by the shareholders of RAI and Lorillard, and the proposed acquisition, while subject to a number of regulatory approvals in the US, is anticipated to be completed in the first half of 2015.

In addition, the Group and RAI have agreed in principle to collaborate on next-generation products and negotiations are ongoing.

During 2014, the Group acquired a further 1% interest in BAT Chile Operaciones, S.A. at a cost of £3 million. This increased the Group's shareholding to 99%. This transaction is shown as a £3 million reduction to reserves attributable to the owners of the parent in note 20.

On 15 December 2014, the Group acquired a further 1% interest in BAT Central America S.A. at a cost of £1 million. This increased the Group's shareholding to 79%. This transaction is shown as a £1 million reduction to reserves attributable to the owners of the parent in note 20.

As explained in note 12, contributions to the British American Tobacco UK Pension Fund are secured by a charge over the Group's Head Office (Globe House) up to a maximum of £150 million.

The key management personnel of British American Tobacco consist of the members of the Board of Directors of British American Tobacco p.l.c. and the members of the Management Board. No such person had any material interest during the year in a contract of significance (other than a service contract) with the Company or any subsidiary company. The term key management personnel in this context includes the respective members of their households.

	2014 £m	2013 £m
The total compensation for key management personnel, including Directors, was:		
- salaries and other short-term employee benefits	**20**	20
- post-employment benefits	**3**	3
- share-based payments	**13**	11
	36	34

There were no other long-term benefits applicable in respect of key personnel other than those disclosed in the Remuneration Report in the Annual Report.

30 Contingent liabilities and financial commitments

1. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards.
2. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and if the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgment.
3. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

General litigation

Product liability litigation

4. Group companies, notably Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) (‘B&W’) as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.

Indemnity

5. On 30 July 2004, B&W completed the combination of the assets, liabilities and operations of its US tobacco business with R.J. Reynolds Tobacco Company (‘RJRT’), a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which Reynolds American Inc. was formed (the ‘Business Combination’). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its US cigarette and tobacco business, subject to specified exceptions, in exchange for a 42% equity ownership interest in Reynolds American Inc.
6. As a result of the Business Combination, RJRT assumed all liabilities of B&W (except liabilities to the extent relating to businesses and assets not contributed by B&W to RJRT and other limited categories of liabilities) and contributed subsidiaries or otherwise to the extent related to B&W’s tobacco business as conducted in the United States on or prior to 30 July 2004. In addition, RJRT agreed to indemnify B&W and each of its associates (other than Reynolds American Inc. and its subsidiaries) against, among other matters, all losses (including those arising from Environmental Tobacco Smoke (‘ETS’) claims), liabilities, damages, expenses, judgments, attorneys’ fees, etc., to the extent relating to or arising from such assumed liabilities or the assets contributed by B&W to RJRT (the ‘RJRT Indemnification’).

7. The scope of the RJRT Indemnification includes all expenses and contingent liabilities in connection with litigation to the extent relating to or arising from B&W's US tobacco business as conducted on or prior to 30 July 2004, including smoking and health tobacco litigation, whether the litigation is commenced before or after 30 July 2004 (the 'Tobacco Litigation').

8. Pursuant to the terms of the RJRT Indemnification, RJRT is liable for any possible judgments, the posting of appeal bonds or security, and all other expenses of and responsibility for managing the defence of the Tobacco Litigation. RJRT has assumed control of the defence of the Tobacco Litigation involving B&W, to which RJRT is also a party in most (but not all) of the same cases.

9. Included in the US Litigation section below are all significant cases where B&W and/or a UK company is named as a defendant and all cases where RJRT is named as a defendant as a successor to B&W (the 'RJRT Successor Cases'). The RJRT Successor Cases are covered by the RJRT Indemnification.

US litigation

10. The total number of US product liability cases pending at 31 December 2014 involving B&W was approximately 6,057 (compared to approximately 7,312 in 2013). Of these, 2,999 cases are RJRT Successor Cases. For all of the 6,057 cases involving B&W, British American Tobacco Group companies have the protection of the RJRT Indemnification. As at 31 December 2014, British American Tobacco (Investments) Limited ('Investments') has been served as a co-defendant in one of those cases (compared to one in 2013). No other UK-based Group company has been served as a co-defendant in any US product liability case pending as at 31 December 2014. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases; and other claims.

(a) Medical reimbursement cases

11. These civil actions seek to recover amounts spent by government entities and other third-party providers on health care and welfare costs claimed to result from illnesses associated with smoking.

12. At 31 December 2014, one US medical reimbursement suit was pending against B&W by an Indian tribe in an Indian tribal court in South Dakota. No other suits are pending against B&W by county or other political subdivisions of the states.

(b) Class actions

13. At 31 December 2014, B&W was named as a defendant in five separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted through smoking or where classes of tobacco claimants have been certified. If the classes are or remain certified and the possibility of class-based liability is eventually established, it is likely that individual trials will be necessary to resolve any claims by individual plaintiffs. Class action suits have been filed in a number of states against individual cigarette manufacturers and their parent corporations, alleging that the use of the terms 'lights' and 'ultralights' constitutes unfair and deceptive trade practices.

14. Black is a 'lights' class action filed in November 2000 in the Circuit Court, City of St. Louis, Missouri. B&W removed the case to the US District Court for the Eastern District of Missouri on 23 September 2005. On 25 October 2005, the plaintiffs filed a motion to remand, which was granted on 17 March 2006. On 16 April 2008, the Court stayed the case pending US Supreme Court review in Good v Altria Group, Inc. On 28 June 2011, the Court issued a memorandum removing the case from the trial docket. A status conference is scheduled for 22 February 2016.

15. Howard is a 'lights' class action filed in February 2000 in the Circuit Court, Madison County, Illinois. A judge certified a class on 18 December 2001. On 6 June 2003, the trial judge issued an order staying all proceedings pending resolution of Price v Philip Morris, Inc., a 'lights' class action against Philip Morris, Inc. in the Illinois state court. The plaintiffs appealed this stay order to the Illinois Fifth District Court of Appeals, which affirmed the Circuit Court's stay order on 19 August 2005. There is currently no activity in the case.

16. Jones is a case filed in December 1998 in the Circuit Court, Jackson County, Missouri. The defendants removed the case to the US District Court for the Western District of Missouri on 16 February 1999. The action was brought by tobacco product users and purchasers on behalf of all similarly situated Missouri consumers. The plaintiffs allege that their use of the defendants' tobacco products has caused them to become addicted to nicotine. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. The case was remanded to the Circuit Court on 17 February 1999. There has been limited activity in this case.

17. Parsons is a case filed in February 1998 in the Circuit Court, Ohio County, West Virginia. The plaintiff sued asbestos manufacturers and US cigarette manufacturers, including B&W, seeking compensatory and punitive damages (US$1 million individually and an unspecified sum for the class) for alleged personal injuries arising from their exposure to respirable asbestos fibres and cigarette smoke. The case has been stayed pending a final resolution of the plaintiffs' motion to refer tobacco litigation to the judicial panel on multidistrict litigation filed in In Re: Tobacco Litigation in the Supreme Court of Appeals of West Virginia. Moreover, Parsons has been stayed pursuant to the Bankruptcy Code because three defendants filed bankruptcy petitions on 26 December 2000.

18. Young is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana. The plaintiffs brought an Environmental Tobacco Smoke (ETS) class action on behalf of all residents of Louisiana who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes which were manufactured by the defendants, and who allegedly suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. On 13 October 2004, the trial court stayed this case pending the outcome of appellate review in the Scott class action in Louisiana. With appellate review completed and final judgment entered in the Scott class action, the trial court granted the plaintiffs' request to continue the stay of this action during the implementation of the Scott smoking cessation programme on 6 March 2013.

19. In Engle (a case in Florida), a jury awarded a total of US$12.7 million to three class representatives, and in a later stage of the three-phase trial procedure adopted in this case, a jury assessed US$17.6 billion in punitive damages against B&W. On 21 May 2003, the intermediate appellate court reversed the trial court's judgment and remanded the case to the trial court with instructions to de-certify the class; this was upheld on 6 July 2006. Further, the Florida Supreme Court permitted the judgments entered for two of the three Engle class representatives to stand, but dismissed the judgment entered in favour of the third Engle class representative. Finally, the Florida Supreme Court permitted putative Engle class members to file individual lawsuits against the Engle defendants within one year of the Court's decision (subsequently extended to 11 January 2008).

20. Engle progeny cases, as at 31 December 2014:

	Engle progeny cases in which B&W has been served (both state and federal courts in Florida)	Engle progeny cases in which RJRT is named as a successor to B&W
Number of cases	42	2,988
Number of plaintiffs	98	3,773

21. Phase three trials of individual Engle class members, as at 31 December 2014:

	Additional Phase 3 Engle Trials naming RJRT as successor to B&W proceeding to verdict
Total number of trials	73
Number of trials resulting in plaintiffs' verdicts	42
Total damages awarded in final judgments against RJRT as successor to B&W (approximately)	US$176,923,848
Amount of overall damages comprising 'compensatory damages' (approximately)	US$90,273,848 (of overall US$176,923,848)
Amount of overall damages comprising 'punitive damages' (approximately)	US$86,650,000 (of overall US$176,923,848)
Number of adverse judgments appealed by RJRT	36 *
Number of adverse judgments (not yet appealed), in which RJRT still has time to file an appeal	0

* Of the 36 adverse judgments appealed by RJRT, 15 were decided and/or closed, and 21 appeals remain undecided (including four that have petitions for review pending in the Florida Supreme Court). In one of the appeals that was decided, the Florida intermediate

appellate court affirmed the liability finding but vacated the damages award and remanded the matter to the trial court. In four of the appeals that were decided, the Florida intermediate appellate courts reversed the final judgment and remanded the matter to the trial court for a new trial on all issues. In another 13 appeals that were decided, the Florida intermediate appellate courts affirmed final judgments in favour of plaintiffs. RJRT has paid damages to plaintiffs in 10 cases that are now closed.

22. In June 2009, the Florida legislature amended its existing bond cap statute by adding a US$200 million bond cap that applies to all phase three Engle progeny cases in the aggregate and establishing individual bond caps for individual cases in amounts that vary depending on the number of judgments in effect at a given time. In May 2011, Florida removed the provision in this legislation that would have permitted this bond cap to expire on 31 December 2012. Plaintiffs in several Engle progeny cases have unsuccessfully challenged the constitutionality of the bond cap. One of these appellate courts has since certified to the Florida Supreme Court the question of whether the bond cap violates the Florida Constitution. The Florida Supreme Court accepted jurisdiction over the issue of the constitutionality of the bond cap on 23 January 2012. On 31 August 2012, the Florida Supreme Court entered an order dismissing this case based on RJRT's mootness argument. Plaintiff subsequently moved for a rehearing. On 12 October 2012, the Florida Supreme Court denied plaintiff's motion. Plaintiff did not file a petition for writ of certiorari to the United States Supreme Court.

(c) Individual cases

	As at:	**Total number of cases**		
Cases pending against B&W which were filed by or on behalf of individuals and in which it is contended that diseases or deaths have been caused by cigarette smoking or by exposure to ETS	31 December 2013	3,063		
	31 December 2014	3,052	2,558	ETS cases brought by flight attendants who were members of a class action ('Broin') that was settled on terms that allow compensatory but not punitive damages claims by class members
			396	Cases brought in consolidated proceedings in West Virginia, where the first phase of the trial began on 15 April 2013 and on 15 May 2013 the jury returned a verdict for defendants on all but one of plaintiffs' claims; the verdict is currently on appeal
			42	Engle progeny cases that have been filed directly against B&W (please see earlier table on page 191)
			56	Cases filed by other individuals

In addition to the 2,988 Engle progeny cases which name RJRT as successor to B&W, there are 11 cases filed by other individuals naming RJRT as successor to B&W. These cases are subject to the RJRT Indemnification and are not detailed here.

(d) Conduct-based claims

23. In the Daric Smith case, purchasers of cigarettes in the state of Kansas brought a class action in the Kansas State Court against B&W, Investments and certain other tobacco companies seeking injunctive relief, treble damages, interest and costs. The allegations are that the defendants participated in a conspiracy to fix or maintain the price of cigarettes sold in the US, including in the state of Kansas, in violation of the Kansas Restraint of Trade Act.

24. After the close of discovery, all defendants, including Investments, moved for summary judgment in late October and early November 2010. On 13 May 2011, Investments supplemented its summary judgment motion on the basis of its de minimis market share and the inapplicability of the Kansas Restraint of Trade Act to a non-resident (such as Investments) that did not purchase, sell or manufacture goods in the state of Kansas.

25. On 26 March 2012, the Court entered an order granting all of the defendants' summary judgment motions and dismissing the plaintiff's first amended petition with prejudice. On 18 July 2012, plaintiff filed a notice

of appeal on various points. On or about 1 August 2012, all defendants filed notices of cross-appeal, with Investments filing its own separate notice of cross-appeal to address, amongst other issues, various orders denying the defendants' claims of privilege over certain categories of documents during discovery.

26. The plaintiff filed his appeal on 25 January 2013 and the defendants' opposition and cross-appeal briefs were filed on 29 May 2013. The plaintiff filed his combined reply/response to Investments' cross-appeal on 19 July 2013. Investments filed a reply brief addressing the novel arguments raised in the plaintiff's reply/ response relating to Investments' cross-appeal on privilege issues. The Court of Appeals heard oral argument in the case on 11 December 2013.

27. On 18 July 2014, the Court of Appeals of Kansas affirmed the trial court's order granting summary judgment for all the defendants. On 18 August 2014, the plaintiff filed a Petition for Review by the Supreme Court of Kansas. On 29 August 2014, the defendants filed their response to the plaintiff's Petition for Review. On 12 September 2014, the plaintiff filed his reply. A decision in this matter is pending.

UK-based Group companies

Investments has been served in the following US cases pending as at 31 December 2014: one class action alleging violations of Kansas antitrust and consumer protection laws, the Daric Smith case mentioned above; and one individual action, the Perry case.

Product liability outside the United States of America

28. As at 31 December 2014, active product liability claims against the Group's companies existed in 15 markets outside the US (2013:16) but the only markets with more than five claims were Argentina, Brazil, Canada, Chile, Italy and Nigeria. As at 31 December 2014, medical reimbursement actions are being brought in Argentina, Brazil, Canada, Nigeria and South Korea.

(a) Medical reimbursement cases

Argentina

29. In 2007, the non-governmental organisation the Argentina Tort Law Association ('ATLA') and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. ('Nobleza') and Massalín Particulares. Several defences were filed by Nobleza on 1 October 2009. Nobleza and the federal government's preliminary objections regarding lack of jurisdiction were considered by the Civil Court in late 2009. On 23 December 2009, the Civil Court declared its lack of jurisdiction to hear the claim. On 11 March 2010, the case was sent to the Contentious-Administrative Court, which determined that it had jurisdiction over the case. On 24 June 2011, the Contentious-Administrative Court issued an Order stating that it would decide the defendants' outstanding procedural objections together with the merits of the case. The case is currently at the evidentiary stage. Confessional hearings took place on 14 August 2013 (Emma Mendoza Voguet) and 29 August 2013 (ATLA). In February 2014, plaintiffs renounced several of their prior evidentiary requests that included a request for copies of certain historical advertising published by Nobleza. In April 2014, plaintiffs filed a motion seeking to revoke this prior renunciation. In September 2014 the Contentious-Administrative Court rejected the motion and plaintiffs have not appealed this rejection.

Brazil

30. In August 2007, the São Paulo Public Prosecutor's Office filed a medical reimbursement claim against Souza Cruz S.A. ('Souza Cruz'). A similar claim was lodged against Philip Morris. On 4 October 2011, the Court dismissed the action against Souza Cruz, with a judgment on the merits. The plaintiff filed an appeal on 9 January 2012 and Souza Cruz filed its counter arguments on 17 February 2012. On 29 September 2012, the case records arrived at the São Paulo Court of Appeals.

31. On 7 March 2013, the case records returned from the Public Prosecutor's Office with a non-binding unfavourable opinion. On 23 April 2013, the Justices of the 2nd Civil Chamber of the Court of Appeals of the State of São Paulo, by unanimous vote (3 to 0), denied the appeal of the Prosecution Office, thereby confirming the favourable Lower Court ruling. In this ruling, the Justices, citing case precedents of the Superior Court of Justice, emphasised: (i) the widespread public knowledge of the risks associated with smoking cigarettes; (ii) the free will of the smokers; (iii) the absence of any defect in the product; (iv) the

absence of any duty to provide information on the risks associated with smoking before 1988; and (v) the lawfulness of manufacturing and producing cigarettes. The Public Prosecutor's Office has filed a Special Appeal and the case is anticipated to be sent for judgment to Superior Court of Justice within several months.

Canada

32. In Canada there are 10 active statutory actions for recovery of health care costs arising from the treatment of smoking and health-related diseases. These proceedings name various Group companies as defendants, including the Company, Investments, B.A.T Industries p.l.c. ('Industries'), Carreras Rothmans Limited (collectively the 'UK Companies') and Imperial Tobacco Canada Limited ('Imperial'), the Group's operating company in Canada. Legislation enabling provincial governments to recover the health care costs has been enacted in all 10 provinces and two of three territories in Canada and has been proclaimed in force in 10 provinces. The Acts have received Royal Assent in Northwest Territories and Nunavut but have yet to be proclaimed into force. Actions have begun against various Group companies, including Imperial, in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island ('PEI'). In Quebec, three Canadian manufacturers, including Imperial, are challenging the enabling legislation; the Quebec government has commenced an action.

33.

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial. Investments. Industries. Other former Rothmans Group companies.	The underlying medical reimbursement action remains at a preliminary case management stage. Damages have not been quantified by the province. Given the prior pendency of the Supreme Court application, and a number of other factors including delay on the part of the plaintiff in producing damages modelling materials, the trial date was adjourned generally and no trial date is currently set. The federal government has commenced a cost assessment in connection with the motion and appeals relating to the federal government claim, seeking CAD$5 million jointly from all the defendants and an additional CAD$5 million from Imperial. No hearing date has been set.
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	Both Imperial and the UK Companies have now filed their defences and document production by the defendants is substantially complete. A first round of oral discoveries of the province began in September 2014 and will continue at least through the end of Q2 of 2015. Damages have been quantified at CAD$19 billion. No trial date has been set.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	The UK Companies have all been named as defendants.	On 5–7 November 2012, appeals by the BAT defendants of both the jurisdictional and costs orders were heard by the Court of Appeal.

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
		Imperial and the UK Companies have all been served.	On 30 May 2013, the Court of Appeal dismissed the appeals and upheld the adverse costs award in respect of the first instance hearing. A motion for leave to appeal that decision to the Supreme Court of Canada was filed in August 2013. The Supreme Court of Canada dismissed the leave application on 19 December 2013. On 22 October 2013, the Court of Appeal issued an endorsement awarding the plaintiff its costs of the appeals. Imperial filed a third-party notice against several native manufacturers claiming contribution and indemnity as well as damages in the amount of CAD$1.5 billion. Imperial also filed a Third Party Claim against the Federal government claiming malfeasance in public office due to the government's failure to enforce the law against illicit manufacturers. These claims have been discontinued. Following the Supreme Court of Canada's dismissal of the jurisdiction leave application, the case is under case management. The province has stated its claim to be worth CAD$50 billion, but has not yet tendered evidence to substantiate this figure. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2006	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	There have been preliminary hearings, including a successful application in January 2012 to strike certain affidavits filed by the plaintiff in opposition to the UK Companies' jurisdiction motions, and a hearing in June 2013 at which, in response to a request of the case management judge, the parties debated the elements of the 'legal framework' for a jurisdiction challenge. Judgment in respect of that hearing was issued on 19 December 2013. Jurisdiction has been resolved. Particulars and other preliminary motions were filed on 16 January 2015, and a case management conference took place on 22 January 2015. The hearing on the preliminary motions is scheduled for 4–6 March 2015, and a further case management conference is scheduled for 16 April 2015. Damages have not been quantified by the province.

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2012	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	This case is at an early case management stage. The UK Companies challenged the jurisdiction of the Saskatchewan court at a hearing that commenced on 29 April 2013. On 1 October 2013, the Court denied the UK Companies' challenges. Leave to appeal this ruling was sought and a hearing was scheduled for 11 December 2013. This hearing was adjourned on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on 19 December 2013. No further case management meetings have been set. Damages have not been quantified by the province. No trial date has been set. Imperial served a motion (which was granted) to defer filing defences until pending jurisdictional challenges have been resolved. There are no discovery motions to date in this jurisdiction. Jurisdiction has been resolved. A standstill agreement has been negotiated under which the next step would be to file defences by 27 February 2015 and the matter will remain in abeyance until document production begins in September 2017.
Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial. Investments. Industries. Other former Rothmans Group companies.	Imperial served a motion (which was denied) to defer filing defences until pending jurisdictional challenges have been resolved. Imperial delivered a request for particulars on 30 September 2013. The province filed a response on 16 January 2014. The jurisdiction motions were scheduled to be heard on 25–28 November 2013. This hearing was adjourned on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on 19 December 2013. Particulars motions have been argued and defences have been filed. Damages have not been quantified by the province. No trial date has been set. A standstill agreement has been negotiated,

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
			under which the next step will be document production to commence in January in 2017.
Alberta	Crown's Right of Recovery Act 2009	Imperial and the UK Companies have all been named as defendants and served.	On 8 August 2012, Imperial was served with the Alberta Medicaid suit. The UK Companies were served on 15 May 2013. The UK Companies informed the plaintiff that they intended to challenge the jurisdiction of the Alberta court. A case management judge has been appointed and an initial case management meeting was held on 17 December 2013 at which it was agreed to put preliminary matters on hold pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on 19 December 2013. Case management is ongoing. Particulars motions have been filed and were argued on 26 and 27 January 2015. Judgment was reserved. The province has stated its claim to be worth CAD$10 billion, but has not yet tendered evidence to substantiate this figure. No trial date has been set.
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2005	Investments, Industries, and Carreras Rothmans Limited have been named as defendants.	On 25 August 2009, Imperial and the other Canadian manufacturers filed a constitutional challenge to the Quebec Medicaid Legislation. The Quebec Attorney-General (AG) filed a motion to dismiss the constitutional challenge and following a hearing, the Quebec Superior Court dismissed that motion.
		Imperial and the UK Companies have been served.	On 28 January 2011, the Court of Appeal denied the AG's leave application, permitting Imperial's challenge to proceed. On 8 June 2012, the Quebec Medicaid suit was served upon Imperial. The government is seeking CAD$60 billion. On 14 December 2012, Imperial's motion to stay the Medicaid suit pending the resolution of the constitutional challenge, was heard by the Court and taken under advisement. It was subsequently dismissed. The Constitutional Challenge was heard on 30 September–3 October 2013 and was subsequently dismissed.

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
			The three UK Companies filed jurisdictional challenges on 15 March 2013 which were heard on 3–5 June 2013. On 4 July 2013, the Court denied the jurisdictional objections. Leave to appeal the ruling was refused in a judgment issued by a Court of Appeal judge on 4 October 2013. Defendants' motions for further and better particulars and concerning other pleadings issues were heard on 15 and 22 November and 20 December 2013 and judgment was reserved. A case management judge has been appointed. Motions for particulars have been completed, defences filed, document subpoenas served on the AG and requests to admit the authenticity of documents were responded to on 21 January 2015. No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial and the UK Companies.	On 15 November 2012, Imperial was served with the PEI Medicaid suit. Damages have not been quantified by the province. This case is at a preliminary case management stage. Motions to challenge jurisdiction were filed and served by the UK Companies on 11 January 2013. A case management judge has been appointed. A standstill agreement has been negotiated. Defences are to be filed by 27 February 2015 and the next step will be document production, which will commence in September 2017.
Nova Scotia	Tobacco Health Care Costs Recovery Act 2005	Imperial and the UK Companies.	On 22 January 2015 Imperial and the UK Companies were served with the Nova Scotia Medicaid suit. Damages have not been quantified by the province. A standstill agreement has been negotiated. Under the agreement, the defendants must deliver statements of defence or demands for particulars by 31 March 2015. If demands for particulars are delivered, the responses from the province are due by 15 May 2015. Statements of defence are to be filed by 3 July 2015, and document production by the defendants is to commence on or before 1 September 2017.

Nigeria

34. As at 31 December 2014, six medical reimbursement actions filed by the federal government and five Nigerian states (Lagos, Kano, Gombe, Oyo, Ogun) were pending in the Nigerian courts. British American Tobacco (Nigeria) Limited ('BAT Nigeria'), the Company and Investments have been named as defendants in each of the cases. The plaintiffs in the six cases seek a total of approximately £44.8 billion in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief. On 13 and 25 May 2010, respectively, the plaintiffs in the Kano and Ogun state cases filed motions for preliminary injunctive relief, seeking, inter alia, orders to restrain the defendants from various alleged marketing and distribution practices including the sale of tobacco products within 1,000 metres of any public places that are predominantly locations for minors. The Company and Investments have filed preliminary objections challenging the jurisdiction of the Nigerian courts over them. On 22 June 2010, the Oyo High Court partially granted the Company's and Investments' preliminary objections and set aside the service of the writ of summons. The Company and Investments appealed the Court's order insofar as it denied the remainder of the relief requested, and the Court of Appeal has yet to set a date for hearing of the appeals.

35. The Federal High Court and the High Courts of Lagos, Kano, Gombe and Ogun states denied the preliminary objections filed by the Company and Investments, and the companies have appealed. High Court proceedings in the Lagos and Kano state cases have been stayed pending the appeals filed by the Company and Investments. In the Gombe and Ogun cases, the High Courts have adjourned proceedings without date, pending the resolution of appeals filed by the Company, Investments and BAT Nigeria. As at 31 December 2014, the appeal filed by the Company in the Lagos case and the appeals filed by the Company and Investments in the Federal and Kano cases remain pending and have yet to be heard by the Court of Appeal. On 23 April 2013 and 16 May 2013, the Court of Appeal (Ibadan Judicial Division) issued decisions affirming the Ogun High Court's denial of the preliminary objections filed by the Company, Investments and BAT Nigeria. On 13 June 2014, the Court of Appeal (Jos Judicial Division) affirmed the denial of the Company's and Investments' preliminary objections in the Gombe action, and on 30 June 2014 the Court of Appeal (Lagos Judicial Division) affirmed the denial of Investments' preliminary objections in the Lagos action. The companies have appealed the decisions to the Supreme Court of Nigeria.

South Korea

36. In April 2014, Korea's National Health Insurance Service ('NHIS') filed a health care recoupment action against KT&G (the state-owned former monopoly), PM Korea and BAT Korea (including BAT Korea Manufacturing). The lawsuit relates to health care costs allegedly incurred by the NHIS treating patients with lung (small cell and squamous cell) and laryngeal cancer between 2003 and 2012. The claim is based on allegations of defective design, failure to warn, fraud/misrepresentation, marketing to youth, use of additives and causing addiction. The NHIS is seeking damages of roughly £32 million from the defendants.

Spain

37. In early 2006, the Government of Andalusia and the Andalusian Health Services (hereinafter referred to as the 'Junta'), in Spain, filed a medical reimbursement action against the State and tobacco companies (including BAT España S.A.) before the contentious-administrative courts. The State filed preliminary objections to the Junta's claim, with tobacco companies filing supporting briefs. The Court upheld these preliminary objections and dismissed the claim in November 2007. The Junta's appeal of this ruling to the Supreme Court was dismissed in September 2009. However, in May 2009, the Junta filed a new contentious-administrative claim with similar allegations. The defendants filed procedural objections, which were rejected by the Court.

38. On 31 May 2013, the Court notified BAT España of the commencement of a 20-day period to answer the Junta's claim and produced copies of the documents attached to the statement of claim. BAT España filed its response to the claim by the deadline of 27 June 2013.

39. By order dated 26 July 2013, the Court refused to open the evidence phase of the proceedings. The Court accepted the defendants' allegations that the Junta did not fulfil its procedural duty to establish the issues of fact to which the evidence would relate. In October 2013, the Court declared the proceedings closed pending its judgment. In a judgment dated 23 December 2013, the Court rejected the Junta's claim against the

tobacco companies as inadmissible. The Junta did not appeal the decision and the judgment became final in February 2014. This case is now closed and will be removed from future reports.

(b) Class actions

Brazil

40. There are currently two class actions being brought in Brazil. One is also a medical reimbursement claim (São Paulo Public Prosecutor's Office), and is therefore discussed above. A third class action ended in July 2014 when a judgment in favour of the defendants became final, as described below.

41. In 1995, the Associação de Defesa da Saúde do Fumante ('ADESF') class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the Lower Civil Court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health, notwithstanding an earlier interlocutory order that the São Paulo Court of Appeals had issued, which directed the trial court to allow more evidence to be taken before rendering its decision. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, finding that the lower court had failed to provide the defendants with an opportunity to produce evidence. The case was returned to the lower court for production of evidence and a new judgment. On 19 March 2009, the Lower Civil Court ordered designation of court-appointed medical and advertising experts. The parties submitted questions to these court-appointed experts who subsequently delivered their reports. Each party also provided expert reports commenting on the court-appointed experts' conclusions. On 16 May 2011, the Court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. Plaintiffs filed an appeal of the dismissal on 22 July 2011. Souza Cruz filed its response on 5 October 2011. On 10 November 2011, the case records were sent to the Public Prosecutor's Office. On 20 December 2011, the Public Prosecutor's Office presented a non-binding, advisory opinion that rejected most of Souza Cruz's legal defence arguments. The case records were sent to the São Paulo State Court of Appeals and were immediately sent to the Public Prosecutor's Office for General Public and Collective Interest. On 1 March 2012, the case files returned with an unfavourable opinion given by the Public Prosecutor, who advised that the Court should find in favour of the appeal brought by ADESF and thereby fully reverse the appealed judgment. On 6 September 2012, the case was assigned to a new temporary Reporting Justice in the 7th Chamber of Private Law of the São Paulo Court of Appeals, pending reference to a permanent Reporting Justice of the case. On 10 October 2013, a Reporting Justice of the case was designated. At a hearing on 28 January 2015, the Court reserved its decision on the appeal pending further consideration, with no designated deadline for reaching a decision.

42. The Brazilian Association for the Defense of Consumers' Health ('Saudecon') filed a class action against Souza Cruz and Philip Morris in the City of Porto Alegre, Brazil on 3 November 2008. The plaintiff purported to represent all Brazilian smokers whom, it alleged, were unable to quit smoking and lack access to cessation treatments. On 18 December 2013, the Rio Grande do Sul State Court rendered a decision in favour of defendants, based on free will, awareness and lawful activity. The plaintiff did not appeal the decision and the judgment became final on 2 July 2014. This case is now closed and will be removed from future reports.

Canada

43. There are 10 class actions being brought in Canada against Group companies.

44. Knight is a 'lights' class action in which the plaintiff alleges that the marketing of light and mild cigarettes is deceptive because it conveys a false and misleading message that those cigarettes are less harmful than regular cigarettes. Although the claim arises from health concerns, it does not seek compensation for personal injury. Instead it seeks compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial.

45. The Supreme Court of British Columbia certified a class of all consumers who purchased in British-Columbia Imperial cigarettes bearing 'light' or 'mild' descriptors since 1974. Imperial filed an appeal against the certification which was heard in February 2006. The appellate court confirmed the certification of the class but has limited any financial liability, if proven, to 1997 onward.

46. The motion of the federal government to strike out the third-party notice issued against it by Imperial was upheld by the Supreme Court which dismissed the third-party claim on the basis that the federal government's impugned conduct constituted valid policy benefiting public health and was therefore not subject to civil liability. The federal government is seeking a parallel cost order in this action as it is in the British Columbia government recoupment case.

47. On 9 December 2009, Imperial was served with a class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board ('Growers' claim'). The plaintiffs allege that, during a specific timeframe, Imperial and two other domestic defendants improperly paid lower prices for tobacco leaf destined for duty-free products and then were smuggled back into Canada and sold in the domestic market. In reaction to the suit, Imperial deposited the amount owing to the government of Ontario, pursuant to the Comprehensive Agreement, into an escrow account, alleging that the Comprehensive Agreement permitted Imperial to set-off that amount against costs incurred as a result of the claim (including damages, if any). In response, the Ontario government commenced an application against Imperial, seeking the release of the funds ('Ontario claim'). No monetary damages are being claimed against Imperial by the government of Ontario.

48. On 26 July 2010, Imperial argued a preliminary motion in the Ontario claim seeking a stay in favour of arbitration given an arbitration clause in the Comprehensive Agreement. Imperial was successful in its application and the Court ordered that the Ontario claim be stayed. The Court of Appeal denied the Ontario government's appeal in July 2011, but also ruled that the question of whether the Growers' claim constitutes a 'Released Claim' under the Comprehensive Agreement must be determined by the courts, thereby splitting the issues. On 2 January 2013, the Court rendered a decision in favour of Ontario and held that the Growers' claim is not a 'Released Claim' brought by a 'Releasing Entity'. On 16 July 2013, the Court of Appeal dismissed Imperial's appeal on whether the Growers' claim is a 'Released Claim' made by a 'Released Entity', allowing the class action to proceed.

49. The question of whether Imperial may continue to set-off payments due to Ontario under the Comprehensive Agreement against costs incurred as a result of the Growers' claim proceeded to arbitration in September 2014. By decision dated 24 October 2014, the tribunal ruled against Imperial, holding that the Growers' claim was not captured by the set-off provisions of the Comprehensive Agreement. Imperial has now released the previously escrowed funds, plus accrued interest.

50. As a further preliminary challenge, Imperial has alleged that the Growers' claim is time barred. The other domestic defendants have made the same preliminary challenge. That preliminary issue was heard by the Court on 30 and 31 January 2014. By decision dated 30 June 2014, the Court dismissed the preliminary challenge. Imperial and the domestic defendants have sought leave to appeal that decision. If Imperial is ultimately successful, the Growers' claim will be dismissed; if not successful, the action will proceed to a class action certification hearing.

51. There are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers, which have a combined value of CAD$21 billion plus interest and costs. The Court certified two classes, which include residents of Quebec who suffered from lung, throat and laryngeal cancer or emphysema as of November 1998 or developed these diseases thereafter and who smoked a minimum of 15 cigarettes a day for at least five years, and residents who were addicted to nicotine at the time the proceedings were filed and who have since remained addicted. The plaintiffs' application to amend the scope of the definition of the disease and addiction classes was granted on 3 July 2013. The trial in this matter commenced on 12 March 2012 and was completed in December 2014. Judgment is anticipated in 2015 and is appealable.

52. In June 2009, four new smoking and health class actions were filed in Nova Scotia, Manitoba, Saskatchewan and Alberta, against Canadian manufacturers and foreign companies, including the UK Companies and Imperial. In Saskatchewan, the Company and Carreras Rothmans have been released from the action. No date has been set for the certification motion hearing. There are service issues in relation to the UK Companies in Alberta and Manitoba.

53. In July 2010, two further smoking and health class actions in British Columbia were served on Imperial and the UK Companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that

they have been brought on behalf of those who have "smoked a minimum of 25,000 cigarettes". The UK Companies objected to jurisdiction. Subsequently a number of the UK Companies were released from the action. No certification motion hearing date has been set. In Bourassa, the case management judge ordered the claim to be amended which has been done. Plaintiffs were due to deliver certification motion materials by 31 January 2015, but have not yet done so. Once the materials are delivered, the motions regarding abuse of process will be dealt with.

54. In June 2012, a new smoking and health class action was filed in Ontario against the domestic manufacturers and foreign companies, including Imperial and the UK Companies. Imperial was served on 20 November 2012, and the UK Companies were served on 30 November 2012. The claim is presently in abeyance.

Italy

55. In or about June 2010, BAT Italia was served with a class action filed in the Civil Court of Rome by the consumer association, Codacons, and three class representatives. Plaintiffs primarily asserted addiction-related claims. The class action lawsuit was rejected at the first instance (Civil Court of Rome) and appellate (Rome Court of Appeal) court levels. In July 2012, Codacons filed an appeal before the Italian Supreme Court. BAT Italia filed its answer to the appeal on 13 November 2012. At a hearing on 21 January 2015, the Public Prosecutor's Office agreed that the appeal should be rejected, and the Supreme Court reserved its decision with no firm date for issuing judgment.

Venezuela

56. In April 2008, the Venezuelan Federation of Associations of Users and Consumers and Giorgio Di Muro Di Nunno, the president of the Association of Users of Electric Services of Venezuela ('ASUSELECTRIC'), not ASUSELECTRIC itself, filed a class action against the Venezuelan government. The class action seeks regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. On 19 January 2009, C.A Cigarrera Bigott Sucs. ('Cigarrera Bigott') notified the Court of its intention to appear as a third-party. The Court adjourned a public hearing, initially scheduled for 28 July 2009, where Cigarrera Bigott's status as a third-party would be determined and parties would present evidence and make arguments. On 16 September 2009, the Venezuelan Republic ordered the Court to continue the judicial process.

57. On 12 April 2011, however, the Constitutional Chamber of the Supreme Court of Justice issued decision number 494, which established the rules for class action procedures. On 5 December 2012 Cigarrera Bigott was admitted as a third-party and presented its defences and evidence on 26 February 2013. The parties will now be asked to attend a hearing at the Constitutional Chamber; however, no date for the hearing has yet been scheduled by the Court. On 23 October 2014, ASUSELECTRIC, which is not a party to the case, filed a petition requiring the Constitutional Chamber to schedule the hearing.

(c) Individual personal injury claims

58. As at 31 December 2014, the jurisdictions with the most number of active individual cases against Group companies were, in descending order: Brazil (141), Italy (26), Argentina (20), Chile (11), Canada (5) and Ireland (2). There were a further four jurisdictions with one active case only.

Non-tobacco related litigation

Flintkote

59. The Flintkote Company ('Flintkote'), a US company formerly engaged in the production and sale of asbestos-containing products, was included in the acquisition of Genstar Corporation by Imasco Limited in 1986 and became a Group subsidiary following the restructuring of Imasco Limited (now Imperial Tobacco Canada Limited ('Imperial'), the Group's operating company in Canada) in 2000. Soon after this acquisition, and as part of the acquisition plan, Genstar Corporation began to sell most of its assets, including the non-asbestos related operations and subsidiaries of Flintkote. The liquidation of Flintkote assets produced cash proceeds and, having obtained advice from the law firm of Sullivan & Cromwell LLP ('S&C') and other advice that sufficient assets would remain to satisfy reasonably foreseeable liabilities, Flintkote's Board of Directors authorised the payment of a dividend of US$170.2 million in 1986 and a further dividend of

US$355 million in 1987. In 2003, Imperial divested Flintkote and then, in 2004, Flintkote filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. In 2006, Flintkote, representatives of both the present and future asbestos plaintiffs (collectively, the 'Flintkote Plaintiffs'), and certain individual asbestos plaintiffs (the 'Hopkins Plaintiffs') were permitted by the Bankruptcy Court to file a complaint in the California State Court against Imperial and numerous other defendants, including a malpractice claim against S&C, for the recovery of the dividends and other compensation under various legal and equitable theories.

60. Following a multi-day bench trial, the California State Court issued a preliminary decision dismissing the claim against S&C. Before the decision was made final, Flintkote settled with S&C for a nominal sum. All claims and cross claims in the litigation asserted by or against S&C have now been dismissed. After another series of bench trials, on 6 October 2011, the Court issued preliminary orders deciding multiple preliminary issues regarding Flintkote's claims to recover the dividends and Flintkote's claim that Imperial is its 'alter ego' for purposes of asbestos liabilities. Among other things, the Court has concluded that Flintkote is barred from seeking to recover, under any theory, transfers that occurred after 31 December 1986. The Court also concluded that Flintkote has no standing to pursue its claim that Imperial is its alter ego for purposes of asbestos liability, holding that any such claims must instead be pursued by individual asbestos plaintiffs. These rulings were made final on 6 January 2012. Thereafter, the Flintkote Plaintiffs agreed to dismiss certain of their claims, but continued to assert fraudulent conveyance claims and equitable restitution claims, as reflected in the Third Amended Complaint filed in January 2013. In August 2013, the Court implemented certain of its earlier decisions by granting summary judgment to Imperial on the plaintiffs' claims to recover the 1987 dividends. The Court also granted summary judgment to Imperial on the plaintiffs' fraudulent conveyance claims that were based on allegations that Flintkote was insolvent at the time of the dividend. Nonetheless, Flintkote continued to pursue claims that effectively sought recovery of the value of the 1987 dividend plus interest. Procedurally, the claims of the Flintkote Plaintiffs are now separated from the claims of the Hopkins Plaintiffs, and it is anticipated that, in the absence of the settlement described below, they would be tried separately.

61. On 17 December 2014, following a series of formal mediation sessions and other negotiations, Imperial and the Flintkote Plaintiffs executed a settlement agreement. In furtherance of this settlement, Imperial has placed into escrow the required settlement payment of US$575 million. The settlement is contingent upon further documentation and approval of the United States Bankruptcy Court for the District of Delaware, where Flintkote's bankruptcy case remains pending, and the United States District Court for the District of Delaware. Imperial filed bankruptcy motions and plan documents on 9 February 2015. The settlement will finally and completely resolve the existing Flintkote litigation, including the claims of the Hopkins Plaintiffs, and Imperial and its corporate affiliates will obtain protections from any potential future litigation related to Flintkote. On 4 February 2015 Imperial went before the California Superior Court to stay proceedings pending the settlement approval process. It is anticipated that final court approval of the settlement will occur in Q3 2015.

Reynolds American, Inc/Lorillard, Inc. Shareholder Litigation

62. On 15 July 2014, Reynolds American, Inc ('Reynolds') announced that it had entered into a definitive merger agreement with Lorillard Inc. ('Lorillard'), whereby Reynolds would acquire Lorillard in exchange for a combination of cash and Reynolds stock. As part of this transaction, the Company executed a Share Purchase Agreement to acquire a sufficient number of Reynolds shares to achieve a 42% equity stake in Reynolds after the merger with Lorillard, which is the same equity ownership it currently holds in Reynolds. In press releases announcing the transaction, Reynolds and BAT also announced that they had 'agreed in principle' to pursue a technology-sharing initiative for the development and commercialisation of next-generation tobacco products.

63. In summer 2014, the Company was named as a defendant in three actions stemming from the announcement of Reynolds' intended acquisition of Lorillard and related transactions (the 'Proposed Transaction'). Two of these actions were filed in the Delaware Court of Chancery on behalf of a putative class of Lorillard shareholders alleging that the directors of Lorillard breached their fiduciary duties by failing to obtain the highest value for Lorillard and that Reynolds and the Company aided and abetted that breach. Nine other

related actions were filed in Delaware by Lorillard shareholders that did not name the Company as a defendant. All 11 Delaware actions were consolidated on 25 November 2014, and the Company was not named as a defendant in the consolidated action.

64. The third action against the Company was filed in state court in North Carolina on 8 August 2014. The action was brought on behalf of a putative class of Reynolds shareholders alleging that the Company is a controlling shareholder of Reynolds and breached its fiduciary duty to the other Reynolds shareholders by 1) entering into the Share Purchase Agreement to acquire Reynolds shares at an allegedly unfair price in order to maintain its 42% interest in Reynolds after the Lorillard acquisition while diluting the interest of the other shareholders, and 2) entering into a purported agreement with Reynolds under which the plaintiff contends Reynolds will share next-generation technology with BAT for inadequate consideration. The plaintiff also alleges certain claims against Reynolds and its directors. The plaintiff seeks to enjoin the Proposed Transaction and to recover damages in an unspecified amount and attorneys' fees and costs.

65. On 5 December and 8 December 2014, all defendants moved to dismiss the Amended Complaint and to stay discovery pending the motions to dismiss. On 2 January 2015, the plaintiff filed a motion for a preliminary injunction to enjoin the vote of Reynolds shareholders regarding aspects of the Proposed Transaction pending additional disclosures to shareholders regarding issues that the plaintiff contended were material to the vote. On 17 January 2015, Reynolds and its directors settled the disclosure claims with the plaintiff pursuant to a Memorandum of Understanding filed with the Court and the plaintiff withdrew his motion for a preliminary injunction. The Court has not yet scheduled oral argument on the motions to dismiss, but it is expected to occur in the first half of 2015.

Fox River

Background to environmental liabilities arising out of contamination of the Fox River

66. In Wisconsin, the authorities have identified potentially responsible parties ('PRPs') to fund the clean-up of river sediments in the lower Fox River. The pollution was caused by discharges of Polychlorinated Biphenyls ('PCBs') from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation ('NCR').

67. There has been a substantial amount of litigation in the US regarding the responsibility for the costs of the clean-up operations. This can be summarised as follows:

    a. As regards the mid and lower portions of the Fox River:

        i. NCR was initially made subject to an injunction filed by the US Government against it and Appvion Inc. ('Appvion') in the courts of Wisconsin in 2012.

        ii. A subsequent ruling by the same Court in April 2012 found that Appvion was not a PRP, and the injunction was accordingly granted against NCR alone. NCR sought to appeal this decision, but it was affirmed on 3 August 2012.

        iii. A full trial of the merits of the US Government's application for a permanent injunction took place in December 2012 and the Court entered a permanent injunction against NCR.

        iv. On 1 May 2013, the Wisconsin Court ruled that the pollution in the Fox River is not divisible. In a series of rulings, the Wisconsin Court also held that NCR was not entitled to recover any amounts in contribution from other PRPs and that the other PRPs were entitled to recover Fox River clean-up costs from NCR. Cross-claims by Appvion against other PRPs to recover its own Fox River related expenditures were rejected by the Wisconsin Court on 25 June 2013. As a result of these decisions NCR was found wholly responsible for the clean-up of those portions of the river. NCR and Appvion appealed against these decisions.

        v. On 25 September 2014, the US Court of Appeals for the Seventh Circuit:

            1. vacated the decisions finding NCR wholly liable. The Court remanded the case to the district court for further consideration of defence of divisibility available to NCR. The Court also vacated the permanent injunction against NCR, reasoning that such relief is unnecessary;

            2. remanded the issue of contribution to the district court for reconsideration; and

3. found that Appvion is entitled to bring actions against other PRPs to recover its expenses, thereby reversing the trial court's finding in relation to this.

vi. As a result of the findings of the US Court of Appeals for the Seventh Circuit, a trial of the matters remanded back to the district court is currently set to commence on 13 June 2016.

b. As regards the upper portion of the Fox River:

i. In July 2012, the Wisconsin Court ruled that NCR was not liable for the clean-up costs in the upper portion of the Fox River. This judgement considered whether NCR was liable as a result of the sale, by a predecessor of NCR's Appleton Papers Division, of scrap paper, or 'broke', to other PRPs which, in turn, discharged PCBs into the upper portion of the river in the course of recycling the broke. This order was made final on 27 June 2013.

ii. On 25 September 2014, the US Court of Appeals for the Seventh Circuit dismissed the other PRPs' appeal against this order.

68. In NCR's Form 10-Q Quarterly Report for the quarterly period ended 30 September 2014, the total clean-up costs for the Fox River are estimated at US$825 million. This estimate is subject to uncertainties and does not include natural resource damages which NCR estimates may range from US$0 to US$246 million (albeit the US Government in one court filing in 2009 indicated that natural resource damages could be as high as US$382 million). There are however ongoing proceedings that may ultimately lead to the dismissal of all claims for natural resource damages.

Industries' involvement with environmental liabilities arising out of the contamination of the Fox River

69. Industries' involvement with the environmental liabilities arises out of indemnity arrangements which it became party to due to a series of transactions that took place from the late-1970s onwards. US authorities have never identified Industries or BATUS as PRPs.

70. In 1978, a subsidiary of Industries, later known as Appleton Papers Inc. and now known as Appvion, purchased what was then NCR's Appleton Papers Division from NCR. Under the terms of the agreement, Industries and Appvion both provided indemnities to NCR concerning certain environmental liabilities. In 1978, Industries also incorporated a US entity by the name of BATUS, Inc. ('BATUS') which in 1980 became the holding company for all of Industries' US subsidiaries, including Appvion. As the holding company, BATUS obtained insurance policies for itself and its subsidiaries that included coverage for certain environmental liabilities. Industries/BATUS spun off the Appvion business in 1990 via a Demerger Agreement with Wiggins Teape Appleton p.l.c., now known as Windward Prospects Ltd ('Windward'), and Wiggins Teape Appleton (Holdings) p.l.c., now known as Arjo Wiggins US Holdings Ltd (collectively, the 'AWA Entities'), obtaining what Industries believes were full indemnities from the AWA Entities and Appvion for past and future environmental claims.

71. Disputes between NCR, Appvion, and Industries as to the indemnities given and received under the original purchase agreement in 1978 have been the subject of litigation that was commenced in 1995, a settlement agreement effective from 1998 (the 'Settlement Agreement'), and an arbitration award in 2005. NCR took the position that, under the terms of the Settlement Agreement and the arbitration award, Industries and Appvion generally had a joint and several obligation to bear 60% of the Fox River environmental remediation costs imposed on NCR. Until May 2012, Appvion and the AWA Entities paid the 60% share of the clean-up costs and Industries was never required to contribute.

72. Following the May 2013 ruling of the Wisconsin Court described above which found, in April 2012, that Appvion was not a PRP, Appvion and the AWA Entities ceased making payments in relation to the clean-up. That led to NCR making demands on Appvion and Industries for payments under the terms of the Settlement Agreement. NCR later commenced an arbitration against Appvion on 29 March 2013 seeking US$39.9 million (plus interest and cost; later this rose to US$80.7 million) and a declaration that Appvion was liable to NCR under the Settlement Agreement for 60% of all 'Claims, Damages and Group Defence Costs' (as defined in the Settlement Agreement). An arbitration award has been finalised, but under the terms of the Funding Agreement described below, the parties have agreed that the award will not be released.

Litigation surrounding Windward's indemnities to Appvion and to Industries

73. In December 2011, following a request by Industries to confirm its indemnity obligation, Windward asserted that it did not indemnify Industries pursuant to the terms of the 1990 Demerger Agreement in respect of Industries' obligations under the Settlement Agreement. Industries disputed Windward's position and commenced proceedings in the High Court against both Windward and Appvion (which has also denied owing Industries an indemnity) (the 'English Indemnity Proceedings'). Appvion also issued a Counterclaim seeking recovery of 50% of its previous clean-up related payments (alleged to be 50% of US$211.25 million, or US$105.6 million) (the 'Appvion Counterclaim'). These proceedings were scheduled to go to trial in June 2015, but have now been discontinued pursuant to the Funding Agreement, described below.

74. The refusal of Appvion and Windward to continue to pay clean-up costs after May 2012 led to NCR making the demands on Industries referenced above. This led to Industries investigating the respective financial positions of Appvion and Windward. Industries is aware that Windward settled the majority of Appvion's insurance claims (over which it had control) at what Industries believes constituted a significant discount, and has made dividend payments to its former and current shareholders of approximately US$810 million, leaving it holding, according to its latest accounts for the year ended 31 October 2013, approximately US$60 million of net assets. Appvion's own accounts indicated that it also had limited financial resources. Accordingly, Industries considered that there was a significant risk that the assets of Windward/Appvion would be insufficient to meet their obligations under the indemnities Industries believes it was granted.

75. In order to preserve the value of the assets within Windward, Industries applied to the High Court of Justice of England and Wales (the 'High Court') seeking to appoint a receiver over claims Industries considered Windward has against its former shareholder, Sequana S.A. ('Sequana') and the former directors of Windward, in relation to the dividend payments. Judgement was handed down on 21 November 2013, with the judge finding that, absent an appropriate undertaking from Windward that it would commence the claims in question, receivers should be appointed in order to commence the dividend claims in its name. Windward commenced its claim against Sequana and the former Windward directors on 9 May 2014. Industries filed its own direct claims seeking to recover the dividend payments from Sequana in both the High Court and before the Commercial Court of Nanterre, France, in December 2013.

Funding Agreement of 30 September 2014

76. On 30 September 2014, Industries entered into the Funding Agreement with Windward, Appvion, NCR and BTI 2014 LLC (a wholly-owned subsidiary of Industries). Pursuant to the Funding Agreement, the English Indemnity Proceedings, Appvion Counterclaim and the NCR-Appvion arbitration described above were discontinued as part of an overall agreement between the parties providing a framework through which they would together fund the ongoing costs of the Fox River clean-up. Under the agreement, NCR has agreed to accept funding by BAT at the lower level of 50% of the ongoing clean-up related costs of the Fox River (rather than the 60% referenced above; this remains subject to an ability to litigate the extent to which a further 10% of the costs ought to be allocated at a later stage). In addition Windward and Appvion each committed to contribute to the funding — Windward has contributed US$10 million and Appvion will contribute up to a maximum of US$25 million respectively for each of Fox River and Kalamazoo River (see further below). The parties have also agreed to cooperate in order to maximise recoveries from certain claims that exist against third parties, including those claims which exist against Sequana (as referenced above). Any proceeds resulting from third-party claims will be applied to meet river clean-up costs first, thereby reducing Industries' obligations under the Funding Agreement and Industries then ranks first in the agreed repayment waterfall should surplus remain. Windward has provided Industries with an agreed direct indemnity to potentially cover shortfalls in recoveries by Industries against the amounts paid out. The Funding Agreement also assigned the claims which Windward has against Sequana, as well as certain claims against former advisers to Windward, to BTI 2014 LLC.

77. Sequana is seeking to challenge Windward's ability to enter into the Funding Agreement, on the basis of certain restrictions it alleges affect its ability to do so. The trial of this issue is scheduled to take place on 22 June 2015. The Funding Agreement contains provisions that mean that it will be set aside as between all of the parties to it if this challenge is successful, and the disputes between the parties described above will be revived.

78. The sums Industries has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing US litigation. In addition, Sequana's challenge referred to above is yet to be determined. Based on information currently at hand, Industries believes it may have a further exposure of some £177 million (as at 31 December 2014 and after payment of £56 million in 2014) in relation to clean-up related costs. Accordingly, Industries has retained a provision of £177 million, after releasing £27 million from the provision created in 2011 to the Income Statement as an adjusting item — see note 22 'Provisions'.

Kalamazoo

79. Industries is aware that NCR is also being pursued by Georgia-Pacific, as the owner of a facility on the Kalamazoo River in Michigan which released PCBs into that river. Georgia-Pacific has been designated as a PRP in respect of the river.

80. Georgia-Pacific contends that NCR is responsible for, or should contribute to, the clean-up costs, because:

    a. a predecessor to NCR's Appleton Papers Division sold 'broke' containing PCBs to Georgia-Pacific or others for recycling;

    b. NCR itself sold paper containing PCBs to Georgia-Pacific or others for recycling; and/or

    c. NCR is liable for sales to Georgia-Pacific or others of PCB-containing broke by Mead Corporation, which, like the predecessor to NCR's Appleton Papers Division, coated paper with the PCB containing emulsion manufactured by NCR.

81. A full trial on liability took place in February 2013. On 26 September 2013, the Michigan Court held that NCR was liable as a PRP on the basis that broke sales constituted an arrangement for the disposal of hazardous material for the purposes of CERCLA. The decision was based on NCR's knowledge of the hazards of PCBs from at least 1969, but the Court did not specify directly the entity(ies) whose broke sales form the basis of NCR's liability. NCR will have the ability to appeal the ruling once a final judgement has been entered or it has been otherwise certified for appeal.

82. The second phase of the Kalamazoo trial, scheduled to commence on 22 September 2015, will determine the apportionment of liability amongst NCR, Georgia-Pacific and the other PRPs (International Paper Company and Weyerhauser Company). Industries anticipates that NCR may seek to recover from Appvion and/or Industries 60% of any Kalamazoo clean-up costs for which it is found liable on the basis, it would be asserted, that the river constitutes a 'Future Site' for the purposes of the Settlement Agreement. Industries believes it may have defences to any such claim by NCR. The Funding Agreement described above does not resolve any such claims, but does provide an agreed mechanism pursuant to which any surplus from the valuable recoveries of any third-party claims that remains after all Fox River related clean-up costs have been paid and Industries and NCR have been made whole may be applied towards Kalamazoo clean-up costs, in the event that NCR were to be successful in any claim for a portion of them from Industries or Appvion. The quantum of the clean-up costs for the Kalamazoo River is presently unclear (as is the extent of NCR's liability in respect of such costs), but could run into the hundreds of millions of dollars.

83. As detailed above, Industries is taking active steps to protect its interests, including seeking to procure the repayment of the Windward dividends, pursuing the other valuable claims that are now within its control, and working with the other parties to the Funding Agreement to maximise recoveries from third parties with a view to ensuring that amounts funded towards clean-up related costs are later recouped under the agreed repayment mechanisms.

General litigation conclusion

84. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere. If an adverse judgement is entered against any of the Group's companies in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgement. In any event, the Group has the benefit of the RJRT Indemnification with regard to US litigation, excluding the litigation brought by the shareholders of

Reynolds and Lorillard. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in particular quarterly or annual periods could be materially affected by this and by the final outcome of any particular litigation.

85. Having regard to all these matters, with the exception of Fox River, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation; and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

Tax disputes

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense.

The following matters may proceed to litigation:

Brazil

The Brazilian Federal Tax Authority has filed claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The first reassessment was for the years 2004–2006 in the sum of R$495 million (£119 million) to cover tax, interest and penalties. The second reassessment was for the years 2007 and 2008 in the amount of R$248 million (£60 million) to cover tax, interest and penalties.

Souza Cruz appealed both reassessments and the matters are at the second tier administrative appeal process. Regarding the first assessment the Souza Cruz appeal was rejected although the written judgment of that tribunal is still awaited. The appeal against the second assessment was upheld at the second tier tribunal and is closed. There is one further administrative appeal level before the matter enters the judicial system.

Souza Cruz received a further reassessment in 2014 for 2009 in the sum of R$219 million (£53 million) covering tax, interest and penalties and have appealed against the reassessment in full.

Canada

The Canada Revenue Agency (CRA) had challenged the treatment of dividend income received by Imperial Tobacco Canada Ltd (ITCAN) from its investments in fellow group subsidiaries. Following the outcome of other cases in Canada, CRA have decided not to pursue the matter. A refund of payments made by ITCAN to pursue the appeal has been received from the federal and provincial authorities, including interest, with CAD$53 million (£29 million) being refunded in 2014 and the final balance of CAD$10 million (£5 million) being received in January 2015.

South Africa

In 2011 SARS challenged the debt financing of British American Tobacco South Africa (BATSA) and reassessed the years 2006 to 2008. BATSA has objected to and appealed this reassessment. In 2014, SARS have also reassessed the years 2009 and 2010. BATSA have filed a detailed objection letter to the 2009/10 reassessments. Across the period from 2006 to 2010 the reassessments are for R1.74 billion (£96 million) covering both tax and interest.

The Group believes that the Group's companies have meritorious defences in law and fact in each of the above matters and intends to pursue each dispute through the judicial system as necessary. The Group does not consider it appropriate to make provision for these amounts assessed nor for any potential further amounts which may be assessed in subsequent years.

While the amounts that may be payable or receivable in relation to tax disputes could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

VAT and duty disputes

Bangladesh

The operating company received a retrospective notice of imposition and realisation of VAT and supplementary duty on low price category brands from the National Board of Revenue (NBR) for approximately £158 million. The company is alleged to have evaded tax by selling the products in the low price segments rather than the mid-tier price segments.

Litigation has proceeded during 2014. A High Court Order to conclude the NBR hearing in 120 days (by 24 March 2015) was served to the Commissioner on 24 November 2014. Hearings scheduled for January and February 2015 were postponed and a new date for the hearing of the case by the NBR has not been set. The Ministry of Law has issued an opinion in respect of retrospective claims, supporting the company's view.

Operating leases

Total future minimum lease payments under non-cancellable operating leases comprise leases where payments fall due:

	2014 £m	2013 £m
Property		
Within one year	**52**	55
Between one and five years	**117**	114
Beyond five years	**25**	29
	194	198
Plant and equipment		
Within one year	**24**	25
Between one and five years	**40**	40
	64	65

31 Interests in subsidiaries

Subsidiaries with material non-controlling interests

Non-controlling interests principally arise from the Group's listed investments in Brazil (Souza Cruz SA) and Malaysia (British American Tobacco (Malaysia) Berhad) where the Group held 75% and 50% of the respective listed holding companies in both 2014 and 2013. The Group has assessed that it exercises de facto control over Malaysia as it has the practical ability to direct the business through effective control of the Company's Board as a result of the Group controlling the largest shareholding block in comparison to other shareholdings which are widely dispersed. Summarised financial information for these subsidiaries is shown below as required by IFRS 12 *Disclosure of Interests in Other Entities.* As part of the Group's reporting processes, both entities report consolidated financial information for their respective groups which have been adjusted to comply with Group accounting policies which may differ to local accounting practice. Goodwill in respect of Malaysia, which arose as a result of the acquisition of the Rothmans Group referred to in note 9, has not been included as part of the net assets below. No adjustments have been made to the information below for the elimination of inter-company transactions and balances with the rest of the Group.

Summarised financial information	Souza Cruz Group		Malaysia Group	
	2014	2013	2014	2013
	£m	£m	£m	£m
Revenue	**1,602**	1,838	**485**	504
Profit for the year	**441**	504	**167**	167
- Attributable to non-controlling interests	***111***	*126*	***84***	*84*
Total comprehensive income	**380**	388	**167**	167
- Attributable to non-controlling interests	***95***	*94*	***83***	*83*
Dividends paid to non-controlling interests	**(98)**	(117)	**(82)**	(81)
Summary net assets:				
Non-current assets	**399**	424	**55**	61
Current assets	**1,236**	1,261	**93**	104
Non-current liabilities	**(106)**	(118)	**(8)**	(7)
Current liabilities	**(899)**	(908)	**(131)**	(152)
Held for sale assets	**13**	—	**—**	—
Total equity at the end of the year	**643**	659	**9**	6
- Attributable to non-controlling interests	***174***	*181*	***4***	*3*
Net cash generated from operating activities	**380**	588	**182**	166
Net cash generated/(used) in investing activities	**211**	61	**2**	(5)
Net cash used in financing activities	**(474)**	(619)	**(195)**	(165)
Differences on exchange	**(31)**	(63)	**1**	(1)
Increase/(decrease) in net cash and cash equivalents	**86**	(33)	**(10)**	(5)
Net cash and cash equivalents at 1 January	**358**	391	**11**	16
Net cash and cash equivalents at 31 December	**444**	358	**1**	11

Other shareholdings

In Principal subsidiary and other Group undertakings, the Group discloses that it holds 85% (2013: 85%) of the equity shares of PT Bentoel Internasional Investama Tbk ('Bentoel'). In 2011, the Group sold 984 million shares, representing approximately 14% of Bentoel's share capital, for the purposes of fulfilling certain obligations pursuant to Bapepam LK (Indonesia) takeover regulations. The Group simultaneously entered into a total return swap on 971 million of the shares. As a consequence of this and for the duration of the swap, while the Group does not have legal ownership of these shares, it retains the risks and rewards which results in the Group continuing to recognise an effective interest in 99% of Bentoel's net assets and results.

32 Post balance sheet date announcement

On 23 February 2015, the Group announced that it is evaluating a possible public tender offer to acquire up to all of the 24.7% of Souza Cruz shares which are not currently owned by British American Tobacco and to delist the company.

An offer for Souza Cruz's shares would be at a price per share of R$26.75, to be paid in cash, in Brazilian reais, and to be reduced by any dividend paid by Souza Cruz. A price of R$26.75 per share would represent a premium of 30.0% to Souza Cruz's volume weighted average closing price over the three months to Friday 20 February 2015.

British American Tobacco, p.l.c.

Independent auditors' report
To the members of British American Tobacco p.l.c.

Report on the Group financial statements

Our opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements, which are prepared by British American Tobacco p.l.c. ("BAT"), comprise:

- the Group Balance Sheet as at 31 December 2013;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Statement of Changes in Equity and the Group Cash Flow Statement for the year then ended; and
- the Notes on the accounts, which include a summary of significant accounting policies and other explanatory information, the Principal subsidiary undertakings and Principal associate undertakings.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group'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 Group 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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £290 million, which represents approximately 5% of profit before taxation.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is primarily structured across four geographic regions, being Asia-Pacific, Americas, Western Europe, and Eastern Europe, Middle East and Africa. The Group financial statements are a consolidation of 438 reporting units, comprising the Group's operating businesses and sales offices (often legal entities), centralised functions, and supply chain entities.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's 438 reporting units, we identified 52 which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics, providing 83% coverage over Group profit before taxation, spread across all geographic regions. Audits of these reporting units were performed using materiality levels lower than the materiality level for the Group as a whole, ranging from £10 million to £60 million, and established by reference to the size of, and risks associated with, the business concerned.

Specific audit procedures on certain balances and transactions were performed at a further 65 reporting units, one of which represents the results of an associate. The nature of the balances and transactions where specific audit procedures were performed differ to those at the Group's core operating businesses. This, together with additional procedures performed at the Group level relating primarily to taxation, litigation, pensions, and earnings per share, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of particular audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 54.

Area of focus	How the scope of our audit addressed the area of focus
Corporate Tax Exposures	
The Directors are required to apply significant judgement when determining whether, and how much, to provide in respect of material tax assessments leading to uncertain tax positions in a number of jurisdictions. (Refer to notes 6 and 30 in the notes on the accounts.)	We held a programme of meetings with the Group's Corporate Tax team and local management to understand the tax strategy and related tax risks, any associated technical tax issues, and the status of any current tax litigation.
We focused on this area due to the significant quantum of gross risk and exposure across the Group, and the inherent complexity and judgement in estimating the amount of provision required.	We assessed the appropriateness of provisions recorded in the financial statements, or the rationale for not recording a provision, having read the latest correspondence between the Group and the various tax authorities, and having obtained written responses from the Group's external legal advisors containing their views on material tax exposures and any related litigation.

Area of focus	How the scope of our audit addressed the area of focus
Litigation The Group is subject to claims and class actions which could have a significant impact on the results if the potential exposures were to materialise. The Directors apply significant judgement when determining whether, and how much, to provide for matters of litigation. (Refer to notes 22 and 30 in the notes on the accounts.) We focused on this area due to the number and magnitude of potential exposures across the Group, and the inherent complexity and judgement in whether to provide for or disclose certain exposures.	We understood, assessed and tested management's controls in respect of litigation at the Group, regional and local level. We discussed the nature and status of exposures with in-house and external legal counsel. We obtained letters from the Group's lawyers to corroborate management's position for all significant litigation matters. We also read publicly available information containing recent updates in respect of court hearings and judgments impacting the Group. We assessed the appropriateness of provisions recorded in the financial statements, or the rationale for not recording a provision, and the completeness of disclosures in respect of contingent liabilities.
Restructuring and Integration costs During the year the Group has continued with the implementation of its revised Operating Model and single IT operating system in a number of markets. The accounting judgements and disclosure of costs associated with the project are complex, and give rise to an increased risk of error relating to inappropriate costs being capitalised.	We challenged the appropriateness of the Directors' policies in respect of project costs, including the nature of costs to be capitalised versus those that are immediately expensed, and the timing of determining when capitalised assets should be depreciated. We understood and evaluated management's controls over project costs, and any controls implemented as a result of the change programme. We tested costs incurred during the period to assess the appropriateness of £116 million costs capitalised versus £160 million that were expensed.
Fraud in Revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition when management are under pressure to achieve planned results. Whilst revenue recognition and measurement is not complex for BAT, volume targets form part of the Group's key performance measures which could create an incentive to record revenue in the incorrect period. We focused on this area given the magnitude of revenue transactions that occur, and the opportunity that exists across markets to influence the timing of revenue recognition. (Refer to note 1 in the notes on the accounts.).	We understood and evaluated management's controls over revenue transactions, and over the monitoring of results at an end market, regional and Group level that are designed to detect unusual transactions. We challenged the appropriateness of the Directors' revenue recognition policies and tested the timing of revenue recognition, taking into account contractual obligations and any local market conditions that might lead to an increase or reduction in revenue outside of the normal pattern. We also tested journal entries posted to revenue accounts to identify unusual or irregular items, and we tested credit notes and returns after the balance sheet date for indicators that revenue may have been inappropriately recognised before the year end.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's Internal Audit function. We considered whether there was evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements. We performed unpredictable audit procedures at in scope audit units and tested journal entries.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 43, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinion on matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 112 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 54, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Group financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 112, the Directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the Parent Company Financial Statements of British American Tobacco p.l.c. for the year ended December 31, 2013, and on the information in the Directors' Remuneration Report that is described as having been audited.

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

26 February 2014

British American Tobacco, p.l.c.

Group Income Statement
For the year ended 31 December

	Notes	2013 £m	2012 Restated £m
Gross turnover (including duty, excise and other taxes of £30,925 million (2012: £30,682 million))		**46,185**	45,872
Revenue	2	**15,260**	15,190
Raw materials and consumables used		**(3,348)**	(3,445)
Changes in inventories of finished goods and work in progress		**105**	133
Employee benefit costs	3(a)	**(2,384)**	(2,426)
Depreciation, amortisation and impairment costs	3(b)	**(477)**	(475)
Other operating income	3(c)	**302**	245
Other operating expenses	3(d)	**(3,932)**	(3,850)
Profit from operations	2	**5,526**	5,372
Analysed as:			
- adjusted profit from operations	2	**5,820**	5,641
- restructuring and integration costs	3(e)	**(246)**	(206)
- amortisation of trademarks and similar intangibles	3(f)	**(74)**	(63)
- gain on deemed partial disposal of a trademark	3(g)	**26**	—
		5,526	5,372
Net finance costs	4	**(466)**	(456)
Finance income		**66**	49
Finance costs		**(532)**	(505)
Share of post-tax results of associates and joint ventures	5	**739**	676
Analysed as:			
- adjusted share of post-tax results of associates and joint ventures	2	**723**	681
- issue of shares and change in shareholding	5	**22**	20
- restructuring and integration costs	5	**(4)**	(24)
- other	5	**(2)**	(1)
		739	676
Profit before taxation		**5,799**	5,592
Taxation on ordinary activities	6	**(1,600)**	(1,516)
Profit for the year		**4,199**	4,076
Attributable to:			
Owners of the parent		**3,904**	3,797
Non-controlling interests		**295**	279
		4,199	4,076
Earnings per share			
Basic	7	**205.4p**	195.8p
Diluted	7	**204.6p**	194.8p

All of the activities during both years are in respect of continuing operations.

Prior year results have been restated with the adoption of the revised IAS 19 *Employee Benefits* as explained in note 12.

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

British American Tobacco, p.l.c.

Group Statement of Comprehensive Income
For the year ended 31 December

	Notes	2013 £m	2012 Restated £m
Profit for the year (page 117)		**4,199**	4,076
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:		**(1,025)**	(337)
Differences on exchange			
- subsidiaries		**(972)**	(379)
- associates		**(141)**	(145)
Cash flow hedges			
- net fair value gains/(losses)		**94**	(11)
- reclassified and reported in profit for the year		**(49)**	71
- reclassified and reported in net assets		**(1)**	12
Available-for-sale investments			
- net fair value losses		**(7)**	(3)
- reclassified and reported in profit for the year		**—**	(1)
Net investment hedges			
- net fair value gains		**89**	106
- differences on exchange on borrowings		**(25)**	49
Tax on items that may be reclassified	6(d)	**(13)**	(36)
Items that will not be reclassified subsequently to profit or loss:		**355**	(306)
Retirement benefit schemes			
- net actuarial gains/(losses) in respect of subsidiaries	12	**308**	(381)
- surplus recognition and minimum funding obligations in respect of subsidiaries	12	**(5)**	60
- actuarial gains/(losses) in respect of associates net of tax	5	**90**	(39)
Tax on items that will not be reclassified	6(d)	**(38)**	54
Total other comprehensive income for the year, net of tax		**(670)**	(643)
Total comprehensive income for the year, net of tax		**3,529**	3,433
Attributable to:			
Owners of the parent		**3,272**	3,163
Non-controlling interests		**257**	270
		3,529	3,433

Prior year results have been restated with the adoption of the revised IAS 19 *Employee Benefits* as explained in note 12.

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

British American Tobacco, p.l.c.

Group Statement of Changes in Equity
At 31 December

	Notes	Attributable to owners of the parent						
	Notes	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings	Total attributable to owners of parent	Non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2013		**507**	**3,916**	**796**	**2,253**	**7,472**	**307**	**7,779**
Total comprehensive income for the year (page 118)		**—**	**—**	**(986)**	**4,258**	**3,272**	**257**	**3,529**
Profit for the year		**—**	**—**	**—**	**3,904**	**3,904**	**295**	**4,199**
Other comprehensive income for the year		**—**	**—**	**(986)**	**354**	**(632)**	**(38)**	**(670)**
Employee share options								
- value of employee services		**—**	**—**	**—**	**61**	**61**	**—**	**61**
- proceeds from shares issued		**—**	**3**	**—**	**1**	**4**	**—**	**4**
Dividends and other appropriations								
- ordinary shares		**—**	**—**	**—**	**(2,611)**	**(2,611)**	**—**	**(2,611)**
- to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**(271)**	**(271)**
Purchase of own shares								
- held in employee share ownership trusts		**—**	**—**	**—**	**(74)**	**(74)**	**—**	**(74)**
- share buy-back programme		**—**	**—**	**—**	**(1,509)**	**(1,509)**	**—**	**(1,509)**
Non-controlling interests — capital injection	26(b)	**—**	**—**	**—**	**—**	**—**	**8**	**8**
Other movements		**—**	**—**	**—**	**19**	**19**	**—**	**19**
Balance at 31 December 2013		**507**	**3,919**	**(190)**	**2,398**	**6,634**	**301**	**6,935**

	Notes	Attributable to owners of the parent						
	Notes	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings Restated	Total attributable to owners of parent Restated	Non-controlling interests Restated	Total equity Restated
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2012		506	3,913	1,112	2,636	8,167	307	8,474
Total comprehensive income for the year (page 118)		—	—	(316)	3,479	3,163	270	3,433
Profit for the year		—	—	—	3,797	3,797	279	4,076
Other comprehensive income for the year		—	—	(316)	(318)	(634)	(9)	(643)
Employee share options								
- value of employee services		—	—	—	73	73	—	73
- proceeds from shares issued		1	3	—	1	5	—	5
Dividends and other appropriations								
- ordinary shares		—	—	—	(2,538)	(2,538)	—	(2,538)
- to non-controlling interests		—	—	—	—	—	(267)	(267)
Purchase of own shares								
- held in employee share ownership trusts		—	—	—	(121)	(121)	—	(121)
- share buy-back programme		—	—	—	(1,258)	(1,258)	—	(1,258)
Non-controlling interests — acquisitions	29	—	—	—	(21)	(21)	(3)	(24)
Other movements		—	—	—	2	2	—	2
Balance at 31 December 2012		507	3,916	796	2,253	7,472	307	7,779

Prior year results have been restated with the adoption of the revised IAS 19 *Employee Benefits* as explained in note 12.

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

British American Tobacco, p.l.c.

Group Balance Sheet
At 31 December

	Notes	2013 £m	2012 £m
Assets			
Non-current assets			
Intangible assets	9	**11,205**	11,710
Property, plant and equipment	10	**3,156**	3,201
Investments in associates and joint ventures	11	**2,299**	2,330
Retirement benefit assets	12	**135**	105
Deferred tax assets	13	**248**	327
Trade and other receivables	14	**171**	224
Available-for-sale investments	15	**36**	37
Derivative financial instruments	16	**113**	207
Total non-current assets		**17,363**	18,141
Current assets			
Inventories	17	**4,042**	4,026
Income tax receivable	18	**95**	83
Trade and other receivables	14	**2,876**	2,741
Available-for-sale investments	15	**54**	26
Derivative financial instruments	16	**312**	166
Cash and cash equivalents	19	**2,106**	2,081
		9,485	9,123
Assets classified as held-for-sale	26(e)	**33**	63
Total current assets		**9,518**	9,186
Total assets		**26,881**	27,327
Equity			
Capital and reserves			
Share capital		**507**	507
Share premium, capital redemption and merger reserves		**3,919**	3,916
Other reserves		**(190)**	796
Retained earnings		**2,398**	2,253
Owners of the parent		**6,634**	7,472
after deducting			
- cost of treasury shares		**(4,325)**	(2,824)
Non-controlling interests		**301**	307
Total equity	20	**6,935**	7,779
Liabilities			
Non-current liabilities			
Borrowings	21	**9,716**	9,083
Retirement benefit liabilities	12	**632**	1,152
Deferred tax liabilities	13	**514**	500
Other provisions for liabilities and charges	22	**387**	419
Trade and other payables	23	**131**	166
Derivative financial instruments	16	**130**	86
Total non-current liabilities		**11,510**	11,406
Current liabilities			
Borrowings	21	**1,980**	1,636
Income tax payable	18	**487**	404
Other provisions for liabilities and charges	22	**194**	210
Trade and other payables	23	**5,741**	5,827
Derivative financial instruments	16	**34**	65
Total current liabilities		**8,436**	8,142
Total equity and liabilities		**26,881**	27,327

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

On behalf of the Board

Richard Burrows
Chairman

26 February 2014

British American Tobacco, p.l.c.

Group Cash Flow Statement
For the year ended 31 December

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	25	**5,366**	5,437
Dividends received from associates		**510**	486
Tax paid		**(1,440)**	(1,496)
Net cash generated from operating activities		**4,436**	4,427
Cash flows from investing activities			
Interest received		**70**	72
Dividends received from investments		**2**	2
Purchases of property, plant and equipment	25	**(574)**	(664)
Proceeds on disposal of property, plant and equipment	25	**173**	56
Purchases of intangibles		**(147)**	(140)
Purchases and proceeds on disposals of investments	25	**(32)**	24
Proceeds from associate's share buy-backs	25	**189**	262
Purchase of subsidiaries	25	**(16)**	(12)
Net cash used in investing activities		**(335)**	(400)
Cash flows from financing activities			
Interest paid		**(570)**	(564)
Interest element of finance lease rental payments		**(1)**	(1)
Capital element of finance lease rental payments		**(2)**	(5)
Proceeds from issue of shares to owners of the parent		**3**	4
Proceeds from the exercise of options over own shares held in employee share ownership trusts		**1**	1
Proceeds from increases in and new borrowings	25	**2,428**	2,539
Movements relating to derivative financial instruments	25	**54**	93
Purchases of own shares		**(1,509)**	(1,258)
Purchases of own shares held in employee share ownership trusts		**(74)**	(121)
Purchases of non-controlling interests	25	**–**	(24)
Reductions in and repayments of borrowings	25	**(1,421)**	(1,821)
Dividends paid to owners of the parent	8	**(2,611)**	(2,538)
Dividends paid to non-controlling interests		**(265)**	(259)
Net cash used in financing activities		**(3,967)**	(3,954)
Net cash flows generated from operating, investing and financing activities		**134**	73
Differences on exchange		**(197)**	(176)
Decrease in net cash and cash equivalents in the year		**(63)**	(103)
Net cash and cash equivalents at 1 January		**1,839**	1,942
Net cash and cash equivalents at 31 December	19	**1,776**	1,839

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

British American Tobacco, p.l.c.

Notes on the Accounts

1 Accounting policies

Basis of Accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments.

With effect from 1 January 2013 the Group has adopted the revised IAS 19 *Employee Benefits.* The revised standard has not changed the values of retirement benefit assets and liabilities on the balance sheet, but has changed the amounts recognised in the income statement and in other comprehensive income. The expected return on scheme assets and the interest cost on liabilities have been replaced by a new component of the income statement charge — interest on the net retirement benefit asset/liability. The revised standard has retrospective application and has reduced the profit for the year to 31 December 2012 by £46 million, with compensating credits in other comprehensive income, as is shown in note 12.

The Group has early adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* with effect from 1 January 2013 along with the revised versions of IAS 27 *Separate Financial Statements* and IAS 28 *Associates.* IAS 31 *Joint Ventures* has been withdrawn by the IASB. These standards form a single package of proposals with mandatory application in the EU from 1 January 2014. The aim of these standards is to improve the quality of reporting in relation to the consolidation of subsidiaries, special purpose vehicles and accounting for joint arrangements. While the requirements of IFRS 12 has lengthened certain disclosures in respect of Group entities, the requirements of these standards have not materially affected the Group.

In addition, with effect from 1 January 2013 the Group has adopted a number of minor changes to IFRS including the amendment to IAS 1 *Presentation of Financial Statements* which changes the presentation of certain items within other comprehensive income grouping them into items which recycle to profit and loss and items which will not, and IFRS 13 *Fair Value Measurement* which provides a single source of fair value measurement and disclosure requirements for use across IFRS. The implementation of IFRS 13 does not require a restatement of historical transactions.

The preparation of the Group financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, 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, especially goodwill and impairment testing. The key assumptions used in respect of goodwill and impairment testing are the determination of cash-generating units, the long-term growth rate for cash flow projections and the rate used to discount the cash flow projections. These are described in note 9;
- the estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, and amounts recognised in other comprehensive income, involves judgments made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, salary and pension increases, inflation, as well as discount rates and asset values at the year end. The assumptions used by the Group and sensitivity analysis are described in note 12;
- the estimation of amounts to be recognised in respect of taxation and legal matters, and the estimation of other provisions for liabilities and charges are subject to uncertain future events, may extend over several years and so the amount and/or timing may differ from current assumptions. The accounting policy for taxation is explained below and the recognised deferred tax assets and liabilities, together with a note of unrecognised amounts, are shown in note 6(b) and note 13. Other provisions for

liabilities and charges are as set out in note 22. The accounting policy on contingent liabilities, which are not provided for, is set out below and the contingent liabilities of the Group are explained in note 30;

- the definition of adjusting items, which are separately disclosed as memorandum information, is explained below and the impact of these on the calculation of adjusted earnings is described in note 7;
- the estimation of the fair values of acquired net assets arising in a business combination and the allocation of the purchase consideration between the underlying net assets acquired, including intangible assets other than goodwill, on the basis of their fair values. These estimates are prepared in conjunction with the advice of independent valuation experts where appropriate. The relevant transactions for 2013 and 2012 are described in note 26;
- the review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency, or multiple exchange rates; and
- the exemptions taken under IFRS 1 on the first time adoption of IFRS at 1 January 2004 and, in particular, those relating to goodwill on business combinations which are explained in the accounting policies below.

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 judgement 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.

Basis of consolidation

The consolidated financial information includes the financial statements of British American Tobacco p.l.c. and its subsidiary undertakings, together with the Group's share of the results of its associates and joint arrangements.

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates comprise investments in undertakings, which are not subsidiary undertakings or joint arrangements, where the Group's interest in the equity capital is long term and over whose operating and financial policies the Group exercises a significant influence. They are accounted for using the equity method.

Joint arrangements comprise contractual arrangements where two or more parties have joint control and where decisions regarding the relevant activities of the entity require unanimous consent. Joint operations are jointly-controlled arrangements where the parties to the arrangement have rights to the underlying assets and obligations for the underlying liabilities relating to the arrangement. The Group accounts for its share of the assets, liabilities, income and expenses of any such arrangement. Joint ventures comprise arrangements where the parties to the arrangement have rights to the net assets of the arrangement. They are accounted for using the equity method.

The results of subsidiary undertakings acquired during the period are included from the date of acquisition of a controlling interest at which date, for the purposes of consolidation, the purchase consideration is allocated between the underlying net assets acquired, including intangible assets other than goodwill, on the basis of their fair value. Acquisition related costs are expensed as incurred. Similarly, the results of associates and joint arrangements are included from the date of acquiring significant influence or joint control respectively.

The results of subsidiary undertakings, associates and joint arrangements which have been sold during the year are included up to the date of disposal. The profit or loss on sale is calculated by reference to the net asset value at the date of disposal, adjusted for purchased goodwill previously consolidated in the balance sheet.

Inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

The functional currency of the Parent Company is sterling and this is also the presentation currency of the Group. The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at the applicable rates of exchange at the end of each year. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed.

For hyperinflationary countries, the financial statements in local currency are adjusted to reflect the impact of local inflation prior to translation into sterling.

The differences between retained profits of overseas subsidiary undertakings, associates and joint arrangements translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year. Any differences that have arisen since 1 January 2004 are presented as a separate component of equity. As permitted under IFRS 1, any differences prior to that date are not included in this separate component of equity.

Where a disposal of an investment in a Group undertaking results in a loss of control of a subsidiary undertaking, the loss of significant influence over an associated company or the loss of joint control over a joint arrangement, the cumulative amount of the related foreign exchange differences deferred in the separate component of equity are recognised in the income statement when the gain or loss on disposal is recognised. These related exchange differences comprise the exchange differences on all amounts deemed to be part of the net investment in the undertaking, which are recycled to the income statement when a disposal occurs. For partial disposals of subsidiary undertakings the related exchange differences are reclassified within equity. For all other partial disposals the proportional share of the related exchange differences is recycled to the income statement.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group using the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency assets and liabilities at year-end rates of exchange are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges, on inter-company net investment loans and qualifying net investment hedges. Foreign exchange gains or losses recognised in the income statement are included in profit from operations or net finance costs depending on the underlying transactions that gave rise to these exchange differences.

Revenue

Revenue principally comprises sales of cigarettes, cigars, leaf and other tobacco products to external customers. Revenue excludes duty, excise and other taxes and is after deducting rebates, returns and other similar discounts. Revenue is recognised when the significant risks and rewards of ownership are transferred to a third party.

Retirement benefit costs

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

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

The Group also has certain post-retirement healthcare schemes and they are accounted for on a similar basis to the defined benefit pension schemes.

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

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

Share-based payments

The Group has equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date. Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Research and development

Research expenditure is charged to income in the year in which it is incurred. Development expenditure is charged to income in the year it is incurred, unless it meets the recognition criteria of IAS 38 *Intangible Assets*.

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 substantially enacted at the balance sheet date in the countries where the Group's subsidiaries, associates and joint arrangements operate and generate taxable income.

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. Deferred tax is provided on temporary differences arising on investments in Group undertakings, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future. 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 income statement 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 Group 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.

Goodwill

Goodwill arising on acquisitions is capitalised and is considered to have an indefinite life subject to impairment reviews. Any impairment of goodwill is recognised immediately in the income statement and is not subsequently reversed.

Goodwill represents the excess of the cost of acquisition of a subsidiary, associate or joint venture over the Group's share of the fair value of identifiable net assets acquired. Goodwill is stated at cost net of accumulated impairment losses and recognised amortisation prior to 1 January 2004.

The Group's policy up to and including 1997 was to eliminate goodwill against reserves. Goodwill acquired from 1998 to 31 December 2003 was capitalised and amortised over its useful economic life.

As permitted under IFRS 1, in respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations was not amended on transition to IFRS. Goodwill previously written off direct to reserves is not recycled to the income statement on the disposal of the subsidiary, associate or joint venture to which it relates.

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associates and joint ventures, goodwill is included in the carrying value of the investment in the associated company or joint venture. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets other than goodwill

The intangible assets shown on the Group Balance Sheet consist mainly of trademarks and similar intangibles, including certain intellectual property, acquired by the Group's subsidiary undertakings and computer software.

Acquired trademarks and similar assets are carried at cost less accumulated amortisation and impairment. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. Intangible assets other than goodwill classified as held-for-sale are not amortised. Other trademarks and similar assets are amortised on a straight-line basis over their remaining useful lives, consistent with the pattern of economic benefits expected to be received, which do not exceed 20 years. Any impairments of trademarks are recognised in the income statement but increases in trademark values are not recognised.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to seven years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding 10 years.

The investments in associates and joint ventures shown in the Group Balance Sheet include trademarks arising from the combination of Brown & Williamson (B&W) and R J Reynolds (RJR) in 2004 to form Reynolds American Inc. (RAI), as well as those arising on the acquisition of Conwood by RAI in 2006. As the combination of B&W and RJR for the Group involved the partial disposal of B&W and an investment in RAI, fair values were assigned to trademarks formerly owned by RJR but not to those formerly owned by B&W. Most of the carrying value of the trademarks relates to trademarks which are deemed to have indefinite lives and each trademark is subject to an annual impairment test. Certain minor trademarks are being amortised over their remaining lives.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held-for-sale. Freehold and leasehold property are depreciated at rates between 2.5% and 4% per annum, and plant and equipment at rates between 7% and 25% per annum.

Capitalised interest

Borrowing costs which are directly attributable to the acquisition, construction or production of intangible assets or plant, property and equipment that takes a substantial period of time to get ready for its intended use or sale, and for which the commencement date for capitalisation was on or after 1 January 2009, are capitalised as part of the cost of the asset, in accordance with IAS 23 *Borrowing Costs.* The Group's previous policy was to expense such borrowing costs as they were incurred.

Leased assets

Assets where the Group has substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and are included as part of property, plant and equipment. Finance lease assets are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, then depreciated over the shorter of the lease term and their estimated useful lives. Leasing payments consist of capital and finance charge elements and the finance element is charged to the income statement.

Rental payments under operating leases are charged to the income statement on a straight-line basis over the lease term.

Where arrangements are entered into which, while they are not in the legal form of a lease, are in substance a lease under IFRIC 4, then they are recognised on the same basis as the leased assets above.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of a cash-generating unit may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value in use.

A cash-generating unit is the smallest identifiable group of assets that generates cash flows which are largely independent of the cash flows from other assets or groups of assets. At the acquisition date, any goodwill acquired is allocated to the relevant cash-generating unit or group of cash-generating units expected to benefit from the acquisition for the purpose of impairment testing of goodwill.

Impairment of financial assets

Financial assets are reviewed at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator that the investment is impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less costs to completion and sale. Tobacco inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognised industry practice.

Financial instruments

Financial assets and financial liabilities are recognised when the Group 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 available-for-sale investments, loans and receivables or cash and cash equivalents as follows:

Available-for-sale investments: available-for-sale investments are those non-derivative financial assets that cannot be classified as loans and receivables or cash and cash equivalents.

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: 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. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in the liabilities section on the balance sheet.

Apart from available-for-sale investments, 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. Such evidence might include financial difficulties of the debtor, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable. Available-for-sale investments are stated at fair value, 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 income statement within 'finance income'. Dividend and interest income on available-for-sale investments are included within 'finance income' when the Group's right to receive payments is established.

Fair values for quoted investments are based on observable market prices. If there is no active market for a financial asset, the fair value is established by using valuation techniques principally involving discounted cash flow analysis.

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:

- 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 income statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the income statement 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 income statement in the same periods as the hedged item;
- for derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;
- for derivatives that are designated as hedges of net investments in foreign operations, 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 income statement. Where non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are reclassified to the income statement when the foreign operation is disposed of; and
- 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 income statement in the period in which they arise.

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

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the income statement 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 income statement.

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

Dividends

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

Segmental analysis

The Group is organised and managed on the basis of its geographic regions. These are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the chief operating decision maker, identified as the Management Board, for assessing performance and allocating resources.

The Group is primarily a single product business providing cigarettes and other tobacco products. While the Group has clearly differentiated brands, global segmentation between a wide portfolio of brands is not part of the regular internally reported financial information. The results of next-generation products are not currently material to the Group.

The prices agreed between Group companies for intra-group sales of materials, manufactured goods, charges for royalties, commissions, services and fees, are based on normal commercial practices which would apply between independent businesses. Royalty income, less related expenditure, is included in the region in which the licensor is based.

Adjusting items

Adjusting items are significant items in the profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. While the disclosure of adjusting items is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the income statement and in the segmental analyses, or in the notes to the accounts as appropriate.

The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance and are used to derive the Group's principal non-GAAP measures of adjusted profit from operations and adjusted diluted earnings per share.

Provisions

Provisions are recognised when either a legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets

Subsidiaries and associates companies are defendants in tobacco-related and other litigation. Provision for this litigation would be made at such time as an unfavourable outcome became 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.

The Group records its external legal fees and other external defence costs for tobacco-related and other litigation as these costs are incurred.

Repurchase of share capital

When share capital is repurchased the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

Future changes to accounting policies

Certain changes to IFRS will be applicable to the Group financial statements in future years. Set out below are those which are considered to affect the Group.

IFRS 9 *Financial Instruments* has been issued covering the first and third phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. In its current form, it sets out requirements for the classification and measurement of financial assets and financial liabilities, as well as introducing a new model for general hedge accounting.

- All financial assets, including assets currently classified under IAS 39 as available-for-sale, to be measured at fair value through profit and loss unless the assets can be classified as held at amortised cost. Qualifying equity investments may have their fair value changes taken through other comprehensive income by election. Where the fair value option for certain financial liabilities is applied, the portion of fair value changes representing own credit risk would be recognised through other comprehensive income rather than the income statement. The Group does not use the fair value option for financial liabilities.

- The requirements for general hedge accounting seek to better align hedge accounting with the risk management activities of an entity by removing or amending some of the rules within IAS 39. While the flexibility within the new requirements might allow companies to apply hedge accounting where previously they would not have been able to, the Group does not anticipate any material changes arising from these requirements.

The effect of applying the standard in its current form is therefore not considered to have a material impact on the Group's reported profit or equity. The impact on the Group of further changes to IFRS 9 and the impact of the second phase of the project, covering impairment, will be assessed when the IASB has finalised the proposed requirements. A mandatory implementation date for IFRS 9 has not been set by the IASB, but in any event the Standard has not been endorsed by the EU and will only become applicable once that endorsement has occurred.

In addition, a number of other interpretations and revisions to existing standards have been issued which will be applicable to the Group financial statements in future years and which will have no material effect on reported profit or equity or on the disclosures in the financial statements.

2 Segmental analyses

As the chief operating decision maker, the Management Board reviews external revenues and adjusted profit from operations to evaluate segment performance and allocate resources. Interest income, interest expense and taxation are centrally managed and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

The four geographic regions are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the Management Board for assessing performance and allocating resources. The results of next-generation products are currently not material to the Group and are included within the Western Europe region.

The Management Board reviews current and prior year segmental revenue, adjusted profit from operations of subsidiaries and joint operations, and adjusted post-tax results of associates and joint ventures at constant rates of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group's overseas entities but, other than in exceptional circumstances, does not adjust for transactional gains and losses in operations which are generated by movements in exchange rates. As a result, the 2013 segmental results were translated using the 2012 rates of exchange. The 2012 figures are also stated at the 2012 rates of exchange.

The analyses of revenue for the 12 months to 31 December 2013 and 31 December 2012, based on location of sales, are as follows:

	2013			2012
	Revenue Constant rates	Translation exchange	Revenue Current rates	Revenue
	£m	£m	£m	£m
Asia-Pacific	**4,448**	**(245)**	**4,203**	4,214
Americas	**3,579**	**(262)**	**3,317**	3,460
Western Europe	**3,493**	**142**	**3,635**	3,442
EEMEA	**4,302**	**(197)**	**4,105**	4,074
Revenue	**15,822**	**(562)**	**15,260**	15,190

The analyses of profit from operations and the Group's share of the post-tax results of associates and joint ventures, reconciled to profit before taxation, are as follows:

	2013					2012		
	Adjusted* segment result Constant rates	Translation exchange	Adjusted* segment result Current rates	Adjusting items	Segment result Current rates	Adjusted* segment result Restated	Adjusting items	Segment result Restated
	£m	£m	£m	£m	£m	£m	£m	£m
Asia-Pacific	**1,787**	**(94)**	**1,693**	**(21)**	**1,672**	1,663	(80)	1,583
Americas	**1,453**	**(89)**	**1,364**	**(61)**	**1,303**	1,391	(64)	1,327
Western Europe	**1,222**	**51**	**1,273**	**(140)**	**1,133**	1,175	(99)	1,076
EEMEA	**1,579**	**(89)**	**1,490**	**(72)**	**1,418**	1,412	(26)	1,386
Profit from operations	**6,041**	**(221)**	**5,820**	**(294)**	**5,526**	5,641	(269)	5,372
Net finance costs					**(466)**			(456)
Asia-Pacific	**293**	**(21)**	**272**	**22**	**294**	245	20	265
Americas	**439**	**6**	**445**	**(6)**	**439**	434	(25)	409
EEMEA	**6**	**—**	**6**	**—**	**6**	2	—	2
Share of post-tax results of associates and joint ventures	**738**	**(15)**	**723**	**16**	**739**	681	(5)	676
Profit before taxation					**5,799**			5,592

* The adjustments to profit from operations and the Group's share of the post-tax results of associates and joint ventures are explained in notes 3(e) to 3(g) and in note 5, respectively.

Adjusted profit from operations at constant rates of £6,041 million (2012: £5,641 million) excludes certain depreciation, amortisation and impairment charges as explained in notes 3(b), 3(e) and 3(f). These are excluded from segmental profit from operations at constant rates as follows:

	2013					2012		
	Adjusted depreciation, amortisation and impairment Constant rates	Translation exchange	Adjusted depreciation, amortisation and impairment Current rates	Adjusting items	Depreciation, amortisation and impairment Current rates	Adjusted depreciation, amortisation and impairment	Adjusting Items	Depreciation, amortisation and impairment
	£m	£m	£m	£m	£m	£m	£m	£m
Asia-Pacific	**91**	**(1)**	**90**	**17**	**107**	89	22	111
Americas	**100**	**(4)**	**96**	**17**	**113**	104	25	129
Western Europe	**98**	**4**	**102**	**37**	**139**	92	34	126
EEMEA	**108**	**(4)**	**104**	**14**	**118**	101	8	109
	397	**(5)**	**392**	**85**	**477**	386	89	475

External revenue and non-current assets other than financial instruments, deferred tax assets and retirement benefit assets are analysed between the UK and all foreign countries at current rates of exchange as follows:

	United Kingdom		All foreign countries		Group	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Revenue is based on location of sale						
External revenue	**155**	139	**15,105**	15,051	**15,260**	15,190

	United Kingdom		All foreign countries		Group	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Intangible assets	**417**	306	**10,788**	11,404	**11,205**	11,710
Property, plant and equipment	**357**	375	**2,799**	2,826	**3,156**	3,201
Investments in associates and joint ventures	**—**	—	**2,299**	2,330	**2,299**	2,330

The only foreign operation requiring separate disclosure under the requirements of IFRS 8 *Operating Segments* is Souza Cruz operating in Brazil. The results of Souza Cruz are not disclosed separately in this Segmental analysis as they are disclosed in note 31 due to the materiality of the non-controlling interests. The main acquisitions comprising the goodwill balance of £10,249 million (2012: £10,793 million), included in intangible assets, are provided in note 9. Included in investments in associates and joint ventures are amounts of £1,447 million (2012: £1,496 million) attributable to the investment in Reynolds American and £808 million (2012: £793 million) attributable to the investment in ITC. Further information can be found in note 11.

3 Profit from operations

(a) Employee benefit costs

	2013	2012 Restated
	£m	£m
Wages and salaries	**1,914**	1,907
Social security costs	**234**	257
Other pension and retirement benefit costs (note 12)	**162**	171
Share-based payments — equity-settled (note 27)	**61**	73
Share-based payments — cash-settled (note 27)	**13**	18
	2,384	2,426

(b) Depreciation, amortisation and impairment costs

		2013	2012
		£m	£m
Intangibles	- amortisation of trademarks and similar intangibles (note 3(f))	**74**	63
	- amortisation of other intangibles	**48**	53
Property, plant and equipment	- depreciation	**321**	347
	- impairment	**34**	12
		477	475

Impairment in respect of certain property, plant and equipment is included in restructuring costs (see note 3(e)).

(c) Other operating income

This represents operating income arising from the Group's activities which falls outside the definition of revenue and includes gains as a result of property disposals, service fees and other shared costs charged to third parties, manufacturing fees and trademark income.

(d) Other operating expenses include:

	2013 £m	2012 £m
Research and development expenses (excluding employee benefit costs and depreciation)	**91**	93
Exchange differences	**11**	50
Rent of plant and equipment (operating leases)		
- minimum lease payments	**38**	41
Rent of property (operating leases)		
- minimum lease payments	**81**	75
Fees payable for audit services pursuant to legislation:		
- fees payable to PricewaterhouseCoopers LLP for Parent Company and Group audit	**1.8**	1.8
- fees payable to other PricewaterhouseCoopers firms and associates for local statutory and Group reporting audits	**7.6**	7.7
Audit fees payable to PricewaterhouseCoopers firms and associates	**9.4**	9.5
Audit fees payable to other firms	**0.5**	0.5
Total audit fees payable	**9.9**	10.0
Fees payable to PricewaterhouseCoopers firms and associates for other services:		
- audit-related assurance services	**0.3**	1.0
- other assurance services	**0.1**	0.2
- tax advisory services	**2.9**	2.5
- tax compliance	**1.0**	0.9
- other non-audit services	**0.6**	0.5
	4.9	5.1

The total fees payable to PricewaterhouseCoopers firms and associates included above are £14.3 million (2012: £14.6 million).

Total research and development costs including employee benefit costs and depreciation are £161 million (2012: £171 million).

(e) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, including the relevant operating costs of implementing the new operating model. The new operating model includes revised organisation structures, standardised processes and shared back office services underpinned by a global single instance of SAP. The new organisation structures and processes are currently being implemented and the deployment of the new SAP system started in the third quarter of 2012 and will take around a total of four years to fully roll-out. These initiatives also include a review of the Group's manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of these initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	2013 £m	2012 £m
Employee benefit costs	**140**	96
Depreciation and impairment costs	**11**	26
Other operating expenses	**161**	100
Other operating income	**(66)**	(16)
	246	206

Restructuring and integration costs in 2013 principally relate to the restructuring initiatives directly related to implementation of a new operating model and the continuation of the factory closure and downsizing activities in Australia and Russia, and restructuring of factories in Kinshasa, Democratic Republic of the Congo; Boncourt, Switzerland and Bayreuth, Germany. The costs also cover separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

Restructuring and integration costs in 2012 principally related to the implementation of the new operating model, the continuation of the factory closure and downsizing activities in Australia and the restructuring in Argentina. The costs also cover the social plan and other activities relating to the Bremen factory closure in Germany, the integration of Productora Tabacalera de Colombia, S.A.S. (Protabaco) into existing operations, as well as the write-off of non-compliant products and materials related to the implementation of plain packaging in Australia. In addition, they also included separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

Other operating income in 2013 includes gains from the sale of land and buildings in Australia, Denmark and Russia. In 2012, other operating income includes gains from the sale of land and buildings in the UK and South Africa and the release of deferred income from a disposal in 2007.

(f) Amortisation of trademarks and similar intangibles

The acquisitions of Protabaco, Bentoel, Tekel, ST and CN Creative Limited (see note 26(c)) as well as the creation of CTBAT International Limited (see note 26(a)) resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £74 million (2012: £63 million) is included in depreciation, amortisation and impairment costs in profit from operations.

(g) Gain on deemed partial disposal of a trademark

The contribution of the State Express 555 brand to CTBAT International Limited (see note 26(a)) is accounted for at fair value in the arrangement. This resulted in a £26 million gain on a deemed partial disposal of a trademark which is included in other operating income but has been treated as an adjusting item.

4 Net finance costs

	2013 £m	2012 £m
Finance costs		
- interest payable		
- bank borrowings	**70**	83
- finance leases	**1**	1
- facility fees	**7**	10
- other	**536**	486
	614	580
- fair value changes on derivative financial instruments	**(103)**	(71)
- exchange differences on financial liabilities	**21**	(4)
	532	505
Finance income		
- interest and dividend income		
- gains in respect of available-for-sale investments	**—**	(1)
- dividend income in respect of available-for-sale investments	**(2)**	(2)
- other interest income	**(62)**	(81)
	(64)	(84)
- exchange differences on financial assets	**(2)**	35
	(66)	(49)
Net finance costs	**466**	456

The Group manages foreign exchange gains and losses and fair value changes on a net basis, as shown below. The derivatives that generate the fair value changes are detailed in note 16.

Fair value changes		
- cash flow hedges transferred from equity	**(6)**	35
- fair value hedging instruments — exchange related movements	**(4)**	3
- fair value hedging instruments — net interest income	**(90)**	(66)
- fair value hedging instruments — interest related movements *(note (i))*	**146**	(29)
- fair value changes on hedged items — interest related movements *(note (i))*	**(151)**	31
- instruments held-for-trading *(note (ii))*	**2**	(45)
	(103)	(71)
Finance costs — exchange differences on financial liabilities	**21**	(4)
Finance income — exchange differences on financial assets	**(2)**	35
	(84)	(40)

Notes:

(i) Hedge ineffectiveness in respect of fair value hedges is a £5 million gain (2012: £2 million loss) being the difference between the two items above.

(ii) IFRS requires derivatives which do not meet the tests for hedge accounting under IAS 39 to be classified as instruments held-for-trading with fair value changes included in the income statement. These derivatives principally consist of forward foreign currency contracts which have not been designated as hedges due to their fair value changes offsetting with other components of net finance costs relating to financial assets and liabilities.

Other interest payable includes interest on the bonds and notes detailed in note 21. Facility fees principally relate to the Group's central undrawn banking facilities of £2 billion and US$150 million (2012: £2 billion and US$150 million).

Exchange differences in respect of hedged items subject to fair value hedges and cash flow hedges were a loss of £4 million (2012: £3 million gain) and a loss of £14 million (2012: £28 million gain) respectively and are included in 'Finance costs — exchange differences' in the table above.

5 Associates and joint ventures

	2013		**2012 Restated**	
	Total	**Group's share**	**Total**	**Group's share**
	£m	**£m**	**£m**	**£m**
Gross turnover (including duty, excise and other taxes)	**13,095**	**4,891**	12,733	4,798
Duty, excise and other taxes	**(3,961)**	**(1,485)**	(3,927)	(1,488)
Revenue	**9,134**	**3,406**	8,806	3,310
Profit from operations	**3,247**	**1,203**	2,917	1,086
Net finance costs	**(174)**	**(73)**	(160)	(66)
Profit on ordinary activities before taxation	**3,073**	**1,130**	2,757	1,020
Taxation on ordinary activities	**(1,037)**	**(387)**	(911)	(341)
Profit on ordinary activities after taxation	**2,036**	**743**	1,846	679
Non-controlling interests	**(11)**	**(4)**	(9)	(3)
Post-tax results of associates and joint ventures	**2,025**	**739**	1,837	676
Analysed as:				
- adjusted share of post-tax results of associates and joint ventures	**1,966**	**723**	1,829	681
- issue of shares and change in shareholding	**73**	**22**	66	20
- restructuring and integration costs	**(10)**	**(4)**	(57)	(24)
- other	**(4)**	**(2)**	(1)	(1)
	2,025	**739**	1,837	676

The share of post-tax results of associates and joint ventures is after the following adjusting items which are excluded from the calculation of adjusted earnings per share as set out in note 7:

In 2013, the Group's interest in ITC Ltd. (ITC) decreased from 30.72% to 30.47% as a result of ITC issuing ordinary shares under the company's employee stock option scheme. The issue of shares and change in the Group's share of ITC resulted in a gain of £22 million, which is treated as a deemed partial disposal and included in the income statement.

During the year, Reynolds American Inc. (RAI) recognised restructuring charges of US$24 million in respect of its overall activities. The Group's share of these charges is £4 million (net of tax).

RAI has also recognised amounts which have been combined in the table of adjusting items in the Group income statement and are shown as 'other'. These include costs of US$18 million in respect of a number of Engle progeny lawsuits, the Group's share of which is £3 million (net of tax); costs of US$34 million relating to other tobacco-related litigation charges, the Group's share of which is £6 million (net of tax); trademark amortisation and impairment of US$27 million, the Group's share of which is £4 million (net of tax); and costs of US$124 million relating to losses on extinguishment of debt, the Group's share of which is £22 million (net of tax). In addition, during 2013, RAI, various other tobacco manufacturers, 19 states, the District of Columbia and Puerto Rico reached a final agreement related to RAI's 2003 Master Settlement Agreement (MSA) activities. Under this agreement RAI will receive credits, currently estimated to be more than US$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits will be applied against the company's MSA payments over the next five years, subject to meeting the various ongoing performance obligations. During 2013, RAI has recognised income of US$219 million related to its 2012 liability, the Group's share of which is £33 million (net of tax). Credits claimable against 2013 and future years would be accounted for in the applicable year and will not be treated as adjusting items.

In 2012, the Group's interest in ITC decreased from 31.04% to 30.72% as a result of ITC issuing ordinary shares under the company's employee stock option scheme. This resulted in a gain of £20 million, which was treated as a deemed partial disposal and included in the income statement.

During 2012, RAI recognised restructuring charges of US$149 million and the Group's share of these charges amounted to £24 million (net of tax).

In the year ended 31 December 2012, RAI recognised amounts which have been combined in the table of adjusting items and reported in 'other'. These mainly consist of a charge of US$37 million in respect of a number of Engle progeny lawsuits, the Group's share of which amounted to £6 million (net of tax); and trademark amortisation and impairment of US$86 million, the Group's share of which amounted to £16 million (net of tax). These charges were offset by a gain of US$157 million resulting from the amendment by RAI of a post-employment medical plan, the Group's share of which amounted to £24 million (net of tax).

	2013	2012 Restated
	Group's share	Group's share
	£m	£m
Profit on ordinary activities after taxation		
- attributable to owners of the Parent	**739**	676
Other comprehensive income:		
Differences on exchange	**(141)**	(145)
Net fair value losses on available-for-sale investments	**(7)**	(4)
Actuarial gains/(losses) relating to pensions and other post-retirement benefits (note 20)	**90**	(39)
Total comprehensive income (note 11)	**681**	488

	2013	2012
	Group's share	Group's share
	£m	£m
Dividends received		
- listed investments	**504**	476
- unlisted investments	**8**	11
Total dividends received from associates	**512**	487

Summarised financial information of the Group's associates and joint ventures:

	2013			2012 Restated		
	RAI	ITC	Others	RAI	ITC	Others
	£m	£m	£m	£m	£m	£m
Revenue	**5,268**	**3,557**	**309**	5,235	3,327	244
Profit on ordinary activities before taxation	**1,648**	**1,358**	**67**	1,500	1,212	45
Post-tax results of associates and joint ventures	**1,035**	**942**	**48**	967	837	33
Other comprehensive income	**130**	**(454)**	**34**	(206)	(228)	2
Total comprehensive income	**1,165**	**488**	**82**	761	609	35

6 Taxation on ordinary activities

(a) Summary of taxation on ordinary activities

	2013	2012 Restated
	£m	£m
UK corporation tax	**—**	—
Overseas tax	**1,567**	1,538
Comprising:		
- current year tax expense	**1,581**	1,556
- adjustments in respect of prior periods	**(14)**	(18)
Total current tax	**1,567**	1,538
Deferred tax	**33**	(22)
Comprising:		
- deferred tax relating to origination and reversal of temporary differences	**33**	(22)
	1,600	1,516

(b) Franked Investment Income Group Litigation Order

British American Tobacco is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs in the Franked Investment Income Group Litigation Order (FII GLO). There are 25 corporate groups in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK. The claim was filed in 2003 and the case was heard in the European Court of Justice (ECJ) in 2005 and a decision of the ECJ received in December 2006. In July 2008, the case reverted to a trial in the UK High Court for the UK Court to determine how the principles of the ECJ decision should be applied in a UK context.

The High Court judgment in November 2008 concluded, amongst many other things, that dividends received from EU subsidiaries should have been exempt from UK taxation. It also concluded that certain dividends received before 5 April 1999 from the EU and, in some limited circumstances after 1993 from outside the EU, should have been treated as franked investment income with the consequence that advance corporation tax (ACT) need not have been paid. Claims for the repayment of UK tax incurred where the dividends were from the EU were allowed back to 1973. The tentative conclusion reached by the High Court would, if upheld, produce an estimated receivable of about £1.2 billion for British American Tobacco.

The case was heard by the Court of Appeal in October 2009 and the judgment handed down on 23 February 2010. The Court of Appeal determined that various questions, including which companies in the corporate tree can be included in a claim, should be referred back to the ECJ for further clarification. In addition, the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973.

The issue of time limits was heard by the Supreme Court in February 2012 and in May 2012 the Supreme Court decided in British American Tobacco Group's favour, that claims submitted before 8 September 2003 can go back to 1973. A hearing took place in February 2012 at the ECJ on the questions referred from the Court of Appeal.

The ECJ judgment of 13 November 2012 confirms that the UK treatment of EU dividends was discriminatory and produces the same outcome for third country dividends from 1994 in certain circumstances. The judgment also confirms that the claim can cover dividends from all indirect as well as direct EU subsidiaries and also ACT paid by a superior holding company.

The case will now revert to the UK High Court to apply the ECJ judgment and a full quantification hearing is scheduled for May 2014.

No potential receipt has been recognised in the current period or the prior year, in the results of the Group, due to the uncertainty of the amounts and eventual outcome.

(c) Factors affecting the taxation charge

The taxation charge differs from the standard 23% (2012: 24%) rate of corporation tax in the UK. The major causes of this difference are listed below:

	2013		2012 Restated	
	£m	%	£m	%
Profit before tax	**5,799**		5,592	
Less: share of post-tax results of associates and joint ventures	**(739)**		(676)	
	5,060		4,916	
Tax at 23% (2012: 24%) on the above	**1,164**	**23.0**	1,180	24.0
Factors affecting the tax rate:				
Tax at standard rates other than UK corporation tax rate	**158**	**3.1**	128	2.6
Other national tax charges	**51**	**1.0**	76	1.5
Permanent differences	**6**	**0.1**	24	0.5
Overseas withholding taxes	**138**	**2.7**	172	3.5
Double taxation relief on UK profits	**(11)**	**(0.2)**	(13)	(0.3)
Unutilised tax losses	**62**	**1.2**	—	—
Adjustments in respect of prior periods	**(14)**	**(0.2)**	(18)	(0.3)
Net deferred tax debits/(credits) at other tax rates	**46**	**0.9**	(33)	(0.7)
	1,600	**31.6**	1,516	30.8

In 2012, the merger of the Group's Colombian companies led to a £11 million reduction in a deferred tax liability that was set up on the acquisition of Protabaco in 2011. This was treated as an adjusting item in the adjusted earnings per share calculation as set out in note 7.

(d) Tax on items recognised directly in other comprehensive income

	2013	2012 Restated
	£m	£m
Current tax	**2**	(2)
Deferred tax	**(53)**	20
(Charged)/credited to other comprehensive income	**(51)**	18

The tax relating to each component of other comprehensive income is disclosed in note 20.

7 Earnings per share

Basic earnings per share are based on profit for the year attributable to ordinary shareholders of £3,904 million (2012: £3,797 million) and 1,901 million (2012: 1,939 million) ordinary shares of 25p each, being the weighted average number of shares in issue during the year (excluding shares held as treasury shares).

For the calculation of diluted earnings per share, the weighted average number of shares in issue is increased to 1,908 million (2012: 1,949 million) to reflect the potential dilutive effect of employee share schemes.

	2013			2012 Restated		
	Earnings	Weighted average number of shares	Earnings per share	Earnings Restated	Weighted average number of shares	Earnings per share Restated
	£m	m	pence	£m	m	pence
Basic earnings per share	**3,904**	**1,901**	**205.4**	3,797	1,939	195.8
Share options	**—**	**7**	**(0.8)**	—	10	(1.0)
Diluted earnings per share	**3,904**	**1,908**	**204.6**	3,797	1,949	194.8

Earnings have been affected by a number of adjusting items, which are described in notes 3, 5 and 6. To illustrate the impact of these items, an adjusted earnings per share calculation is shown below.

Adjusted earnings per share calculation

		Diluted				Basic			
		2013		2012 Restated		2013		2012 Restated	
	Notes	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share	Earnings	Earnings per share
		£m	pence	£m	pence	£m	pence	£m	pence
Unadjusted earnings per share		**3,904**	**204.6**	3,797	194.8	**3,904**	**205.4**	3,797	195.8
Effect of restructuring and integration costs	3(e)	**246**	**12.9**	206	10.6	**246**	**12.9**	206	10.6
Tax and non-controlling interests on restructuring and integration costs		**(35)**	**(1.9)**	(45)	(2.3)	**(35)**	**(1.9)**	(45)	(2.3)
Effect of deferred tax liability credit	6(c)	**—**	**—**	(11)	(0.6)	**—**	**—**	(11)	(0.6)
Effect of amortisation of trademarks and similar intangibles	3(f)	**74**	**3.9**	63	3.2	**74**	**3.9**	63	3.3
Tax on amortisation of trademarks and similar intangibles		**(14)**	**(0.7)**	(15)	(0.8)	**(14)**	**(0.7)**	(15)	(0.8)
Gain on deemed partial disposal of a trademark	3(g)	**(26)**	**(1.4)**	—	—	**(26)**	**(1.4)**	—	—
Effect of associates' adjusting items net of tax	5	**(16)**	**(0.8)**	5	0.3	**(16)**	**(0.8)**	5	0.3
Adjusted earnings per share		**4,133**	**216.6**	4,000	205.2	**4,133**	**217.4**	4,000	206.3

Headline earnings per share as required by the JSE Limited

The presentation of headline earnings per share, as an alternative measure of earnings per share, is mandated under the JSE Listing Requirements. It is calculated in accordance with Circular 2/2013 'Headline Earnings', as issued by the South African Institute of Chartered Accountants. Circular 2/2013 superseded Circular 3/2012 for reporting periods ending on or after 31 July 2013 and requires the comparative figures to be restated where appropriate. The headline earnings per share for 2012 have been restated for the effects of the revised IAS 19 *Employee Benefits* as explained in note 12. Headline earnings per share are calculated as shown below:

	Diluted				Basic			
	2013		2012 Restated		2013		2012 Restated	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Unadjusted earnings per share	**3,904**	**204.6**	3,797	194.8	**3,904**	**205.4**	3,797	195.8
Effect of impairment of intangibles, and property, plant and equipment	**34**	**1.8**	12	0.6	**34**	**1.8**	12	0.6
Tax and non-controlling interests on impairment of intangibles, and property, plant and equipment	**(2)**	**(0.1)**	(4)	(0.2)	**(2)**	**(0.1)**	(4)	(0.2)
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	**(92)**	**(4.8)**	(15)	(0.8)	**(92)**	**(4.8)**	(15)	(0.8)
Tax and non-controlling interests on disposal of property, plant and equipment and held-for-sale assets	**25**	**1.3**	—	—	**25**	**1.3**	—	—
Effect of disposal of businesses and trademarks	**(26)**	**(1.4)**	—	—	**(26)**	**(1.4)**	—	—
Effect of gains reclassified from the available-for-sale reserve	**(2)**	**(0.1)**	(1)	—	**(2)**	**(0.1)**	(1)	—
Share of associates' trademark and other asset impairments net of tax	**4**	**0.2**	15	0.8	**4**	**0.2**	15	0.8
Issue of shares and change in shareholding in associate	**(22)**	**(1.1)**	(20)	(1.0)	**(22)**	**(1.2)**	(20)	(1.0)
Headline earnings per share	**3,823**	**200.4**	3,784	194.2	**3,823**	**201.1**	3,784	195.2

8 Dividends and other appropriations

	2013		2012	
	Pence per share	£m	Pence per share	£m
Ordinary shares				
Interim				
2013 paid 30 September 2013	**45.0**	**846**		
2012 paid 26 September 2012			42.2	815
Final				
2012 paid 8 May 2013	**92.7**	**1,765**		
2011 paid 3 May 2012			88.4	1,723
	137.7	**2,611**	130.6	2,538

The Directors have recommended to shareholders a final dividend of 97.4p per share for the year ended 31 December 2013. If approved, this dividend will be paid to shareholders on 8 May 2014. This dividend is subject to approval by shareholders at the Annual General Meeting and therefore, in accordance with IAS 10, it has not been included as a liability in these financial statements. The total estimated dividend to be paid is £1,838 million, which takes the total dividends declared in respect of 2013 to £2,684 million (2012: £2,580 million) representing 142.4p per share (2012: 134.9p per share).

9 Intangible assets

	Goodwill *	Computer software	Trademarks and similar intangibles	Assets in the course of development	Total
	£m	£m	£m	£m	£m
1 January 2013					
Cost	**10,793**	**659**	**904**	**173**	**12,529**
Accumulated amortisation and impairment		**(509)**	**(310)**		**(819)**
Net book value at 1 January 2013	**10,793**	**150**	**594**	**173**	**11,710**
Differences on exchange	**(545)**	**(1)**	**(21)**	**(4)**	**(571)**
Additions					
- internal development	**—**	**14**	**—**	**133**	**147**
- acquisitions (note 26)	**1**	**—**	**25**	**—**	**26**
- separately acquired	**—**	**3**	**10**	**—**	**13**
Reallocations	**—**	**19**	**—**	**(19)**	**—**
Amortisation charge	**—**	**(50)**	**(70)**	**—**	**(120)**
31 December 2013					
Cost	**10,249**	**631**	**891**	**283**	**12,054**
Accumulated amortisation and impairment		**(496)**	**(353)**		**(849)**
Net book value at 31 December 2013	**10,249**	**135**	**538**	**283**	**11,205**
1 January 2012					
Cost	11,120	617	883	108	12,728
Accumulated amortisation and impairment		(478)	(258)		(736)
Net book value at 1 January 2012	11,120	139	625	108	11,992
Differences on exchange	(325)	(2)	(13)	(2)	(342)
Additions					
- internal development	—	1	—	116	117
- acquisitions (note 26)	(2)	—	40	—	38
- separately acquired	—	10	5	5	20
Reallocations	—	54	—	(54)	—
Amortisation charge	—	(52)	(63)	—	(115)
31 December 2012					
Cost	10,793	659	904	173	12,529
Accumulated amortisation and impairment		(509)	(310)		(819)
Net book value at 31 December 2012	10,793	150	594	173	11,710

* The cost of Goodwill is shown net of impairment charges made in prior years.

Included in computer software and assets in the course of development are internally developed assets with a carrying value of £398 million (2012: £296 million). The costs of internally developed assets include capitalised expenses of employees working full time on software development projects, third-party consultants, as well as software licence fees from third-party suppliers.

Acquisitions in 2013 relate to the creation of CTBAT International Limited and the acquisition of British American Tobacco Myanmar Limited as explained in note 26. Acquisitions in 2012 relate to the acquisition of CN Creative Limited and an adjustment to the purchase price for Protabaco (acquired in 2011), as explained in note 26.

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Skandinavisk Tobakskompagni (ST) £301 million (2012: £322 million), Tekel £30 million (2012: £41 million), Bentoel £38 million (2012: £60 million) and Protabaco £91 million (2012: £112 million) and intellectual property of £26 million (2012: £40 million) relating to the acquisition of CN Creative Limited in 2012.

The Group has future contractual commitments of £11 million related to intangible assets.

Impairment testing for intangible assets with indefinite lives including goodwill

Goodwill of £10,249 million (2012: £10,793 million) is included in intangible assets in the balance sheet of which the following are the significant acquisitions: Rothmans Group £4,542 million (2012: £4,796 million); Imperial Tobacco Canada £2,281 million (2012: £2,477 million); ETI (Italy) £1,371 million (2012: £1,337 million) and ST (principally Scandinavia) £1,030 million (2012: £1,004 million). The principal allocations of goodwill in the Rothmans' acquisition are to the cash-generating units of Eastern Europe, Western Europe and South Africa, with the remainder mainly relating to operations in the domestic and export markets in the United Kingdom and operations in Asia-Pacific.

In 2013 and 2012, goodwill was allocated for impairment testing purposes to 14 individual cash-generating units — five in Asia-Pacific, five in the Americas, two in Western Europe and two in EEMEA.

The carrying amounts of goodwill allocated to the cash-generating units of Canada £2,281 million (2012: £2,477 million), Western Europe (includes Rothmans and other acquisitions) £3,624 million (2012: £3,539 million), Eastern Europe (includes Rothmans and other acquisitions) £908 million (2012: £889 million), South Africa £639 million (2012: £803 million), Australia (includes Rothmans and other acquisitions) £724 million (2012: £856 million), Singapore £511 million (2012: £538 million) and Malaysia £434 million (2012: £474 million) are considered significant in comparison with the total carrying amount of goodwill.

The recoverable amount of all cash-generating units has been determined on a value-in-use basis. The key assumptions for the recoverable amount of all units are the long-term growth rate and the discount rate. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 *Impairment of Assets* and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made. These adjustments are derived from external sources and are based on the spread between bonds (or credit default swaps, or similar indicators) issued by the US or comparable governments and by the local government, adjusted for the Group's own credit market risk. For ease of use and consistency in application, these results are periodically calibrated into bands based on internationally recognised credit ratings. These assumptions have been applied to the individual cash flows of each unit as compiled by local management in the different markets.

The valuations use cash flows based on detailed financial budgets prepared by management covering a one year period, with growth in year 2 of 6%. Cash flows for the years 3 to 10 are extrapolated from year 2 cash flows at 5% per annum, including 2% inflation, whereafter a total growth rate of 2% per annum (including 2% inflation) has been assumed. The extrapolated growth rates are considered conservative given the Group's history of profit and cash growth, its well balanced portfolio of brands and the industry in which it operates. The long-term real growth does not exceed the expected long-term average growth rate for the combined markets in which the cash-generating units operate. In some instances, such as recent acquisitions or start-up ventures, the valuation is expanded to reflect the medium-term plan of management, spanning five years or beyond.

Pre-tax discount rates of between 7.2% and 14.1% (2012: 7.2% to 13.9%) were used, based on the Group's weighted average cost of capital, together with any premium applicable for economic and political risks.

The pre-tax discount rates used for the cash-generating units which are significant in comparison with the total carrying amount of goodwill are 8.5% for Canada (2012: 8.6%), 9.3% for Western Europe (2012: 9.3%), 8.6% for Eastern Europe (2012: 8.9%), 9.3% for South Africa (2012: 9.3%), 8.6% for Australia (2012: 8.6%), 7.2% for Singapore (2012: 7.2%) and 8.7% for Malaysia (2012: 8.7%).

If discounted cash flows for cash-generating units should fall by 10%, or the discount rate was increased at a post-tax rate of 1%, there would be no impairment.

10 Property, plant and equipment

	Freehold property	Leasehold property	Plant and equipment	Assets in the course of construction	Total
	£m	£m	£m	£m	£m
1 January 2013					
Cost	**1,138**	**261**	**4,453**	**483**	**6,335**
Accumulated depreciation and impairment	**(362)**	**(123)**	**(2,649)**		**(3,134)**
Net book value at 1 January 2013	**776**	**138**	**1,804**	**483**	**3,201**
Differences on exchange	**(47)**	**(6)**	**(137)**	**(37)**	**(227)**
Additions*	**12**	**16**	**117**	**420**	**565**
Reallocations	**24**	**(4)**	**314**	**(334)**	**—**
Depreciation	**(22)**	**(9)**	**(270)**	**—**	**(301)**
Impairment	**(2)**	**—**	**(14)**	**(17)**	**(33)**
Disposals	**(32)**	**—**	**(17)**	**—**	**(49)**
31 December 2013					
Cost	**1,034**	**258**	**4,257**	**527**	**6,076**
Accumulated depreciation and impairment	**(325)**	**(123)**	**(2,460)**	**(12)**	**(2,920)**
Net book value at 31 December 2013	**709**	**135**	**1,797**	**515**	**3,156**
1 January 2012					
Cost	1,069	256	4,588	380	6,293
Accumulated depreciation and impairment	(433)	(116)	(2,697)		(3,246)
Net book value at 1 January 2012	636	140	1,891	380	3,047
Differences on exchange	(25)	—	(64)	(15)	(104)
Additions	201	3	106	361	671
Reallocations	22	5	216	(243)	—
Depreciation	(25)	(10)	(304)	—	(339)
Impairment	(1)	—	(12)	—	(13)
Disposals	(3)	—	(27)	—	(30)
Net reclassifications as held-for-sale	(29)	—	(2)	—	(31)
31 December 2012					
Cost	1,138	261	4,453	483	6,335
Accumulated depreciation and impairment	(362)	(123)	(2,649)	—	(3,134)
Net book value at 31 December 2012	776	138	1,804	483	3,201
Assets held under finance leases					
31 December 2013					
Cost			**13**		**13**
Accumulated depreciation and impairment			**(8)**		**(8)**
Net book value at 31 December 2013			**5**		**5**
31 December 2012					
Cost			18		18
Accumulated depreciation and impairment			(15)		(15)
Net book value at 31 December 2012			3		3

* Additions in 2013 include amounts contributed by the non-controlling interest in Myanmar (note 26).

The Group's finance lease arrangements relate principally to the lease of vehicles by the Group's subsidiary in Pakistan. Assets held under finance leases are secured under finance lease obligations included in note 21.

	2013	2012
	£m	£m
Cost of freehold land within freehold property on which no depreciation is provided	**203**	226
Leasehold property comprises		
- net book value of long leasehold	**111**	105
- net book value of short leasehold	**24**	33
	135	138
Contracts placed for future expenditure	**82**	38

11 Investments in associates and joint ventures

	2013	2012
	£m	£m
1 January	**2,330**	2,613
Total comprehensive income (note 5)	**681**	488
Dividends (note 5)	**(512)**	(487)
Share buy-backs (note 25(c))	**(189)**	(262)
Other equity movements	**(11)**	(22)
31 December	**2,299**	2,330
Non-current assets	**3,741**	3,815
Current assets	**1,667**	1,957
Non-current liabilities	**(1,983)**	(2,090)
Current liabilities	**(1,126)**	(1,352)
	2,299	2,330
Reynolds American Inc. (Group's share of market value of £6,828 million (2012: £5,925 million))	**1,447**	1,496
ITC Ltd. (Group's share of market value of £7,587 million (2012: £7,771 million))	**808**	793
Other listed associates (Group's share of market value of £83 million (2012: £109 million))	**11**	13
Unlisted	**33**	28
	2,299	2,330

The principal associate undertakings of the Group are Reynolds American Inc. (RAI) and ITC Ltd (ITC) as shown under principal associate undertakings.

Reynolds American Inc.

	2013	2012
	£m	£m
Non-current assets	**4,146**	4,224
Current assets	**2,257**	3,009
Non-current liabilities	**(4,576)**	(4,843)
Current liabilities	**(1,739)**	(2,250)
	88	140
Group's share of Reynolds American Inc. (42.0%)	**37**	59
Goodwill	**1,410**	1,437
Total Group's share of Reynolds American Inc.	**1,447**	1,496

The Group's share of RAI includes £446 million (2012: £461 million) of trademarks arising from the RAI transaction in 2004. In addition, the Group's share of non-current assets includes £628 million (2012: £640 million) of goodwill and £291 million (2012: £296 million) of trademarks arising from the acquisition of Conwood by RAI in 2006.

Details of the Group's contingent liabilities are set out in note 30. In addition to US litigation involving Group companies, which is covered by the R.J. Reynolds Tobacco Company (RJRT) indemnity referred to in note 30, RAI group companies are named in litigation which does not involve Group companies. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, it is not impossible that the results of operations or cash flows of RAI, in particular quarterly or annual periods, could be materially affected by this and by the final outcome of any particular litigation. However, having regard to the contingent liability disclosures on litigation made by RAI in its public financial reports, the Directors are satisfied with the carrying value included above for RAI.

The Group's share of the RAI results for the year to 31 December 2013 includes £43 million (2012: £41 million) in respect of external legal fees and other external product liability defence costs.

ITC Ltd.

ITC prepares accounts on a quarterly basis using a 31 March year end. As permitted by IAS 28, results as at 30 September 2013 have been used in applying the equity method, to be consistent with the treatment in the Group's interim accounts given the availability of information at the half year. Any further information available after the date used for reporting purposes is reviewed and any material items adjusted for in the final results. The latest published information available is at 31 December 2013.

	2013	2012
	£m	£m
Non-current assets	**1,858**	1,891
Current assets	**2,202**	2,109
Non-current liabilities	**(194)**	(176)
Current liabilities	**(1,214)**	(1,243)
	2,652	2,581
Group's share of ITC Ltd. (2013: 30.47% (2012: 30.72%))	**808**	793

Additional information on associates is provided in the principal associate undertaking sections to the Annual Report.

12 Retirement benefit schemes

The Group's subsidiary undertakings operate around 180 retirement benefit arrangements worldwide. The majority of scheme members belong to defined benefit schemes, most of which are funded externally and many of which are closed to new entrants. The Group also operates a number of defined contribution schemes.

The liabilities arising in the defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. All schemes are formally valued at least every three years.

The principal schemes are in the UK, Germany, Canada, the Netherlands and Switzerland. Together schemes in these territories account for over 85% of the total obligations of the Group's defined benefit schemes. These obligations consist mainly of final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In addition, the Group operates several healthcare benefit schemes, of which the most significant are in Canada. The liabilities in respect of healthcare benefits are also assessed by qualified independent actuaries, applying the projected unit credit method.

All of these arrangements, including funding arrangements where formal trusts or equivalents are required, have been developed and are operated in accordance with local regulations and practices in the countries concerned. Responsibility for the governance of the schemes, including investment decisions and contribution schedules, lies with the trustees. The trustees for each arrangement will usually consist of representatives appointed by both the sponsoring company and the beneficiaries.

The majority of schemes are subject to local regulation regarding funding deficits. However, the scheme liabilities of the Group as measured for the purposes of determining funding levels are not considered to be materially different to the liabilities as measured under IAS 19.

The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded schemes where the sponsoring company meets the benefit payment obligation as it falls due.

While the funded arrangements in the Group have policies on investment management, including strategies over a preferred long-term investment profile, formal asset/liability matching plans are not common, although schemes in certain territories including Canada and the Netherlands manage their bond portfolios to match the weighted average duration of scheme liabilities. In addition, the main scheme in the UK has a target investment strategy such that, by 31 December 2018 the scheme will have moved to 20% return-seeking assets and 80% risk-reducing assets. Investments are diversified by type of investment, by investment sector, and where appropriate by country.

Through its defined benefit pension schemes and healthcare schemes, the Group is exposed to a number of risks, including:

Asset volatility: the plan liabilities are calculated using discount rates set by reference to bond yields; if plan assets underperform this yield e.g. due to stock market volatility, this will create a deficit. However, most schemes hold a proportion of assets which are expected to outperform bonds in the long term, and the majority of schemes by value are subject to local regulation regarding funding deficits.

Changes in bond yields: a decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.

Inflation risk: some of the Group's pension obligations are linked to inflation and higher inflation will lead to higher liabilities, although, in most cases, caps on the level of inflationary increases are in place in the scheme rules.

Life expectancy: the majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. Assumptions regarding mortality and mortality improvements are regularly reviewed in line with actuarial tables and scheme specific experience.

As explained in note 1, with effect from 1 January 2013 the Group has adopted the revised IAS 19 *Employee Benefits.* The comparative figures for 2012 have been restated accordingly for the following changes:

	£m
Removal of expected return on assets	**(284)**
Recognition of interest on scheme assets	**250**
Recognition of interest on unrecognised scheme surpluses	**(6)**
Impact on profit from operations	**(40)**
Associates: adjustment for interest on scheme assets net of tax	**(16)**
Impact on taxation charge of subsidiaries (deferred tax)	**10**
Reduction in profit for the year	**(46)**
Adjustment for restated actuarial gains on scheme assets in respect of subsidiaries	**34**
Adjustment for restated surplus recognition and minimum funding obligations in respect of subsidiaries	**6**
Tax on items recognised directly in other comprehensive income	**(10)**
Net actuarial losses in respect of associates net of tax	**16**
Increase in other comprehensive income	**46**

As a result of the above, basic and diluted earnings per share for 2012 reduced from 198.1p to 195.8p and from 197.1p to 194.8p respectively.

The amounts recognised in the balance sheet are determined as follows:

	Pension schemes		Healthcare schemes		Total	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Present value of funded scheme liabilities	**(5,905)**	(6,196)	**(16)**	(21)	**(5,921)**	(6,217)
Fair value of funded scheme assets	**5,767**	5,547	**13**	16	**5,780**	5,563
	(138)	(649)	**(3)**	(5)	**(141)**	(654)
Unrecognised funded scheme surpluses	**(19)**	(15)	**—**	—	**(19)**	(15)
	(157)	(664)	**(3)**	(5)	**(160)**	(669)
Present value of unfunded scheme liabilities	**(239)**	(224)	**(98)**	(154)	**(337)**	(378)
	(396)	(888)	**(101)**	(159)	**(497)**	(1,047)
The above net liability is recognised in the balance sheet as follows:						
- retirement benefit scheme liabilities	**(531)**	(993)	**(101)**	(159)	**(632)**	(1,152)
- retirement benefit scheme assets	**135**	105	**—**	—	**135**	105
	(396)	(888)	**(101)**	(159)	**(497)**	(1,047)

The amounts recognised in the income statement are as follows:

	Pension schemes		Healthcare schemes		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
	£m	£m	£m	£m	£m	£m
Defined benefit schemes						
Service cost						
- current service cost	**92**	80	**1**	2	**93**	82
- past service cost	**5**	13	**(5)**	—	**—**	13
- settlements	**—**	2	**—**	—	**—**	2
Net interest on the net defined benefit liability						
- interest on scheme liabilities	**253**	271	**7**	8	**260**	279
- interest on scheme assets	**(227)**	(249)	**(1)**	(1)	**(228)**	(250)
- interest on unrecognised funded scheme surpluses	**1**	6	**—**	—	**1**	6
	124	123	**2**	9	**126**	132
Defined contribution schemes	**36**	39	**—**	—	**36**	39
Total amount recognised in the income statement (note 3(a))	**160**	162	**2**	9	**162**	171

The above charges are recognised within employee benefit costs in note 3(a) and include a charge of £7 million in 2013 (2012: £14 million charge) in respect of settlements, past service costs and defined contribution costs reported as part of the restructuring costs charged in arriving at profit from operations (see note 3(e)).

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

	Pension schemes		Healthcare schemes		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
	£m	£m	£m	£m	£m	£m
Actuarial gains/(losses) on scheme liabilities	**139**	(668)	**42**	(7)	**181**	(675)
Actuarial gains on scheme assets	**127**	294	**—**	—	**127**	294
Net actuarial gains/(losses) in other comprehensive income (note 20)	**266**	(374)	**42**	(7)	**308**	(381)

The amounts recognised in other comprehensive income in respect of surplus restrictions and minimum funding obligations of subsidiaries are as follows:

	Pension schemes		Healthcare schemes		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
	£m	£m	£m	£m	£m	£m
Movements in the year (note 20)	**(5)**	60	**—**	—	**(5)**	60

The movements in scheme liabilities are as follows:

	Pension schemes		Healthcare schemes		Total	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Present value at 1 January	**6,420**	5,849	**175**	172	**6,595**	6,021
Differences on exchange	**(106)**	(120)	**(15)**	(5)	**(121)**	(125)
Current service cost	**91**	81	**1**	1	**92**	82
Past service costs	**5**	13	**(5)**	—	**—**	13
Settlements	**(46)**	(3)	**—**	—	**(46)**	(3)
Interest on scheme liabilities	**244**	268	**7**	8	**251**	276
Contributions by scheme members	**2**	3	**—**	—	**2**	3
Benefits paid	**(327)**	(339)	**(7)**	(8)	**(334)**	(347)
Actuarial (gains)/losses	**(139)**	668	**(42)**	7	**(181)**	675
Present value at 31 December	**6,144**	6,420	**114**	175	**6,258**	6,595
Scheme liabilities by funding status:						
Funded schemes	**5,905**	6,196	**16**	21	**5,921**	6,217
Unfunded schemes	**239**	224	**98**	154	**337**	378
Present value at 31 December	**6,144**	6,420	**114**	175	**6,258**	6,595
Scheme liabilities by scheme membership:						
Active members	**1,279**	1,372	**20**	42	**1,299**	1,414
Deferred members	**912**	906	**11**	18	**923**	924
Retired members	**3,953**	4,142	**83**	115	**4,036**	4,257
Present value at 31 December	**6,144**	6,420	**114**	175	**6,258**	6,595

Approximately 95% of scheme liabilities in both years relate to guaranteed benefits.

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

	Pension schemes		Healthcare schemes		Total	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Actuarial (gains)/losses:						
- arising from changes in demographic assumptions	**26**	48	**(1)**	2	**25**	50
- arising from changes in financial assumptions	**(143)**	602	**(40)**	—	**(183)**	602
Experience (gains)/losses	**(22)**	18	**(1)**	5	**(23)**	23
Total	**(139)**	668	**(42)**	7	**(181)**	675

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

The movements in funded scheme assets are as follows:

	Pension schemes		Healthcare schemes		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
	£m	£m	£m	£m	£m	£m
Fair value of scheme assets at 1 January	**5,547**	5,184	**16**	16	**5,563**	5,200
Differences on exchange	**(93)**	(121)	**(3)**	—	**(96)**	(121)
Settlements	**(46)**	(4)	**—**	—	**(46)**	(4)
Interest on scheme assets	**219**	245	**1**	1	**220**	246
Company contributions net of reimbursements	**320**	270	**—**	6	**320**	276
Contributions by scheme members	**4**	5	**—**	—	**4**	5
Benefits paid	**(311)**	(326)	**(1)**	(7)	**(312)**	(333)
Actuarial gains	**127**	294	**—**	—	**127**	294
Fair value of scheme assets at 31 December	**5,767**	5,547	**13**	16	**5,780**	5,563

Contributions to defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes and taking into account regulatory requirements. Contributions to pension schemes in 2014 are expected to be £265 million compared to £320 million in 2013. Company contributions for 2013 in the table above are shown net of a reimbursement of £7 million from a Jamaican pension scheme in the course of being wound up (2012: £26 million) and include £190 million in both years in respect of additional contributions to eliminate a funding shortfall relating to the main UK pension scheme.

Fair value of scheme assets by category:

	Pension schemes		Healthcare schemes		Total	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Equities — listed	**1,908**	2,224	**5**	9	**1,913**	2,233
Equities — unlisted	**513**	196	**—**	—	**513**	196
Bonds — listed	**2,647**	2,651	**8**	5	**2,655**	2,656
Bonds — unlisted	**151**	95	**—**	—	**151**	95
Other assets — listed	**137**	21	**—**	—	**137**	21
Other assets — unlisted	**411**	360	**—**	2	**411**	362
Fair value of scheme assets at 31 December	**5,767**	5,547	**13**	16	**5,780**	5,563

Scheme assets have been diversified into equities, bonds and other assets and are typically invested via fund investment managers into both pooled and segregated mandates of listed and unlisted equities and bonds. In addition certain scheme assets, including a portion of the assets held in the main UK pension scheme, are further diversified by investing in equities listed on foreign stock exchanges via investment funds. In the above analysis investments via equity-based investment funds are shown under listed equities, and investments via bond-based investment funds shown under listed bonds. Other assets include cash and other deposits, recoverable taxes, reinsurance contracts, investment property, investments and derivatives.

In Jamaica, a pension scheme holds shares in Carreras Group Ltd (a Group subsidiary) with a fair value of £1 million (2012: £3 million). The shares are listed on the Jamaica stock exchange.

The actuarial gains and losses in both years principally relate to movements in the fair values of scheme assets and actual returns are stated net of applicable taxes and fund management fees.

	Pension schemes		Healthcare schemes		Total	
	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m
Actual return on scheme assets	**346**	539	**1**	1	**347**	540

The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes		Healthcare schemes		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
	£m	£m	£m	£m	£m	£m
Unrecognised funded scheme surpluses at 1 January	**(15)**	(77)	**—**	—	**(15)**	(77)
Differences on exchange	**2**	8	**—**	—	**2**	8
Interest on unrecognised funded scheme surpluses	**(1)**	(6)	**—**	—	**(1)**	(6)
Movement in year (note 20)	**(5)**	60	**—**	—	**(5)**	60
Unrecognised funded scheme surpluses at 31 December	**(19)**	(15)	**—**	—	**(19)**	(15)

Prior year movements include immaterial amounts in relation to minimum funding obligations.

The principal actuarial assumptions (weighted to reflect individual scheme differences) used in the following principal countries are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date. For countries where there is not a deep market in such corporate bonds, the yield on government bonds is used.

	UK	Germany	Canada	Netherlands	Switzerland
	%	%	%	%	%
31 December 2013					
Rate of increase in salaries	**4.9**	**2.5**	**3.3**	**2.7**	**1.5**
Rate of increase in pensions in payment	**3.4**	**1.8**	**Nil**	**1.5**	**Nil**
Rate of increase in deferred pensions	**2.9**	**Nil**	**Nil**	**1.5**	**—**
Discount rate	**4.4**	**3.4**	**4.6**	**3.7**	**2.3**
General inflation	**3.4**	**1.8**	**2.3**	**1.5**	**Nil**

	UK	Germany	Canada	Netherlands	Switzerland
	years	years	years	years	years
31 December 2013					
Weighted average duration of liabilities	**16.6**	**11.2**	**11.1**	**16.0**	**15.6**

For healthcare inflation in Canada, the assumption is 4.35% increasing to 5.0% by 2018. For the remaining pension schemes, typical assumptions are that real salary increases will be from 0.5% to 3.1% per annum and discount rates will be from 0.5% to 6.8% above inflation. Pension increases, where allowed for, are generally assumed to be in line with inflation.

	UK	Germany	Canada	Netherlands	Switzerland
	%	%	%	%	%
31 December 2012					
Rate of increase in salaries	4.4	2.5	3.3	2.7	1.5
Rate of increase in pensions in payment	2.9	2.0	Nil	1.5	Nil
Rate of increase in deferred pensions	2.4	Nil	Nil	1.5	—
Discount rate	4.1	3.2	3.5	4.1	2.0
General inflation	2.9	2.0	2.3	1.5	Nil

	UK	Germany	Canada	Netherlands	Switzerland
	years	years	years	years	years
31 December 2012					
Weighted average duration of liabilities	16.3	11.2	12.1	15.9	15.3

For healthcare inflation in Canada, the assumption was 8.0% decreasing to 5.0% by 2018. For the remaining pension schemes, typical assumptions were that real salary increases would be from 0.5% to 3.6% per annum and discount rates would be from 0% to 4.1% above inflation. Pension increases, where allowed for, were generally assumed to be in line with inflation.

Mortality assumptions are subject to regular review. The principal schemes used the following tables for both years:

UK	S1NA (year of birth) table with the Continuous Mortality Investigation (2009) model with a 1.5% long-term improvement rate.
Germany	Heubeck tables 2005G
Canada	UP94 tables
Netherlands	AG Prognosetafel 2012–2062 tables
Switzerland	LPP 2010 tables

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

	UK		Germany		Canada		Netherlands		Switzerland	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
31 December 2013										
Member age 65 (current life expectancy)	**22.8**	**25.0**	**18.8**	**22.8**	**19.8**	**22.1**	**20.4**	**24.8**	**21.3**	**23.8**
Member age 45 (life expectancy at age 65)	**25.1**	**27.4**	**21.4**	**25.4**	**21.3**	**22.9**	**22.4**	**25.7**	**23.1**	**25.5**
31 December 2012										
Member age 65 (current life expectancy)	22.7	24.9	18.6	22.7	19.7	22.1	20.3	24.8	19.7	22.0
Member age 45 (life expectancy at age 65)	24.9	27.3	21.3	25.3	21.2	22.9	22.2	25.0	22.2	24.5

Valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2013 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase	1 year decrease	0.25 percentage point increase	0.25 percentage point decrease
	£m	£m	£m	£m
Average life expectancy — increase/(decrease) of scheme liabilities	**160**	**(149)**		
Rate of inflation — increase/(decrease) of scheme liabilities			**168**	**(148)**
Discount rate — (decrease)/increase of scheme liabilities			**(175)**	**199**

A one percentage point increase in healthcare inflation would increase healthcare scheme liabilities by £14 million, and a one percentage point decrease would decrease liabilities by £11 million. The income statement effect of this change in assumption is not material.

13 Deferred tax

Deferred tax assets comprise:

	Stock relief	Excess of depreciation over capital allowances	Tax losses	Retirement benefits Restated	Fair value losses/(gains)	Other temporary differences	Total Restated
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	**65**	**37**	**36**	**170**	**4**	**191**	**503**
Differences on exchange	**(7)**	**(1)**	**(5)**	**(5)**	**—**	**(15)**	**(33)**
(Charged)/credited to the income statement	**(12)**	**(2)**	**36**	**(2)**	**(1)**	**(19)**	**—**
Charged to other comprehensive income	**—**	**—**	**—**	**(59)**	**(3)**	**—**	**(62)**
At 31 December 2013	**46**	**34**	**67**	**104**	**—**	**157**	**408**
At 1 January 2012	32	27	16	128	5	259	467
Differences on exchange	—	(2)	(2)	(4)	—	(18)	(26)
Credited/(charged) to the income statement	33	12	22	(13)	9	(45)	18
Credited/(charged) to other comprehensive income	—	—	—	59	(10)	(5)	44
At 31 December 2012	65	37	36	170	4	191	503

Deferred tax liabilities comprise:

	Stock relief	Excess of capital allowances over depreciation	Undistributed earnings of associates and subsidiaries	Retirement benefits Restated	Fair value (losses)/gains	Other temporary differences	Total Restated
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	**16**	**182**	**168**	**119**	**24**	**167**	**676**
Differences on exchange	**1**	**(13)**	**(13)**	**2**	**—**	**(3)**	**(26)**
(Credited)/charged to the income statement	**(6)**	**(5)**	**26**	**5**	**1**	**12**	**33**
(Credited)/charged to other comprehensive income	**—**	**—**	**—**	**(21)**	**12**	**—**	**(9)**
At 31 December 2013	**11**	**164**	**181**	**105**	**37**	**176**	**674**
At 1 January 2012	21	193	158	117	2	189	680
Differences on exchange	(1)	(8)	(8)	(3)	—	(4)	(24)
(Credited)/charged to the income statement	(4)	(3)	18	—	3	(18)	(4)
Charged to other comprehensive income	—	—	—	5	19	—	24
At 31 December 2012	16	182	168	119	24	167	676

	2013	2012
	£m	£m
Net deferred tax liabilities	**266**	173

The net deferred tax liabilities are reflected in the Group Balance Sheet as follows, after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

	2013	2012
	£m	£m
Deferred tax assets	**(248)**	(327)
Deferred tax liabilities	**514**	500
	266	173

Deferred tax expected to be recovered within 12 months:

	2013 £m	2012 £m
Deferred tax assets	**(115)**	(117)
Deferred tax liabilities	**300**	169
	185	52

At the balance sheet date, the Group has unused tax losses of £598 million (2012: £289 million) which have no expiry date and unused tax losses of £558 million (2012: £632 million) which will expire within the next 10 years. No amount of deferred tax has been recognised in respect of these unused losses.

At the balance sheet date, the Group has not recognised a deferred tax asset in respect of deductible temporary differences of £1,005 million (2012: £1,221 million), which have no expiry date and £159 million (2012: £177 million), which will expire within the next 10 years.

At the balance sheet date, the Group has unused tax credits of £80 million (2012: £80 million) which have no expiry date. No amount of deferred tax has been recognised in respect of these unused tax credits.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries which would be subject to dividend withholding tax was £2 billion (2012: £2 billion). No liability has been recognised in respect of this withholding tax because the Group is in a position to control the timing of these distributions and it is probable that these distributions will not be made in the foreseeable future.

14 Trade and other receivables

	2013 £m	2012 £m
Trade receivables	**2,208**	2,088
Loans and other receivables	**692**	712
Prepayments and accrued income	**147**	165
	3,047	2,965
Current	**2,876**	2,741
Non-current	**171**	224
	3,047	2,965

Amounts receivable from related parties including associated undertakings are shown in note 29.

Trade and other receivables have been reported in the balance sheet net of allowances as follows:

	2013 £m	2012 £m
Gross trade and other receivables	**3,103**	3,017
Allowance account	**(56)**	(52)
Net trade and other receivables per balance sheet	**3,047**	2,965

The movements in the allowance account are as follows:

	2013 £m	2012 £m
1 January	**52**	49
Differences on exchange	**(3)**	(3)
Provided in the year	**10**	14
Amounts reversed during the year	**(3)**	(8)
31 December	**56**	52

Impairment of trade receivables, including write-offs and allowances, charged during the year is included as part of other operating expenses. For 2013, the net impairment charged was £9 million (2012: £9 million) of which £7 million (2012: £6 million), is reflected in the above table.

As at 31 December 2013, trade and other receivables of £46 million (2012: £41 million) were past their contractual payment date but not impaired. These relate to a number of external parties where there is no expectation of default. The aged analysis of these trade receivables is as follows:

	2013	2012
	£m	£m
Less than three months	**34**	36
Between three and six months	**4**	2
Between six months and one year	**3**	1
Greater than one year	**5**	2

The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

Trade and other receivables are predominantly denominated in the functional currencies of subsidiary undertakings apart from the following:

	2013	2012
	£m	£m
US dollar	**107**	76
UK sterling	**131**	136
Euro	**31**	33
Other currencies	**172**	62

Trade and other receivables also include certain interest bearing amounts and their effective interest rates are as follows:

	2013	2012	2013	2012
	£m	£m	%	%
UK sterling	**5**	—	**10.0**	—
Euro	**5**	5	**4.0**	4.0
Other currencies	**3**	12	**5.1**	5.9

There is no material difference between the above amounts for trade and other receivables and their fair value due to the short-term duration of the majority of trade and other receivables as determined using discounted cash flow analysis. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers.

15 Available-for-sale investments

	2013	2012
	£m	£m
1 January	**63**	97
Differences on exchange	**1**	(4)
Additions and advances	**46**	1
Disposals and repayments	**(20)**	(31)
31 December	**90**	63
Current	**54**	26
Non-current	**36**	37
	90	63

The classification of these investments under the IFRS 13 fair value hierarchy is given in note 24.

Investments have the following maturities:

	As per balance sheet 2013 £m	2012 £m
Equity investments	**36**	37
Non-equity investments		
- within one year	**53**	24
- beyond three years and within four years	**1**	—
- beyond four years and within five years	**—**	2
	90	63

There is no material difference between the maturity profile of investments in the table above and the maturity profile on a gross contractual basis where the values in each year include the investments maturing in that year together with forecast interest receipts on all investments which are due for all or part of that year.

Investments are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	2013 £m	2012 £m
Functional currencies	**90**	62
US dollar	**—**	1
	90	63

Non-equity investments of £54 million (2012: £26 million) are principally denominated in UK sterling and have an effective interest rate of 5.5% (2012: 1.1%).

16 Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these derivative assets and liabilities under the IFRS 13 fair value hierarchy is given in note 24.

	2013		2012	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges				
- interest rate swaps	**121**	**63**	209	55
- cross-currency swaps	**6**	**38**	10	12
Cash flow hedges				
- cross-currency swaps	**—**	**3**	—	18
- forward foreign currency contracts	**106**	**25**	70	31
Net investment hedges				
- forward foreign currency contracts	**161**	**5**	59	12
Held-for-trading *				
- forward foreign currency contracts	**31**	**30**	25	22
- others	**—**	**—**	—	1
Total	**425**	**164**	373	151
Current	**312**	**34**	166	65
Non-current	**113**	**130**	207	86
	425	**164**	373	151
Derivatives				
- in respect of net debt	**146**	**125**	234	95
- other	**279**	**39**	139	56
	425	**164**	373	151

* As explained in note 4, some derivative financial instruments are not designated as hedges and so are required to be classified as held-for-trading.

For cash flow hedges the timing of expected cash flows is as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Within one year	**92**	**27**	49	31
Between one and two years	**14**	**1**	21	18
	106	**28**	70	49

The Group's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. The timing of expected cash flows in respect of derivatives designated as cash flow hedges is broadly expected to be comparable to the time periods when the hedged item will affect profit or loss.

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross-settled derivative financial instruments are as follows:

	2013				2012			
	Assets		Liabilities		Assets		Liabilities	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
	£m	£m	£m	£m	£m	£m	£m	£m
Within one year								
- forward foreign currency contracts	**5,681**	**(5,405)**	**2,949**	**(3,006)**	5,997	(5,873)	2,881	(2,956)
- cross-currency swaps	**4**	**(2)**	**195**	**(182)**	18	(11)	47	(43)
Between one and two years								
- forward foreign currency contracts	**276**	**(260)**	**63**	**(64)**	503	(479)	115	(116)
- cross-currency swaps	**4**	**(2)**	**33**	**(16)**	18	(11)	158	(163)
Between two and three years								
- cross-currency swaps	**4**	**(3)**	**358**	**(415)**	18	(13)	18	(6)
Between three and four years								
- cross-currency swaps	**4**	**(4)**	**15**	**(19)**	18	(14)	343	(389)
Between four and five years								
- cross-currency swaps	**4**	**(4)**	**15**	**(21)**	18	(16)	—	—
Beyond five years								
- cross-currency swaps	**110**	**(100)**	**461**	**(513)**	575	(616)	—	—
	6,087	**(5,780)**	**4,089**	**(4,236)**	7,165	(7,033)	3,562	(3,673)

The maturity dates of net-settled derivative financial instruments are as follows:

	2013		2012	
	Assets Inflow/ (Outflow)	Liabilities (Inflow)/ Outflow	Assets Inflow/ (Outflow)	Liabilities (Inflow)/ Outflow
	£m	£m	£m	£m
Within one year	**50**	**(22)**	64	12
Between one and two years	**27**	**(14)**	63	11
Between two and three years	**10**	**1**	31	6
Between three and four years	**9**	**11**	24	15
Between four and five years	**9**	**12**	20	12
Beyond five years	**23**	**89**	14	—
	128	**77**	216	56

The above analysis of derivatives settled on a net basis primarily relates to the Group's interest rate swaps.

The fair value of derivative financial instruments is summarised as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Interest rate swaps	**121**	**63**	209	55
Cross-currency swaps	**6**	**41**	10	30
Forward foreign currency contracts	**298**	**60**	154	65
Others	**—**	**—**	—	1
	425	**164**	373	151

(a) Interest rate swaps

	2013							
	Maturity date	Principal currency	m	£m	Interest rate % Original	Interest rate % Swapped	Assets £m	Liabilities £m
Fixed to floating	**2014**	**GBP**	**500**	**500**	**6.0**	**note (a)**	**13**	**—**
	2014	**GBP**	**250**	**250**	**6.0**	**note (a)**	**11**	**—**
	2017	**USD**	**600**	**362**	**2.1**	**note (a)**	**—**	**1**
	2019	**GBP**	**250**	**250**	**6.4**	**note (a)**	**43**	**—**
	2020	**EUR**	**600**	**499**	**4.0**	**note (a)**	**47**	**—**
	2020	**GBP**	**650**	**650**	**4.0**	**note (a)**	**—**	**8**
	2023	**EUR**	**750**	**624**	**2.4**	**note (a)**	**—**	**4**
	2025	**EUR**	**650**	**541**	**2.8**	**note (a)**	**—**	**15**
Floating to fixed	**2017**	**EUR**	**600**	**499**	**note (a)**	**3.7**	**—**	**35**
	2023 *	**EUR**	**750**	**624**	**note (a)**	**2.8**	**7**	**—**
							121	**63**

* The €750 million euro interest rate swap maturing in 2023 has a start date of 2015.

	2012							
	Maturity date	Principal currency	m	£m	Interest rate % Original	Interest rate % Swapped	Assets £m	Liabilities £m
Fixed to floating	2013	EUR	400	324	5.1	note (a)	14	—
	2013	GBP	150	150	5.8	note (a)	6	—
	2014	GBP	500	500	6.0	note (a)	26	—
	2014	GBP	250	250	6.0	note (a)	18	—
	2017	USD	600	369	2.1	note (a)	4	—
	2019	GBP	250	250	6.4	note (a)	68	—
	2020	EUR	600	487	4.0	note (a)	65	—
	2023	EUR	750	608	2.4	note (a)	8	—
Floating to fixed	2017	EUR	600	487	note (a)	3.7	—	45
	2023 *	EUR	750	608	note (a)	2.8	—	10
							209	55

Note (a): the floating rate interest rates are based on LIBOR (or local equivalent) plus a margin ranging between 67 and 268 basis points (2012: between 67 and 268 basis points).

These swaps have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 21.

(b) Cross-currency swaps

2013

	Maturity date	Original currency	Interest rate %	Principal original currency m	£m	Swapped currency	Interest rate %	Principal swapped currency m	£m	Assets £m	Liabilities £m
Fixed to floating . .	**2016**	**GBP**	**5.5**	**325**	**325**	**EUR**	**note (b)**	**473**	**394**	**—**	**37**
	2019	**EUR**	**4.6**	**20**	**17**	**USD**	**note (b)**	**22**	**12**	**6**	**—**
	2021	**EUR**	**3.6**	**600**	**499**	**GBP**	**note (b)**	**518**	**518**	**—**	**1**
Floating to fixed . .	**2014**	**USD**	**note (b)**	**261**	**158**	**COP**	**7.2**	**504,158**	**158**	**—**	**3**
										6	**41**

2012

	Maturity date	Original currency	Interest rate %	Principal original currency m	£m	Swapped currency	Interest rate %	Principal swapped currency m	£m	Assets £m	Liabilities £m
Fixed to floating . . .	2016	GBP	5.5	325	325	EUR	note (b)	473	384	—	12
	2019	EUR	4.6	20	16	USD	note (b)	22	13	7	—
	2021	EUR	3.6	600	487	GBP	note (b)	518	518	3	—
Floating to fixed . . .	2014	USD	note (b)	261	161	COP	7.2	504,158	176	—	18
										10	30

Note (b): the floating rate interest rates are based on LIBOR (or local equivalent) plus a margin ranging between 82 and 250 basis points (2012: between 82 and 250 basis points).

(c) Forward foreign currency contracts

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions as well as the hedging of internal and external assets and liabilities.

	2013		**2012**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	£m	**£m**	**£m**	**£m**
Purchase/Sell				
GBP/EUR	**17**	**1**	12	5
GBP/AUD	**70**	**—**	9	2
GBP/ZAR	**19**	**—**	2	—
GBP/CHF	**5**	**1**	10	—
GBP/USD	**56**	**—**	28	—
GBP/CAD	**16**	**—**	2	—
EUR/USD	**5**	**—**	7	—
USD/EUR	**—**	**13**	2	16
USD/GBP	**—**	**14**	—	4
USD/JPY	**82**	**—**	56	—
Other	**28**	**31**	26	38
	298	**60**	154	65

Certain of these contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 21. The nominal values of these contracts are as follows:

	2013		**2012**	
	Purchase	**Sell**	**Purchase**	**Sell**
	£m	**£m**	**£m**	**£m**
Purchase/Sell				
GBP/CHF	**(226)**	**225**	(221)	221
GBP/CAD	**(211)**	**207**	(292)	287
GBP/USD	**(187)**	**181**	—	—
GBP/EUR	**(125)**	**124**	(362)	362
EUR/DKK	**(313)**	**313**	(344)	344
EUR/SEK	**(129)**	**131**	(131)	131
EUR/NOK	**(150)**	**149**	(166)	166

17 Inventories

	2013	2012
	£m	£m
Raw materials and consumables	**1,700**	1,725
Finished goods and work in progress	**2,144**	2,079
Goods purchased for resale	**198**	222
	4,042	4,026

Inventories pledged as security for liabilities amount to £14 million (2012: £8 million). Write-offs taken to other operating expenses in the Group income statement comprise £45 million (2012: £57 million), including amounts relating to restructuring costs.

18 Income tax receivable and payable

Income tax balances shown on the Group Balance Sheet as current assets and current liabilities, while subject to some uncertainty as to the extent and timing of cash flows, are largely expected to be received or paid within 12 months at the balance sheet date for both 2013 and 2012.

19 Cash and cash equivalents

	2013	2012
	£m	£m
Cash and bank balances	**1,399**	977
Cash equivalents	**707**	1,104
	2,106	2,081

Cash equivalents mainly comprise short-term deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value.

Cash and cash equivalents are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	2013	2012
	£m	£m
Functional currency	**1,804**	1,383
US dollar	**104**	532
UK sterling	**57**	5
Euro	**54**	63
Other currencies	**87**	98
	2,106	2,081

At 31 December 2013, cash and cash equivalents of £3 million (2012: £1 million) were pledged as collateral.

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts and accrued interest where applicable, as follows:

	2013	2012
	£m	£m
Cash and cash equivalents as above	**2,106**	2,081
Less accrued interest	**(1)**	—
Less overdrafts	**(329)**	(242)
Net cash and cash equivalents	**1,776**	1,839

Cash and cash equivalents include restricted amounts of £158 million (2012: £151 million), principally due to exchange control regulations in certain countries.

20 Capital and reserves — reconciliation of movement in total equity

	Attributable to owners of the parent						
	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
1 January 2013	**507**	**3,916**	**796**	**2,253**	**7,472**	**307**	**7,779**
Comprehensive income and expense							
Profit for the year	—	—	—	3,904	3,904	295	4,199
Differences on exchange							
- subsidiaries	—	—	(935)	—	(935)	(37)	(972)
- associates	—	—	(141)	—	(141)	—	(141)
Cash flow hedges							
- net fair value gains	—	—	103	—	103	(9)	94
- reclassified and reported in profit for the year	—	—	(56)	—	(56)	7	(49)
- reclassified and reported in net assets	—	—	(1)	—	(1)	—	(1)
Available-for-sale investments							
- net fair value losses	—	—	(7)	—	(7)	—	(7)
Net investment hedges							
- net fair value gains	—	—	89	—	89	—	89
- differences on exchange on borrowings	—	—	(25)	—	(25)	—	(25)
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(d))	—	—	(13)	—	(13)	—	(13)
Retirement benefit schemes							
- actuarial gains in respect of subsidiaries (note 12)	—	—	—	309	309	(1)	308
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	(6)	(6)	1	(5)
- actuarial gains in respect of associates net of tax (note 5)	—	—	—	90	90	—	90
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(d))	—	—	—	(39)	(39)	1	(38)
Other changes in equity							
Employee share options							
- value of employee services	—	—	—	61	61	—	61
- proceeds from shares issued	—	3	—	1	4	—	4
Dividends and other appropriations							
- ordinary shares	—	—	—	(2,611)	(2,611)	—	(2,611)
- to non-controlling interests	—	—	—	—	—	(271)	(271)
Purchase of own shares							
- held in employee share ownership trusts	—	—	—	(74)	(74)	—	(74)
- share buy-back programme	—	—	—	(1,509)	(1,509)	—	(1,509)
Non-controlling interests — capital injection (note 26)	—	—	—	—	—	8	8
Other movements	—	—	—	19	19	—	19
31 December 2013	**507**	**3,919**	**(190)**	**2,398**	**6,634**	**301**	**6,935**

	Attributable to owners of the parent						
	Share capital	Share premium, capital redemption and merger reserves	Other reserves	Retained earnings Restated	Total attributable to owners of the parent Restated	Non-controlling interests Restated	Total equity Restated
	£m	£m	£m	£m	£m	£m	£m
1 January 2012	506	3,913	1,112	2,636	8,167	307	8,474
Comprehensive income and expense							
Profit for the year	—	—	—	3,797	3,797	279	4,076
Differences on exchange							
- subsidiaries	—	—	(355)	—	(355)	(24)	(379)
- associates	—	—	(145)	—	(145)	—	(145)
Cash flow hedges							
- net fair value losses	—	—	(14)	—	(14)	3	(11)
- reclassified and reported in profit for the year	—	—	71	—	71	—	71
- reclassified and reported in net assets	—	—	12	—	12	—	12
Available-for-sale investments							
- net fair value losses	—	—	(3)	—	(3)	—	(3)
- reclassified and reported in profit for the year	—	—	(1)	—	(1)	—	(1)
Net investment hedges							
- net fair value gains	—	—	106	—	106	—	106
- differences on exchange on borrowings	—	—	49	—	49	—	49
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(d))	—	—	(36)	—	(36)	—	(36)
Retirement benefit schemes							
- actuarial losses in respect of subsidiaries (note 12)	—	—	—	(378)	(378)	(3)	(381)
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	41	41	19	60
- actuarial losses in respect of associates net of tax (note 5)	—	—	—	(39)	(39)	—	(39)
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(d))	—	—	—	58	58	(4)	54
Other changes in equity							
Employee share options							
- value of employee services	—	—	—	73	73	—	73
- proceeds from shares issued	1	3	—	1	5	—	5
Dividends and other appropriations							
- ordinary shares	—	—	—	(2,538)	(2,538)	—	(2,538)
- to non-controlling interests	—	—	—	—	—	(267)	(267)
Purchase of own shares							
- held in employee share ownership trusts	—	—	—	(121)	(121)	—	(121)
- share buy-back programme	—	—	—	(1,258)	(1,258)	—	(1,258)
Non-controlling interests — acquisitions (note 29)	—	—	—	(21)	(21)	(3)	(24)
Other movements	—	—	—	2	2	—	2
31 December 2012	507	3,916	796	2,253	7,472	307	7,779

Details relating to the allotted share capital, and movements therein, are included in note 4 of the Parent Company financial statements.

(a) Share premium account, capital redemption reserves and merger reserves comprise:

	Share premium account	Capital redemption reserves	Merger reserves	Total
	£m	£m	£m	£m
1 January 2012	64	101	3,748	3,913
31 December 2012	67	101	3,748	3,916
31 December 2013	**70**	**101**	**3,748**	**3,919**

The share premium account includes the difference between the value of shares issued and their nominal value. The increase of £3 million (2012: £3 million) relates solely to ordinary shares issued under the Company's share option schemes. These schemes are described in the Remuneration Report.

On the purchase of own shares as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of shares purchased. Purchased shares which are not cancelled are classified as treasury shares and presented as a deduction from total equity.

Total equity attributable to owners of the parent is stated after deducting the cost of treasury shares which include £4,045 million (2012: £2,536 million) for shares repurchased and not cancelled and £280 million (2012: £288 million) in respect of the cost of own shares held in employee share ownership trusts.

During 2013, 44 million shares were bought back at a cost of £1,500 million (2012: 39 million shares at a cost of £1,250 million) excluding transaction costs of £9 million (2012: £8 million).

In 1999, shares were issued for the acquisition of the Rothmans International B.V. Group, and the difference between the fair value of shares issued and their nominal value was credited to merger reserves.

(b) Information on the principal components of non-controlling interests is provided in note 31.

British American Tobacco, p.l.c.

Notes on the Accounts (Continued)

Movements in other reserves and retained earnings (which is after deducting treasury shares) shown above comprise:

	Translation reserve	Hedging reserve	Available-for-sale reserve	Revaluation reserve	Other	Total other reserves	Retained earnings: Treasury shares	Retained earnings: Other
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2013	(3)	11	36	179	573	796	(2,824)	5,077
Comprehensive income and expense								
Profit for the year	—	—	—	—	—	—	—	3,904
Differences on exchange								
- subsidiaries	(935)	—	—	—	—	(935)	—	—
- associates	(141)	—	—	—	—	(141)	—	—
Cash flow hedges								
- net fair value gains	—	103	—	—	—	103	—	—
- reclassified and reported in profit for the year	—	(56)	—	—	—	(56)	—	—
- reclassified and reported in net assets	—	(1)	—	—	—	(1)	—	—
Available-for-sale investments								
- net fair value losses	—	—	(7)	—	—	(7)	—	—
Net investment hedges								
- net fair value gains	89	—	—	—	—	89	—	—
- differences on exchange on borrowings	(25)	—	—	—	—	(25)	—	—
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss	—	(13)	—	—	—	(13)	—	—
Retirement benefit schemes								
- actuarial gains in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	309
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	(6)
- actuarial gains in respect of associates net of tax (note 5)	—	—	—	—	—	—	—	90
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss	—	—	—	—	—	—	—	(39)
Other changes in equity								
Employee share options								
- value of employee services	—	—	—	—	—	—	—	61
- proceeds from shares issued	—	—	—	—	—	—	1	—
Dividends and other appropriations								
- ordinary shares	—	—	—	—	—	—	—	(2,611)
Purchase of own shares								
- held in employee share ownership trusts	—	—	—	—	—	—	(74)	—
- share buy-back programme	—	—	—	—	—	—	(1,509)	—
Other movements	—	—	—	—	—	—	81	(62)
31 December 2013	(1,015)	44	29	179	573	(190)	(4,325)	6,723

	Translation reserve	Hedging reserve	Available-for-sale reserve	Revaluation reserve	Other	Total other reserves	Retained earnings: Treasury shares	Retained earnings: Other Restated
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2012	349	(29)	40	179	573	1,112	(1,539)	4,175
Comprehensive income and expense								
Profit for the year	—	—	—	—	—	—	—	3,797
Differences on exchange								
- subsidiaries	(355)	—	—	—	—	(355)	—	—
- associates	(145)	—	—	—	—	(145)	—	—
Cash flow hedges								
- net fair value losses	—	(14)	—	—	—	(14)	—	—
- reclassified and reported in profit for the year	—	71	—	—	—	71	—	—
- reclassified and reported in net assets	—	12	—	—	—	12	—	—
Available-for-sale investments								
- net fair value losses	—	—	(3)	—	—	(3)	—	—
- reclassified and reported in profit for the year	—	—	(1)	—	—	(1)	—	—
Net investment hedges								
- net fair value gains	106	—	—	—	—	106	—	—
- differences on exchange on borrowings	49	—	—	—	—	49	—	—
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss	(7)	(29)	—	—	—	(36)	—	—
Retirement benefit schemes								
- actuarial losses in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	(378)
- surplus recognition and minimum funding obligations in respect of subsidiaries (note 12)	—	—	—	—	—	—	—	41
- actuarial losses in respect of associates net of tax (note 5)	—	—	—	—	—	—	—	(39)
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss	—	—	—	—	—	—	—	58
Other changes in equity								
Employee share options								
- value of employee services	—	—	—	—	—	—	—	73
- proceeds from shares issued	—	—	—	—	—	—	1	—
Dividends and other appropriations								
- ordinary shares	—	—	—	—	—	—	—	(2,538)
Purchase of own shares								
- held in employee share ownership trusts	—	—	—	—	—	—	(121)	—
- share buy-back programme	—	—	—	—	—	—	(1,258)	—
Non-controlling interests — acquisitions (note 29)	—	—	—	—	—	—	—	(21)
Other movements	—	—	—	—	—	—	93	(91)
31 December 2012	(3)	11	36	179	573	796	(2,824)	5,077

The translation reserve is as explained in the accounting policy on foreign currencies in note 1.

The hedging reserve and the available-for-sale reserve are as explained in the accounting policy on financial instruments in note 1.

The revaluation reserve relates to the acquisition of the cigarette and snus business of ST in 2008.

Of the amounts released from the hedging reserve during the year, gains of £28 million (2012: £5 million loss) and gains of £11 million (2012: £26 million loss) were reported within revenue and raw materials and consumables respectively, together with a loss of £3 million (2012: £5 million loss) reported in other operating expenses and a gain of £13 million (2012: £35 million loss) reported within net finance costs.

Other reserves comprise:

(a) £483 million which arose in 1998 from merger accounting in a Scheme of Arrangement and Reconstruction whereby British American Tobacco p.l.c. acquired the entire share capital of B.A.T Industries p.l.c. and the share capital of that company's principal financial services subsidiaries was distributed, so effectively demerging them; and

(b) In the Rothmans transaction, convertible redeemable preference shares were issued as part of the consideration. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The £90 million balance in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

The tax attributable to components of other comprehensive income is as follows:

	2013 £m	2012 Restated £m
Translation reserve		
Differences on exchange	—	(2)
Net investment hedges		
- difference on exchange on borrowings	—	(5)
	—	(7)
Hedging reserve		
Cash flow hedges		
- net fair value gains	**(36)**	(17)
- reclassified and reported in profit for the year	**23**	(12)
	(13)	(29)
Retained earnings		
- actuarial (gains)/losses in respect of subsidiaries	**(41)**	66
- surplus recognition and minimum funding obligations in respect of subsidiaries	**2**	(8)
	(39)	58
Owners of the parent	**(52)**	22
Non-controlling interests	**1**	(4)
Total tax recognised in other comprehensive income for the year (note 6(d))	**(51)**	18

21 Borrowings

	Currency	Maturity dates	Interest rates	2013	2012
				£m	£m
Eurobonds	Euro	2014 to 2023	2.4% to 5.9%	**5,372**	5,208
	UK sterling	2016 to 2040	4.0% to 7.3%	**3,118**	2,670
	US dollar	2016	1.0% to 1.2%	**182**	—
Bonds issued pursuant to Rule 144A and RegS under the US Securities Act (as amended)	US dollar	2014 to 2022	1.4% to 9.5%	**1,620**	1,840
Other notes	Malaysian ringgit	2014	4.1% to 4.5%	**47**	51
	Other currencies			**24**	25
Commercial paper				**521**	—
Bank loans				**341**	543
Other loans				**136**	135
Finance leases				**6**	5
Overdrafts				**329**	242
				11,696	10,719

The interest on the commercial paper referred to in the table above is based on USD LIBOR plus a margin ranging between 10 and 15 basis points (2012: nil).

	2013	2012
	£m	£m
Current	**1,980**	1,636
Non-current	**9,716**	9,083
	11,696	10,719

Current borrowings include interest payable of £247 million at 31 December 2013 (2012: £222 million). Included within borrowings are £4,466 million (2012: £3,731 million) of borrowings subject to fair value hedges where their amortised cost has been increased by £69 million (2012: £220 million) in the table above.

The fair value of borrowings is estimated to be £12,701 million (2012: £12,041 million). £11,873 million (2012: £11,116 million) has been calculated using quoted market prices and is within level 1 of the fair value hierarchy. £828 million (2012: £925 million) has been calculated based on discounted cash flow analysis and is within level 2 of the fair value hierarchy.

	2013	2012
	£m	£m
Amounts secured on Group assets	**20**	13

In both years amounts secured on Group assets include finance leases of £6 million (2012: £5 million) and amounts secured on certain inventory of the Group (see note 17).

Borrowings are repayable as follows:

	Per Balance Sheet		Contractual gross maturities	
	2013	2012	2013	2012
	£m	£m	£m	£m
Within one year	**1,980**	1,636	**2,220**	1,783
Between one and two years	**1,343**	666	**1,798**	1,099
Between two and three years	**534**	1,319	**899**	1,730
Between three and four years	**1,513**	369	**1,790**	672
Between four and five years	**421**	1,508	**853**	1,862
Beyond five years	**5,905**	5,221	**7,732**	6,874
	11,696	10,719	**15,292**	14,020

The contractual gross maturities in each year include the borrowings maturing in that year together with forecast interest payments on all borrowings which are outstanding for all or part of that year.

Borrowings are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	Functional currency £m	US dollar £m	UK sterling £m	Euro £m	Canadian dollar £m	Other currencies £m	Total £m
31 December 2013							
Total borrowings	**5,643**	**2,353**	**329**	**3,248**	**—**	**123**	**11,696**
Effect of derivative financial instruments							
- cross-currency swaps	**1,070**	**(146)**	**(325)**	**(516)**	**—**	**—**	**83**
- forward foreign currency contracts	**(749)**	**181**	**—**	**(468)**	**207**	**818**	**(11)**
	5,964	**2,388**	**4**	**2,264**	**207**	**941**	**11,768**
31 December 2012							
Total borrowings	5,710	1,962	329	2,688	—	30	10,719
Effect of derivative financial instruments							
- cross-currency swaps	1,078	(148)	(325)	(503)	—	—	102
- forward foreign currency contracts	(875)	—	—	(279)	287	862	(5)
	5,913	1,814	4	1,906	287	892	10,816

Details of the derivative financial instruments included in these tables are given in note 16.

The exposure to interest rate changes when borrowings are repriced is as follows:

	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	Beyond 5 years £m	Total £m
31 December 2013							
Total borrowings	**2,013**	**1,341**	**655**	**1,392**	**420**	**5,875**	**11,696**
Effect of derivative financial instruments							
- interest rate swaps	**2,427**	**(624)**	**—**	**137**	**—**	**(1,940)**	**—**
- cross-currency swaps	**924**	**—**	**(325)**	**—**	**—**	**(516)**	**83**
	5,364	**717**	**330**	**1,529**	**420**	**3,419**	**11,779**
31 December 2012							
Total borrowings	1,667	665	1,318	368	1,508	5,193	10,719
Effect of derivative financial instruments							
- interest rate swaps	1,977	(750)	(608)	—	118	(737)	—
- cross-currency swaps	781	149	—	(325)	—	(503)	102
	4,425	64	710	43	1,626	3,953	10,821

Details of the derivative financial instruments included in these tables are given in note 16.

Finance lease liabilities per the balance sheet and on a contractual gross maturity basis are payable as follows:

	2013 Total £m	2012 Total £m
Within one year	**2**	2
Between one and two years	**2**	2
Between two and three years	**1**	1
Between three and four years	**1**	—
	6	5

There is no material difference between the repayable principal and the total gross cash flows shown above.

Borrowings facilities — undrawn committed facilities expire as follows:

	2013	2012
	£m	£m
Within one year	**169**	131
Between one and two years	**2,000**	—
Between two and three years	**—**	2,000
Between three and four years	**91**	—
Between four and five years	**—**	92
	2,260	2,223

The Group defines net debt as follows:

	2013	2012
	£m	£m
Borrowings (note 21)	**11,696**	10,719
Derivatives in respect of net debt:		
- assets (note 16)	**(146)**	(234)
- liabilities (note 16)	**125**	95
Cash and cash equivalents (note 19)	**(2,106)**	(2,081)
Current available-for-sale investments (note 15)	**(54)**	(26)
	9,515	8,473

22 Other provisions for liabilities and charges

	Restructuring of existing businesses	Employee related benefits	Fox River	Other provisions	Total
	£m	£m	£m	£m	£m
1 January 2013	**92**	**45**	**271**	**221**	**629**
Differences on exchange	**(4)**	**(4)**	**—**	**(26)**	**(34)**
Provided in respect of the year	**42**	**12**	**—**	**52**	**106**
Utilised during the year	**(42)**	**(11)**	**(4)**	**(63)**	**(120)**
31 December 2013	**88**	**42**	**267**	**184**	**581**
Analysed on the balance sheet as					
- current	**49**	**18**	**—**	**127**	**194**
- non-current	**39**	**24**	**267**	**57**	**387**
	88	**42**	**267**	**184**	**581**
1 January 2012	149	50	274	221	694
Differences on exchange	(6)	(2)	—	(19)	(27)
Provided in respect of the year	6	9	—	71	86
Utilised during the year	(57)	(12)	(3)	(52)	(124)
31 December 2012	92	45	271	221	629
Analysed on the balance sheet as					
- current	47	17	—	146	210
- non-current	45	28	271	75	419
	92	45	271	221	629

The restructuring provisions relate to the restructuring and integration costs incurred and reported as adjusting items in the income statement. The principal restructuring activities in 2013 and 2012 are as described in note 3(e). While some elements of the non-current provisions of £39 million will unwind over several years, as termination payments are made over extended periods in some countries, it is estimated that approximately 45% will unwind in 2015 and over 89% within five years.

Employee-related benefits mainly relate to long-term employee benefits other than post-employment benefits. As the principal components of these provisions are long service awards and 'jubilee' payments due after a certain service period, they will unwind over several years. It is estimated that approximately 17% of the non-current provisions of £24 million will unwind within five years.

A provision was made in 2011 for a potential claim under a 1998 settlement agreement entered into by a Group subsidiary in respect of the clean-up of sediment in the lower Fox River. This is explained in more detail in note 30.

Other provisions comprise balances set up in the ordinary course of general business that cannot be classified within the other categories, such as sales returns, onerous contracts, together with amounts in respect of supplier, excise and other disputes. The nature of the amounts provided in respect of disputes is such that the extent and timing of cash flows is difficult to estimate, and the ultimate liability may vary from the amounts provided.

Amounts provided above are shown net of reversals of unused provisions which include £10 million for restructuring of existing businesses, £1 million for employee benefits and £28 million for other provisions.

23 Trade and other payables

	2013	2012
	£m	£m
Trade payables	**814**	679
Duty, excise and other taxes	**3,642**	3,736
Accrued charges and deferred income	**1,038**	1,156
Social security and other taxation	**18**	15
Sundry payables	**360**	407
	5,872	5,993
Current	**5,741**	5,827
Non-current	**131**	166
	5,872	5,993

Accrued charges and deferred income include £3 million (2012: £5 million) in respect of interest payable. Amounts payable to related parties including associated undertakings are shown in note 29.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables, as determined using discounted cash flow analysis.

Trade and other payables are predominantly denominated in the functional currencies of subsidiary undertakings with less than 5% in other currencies (2012: less than 3%).

24 Financial instruments and risk management

Management of financial risks

One of the principal responsibilities of Treasury is to manage the financial risks arising from the Group's underlying operations. Specifically, Treasury manages, within an overall policy framework set by the Group's Main Board and Corporate Finance Committee (CFC), the Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group's treasury position is monitored by the CFC which meets regularly throughout the year and is chaired by the Group Finance Director. The approach is one of risk reduction within an overall framework of delivering total shareholder return.

The Group defines capital as net debt (see note 21) and equity (see note 20). The only externally imposed capital requirement for the Group is interest cover as described under interest rate risk below. The Group assesses its financial capacity by reference to cash flow, net debt and interest cover. Group policies include a set of financing principles and key performance indicators including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided. The key objective of the financing principles is to appropriately balance the interests of equity and debt holders in driving an efficient financing mix for the Group.

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group Balance Sheet and related notes.

The Group's management of specific risks is dealt with as follows:

Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of providers. The Group has a target average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2013, the average centrally managed debt maturity was 7.2 years (2012: 7.2 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 18.3% (2012: 19.3%).

In December 2013 a maturing £152 million bond was repaid, this repayment was financed from Group cash balances.

In November 2013 a maturing US$300 million bond was repaid, this repayment was financed from Group cash balances.

In September 2013 the Group issued a new £650 million bond with a maturity of 2026.

In July 2013 the Group repaid a maturing €519 million bond, this repayment was financed from Group cash balances.

In March 2013 the Group issued a new €650 million bond with a maturity of 2025 and a new US$300 million bond with a maturity of 2016.

During the year, the Group's subsidiary in Brazil received proceeds of £399 million (2012: £356 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £436 million (2012: £350 million).

In November 2012, the Group issued a new €750 million bond with a maturity of January 2023.

In July 2012, the Group prepaid and cancelled a €450 million syndicated facility due October 2013. This repayment was financed from Group cash balances.

In June 2012, the Group repaid a €337 million bond due in June 2012, and prepaid and cancelled a US$690 million syndicated facility due October 2012, a Mexican peso 1,444 million borrowing due September 2014 and a Mexican peso 1,025 million borrowing due November 2014. These payments were financed from Group cash balances.

In June 2012, the Group issued new US$2 billion bonds; US$500 million with a maturity of June 2015, US$600 million with a maturity of June 2017 and US$900 million with a maturity of June 2022.

In August 2011, the Group extended the maturity date of a US$200 million facility from 2011 to 2016, and simultaneously increased the size of the facility to US$240 million. This facility is drawable in Chilean peso and was drawn to the value of US$225 million at 31 December 2013 (31 December 2012: US$225 million). The undrawn element of US$15 million was available for drawing until February 2013.

The Group continues to have a £2 billion central banking facility with a final maturity date of December 2015. The facility is provided by 22 banks and was undrawn as at 31 December 2013 (31 December 2012: undrawn).

It is Group policy that short-term sources of funds (including drawings under both the Group US$2 billion commercial paper programme, and the Group £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash.

At 31 December 2013, commercial paper of £521 million was outstanding (31 December 2012: £nil).

During 2012 the Group's subsidiary in Japan entered into an agreement with an affiliate of Sumitomo Mitsui Banking Corporation to assign part of its monthly trade receivables, without recourse, in return for cash, leading to an increase of £75 million in cash generated from operations. During 2013 this arrangement was increased by £17 million.

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to ensure that there is the maximum mobilisation of cash within the Group. The key objectives of Treasury in respect of cash and cash equivalents are to protect the principal value of cash and cash equivalents, to concentrate cash at the centre to minimise the required long-term debt issuance, and to optimise the yield earned. The amount of debt issued by the Group is determined by forecasting the net debt requirement after the mobilisation of cash.

The Group continues to target investment-grade credit ratings; as at 31 December 2013 the ratings from Moody's and S&P were A3 (stable outlook) / A- (stable outlook) (2012: Baa1/ A-). The Moody's rating was upgraded from Baa1 to A3 on 12 March 2013. The strength of the ratings has underpinned the debt issuance during 2013 and 2012 and, despite the impact of the turbulence in financial markets, the Group is confident of its ability to successfully access the debt capital markets, as demonstrated with the issue of bonds in the euro, US dollar and sterling markets in 2013 and 2012.

As part of its short-term cash management, the Group invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2013, cash and cash equivalents include £156 million invested in money market funds (2012: £434 million).

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies. All contractual borrowing covenants have been met and none of them is expected to inhibit the Group's operations or funding plans.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries and associates into its reporting currency, sterling. The Group's primary balance sheet translation exposures are to the US dollar, Canadian dollar, euro, Danish krone, Swiss franc, South African rand, Russian rouble, Brazilian real, Australian dollar, Malaysian ringgit and Singapore dollar. These exposures are kept under continuous review. The Group's policy on borrowings is to broadly match the currency of these borrowings with the currency of cash flows arising from the Group's underlying operations. Within this overall policy, the Group aims to minimise all balance sheet translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency borrowings. The main objective of these policies is to protect shareholder value by increasing certainty and minimising volatility in earnings per share. At 31 December 2013, the currency profile of the Group's gross debt, after taking into account derivative contracts, was 21% (2012: 17%) US dollar, 41% (2012: 45%) euro, 2% (2012: 3%) Canadian dollar, 21% (2012: 18%) sterling, and 15% (2012: 17%) other currencies.

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint arrangements; these exposures are not normally hedged. Exposures also arise from:

(i) foreign currency denominated trading transactions undertaken by subsidiaries. These exposures comprise committed and highly probable forecast sales and purchases, which are offset wherever possible. The remaining exposures are hedged within the Treasury policies and procedures with forward foreign exchange contracts and options, which are designated as hedges of the foreign exchange risk of the identified future transactions; and

(ii) forecast dividend flows from subsidiaries to the centre. To ensure cash flow certainty, the Group hedges such flows using forward foreign exchange contracts designated as net investment hedges of the foreign exchange risk arising from the investments in these subsidiaries.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held across the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. Financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 10% strengthening of functional currencies against non-functional currencies would result in pre-tax profit being £24 million higher (2012: £1 million higher) and items recognised directly in other comprehensive income being £15 million higher (2012: £5 million lower). A 10% weakening of functional currencies against non-functional currencies would result in pre-tax profit being £31 million lower (2012: £1 million lower) and items recognised directly in other comprehensive income being £19 million lower (2012: £5 million higher).

The exchange sensitivities on items recognised directly in other comprehensive income relate to hedging of certain net asset currency positions in the Group as well as on cash flow hedges in respect of future transactions, but does not include sensitivities in respect of exchange on non-financial assets or liabilities.

Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on the earnings, cash flow and economic value of the Group and to safeguard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

The Group targets an interest cover ratio, as calculated under its key central banking facilities, of greater than 5 and for 2013 it is 12.3 times (2012 restated: 12.5 times). The only externally imposed capital requirement the Group has is in respect of its centrally managed banking facilities, which require a gross interest cover of 4.5.

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on both a gross and net basis (at least 50% fixed on a net basis in the short to the medium term) as a result of regular reviews of market conditions and strategy by the Corporate Finance Committee and the board of the main central finance company. At 31 December 2013, the relevant ratios of floating to fixed rate borrowings were 43:57 (2012: 35:65) on a gross basis and 25:75 (2012: 16:84) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of financial assets and liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analysis, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being £22 million lower (2012: £16 million lower). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being £1 million higher (2012: £1 million higher). The effect of these interest rate changes on items recognised directly in other comprehensive income is not material in either year.

Credit risk

The Group has no significant concentrations of customer credit risk. Subsidiaries have policies in place requiring appropriate credit checks on potential customers before sales commence. The process for monitoring and managing credit risk once sales to customers have been made varies depending on local practice in the countries concerned.

Certain territories have bank guarantees, other guarantees and credit insurance provided in the Group's favour in respect of Group trade receivables, the issuance and terms of which are dependent on local practices in the countries concerned.

All derivatives are subject to ISDA agreements or equivalent documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally the Group targets a long-term counterparty credit rating of at least A-/A3. However, the Group recognises that due to the need to operate over a large geographic footprint, sovereign risk can be the determining factor on the suitability of a counterparty. From time to time the Group may invest in short-dated corporate commercial paper and for this, the Group identifies specific counterparties with a minimum short-term rating of A1/P1.

Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions throughout its geographic footprint, while at the same time ensuring that there is no geographic concentration in the location of counterparties.

The maximum exposure to the credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group Balance Sheet. In addition, the Group has issued guarantees to third parties, part of which has been recognised on the balance sheet in accordance with IAS 39. The unrecognised portion of these guarantees amounts to £30 million (2012: £26 million).

The impact of own credit risk on the fair value of derivatives and other obligations held at fair value is not material.

Price risk

The Group is exposed to equity price risk on equity investments held by the Group, which are included in available-for-sale investments on the consolidated balance sheet, but the quantum of such is not material.

Hedge accounting

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

Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the balance sheet, the basis for fair values is described below.

Fair value hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value in accordance with the IFRS 13 classification hierarchy:

	2013			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets at fair value				
Available-for-sale investments (note 15)	**54**	**—**	**36**	**90**
Derivatives relating to				
- interest rate swaps (note 16)	**—**	**121**	**—**	**121**
- cross-currency swaps (note 16)	**—**	**6**	**—**	**6**
- forward foreign currency contracts (note 16)	**—**	**298**	**—**	**298**
Assets at fair value	**54**	**425**	**36**	**515**
Liabilities at fair value				
Derivatives relating to				
- interest rate swaps (note 16)	**—**	**63**	**—**	**63**
- cross-currency swaps (note 16)	**—**	**41**	**—**	**41**
- forward foreign currency contracts (note 16)	**—**	**60**	**—**	**60**
Liabilities at fair value	**—**	**164**	**—**	**164**

	2012			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets at fair value				
Available-for-sale investments (note 15)	26	—	37	63
Derivatives relating to				
- interest rate swaps (note 16)	—	209	—	209
- cross-currency swaps (note 16)	—	10	—	10
- forward foreign currency contracts (note 16)	—	154	—	154
Assets at fair value	26	373	37	436
Liabilities at fair value				
Derivatives relating to				
- interest rate swaps (note 16)	—	55	—	55
- cross-currency swaps (note 16)	—	30	—	30
- forward foreign currency contracts (note 16)	—	65	—	65
- others (note 16)	—	1	—	1
Liabilities at fair value	—	151	—	151

Level 1 financial instruments are traded in an active market and fair value is based on quoted prices at the year end.

Level 2 financial instruments are not traded in an active market, but the fair values are based on quoted market prices, broker/dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives.

The fair values of level 3 financial instruments have been determined using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. The Group's level 3 financial instruments primarily consist of an equity investment in an unquoted entity which is valued using the discounted cash flows of estimated future dividends. The valuation assumes the following:

- future dividends grow by 2.0% (2012: 2.0%) and a 100 basis points decrease in the growth rate would result in the valuation being £6 million lower (2012: £7 million lower); and
- discount rate of 6.5% (2012: 6.5%) and a 100 basis points decrease in the discount rate would result in the valuation being £10 million higher (2012: £11 million higher).

The following table presents the changes in level 3 financial instruments:

	2013 Available-for-sale investments	2012 Available-for-sale investments
	£m	£m
1 January	**37**	38
Differences on exchange	**(1)**	(1)
31 December	**36**	37

Netting arrangements of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group Balance Sheet, together with the Group's rights of offset associated with recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	2013			2012		
	Amount presented in the Group Balance Sheet*	Related amounts not offset in the Group Balance Sheet	Net amount	Amount presented in the Group Balance Sheet*	Related amounts not offset in the Group Balance Sheet	Net amount
	£m	£m	£m	£m	£m	£m
Financial assets						
- Derivative financial instruments (note 16)	**425**	**(144)**	**281**	373	(125)	248
Financial liabilities						
- Derivative financial instruments (note 16)	**(164)**	**144**	**(20)**	(151)	125	(26)
	261	**—**	**261**	222	—	222

* No financial instruments have been offset in the Group Balance Sheet.

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trades derivatives.

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transactions and amounts owed to it by the defaulting party. If that sum exceeds the amounts owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

25 Cash flow

Cash generated from operations

	2013	2012 Restated
	£m	£m
Profit from operations	**5,526**	5,372
Adjustments for		
- amortisation of trademarks and similar intangibles	**74**	63
- amortisation of other intangible assets	**48**	53
- gain on deemed partial disposal of a trademark	**(26)**	—
- depreciation and impairment of property, plant and equipment	**355**	359
- increase in inventories	**(386)**	(755)
- increase in trade and other receivables	**(246)**	(329)
- increase in trade and other payables	**311**	840
- decrease in net retirement benefit liabilities	**(222)**	(160)
- decrease in provisions for liabilities and charges	**(19)**	(45)
- other non-cash items	**(49)**	39
Cash generated from operations	**5,366**	5,437

Profit from operations includes charges in respect of Group restructuring and integration costs referred to in note 3(e). These are also reflected in the movements in depreciation, amortisation, impairment, inventories, receivables, payables and provisions above and in the proceeds on disposal of property, plant and equipment shown in the Group cash flow statement. The cash outflow in respect of the Group's restructuring costs was £310 million (2012: £228 million).

Cash flows from investing activities

(a) Property, plant and equipment

In 2013, proceeds on disposal of property, plant and equipment include receipts in respect of Australia, Denmark and Russia, the gains on which have been included in restructuring and integration costs (note 3(e)).

In 2012, purchases of property, plant and equipment include £195 million in respect of the Group's acquisition of the freehold interest in Globe House (the Group's headquarters in London). The Group had leased the property on a 25 year lease which was due to expire in 2024. The purchase price has been allocated to Freehold property in note 10.

(b) Purchases and proceeds on disposals of investments

The purchases and disposals of investments (which comprise available-for-sale investments and loans and receivables) comprises a net cash outflow in respect of current investments of £32 million (2012: £24 million inflow).

(c) Proceeds from associate's share buy-backs

The proceeds from associates' share buy-backs reflect proceeds of £189 million (2012: £262 million) in respect of the Group's participation in the share buy-back programme conducted by Reynolds American Inc.

(d) Purchase of subsidiaries

In 2013, the cash outflow relates to further cash consideration paid on the purchase of CN Creative Limited of £16 million. In 2012, the cash outflow relates to the cash consideration paid on the purchase of CN Creative Limited of £14 million offset by a £2 million inflow relating to the adjustment of the purchase price for Protabaco.

Cash flows from financing activities

(a) Cash flows from borrowings

In December 2013 a maturing £152 million bond was repaid, this repayment was financed from Group cash balances.

In November 2013 a maturing US$300 million bond was repaid, this repayment was financed from Group cash balances.

In September 2013 the Group issued a new £650 million bond with a maturity of 2026.

In July 2013 the Group repaid a maturing €519 million bond, this repayment was financed from Group cash balances.

In March 2013 the Group issued a new €650 million bond with a maturity of 2025 and a new US$300 million bond with a maturity of 2016.

During the year the Group's subsidiary in Brazil received proceeds of £399 million (2012: £356 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £436 million (2012: £350 million).

At 31 December 2013 commercial paper of £521 million was outstanding (31 December 2012: nil).

In November 2012, the Group issued a new €750 million bond with a maturity of January 2023.

In July 2012, the Group prepaid and cancelled a €450 million syndicated facility due October 2013. This repayment was financed from Group cash balances.

In June 2012, the Group repaid a €337 million bond due in June 2012 and prepaid and cancelled a US$690 million syndicated facility due October 2012, a Mexican peso 1,444 million borrowing due September 2014 and a Mexican peso 1,025 million borrowing due November 2014. These payments were financed from Group cash balances.

In June 2012, the Group issued new US$2 billion bonds; US$500 million with a maturity of June 2015, US$600 million with a maturity of June 2017 and US$900 million with a maturity of June 2022.

(b) Movements relating to derivative financial instruments

The movement relating to derivative financial instruments is in respect of derivatives taken out to hedge cash and cash equivalents and external borrowings, derivatives taken out to hedge intercompany loans and borrowings and derivatives treated as net investment hedges. Derivatives taken out as cash flow hedges in respect of financing activities are also included in the movement relating to derivative financial instruments, while other such derivatives in respect of operating and investing activities are reflected along with the underlying transactions.

(c) Purchases of non-controlling interests

In 2012, the purchase of non-controlling interest of £24 million relates to the acquisition of part of the non-controlling interests in British American Tobacco Bangladesh.

26 Business combinations, disposals and other changes in the Group

(a) CTBAT International Limited

On 30 August 2013 the Group announced that CTBAT International Limited (CTBAT), a joint investment incorporated in Hong Kong between subsidiaries of China National Tobacco Corporation (CNTC) and the Group, had commenced official business operations. The joint venture was created in accordance with the Joint Venture Agreement signed by both companies. It owns and manages the worldwide international cigarette trademark State Express 555, and also the worldwide rights outside China to the leading CNTC brand Shuang Xi.

CTBAT is treated as a joint operation as defined under IFRS 11 *Joint Arrangements,* and operates as an extension of the existing tobacco businesses of its investors. The Group will therefore recognise its share (50%) of the assets, liabilities, income and expenses of the arrangement on a line-by-line basis in the consolidated financial statements. CTBAT is reported as part of the Asia-Pacific region with the majority of its international sales (non-China domestic sales) made through existing BAT end markets in that region. All sales to mainland China are via CNTC.

In accordance with best practice, the contribution of brands and businesses into CTBAT have been recognised by the new entity at fair value, resulting in a gain on the deemed partial disposal of the State Express 555 brand which has been treated as an adjusting item (see note 3(g)) and the recognition of the Group's share of the assets of the new business (see note 9).

The impact of the arrangement on operating results for 2013 is not material.

(b) British American Tobacco Myanmar Limited

On 8 July 2013, the Group announced the completion of a joint venture in Myanmar with I.M.U. Enterprise Limited (IMU) to manufacture, distribute and market the Group's brands. Under the terms of the agreement, the Group has contributed plant and machinery and cash to the venture in return for a controlling stake, and will therefore account for the transaction as a business combination. The amounts involved, and the impact of the arrangement on operating results for 2013, are not material. Goodwill of £1 million in relation to the acquisition of the 51% stake in the business reflects the strategic premium to acquire the opportunity to re-enter the Myanmar market. The Group's proportion of the total net assets acquired at fair value amounted to £8 million with non-controlling interests of £8 million.

(c) CN Creative Limited

On 18 December 2012, the Group acquired CN Creative Limited, a UK-based start-up company specialising in the development of e-cigarette technologies. The company's entire share capital was acquired for £40 million, of which £14 million was paid in 2012 and a further £16 million paid during 2013. The remaining balance of the consideration payable is contingent upon the achievements of certain post-acquisition events. The only material asset acquired was the company's intellectual property.

(d) British American Tobacco Bangladesh

On 27 June 2012, the Group acquired a further 7% interest in British American Tobacco Bangladesh Company Limited at a cost of £24 million. This increased the Group's total shareholding to 73%.

(e) Items classified as held-for-sale

At 31 December 2013, held-for-sale assets comprise mainly land and buildings in Denmark which are being actively marketed for sale. At 31 December 2012, held-for-sale assets included land and buildings in Denmark and Russia which have been sold during 2013.

(f) Productora Tabacalera de Colombia, S.A.S. (Protabaco)

On 11 October 2011, the Group acquired from Flentex Holdings Limited and Trioumvir Enterprises Limited, both private investor shareholders, a 100% stake in Productora Tabacalera de Colombia, S.A.S. (Protabaco). The purchase price was subject to the final agreement of adjustments for working capital and net debt with the vendors. This was finalised in July 2012 with a reduction of £2 million to the previously reported purchase price and goodwill.

27 Share-based payments

The Group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive Plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. Payout is subject to performance conditions based on earnings per share relative to inflation (50% of grant) and total shareholder return, combining the share price and dividend performance of the Company by reference to two comparator groups (50% of grant). Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled deferred shares are granted in March each year.

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

Share Option Scheme (ESOS)

Options exercisable three years from date of grant with a contractual life of 10 years, subject to earnings per share performance condition relative to inflation. Participants are not entitled to receive dividends in the period prior to the exercise of the options.

The granting of options under this scheme ceased with the last grant made in March 2004 and final outstanding awards must be exercised by March 2014. The awards were both equity and cash-settled.

Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20% discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three-year or five-year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £3,000 in any tax year.

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,000 in any year) under the equity-settled scheme are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c. The maximum amount that can be allocated in this way to any individual is £1,500 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

Further details on the operation of share-based payment arrangements can be found in the Remuneration Report.

Share-based payment expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	2013		2012	
	Equity-settled	**Cash-settled**	**Equity-settled**	**Cash-settled**
	£m	**£m**	**£m**	**£m**
LTIP (note (a))	**8**	**2**	22	5
DSBS (note (b))	**48**	**11**	46	13
SAYE (note (c))	**1**	**—**	1	—
SRS (note (c))	**4**	**—**	4	—
Total recognised in the income statement (note 3(a))	**61**	**13**	73	18

Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Group has recorded liabilities in respect of vested and unvested grants at the end of 2013 and 2012:

	2013		2012	
	Vested	**Unvested**	**Vested**	**Unvested**
	£m	**£m**	**£m**	**£m**
LTIP	**3.8**	**3.6**	3.0	8.6
DSBS	**0.2**	**14.7**	0.1	14.6
ESOS	**—**	**—**	0.2	—
Total liability	**4.0**	**18.3**	3.3	23.2

(a) Long-Term Incentive Plan

Details of the movements for the equity and cash-settled LTIP scheme during the years ended 31 December 2013 and 31 December 2012 were as follows:

	2013		2012	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	**5,949**	**779**	6,589	829
Granted during the period	**1,697**	**131**	1,834	303
Exercised during the period	**(1,508)**	**(179)**	(2,129)	(317)
Forfeited during the period	**(546)**	**(22)**	(345)	(36)
Outstanding at end of year	**5,592**	**709**	5,949	779
Exercisable at end of year	**770**	**123**	751	102

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £35.41 (2012: £31.96) for equity-settled and £34.97 (2012: £31.88) for cash-settled options.

The outstanding shares for the year ended 31 December 2013 had a weighted average contractual life of 7.8 years (2012: 8.0 years) for the equity-settled scheme, and 7.6 years (2012: 7.9 years) for the cash-settled share-based payment arrangements.

(b) Deferred Share Bonus Scheme

Details of the movements for the equity and cash-settled DSBS scheme during the years ended 31 December 2013 and 31 December 2012 were as follows:

	2013		2012	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	**5,368**	**878**	6,109	954
Granted during the period	**1,628**	**158**	2,025	368
Exercised during the period	**(1,796)**	**(270)**	(2,667)	(431)
Forfeited during the period	**(95)**	**(12)**	(99)	(13)
Outstanding at end of year	**5,105**	**754**	5,368	878
Exercisable at end of year	**—**	**5**	45	2

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the financial year was £34.96 (2012: £32.02) for equity-settled and £34.99 (2012: £32.01) for cash-settled options.

The outstanding shares for the year ended 31 December 2013 had a weighted average contractual life of 1.2 years (2012: 1.3 years) for the equity-settled scheme, and 1.0 years (2012: 1.3 years) for the cash-settled scheme.

(c) Other schemes

ESOS

The number of outstanding equity-settled options at the end of the year was 95,266 (2012: 204,002) and cash-settled options was nil (2012: 9,150).

SAYE

The number of outstanding options at the end of the year for the three-year scheme was 263,599 (2012: 280,383) and for the five-year scheme was 465,274 (2012: 526,023).

SRS and ISRS

The number of outstanding shares at the end of the year for the Share Reward Scheme was 546,983 (2012: 565,312) and for the International Share Reward Scheme was 41,205 (2012: 49,318).

Valuation assumptions

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

	2013		2012	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	**25**	**25**	26	26
Average expected term to exercise (years)	**3.5**	**3.0**	3.5	3.0
Risk-free rate (%)	**0.4**	**0.3**	0.7	0.6
Expected dividend yield (%)	**3.8**	**3.8**	3.9	3.9
Share price at date of grant (£)	**35.05**	**35.05**	32.08	32.08
Fair value at grant date (£) *	**23.69/23.44**	**31.23**	21.79/21.68	28.50

* Where two figures have been quoted for the Long-Term Incentive Plan, the first number represents the awards made to employees below Management Board level and the second number to awards made to the members of the Management Board, as at the date of award.

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2013	2012
	%	%
Average share price volatility FTSE 100 comparator group	**37**	39
Average share price volatility FMCG comparator group	**26**	26
Average correlation FTSE 100 comparator group	**37**	38
Average correlation FMCG comparator group	**37**	36

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index, (the share price index plus the dividend reinvested) over a five-year period. The respective FMCG and FTSE 100 share price volatility and correlations were also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This payout calculation is based on expectations published in analysts' forecasts.

28 Group employees

The average number of persons employed by the Group and its associates during the year, including Directors, was 89,820 (2012: 87,485).

	2013 Number	2012 Number
Asia-Pacific	**17,156**	15,307
Americas	**16,489**	17,336
Western Europe	**11,824**	11,703
EEMEA	**12,261**	12,017
Subsidiary undertakings	**57,730**	56,363
Associates	**32,090**	31,122
	89,820	87,485

Details of Directors' remuneration, share options and retirement benefits are given in the Remuneration Report.

Included within the employee numbers for Western Europe are certain employees in the UK in respect of central functions. Some of the costs of these employees are allocated or charged to the various regions and markets in the Group.

29 Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 *Related Party Disclosures,* all of which are undertaken in the normal course of business.

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. Amounts receivable from associates in respect of dividends included in the table below were £86 million (2012: £84 million). The Group's share of dividends from associates, included in other net income in the table below, was £512 million (2012: £487 million).

	2013 £m	2012 £m
Transactions		
- revenue	**54**	32
- purchases	**(345)**	(330)
- other net income	**501**	481
Amounts receivable at 31 December	**96**	92
Amounts payable at 31 December	**(33)**	(34)

On 17 December 2012, a wholly owned subsidiary of the Group, BATUS Japan Inc. (BATUSJ), entered into an Amendment and Extension Agreement (referred to as the Amendment) with a wholly owned subsidiary of Reynolds American, R.J. Reynolds Tobacco Company (referred to as RJRTC). The Amendment modifies the American blend Cigarette Manufacturing Agreement (referred to as the 2010 Agreement), effective as of 1 January 2010.

Prior to the Amendment, the term of the 2010 Agreement was scheduled to expire on 31 December 2014, subject to early termination and extension provisions. Pursuant to the Amendment, the Manufacturing Agreement will remain in effect beyond 31 December 2014, provided that either RJRTC or BATUSJ may terminate the Manufacturing Agreement by furnishing three years' notice to the other party, with any such notice to be given no earlier than 1 January 2016.

In 2012, the Group acquired non-controlling interests of shareholders in British American Tobacco Bangladesh for £24 million. This transaction is shown as a £21 million reduction to reserves attributable to the owners of the parent and a £3 million reduction in reserves attributable to non-controlling interests in note 20.

During the year, the Group received proceeds of £189 million (2012: £262 million) in respect of its participation in the share buy-back programme conducted by Reynolds American Inc.

The key management personnel of British American Tobacco consist of the members of the Board of Directors of British American Tobacco p.l.c. and the members of the Management Board. No such person had any material interest during the year in a contract of significance (other than a service contract) with the Company or any subsidiary company. The term key management personnel in this context includes the respective members of their households.

	2013	2012
	£m	£m
The total compensation for key management personnel, including Directors, was:		
- salaries and other short-term employee benefits	**20**	22
- post-employment benefits	**3**	3
- share-based payments	**11**	10
	34	35

There were no other long-term benefits applicable in respect of key personnel other than those disclosed in the Remuneration Report in the Annual Report.

30 Contingent liabilities and financial commitments

The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards.

Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and if the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgment.

There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

General litigation

Product liability litigation

Group companies, notably Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) ("B&W") as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.

Indemnity

On 30 July 2004, B&W completed the combination of the assets, liabilities and operations of its US tobacco business with R.J. Reynolds Tobacco Company ("RJRT"), a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which Reynolds American Inc. was formed (the "Business Combination"). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its US cigarette and tobacco business, subject to specified exceptions, in exchange for a 42% equity ownership interest in Reynolds American Inc.

As a result of the Business Combination, RJRT assumed all liabilities of B&W (except liabilities to the extent relating to businesses and assets not contributed by B&W to RJRT and other limited categories of liabilities) and contributed subsidiaries or otherwise to the extent related to B&W's tobacco business as conducted in the United States on or prior to 30 July 2004. In addition, RJRT agreed to indemnify B&W and each of its associates (other than Reynolds American Inc. and its subsidiaries) against, among other matters, all losses (including those arising from Environmental Tobacco Smoke (ETS) claims), liabilities, damages, expenses, judgments, attorneys' fees, etc., to the extent relating to or arising from such assumed liabilities or the assets contributed by B&W to RJRT (the "RJRT Indemnification").

The scope of the RJRT Indemnification includes all expenses and contingent liabilities in connection with litigation to the extent relating to or arising from B&W's US tobacco business as conducted on or prior to 30 July 2004, including smoking and health tobacco litigation, whether the litigation is commenced before or after 30 July 2004 (the "Tobacco Litigation").

Pursuant to the terms of the RJRT Indemnification, RJRT is liable for any possible judgments, the posting of appeal bonds or security, and all other expenses of and responsibility for managing the defence of the Tobacco Litigation. RJRT has assumed control of the defence of the Tobacco Litigation involving B&W, to which RJRT is also a party in most (but not all) of the same cases.

Included in the US litigation section below are all significant cases where B&W and/or a UK company is named as a defendant and all cases where RJRT is named as a defendant as a successor to B&W (the "RJRT Successor Cases"). The RJRT Successor Cases are covered by the RJRT Indemnification.

US litigation

The total number of US product liability cases pending at 31 December 2013 involving B&W was approximately 7,312 (compared to approximately 7,918 in 2012). Of these, 4,243 cases are RJRT Successor Cases. For all of the 7,312 cases involving B&W, British American Tobacco Group companies have the protection of the RJRT Indemnification. As at 31 December 2013, British American Tobacco (Investments) Limited ("Investments") has been served as a co-defendant in one of those cases (compared to one in 2012). No other UK-based Group company has been served as a co-defendant in any US product liability case pending as at 31 December 2013. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases; and other claims.

(a) Medical reimbursement cases

These civil actions seek to recover amounts spent by government entities and other third-party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking.

At 31 December 2013, one US medical reimbursement suit was pending against B&W by an Indian tribe in an Indian tribal court in South Dakota. No other suits are pending against B&W by county or other political subdivisions of the states.

(b) Class actions

At 31 December 2013, B&W was named as a defendant in five separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted through smoking or where classes of tobacco claimants have been certified. If the classes are or remain certified and the possibility of class-based liability is eventually established, it is likely that individual trials will be necessary to resolve any claims by individual plaintiffs. Class action suits have been filed in a number of states against individual cigarette manufacturers and their parent corporations, alleging that the use of the terms 'lights' and 'ultralights' constitutes unfair and deceptive trade practices.

Black is a 'lights' class action filed in November 2000 in the Circuit Court, City of St. Louis, Missouri. B&W removed the case to the US District Court for the Eastern District of Missouri on 23 September 2005. On 25 October 2005, the plaintiffs filed a motion to remand, which was granted on 17 March 2006. On 16 April 2008, the court stayed the case pending US Supreme Court review in Good v. Altria Group, Inc. On 28 June 2011, the court issued a memorandum removing the case from the trial docket.

Howard is a 'lights' class action filed in February 2000 in the Circuit Court, Madison County, Illinois. A judge certified a class on 18 December 2001. On 6 June 2003, the trial judge issued an order staying all proceedings pending resolution of Price v. Philip Morris, Inc., a 'lights' class action against Philip Morris, Inc. in the Illinois state court. The plaintiffs appealed this stay order to the Illinois Fifth District Court of Appeals, which affirmed the Circuit Court's stay order on 19 August 2005. There is currently no activity in the case.

Jones is a case filed in December 1998 in the Circuit Court, Jackson County, Missouri. The defendants removed the case to the US District Court for the Western District of Missouri on 16 February 1999. The action was brought by tobacco product users and purchasers on behalf of all similarly situated Missouri consumers. The plaintiffs allege that their use of the defendants' tobacco products has caused them to become addicted to nicotine. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. The case was remanded to the Circuit Court on 17 February 1999. There has been limited activity in this case.

Parsons is a case filed in February 1998 in the Circuit Court, Ohio County, West Virginia. The plaintiff sued asbestos manufacturers and US cigarette manufacturers, including B&W, seeking compensatory and punitive damages (US$1 million individually and an unspecified sum for the class) for alleged personal injuries arising from their exposure to respirable asbestos fibres and cigarette smoke. The case has been stayed pending a final resolution of the plaintiffs' motion to refer tobacco litigation to the judicial panel on multidistrict litigation filed in In Re: Tobacco Litigation in the Supreme Court of Appeals of West Virginia. Moreover, Parsons has been stayed pursuant to the Bankruptcy Code because three defendants filed bankruptcy petitions on 26 December 2000.

Young is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana. The plaintiffs brought an Environmental Tobacco Smoke ("ETS") class action on behalf of all residents of Louisiana who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes which were manufactured by the defendants, and who allegedly suffered injury as a result of that exposure. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. On 13 October 2004, the trial court stayed this case pending the outcome of appellate review in the Scott class action in Louisiana. With appellate review completed and final judgment entered in the Scott class action, the trial court granted the plaintiffs' request to continue the stay of this action during the implementation of the Scott smoking cessation program on 6 March 2013.

In Engle (a case in Florida), a jury awarded a total of US$12.7 million to three class representatives, and in a later stage of the three-phase trial procedure adopted in this case, a jury assessed US$17.6 billion in punitive damages against B&W. On 21 May 2003, the intermediate appellate court reversed the trial court's judgment and remanded the case to the trial court with instructions to de-certify the class; this was upheld on 6 July 2006. Further, the Florida Supreme Court permitted the judgments entered for two of the three Engle class representatives to stand, but dismissed the judgment entered in favour of the third Engle class representative. Finally, the Florida Supreme Court permitted putative Engle class members to file individual lawsuits against the Engle defendants within one year of the court's decision (subsequently extended to 11 January 2008).

Engle progeny cases, as at 31 December 2013:

	Engle progeny cases in which B&W has been served (both state and federal courts in Florida)	Engle progeny cases in which RJRT is named as a successor to B&W
Number of cases	43	4,229
Number of plaintiffs	99	5,104

Phase three trials of individual Engle class members, as at 31 December 2013:

	Additional Phase 3 Engle trials naming RJRT as successor to B&W proceeding to verdict
Total number of trials	52
Number of trials resulting in plaintiffs' verdicts	31
Total damages awarded in final judgments against RJRT as successor to B&W (approximately)	US$150,510,671
Amount of overall damages comprising 'compensatory damages' (approximately)	US$72,860,671 (of overall US$150,510,671)
Amount of overall damages comprising 'punitive damages' (approximately)	US$77,650,000 (of overall US$150,510,671)
Number of adverse judgments appealed by RJRT	30 *
Number of adverse judgments (not yet appealed), in which RJRT still has time to file an appeal	0

* Of the 30 adverse judgments appealed by RJRT, nine were decided and/or closed, and 21 appeals remain undecided. In one of the appeals that was decided, the Florida intermediate appellate court affirmed the liability finding but vacated the damages award and remanded the matter to the trial court. In two of the appeals that were decided, the Florida intermediate appellate courts reversed the final

judgment and remanded the matter to the trial court for a new trial on all issues. In another four appeals that were decided, the Florida intermediate appellate courts affirmed final judgments in favour of plaintiffs. In the final two appeals, RJRT has paid damages to the plaintiffs (in one: actual damages of US$450,000 and costs/fees/interest of US$2,390,011; in the other: damages of US$304,575) and the cases have been closed.

In June 2009, the Florida legislature amended its existing bond cap statute by adding a US$200 million bond cap that applies to all Phase 3 Engle progeny cases in the aggregate and establishing individual bond caps for individual cases in amounts that vary depending on the number of judgments in effect at a given time. In May 2011, Florida removed the provision in this legislation that would have permitted this bond cap to expire on 31 December 2012. Plaintiffs in several Engle progeny cases have unsuccessfully challenged the constitutionality of the bond cap. One of these appellate courts has since certified to the Florida Supreme Court the question of whether the bond cap violates the Florida Constitution. The Florida Supreme Court accepted jurisdiction over the issue of the constitutionality of the bond cap on 23 January 2012. On 31 August 2012, the Florida Supreme Court entered an order dismissing this case based on RJRT's mootness argument. Plaintiff subsequently moved for a rehearing. On 12 October 2012, the Florida Supreme Court denied plaintiff's motion. Plaintiff did not file a petition for writ of certiorari to the United States Supreme Court.

(c) Individual cases

	As at:	**Total number of cases**		
Cases pending against B&W which were filed by or on behalf of individuals and in which it is contended that diseases or deaths have been caused by cigarette smoking or by exposure to ETS	31 December 2012	3,074		
	31 December 2013	3,063	2,572	ETS cases brought by flight attendants who were members of a class action ("Broin") that was settled on terms that allow compensatory but not punitive damages claims by class members
			396	Cases brought in consolidated proceedings in West Virginia, where the first phase of the trial began on 15 April 2013 and on 15 May 2013 the jury returned a verdict for defendants on all but one of plaintiffs' claims;the verdict is currently on appeal
			43	Engle progeny cases that have been filed directly against B&W (please see earlier table on page 186)
			52	Cases filed by other individuals

In addition to the 4,229 Engle progeny cases which name RJRT as successor to B&W, there are 14 cases filed by other individuals naming RJRT as successor to B&W. These cases are subject to the RJRT Indemnification and are not detailed here.

Of the individual cases that remain pending as at 31 December 2013, one resulted in a verdict against B&W. In February 2005, a Missouri jury ("Lincoln Smith") awarded US$500,000 in compensatory damages and US$20 million in punitive damages against B&W. Following B&W's appeal, on 31 July 2007, an intermediate appellate court affirmed the compensatory damages award and reversed the punitive damages award, reasoning that the plaintiffs failed to produce sufficient evidence to justify the verdict. Following a transfer to the Missouri Supreme Court and a subsequent remand by that court, the intermediate appellate court on 16 December 2008 again upheld the award of compensatory damages, reversed the jury's award of US$20 million in punitive damages, and ordered a new trial on punitive damages. On 20 August 2009, a Missouri jury awarded US$1.5 million in punitive damages against B&W. On 24 September 2009, B&W filed a motion for a new trial and a motion for judgment notwithstanding the verdict. On the same date, the plaintiffs filed a motion for additur, seeking to increase the punitive damages award to US$20 million, and a motion to vacate, modify or set aside judgment, or in the alternative, for a new trial.

On 21 December 2009, the court denied the plaintiffs' and B&W's post-trial motions. After an initial oral argument on both parties' appeals in September 2011, the intermediate appellate court ordered the parties to reargue the case en banc. On 2 October 2012, the intermediate appellate court reversed the jury's award of punitive damages on the grounds that the trial court had exceeded the scope of its mandate, and remanded for a new trial solely to determine the amount of punitive damages. On 30 October 2012, the intermediate appellate court denied B&W's application for transfer to the Missouri Supreme Court, and overruled B&W's motion for rehearing. B&W filed in the Missouri Supreme Court an application for transfer to that court on 14 November 2012. This application was granted on 18 December 2012. On 10 September 2013, the Missouri Supreme Court affirmed the judgment of the circuit court. B&W filed a motion for rehearing on 25 September 2013, and that motion was overruled by the Missouri Supreme Court on 29 September 2013. On 7 November 2013, the court approved a confidential settlement.

(d) Conduct-based claims

In the Daric Smith case, purchasers of cigarettes in the state of Kansas brought a class action in the Kansas State Court against B&W, Investments and certain other tobacco companies seeking injunctive relief, treble damages, interest and costs. The allegations are that the defendants participated in a conspiracy to fix or maintain the price of cigarettes sold in the US, including in the state of Kansas, in violation of the Kansas Restraint of Trade Act.

After the close of discovery, all defendants, including Investments, moved for summary judgment in late October and early November 2010. On 13 May 2011, Investments supplemented its summary judgment motion on the basis of its de minimis market share and the inapplicability of the Kansas Restraint of Trade Act to a non-resident (such as Investments) that did not purchase, sell or manufacture goods in the state of Kansas.

On 26 March 2012, the court entered an order granting all of the defendants' summary judgment motions and dismissing the plaintiff's first amended petition with prejudice. On 18 July 2012, the plaintiff filed a notice of appeal on various points. On or about 1 August 2012, all defendants filed notices of cross-appeal, with Investments filing its own separate notice of cross-appeal to address, among other issues, various orders denying the defendants' claims of privilege over certain categories of documents during discovery.

The plaintiff filed his appeal on 25 January 2013 and the defendants' opposition and cross-appeal briefs were filed on 29 May 2013. The plaintiff filed his combined reply/response to Investments' cross-appeal on 19 July 2013. Investments filed a reply brief addressing the novel arguments raised in the plaintiff's reply/response relating to Investments' cross-appeal on privilege issues. The Court of Appeals heard oral argument in the case on 11 December 2013.

UK-based Group companies

Investments has been served in the following US cases pending as at 31 December 2013; one class action alleging violations of Kansas antitrust and consumer protection laws, the Daric Smith case mentioned above; and one individual action, the Perry case.

Product liability outside the United States

At 31 December 2013, active product liability claims against the Group's companies existed in 16 markets outside the US (2012:17) but the only markets with more than five claims were Argentina, Brazil, Canada, Italy and Nigeria. As at 31 December 2013, medical reimbursement actions are being brought in Argentina, Brazil, Canada, Nigeria and Spain.

(a) Medical reimbursement cases

Argentina

In 2007, the non-governmental organisation the Argentina Tort Law Association ("ATLA") and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. ("Nobleza") and Massalín Particulares. Several defences were filed by Nobleza on 1 October 2009. Nobleza and the federal government's preliminary objections regarding lack of jurisdiction were considered by the Civil Court in late 2009. On 23 December 2009, the Civil Court declared its lack of jurisdiction to hear the claim. On 11 March 2010, the case was sent to the Contentious-Administrative Court, which determined that it had jurisdiction over the case. On 24 June 2011, the Contentious-Administrative Court issued an Order stating that it would decide defendants' outstanding procedural objections together with the merits of the case.

The case is currently at the evidentiary stage. Confessional hearings took place on 14 August 2013 (Emma Mendoza Voguet) and 29 August 2013 (ATLA). A final decision is not expected before 2015.

Brazil

In August 2007, the São Paulo Public Prosecutor's office filed a medical reimbursement claim against Souza Cruz S.A. ("Souza Cruz"). A similar claim was lodged against Philip Morris. Souza Cruz's motion to consolidate the two claims was rejected and instead this case was removed to a different lower court. Souza Cruz filed a motion to reconsider the refusal for consolidation and an interlocutory appeal against assignment to the lower court. At the same time, the Public Prosecutor filed a motion challenging the connection between the two cases, which argument the State Court of Appeals accepted in August 2010 and ordered the two cases to progress independently. On 4 October 2011, the court dismissed the action against Souza Cruz, with a judgment on the merits. The plaintiff filed an appeal on 9 January 2012 and Souza Cruz filed its counter arguments on 17 February 2012. On 29 September 2012, the case records arrived at the São Paulo Court of Appeals.

On 7 March 2013, the case records returned from the Public Prosecutor's Office with a non-binding unfavourable opinion. On 23 April 2013, the Justices of the 2nd Civil Chamber of the Court of appeals of the State of São Paulo, by unanimous vote (3 to 0), denied the appeal of the Prosecution Office, thereby confirming the favourable Lower Court ruling. In this ruling, the Justices, citing case precedents of the Superior Court of Justice, emphasised: (i) the widespread public knowledge of the risks associated with smoking cigarettes; (ii) the free will of the smokers; (iii) the absence of any defect in the product; (iv) the absence of any duty to provide information on the risks associated with smoking before 1988; and (v) the lawfulness of manufacturing and producing cigarettes. To date, the Public Prosecutor's Office has not filed an appeal.

Canada

In Canada there are nine active statutory actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases. These proceedings name various Group companies as defendants, including the Company, Investments, B.A.T Industries p.l.c. ("Industries"), Carreras Rothmans Limited (collectively the "UK Companies") and Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada. Legislation enabling provincial governments to recover the healthcare costs has been enacted in all 10 provinces and two of three territories in Canada and has been proclaimed in force in nine provinces. The Acts have received Royal Assent in Nova Scotia, Northwest Territories and Nunavut but have yet to be proclaimed into force. Actions have begun against various Group companies, including Imperial, in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan and Prince Edward Island ("PEI"). In Quebec, three Canadian manufacturers, including Imperial, are challenging the enabling legislation; the Quebec Government has commenced an action.

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants and date served	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial. Investments. Industries. Other former Rothmans Group companies.	The underlying medical reimbursement action remains at a preliminary case management stage. Given the prior pendency of the Supreme Court application, and a number of other factors including delay on the part of the plaintiff in producing damages modelling materials, the trial date was adjourned generally and no trial date is currently set.

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants and date served	Current stage
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	Both Imperial and the UK Companies have now filed their defences and document production is underway. The parties are currently engaged in document production further to a consent order endorsed by the court on 6 May 2013. Damages have been quantified at CAN$19 billion. No trial date has been set.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	The UK Companies have all been named as defendants.	On 5–7 November 2012, appeals by the BAT defendants of both the jurisdictional and costs orders were heard by the Court of Appeal.
		Imperial and the UK Companies have all been served.	On 30 May 2013, the Court of Appeal dismissed the appeals and upheld the adverse costs award in respect of the first instance hearing. A motion for leave to appeal that decision to the Supreme Court of Canada was filed in August 2013. The Supreme Court of Canada dismissed the leave application on 19 December 2013. On 22 October 2013, the Court of Appeal issued an endorsement awarding the plaintiff its costs of the appeals. Imperial filed a third-party notice against several native manufacturers claiming contribution and indemnity as well as damages in the amount of CAN$1.5 billion. Imperial also filed a Third Party Claim against the Federal Government claiming malfeasance in public office due to the Government's failure to enforce the law against illicit manufacturers. The Attorney General has indicated its intention to file a Motion to Strike the Claim, but no date has been set for this preliminary motion. Following the Supreme Court of Canada's dismissal of the jurisdiction leave application, the case is under case management. There is a schedule in place for pleadings-related motions, with motions to strike set to be heard from 2–9 June 2014. Damages have been quantified at CAN$50 billion. No trial date has been set.

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants and date served	Current stage
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2006	The UK Companies have all been named as defendants. Imperial and the UK Companies have all been served.	There have been preliminary hearings, including a successful application in January 2012 to strike certain affidavits filed by the plaintiff in opposition to the UK Companies' jurisdiction motions, and a hearing in June 2013 at which, in response to a request of the case management judge, the parties debated the elements of the "legal framework" for a jurisdiction challenge. Judgment in respect of that hearing was issued on 19 December 2013. No further hearings or case management meetings have been scheduled.
Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2012	The UK Companies have all been named as defendants.	This case is at an early case management stage.
		Imperial and the UK Companies have all been served.	The UK Companies challenged the jurisdiction of the Saskatchewan court at a hearing that commenced on 29 April 2013. On 1 October 2013, the court denied the UK Companies' challenges. Leave to appeal this ruling was sought and a hearing was scheduled for 11 December 2013. This hearing was adjourned on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on 19 December 2013. No further case management meetings have been set. Damages have not been quantified by the province. No trial date has been set. Imperial served a motion (which was granted) to defer filing defences until pending jurisdictional challenges have been resolved. There are no discovery motions to date in this jurisdiction.
Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial. Investments. Industries.	Imperial served a motion (which was denied) to defer filing defences until pending jurisdictional challenges have been resolved. Imperial delivered a request for particulars on 30 September 2013. The province filed a response on 16 January 2014.

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants and date served	Current stage
		Other former Rothmans Group companies.	The jurisdiction motions were scheduled to be heard on 25–28 November 2013. This hearing was adjourned on consent of the parties pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on 19 December 2013. No further case management meetings have been set.
			The province has not quantified damages. No trial date has been set.
Alberta	Crown's Right of Recovery Act 2009	Imperial and the UK Companies have all been named as defendants and served.	On 8 August 2012, Imperial was served with the Alberta Medicaid suit. The UK Companies were served on 15 May 2013. The UK Companies informed the plaintiff that they intended to challenge the jurisdiction of the Alberta court.
			A case management judge has been appointed and an initial case management meeting was held on 17 December 2013 at which it was agreed to put preliminary matters on hold pending the outcome of the Supreme Court of Canada leave application in the Ontario jurisdiction challenge. The leave application was dismissed on 19 December. Case management is ongoing.
			Damages have been quantified at CAN$10 billion. No trial date has been set.
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2005	Investments, Industries, and Carreras Rothmans Limited have been named as defendants.	On 25 August 2009, Imperial and the other Canadian manufacturers filed a constitutional challenge to the Quebec Medicaid Legislation. The Quebec Attorney-General (AG) filed a motion to dismiss the constitutional challenge and following a hearing, the Quebec Superior Court dismissed that motion.
		Imperial and the UK Companies have been served.	On 28 January 2011, the Court of Appeal denied the AG's leave application, permitting Imperial's challenge to proceed.
			On 8 June 2012, the Quebec Medicaid suit was served upon Imperial. The Government is seeking CAN$60 billion. On 14 December 2012, Imperial's Motion to stay the Medicaid suit pending the resolution of the constitutional challenge, was heard by the Court and taken under advisement. It was subsequently dismissed.

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
			The Constitutional Challenge was heard on 30 September – 3 October 2013 and judgment remains under reserve. The three UK Companies filed jurisdictional challenges on 15 March 2013 which were heard on 3–5 June 2013. On 4 July 2013, the court denied the jurisdictional objections. Leave to appeal the ruling was refused in a judgment issued by a Court of Appeal judge on 4 October 2013. Defendants' motions for further and better particulars and concerning other pleadings issues were heard on 15 and 22 November and 20 December 2013 and judgment is reserved. A case management judge has been appointed. No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial and the UK Companies	On 15 November 2012, Imperial was served with the PEI Medicaid suit. This case is at a preliminary case management stage. Damages have not been quantified by the province. Motions to challenge jurisdiction were filed and served by the UK Companies on 11 January 2013. A case management judge has been appointed but no date has been set for any case management conference or other hearing.

Nigeria

As at 31 December 2013, six medical reimbursement actions filed by the federal government and five Nigerian states (Lagos, Kano, Gombe, Oyo, Ogun) were pending in the Nigerian courts. British American Tobacco (Nigeria) Limited, BAT and Investments have been named as defendants in each of the cases. The plaintiffs in the six cases seek a total of approximately £44.8 billion in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief. On 13 and 25 May 2010, respectively, the plaintiffs in the Kano and Ogun state cases filed motions for preliminary injunctive relief, seeking, inter alia, orders to restrain the defendants from various alleged marketing and distribution practices including the sale of tobacco products within 1,000 metres of any public places that are predominantly locations for minors. BAT and Investments have filed preliminary objections challenging the jurisdiction of the Nigerian courts over them. On 22 June 2010, the Oyo High Court partially granted BAT's and Investments' preliminary objections and set aside the service of the writ of summons. BAT and Investments appealed the court's order insofar as it denied the remainder of the relief requested, and the Court of Appeal has yet to set a date for hearing of the appeals.

The Federal High Court and the High Courts of Lagos, Kano, Gombe and Ogun states denied the preliminary objections filed by BAT and Investments, and the companies have appealed. High Court proceedings in the Lagos and Kano state cases have been stayed pending the appeals filed by BAT and Investments. In the Gombe and Ogun cases, the High Courts have adjourned proceedings without date. As at 31 December 2013, the appeals filed by BAT and Investments remain pending in the Federal, Lagos, Kano and Gombe cases, and have yet to be heard by the Court of Appeal. On 23 April 2013 and 16 May 2013, the Court of Appeal (Ibadan Judicial Division) issued decisions affirming the Ogun High Court's denial of the preliminary objections filed by BAT, Investments and British American Tobacco (Nigeria) Limited. The companies have appealed the decisions to the Supreme Court of Nigeria.

Spain

In early 2006, the Government of Andalusia and the Andalusian Health Services (hereinafter referred to as the "Junta"), in Spain, filed a medical reimbursement action against the State and tobacco companies (including BAT España S.A.) before the contentious-administrative courts. The State filed preliminary objections to the Junta's claim, with tobacco companies filing supporting briefs. The court upheld these preliminary objections and dismissed the claim in November 2007. The Junta's appeal of this ruling to the Supreme Court was dismissed in September 2009. However, in May 2009, the Junta filed a new contentious-administrative claim with similar allegations. The defendants filed procedural objections, which were rejected by the court.

On 31 May 2013, the court notified BAT España of the commencement of a 20-day period to answer the Junta's claim and produced copies of the documents attached to the statement of claim. BAT España filed its response to the claim by the deadline of 27 June 2013.

By order dated 26 July 2013, the court refused to open the evidence phase of the proceedings. The court accepted the defendants' allegations that the Junta did not fulfil its procedural duty to establish the issues of fact to which the evidence would relate. In October 2013, the court declared the proceedings closed pending its judgment. In a judgment dated 23 December 2013, the court rejected the Junta's claim against the tobacco companies as inadmissible. It is open to the Junta to file an appeal against this judgment before the Supreme Court.

(b) Class actions

Brazil

There are currently three class actions being brought in Brazil. One is also a medical reimbursement claim (São Paulo Public Prosecutor's Office), and is therefore discussed above. A fourth class action recently ended in the affirmance on appeal of a defence judgment, as described below.

In 1995, the Associação de Defesa da Saúde do Fumante ("ADESF") class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the lower civil court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health, notwithstanding an earlier interlocutory order that the São Paulo Court of Appeals had issued, which directed the trial court to allow more evidence to be taken before rendering its decision. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, finding that the lower court had failed to provide the defendants with an opportunity to produce evidence. The case was returned to the lower court for production of evidence and a new judgment. On 19 March 2009, the Lower Civil Court ordered designation of court-appointed medical and advertising experts. The parties submitted questions to these court-appointed experts who subsequently delivered their reports. Each party also provided expert reports commenting on the court-appointed experts' conclusions. On 16 May 2011, the court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. Plaintiffs filed an appeal of the dismissal on 22 July 2011. Souza Cruz filed its response on 5 October 2011. On 10 November 2011, the case records were sent to the Public Prosecutor's Office. On 20 December 2011, the Public Prosecutor's Office presented a non-binding, advisory opinion that rejected most of Souza Cruz's legal defence arguments. The case records were sent to the São Paulo State Court of Appeals and were immediately sent to the Public Prosecutor's office for General Public and Collective Interest.

On 1 March 2012, the case files returned with an unfavourable opinion given by the Public Prosecutor, who advised that the Court should find in favour of the appeal brought by ADESF and thereby fully reverse the appealed judgment. On 6 September 2012, the case was assigned to a new temporary Reporting Justice in the 7th Chamber of Private Law of the São Paulo Court of Appeals, pending reference to a permanent Reporting Justice of the case. On 10 October 2013, a Reporting Justice of the case was designated.

The Brazilian Association for the Defense of Consumers' Health ("Saudecon") filed a class action against Souza Cruz and Philip Morris in the City of Porto Alegre, Brazil, on 3 November 2008. The plaintiff purports to represent all Brazilian smokers whom, it alleges, are unable to quit smoking and lack access to cessation treatments. The plaintiff is seeking an order requiring the named defendants to fund, according to their market share, the purchase of cessation treatments for these smokers over a minimum period of two years. Souza Cruz was served with this complaint on 19 November 2008. On 18 May 2009, the case was dismissed with judgment on the merits. The plaintiffs appealed in August 2009 and Souza Cruz and Philip Morris both responded. On 22 July 2011, the Public Prosecutor's Office issued a non-binding opinion saying that the favourable first instance ruling should be vacated based on procedural issues. On 25 August 2011, the reporting justice of the appellate court rejected the Public Prosecutor's Office's opinion, finding that the trial court ruling should not be nullified. On 1 November 2011, the 9th Chamber of the Rio Grande do Sul State Court of Appeals granted the Public Prosecutor's Office special appeal, ordering the remittance of the case records in the first instance to complete proper notification to the Public Prosecutor's Office of the sentence. On 14 December 2011, the Public Prosecutor's Office filed a special appeal. Souza Cruz's counter arguments were submitted on 10 February 2012. On 28 March 2012, the Rio Grande do Sul State Court of Appeals recognised the applicability of the special appeal and ordered it sent up to the Superior Court of Justice. On 5 June 2013, the Superior Court dismissed the interlocutory appeal filed by the Public Prosecution Office. On 7 June 2013, the case records were sent to 15th Civil Chamber of Rio Grande do Sul State Court of appeals and Justice Angelo Maraninchi Giammakos was designated as Reporting Justice. On 4 July 2013, the case records returned from the Public Prosecutor's Office with a non-binding favourable opinion, based on the free will and awareness of smokers, the fact that the products were not defective, and the lawfulness of manufacturing cigarettes. On 18 December 2013, the Rio Grande do Sul State Court rendered a decision in favour of defendants, based on free will, awareness and lawful activity. The plaintiff's right to appeal has not yet expired.

In 2004, the State of Sergipe instigated a class action seeking compensation for smokers in Sergipe State who purportedly tried to quit smoking. The lower court denied the plaintiffs' request for early relief and determined ANVISA (a federal government health agency) be ordered to join the case as co-defendants. As ANVISA is a federal agency, the case was removed to the federal court where ANVISA successfully argued that it lacked standing to be sued. The claim against ANVISA was dismissed and the federal court sent the case back to the lower state court for proceedings to continue. However, the action was stayed on 18 December 2009 pending a decision by the Superior Court on which court has jurisdiction. On 26 March 2010 the Superior Court determined that the civil court had jurisdiction of the matter. On 19 October 2011, the court dismissed the action with judgment on the merits. The plaintiff filed an appeal on 9 January 2012. Souza Cruz's counter-arguments were submitted on 9 February 2012. The case records were sent to the 1st Chamber of the Sergipe State Court of Appeals, as well as to the Public Prosecutor's Office for it to consider an advisory opinion. On 9 July 2012, the 1st Chamber of the Sergipe State Court of Appeals by unanimous decision upheld the lower court ruling that dismissed the case. Plaintiffs did not file a Special Appeal from this judgment and the case is now closed.

Canada

There are 10 class actions being brought in Canada against Group companies.

Knight is a 'lights' class action in which the plaintiff alleges that the marketing of light and mild cigarettes is deceptive because it conveys a false and misleading message that those cigarettes are less harmful than regular cigarettes. Although the claim arises from health concerns, it does not seek compensation for personal injury. Instead it seeks compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial.

The Supreme Court of British Columbia certified a class of all consumers who purchased in British-Columbia Imperial cigarettes bearing 'light' or 'mild' descriptors since 1974. Imperial filed an appeal against the certification which was heard in February 2006. The appellate court confirmed the certification of the class but has limited any financial liability, if proven, to 1997 onward.

The motion of the federal government to strike out the third-party notice issued against it by Imperial was upheld by the Supreme Court which dismissed the third-party claim on the basis that the federal government's impugned conduct constituted valid policy benefiting public health and was therefore not subject to civil liability.

On 9 December 2009, Imperial was served with a class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board ("Growers' claim"). The plaintiffs allege that, during a specific timeframe, Imperial and two other domestic defendants improperly paid lower prices for tobacco leaf destined for duty-free products that were then smuggled back into Canada and sold in the domestic market. In reaction to the suit, Imperial deposited the amount owing to the Government of Ontario, pursuant to the Comprehensive Agreement, into an escrow account, alleging that the Comprehensive Agreement permitted

Imperial to set-off that amount against costs incurred as a result of the claim (including damages, if any). In response, the Ontario Government commenced an application against Imperial, seeking the release of the funds ("Ontario claim"). No monetary damages are being claimed against Imperial by the Government of Ontario.

On 26 July 2010, Imperial argued a preliminary motion in the Ontario claim seeking a stay in favour of arbitration given an arbitration clause in the Comprehensive Agreement. Imperial was successful in its application and the Court ordered that the Ontario claim be stayed. The Court of Appeal denied the Ontario Government's appeal in July 2011, but also ruled that the question of whether the Growers' Claim constitutes a "Released Claim" under the Comprehensive Agreement must be determined by the courts, thereby splitting the issues. On 2 January 2013, the Court rendered a decision in favour of Ontario and held that the Growers' claim is not a "Released Claim" brought by a "Releasing Entity". On 16 July 2013, the Court of Appeal dismissed Imperial's appeal on whether the Growers' claim is a "Released Claim" made by a "Released Entity", allowing the class action to proceed.

The question of whether Imperial may continue to set-off payments due to Ontario under the Comprehensive Agreement against costs incurred as a result of the Growers' claim remains a live issue and is proceeding to arbitration.

As a further preliminary challenge, Imperial has alleged that the Growers' claim is time barred. The other domestic defendants have made the same preliminary challenge. That preliminary issue was heard by Court on 30 and 31 January 2014. If Imperial is successful, the Growers' claim will be dismissed; if not successful, the action will proceed to a class action certification hearing.

There are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers, which have a combined value of CAN$27 billion plus interest and costs. The court certified two classes, which include residents of Quebec who suffered from lung, throat and laryngeal cancer or emphysema as of November 1998 or developed these diseases thereafter and who smoked a minimum of 15 cigarettes a day for at least five years, and residents who were addicted to nicotine at the time the proceedings were filed and who have since remained addicted. The plaintiffs' application to amend the scope of the definition of the disease and addiction classes was granted on 3 July 2013. In Quebec, there is no right of appeal for a defendant upon certification. The trial in this matter commenced on 12 March 2012 and remains ongoing.

In June 2009, four new smoking and health class actions were filed in Nova Scotia, Manitoba, Saskatchewan and Alberta, against Canadian manufacturers and foreign companies, including the UK Companies and Imperial. In Saskatchewan, a number of the UK Companies have been released from the action. No date has been set for the certification motion hearing. There are service issues in relation to the UK Companies in Alberta and Manitoba.

In July 2010, two further smoking and health class actions in British Columbia were served on Imperial and the UK companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have "smoked a minimum of 25,000 cigarettes". The UK Companies objected to jurisdiction. Subsequently a number of the UK Companies were released from the action. No certification motion hearing date has been set.

In June 2012, a new smoking and health class action was filed in Ontario against the domestic manufacturers and foreign companies, including Imperial and the UK Companies. Imperial was served on 20 November 2012, and the UK Companies were served on 30 November 2012. The claim is presently in abeyance.

Italy

In or about June 2010, BAT Italia was served with a class action filed in the Civil Court of Rome by the consumer association, Codacons, and three class representatives. Plaintiffs primarily asserted addiction-related claims. The class action lawsuit was rejected at the first instance (Civil Court of Rome) and appellate (Rome Court of Appeal) court levels. In July 2012, Codacons filed an appeal before the Italian Supreme Court. BAT Italia filed its answer to the appeal on 13 November 2012. The parties are now waiting for the Supreme Court to schedule a hearing for the discussion of the case.

Venezuela

The Venezuelan Federation of Associations of Users and Consumers filed a class action against the Venezuelan Government seeking regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. On 19 January 2009, C.A Cigarrera Bigott Sucs. ("Cigarrera Bigott") notified the court of its intention to appear as a third party. The court adjourned a public hearing, initially scheduled for 28 July 2009, where Cigarrera Bigott's status as a third party would be determined and parties would present evidence and make arguments. On 16 September 2009, the Venezuelan Republic ordered the court to continue the judicial process.

On 12 April 2011, however, the Constitutional Chamber of the Supreme Court of Justice issued decision number 494, which established the rules for class action procedures. On 5 December 2012 Cigarrera Bigott was admitted as a third party and presented its defences and evidence on 26 February 2013. The parties will now be asked to attend a hearing at the Constitutional Chamber; however, no date for the hearing has yet been scheduled by the Court. On 9 October 2013 ASUSELECTRIC filed a petition requiring the Constitutional Chamber to schedule the hearing.

(c) Individual personal injury claims

As at 31 December 2013, the jurisdictions with the most number of active individual cases against Group companies were, in descending order: Brazil (164), Italy (22), Argentina (20), Canada (5), Chile (4) and Ireland (2). There were a further seven jurisdictions with one active case only.

Non-tobacco related litigation

Flintkote

The Flintkote Company ("Flintkote"), a US company formerly engaged in the production and sale of asbestos-containing products, was included in the acquisition of Genstar Corporation by Imasco Limited in 1986 and became a Group subsidiary following the restructuring of Imasco Limited (now Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada) in 2000. Soon after this acquisition, and as part of the acquisition plan, Genstar Corporation began to sell most of its assets, including the non-asbestos related operations and subsidiaries of Flintkote. The liquidation of Flintkote assets produced cash proceeds and, having obtained advice from the law firm of Sullivan & Cromwell LLP ("S&C") and other advice that sufficient assets would remain to satisfy reasonably foreseeable liabilities, Flintkote's Board of Directors authorised the payment of a dividend of US$170.2 million in 1986 and a further dividend of US$355 million in 1987. In 2003, Imperial divested Flintkote and then, in 2004, Flintkote filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. In 2006, Flintkote, representatives of both the present and future asbestos plaintiffs (collectively, the "Flintkote Plaintiffs"), and certain individual asbestos plaintiffs (the "Hopkins Plaintiffs") were permitted by the Bankruptcy Court to file a complaint in the California State Court against Imperial and numerous other defendants, including a malpractice claim against S&C, for the recovery of the dividends and other compensation under various legal and equitable theories.

Following a multi-day bench trial, the California State Court issued a preliminary decision dismissing the claim against S&C. Before the decision was made final, Flintkote settled with S&C for a nominal sum. All claims and cross-claims in the litigation asserted by or against S&C have now been dismissed. After another series of bench trials, on 6 October 2011, the court issued preliminary orders deciding multiple preliminary issues regarding Flintkote's claims to recover the dividends and Flintkote's claim that Imperial is its "alter ego" for purposes of asbestos liabilities. Among other things, the court has concluded that Flintkote is barred from seeking to recover, under any theory, transfers that occurred after 31 December 1986. The court also concluded that Flintkote has no standing to pursue its claim that Imperial is its alter ego for purposes of asbestos liability, holding that any such claims must instead be pursued by individual asbestos plaintiffs. These rulings were made final on 6 January 2012. Thereafter, the Flintkote Plaintiffs agreed to dismiss certain of their claims, but continue to assert fraudulent conveyance claims and equitable restitution claims, as reflected in Third Amended Complaint filed in January 2013. In August 2013, the Court implemented certain of its earlier decisions by granting summary judgment to Imperial on the plaintiffs' claims to recover the 1987 dividends. The Court also granted summary judgment to Imperial on the plaintiffs' fraudulent conveyance claims that were based on allegations that Flintkote was insolvent at the time of the dividend. Nonetheless, Flintkote continues to pursue claims that effectively seek recovery of the value of 1987 dividend, and those claims will be the subject of further motion practice that is anticipated to occur in 2014. Procedurally, the claims of the Flintkote Plaintiffs are now separated from the claims of the Hopkins Plaintiffs, and it is anticipated that they will be tried separately. Additional discovery and motion practice is expected to occur throughout 2014. The Court has not set a trial date, but a trial on the Flintkote Plaintiffs' claims could occur in late 2014 or early 2015. The alter ego claims of the Hopkins Plaintiffs will not proceed to trial until after the Flintkote claims are concluded.

Fox River

In Wisconsin, the authorities have identified potentially responsible parties ("PRPs") to fund the clean-up of river sediments in the lower Fox River. The pollution was caused by discharges of polychlorinated biphenyls ("PCBs") from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation ("NCR").

As regards the mid and lower portions of the Fox River, in March 2012, the US Government filed a motion in Wisconsin for a preliminary injunction against NCR and Appvion Inc., ("Appvion"), seeking to establish the scope of the clean-up operations to be carried out on the Fox River in 2012. In light of a subsequent ruling by the same court that Appvion is not a PRP, the injunction was granted against NCR alone on 27 April 2012. NCR appealed this decision and it was affirmed on 3 August 2012. Full trial of the merits of the US Government's application for a permanent injunction took place in December 2012 and the Court entered a permanent injunction against NCR. On 1 May 2013, the Wisconsin Court ruled that the pollution in the Fox River is not divisible. As a result of this and other decisions (referred to below), NCR is wholly responsible for the clean-up of those portions of the river. On 28 June 2013, NCR filed a notice of appeal against this judgment, and that appeal is pending in the United States Court of Appeals for the Seventh Circuit.

In a series of rulings, the Wisconsin Court has also held that NCR is not entitled to recover any amounts in contribution from other PRPs and that the other PRPs are entitled to recover Fox River clean-up costs from NCR. Cross-claims by Appvion against other PRPs to recover its own Fox River related expenditures were finally rejected by the Wisconsin Court on 25 June 2013. These orders are on appeal before the United States Court of Appeals for the Seventh Circuit.

A trial took place in Wisconsin in February 2012 to determine whether NCR is also liable for the clean-up costs in the upper portion of the Fox River. This trial addressed whether NCR is liable as a result of the sale, by a predecessor of NCR's Appleton Papers Division, of scrap paper, or "broke", to other PRPs which, in turn, discharged PCBs into the upper portion of the river in the course of recycling the broke. A judgment issued in July 2012 found NCR was not liable on this basis and this order was made final on 27 June 2013. This decision is currently on appeal to the United States Court of Appeals for the Seventh Circuit.

In NCR's Form 10-Q Quarterly Report for the quarterly period ended 30 September 2013, the total clean-up costs for the Fox River are estimated at US$827 million. This estimate is subject to uncertainties and does not include natural resource damages which NCR estimates may range from US$0 to US$246 million (albeit the US Government in one court filing in 2009 indicated that natural resource damages could be as high as US$382 million).

In 1978, a subsidiary of Industries, later known as Appleton Papers Inc. and now known as Appvion, purchased what was then NCR's Appleton Papers Division from NCR. In 1978, Industries also incorporated a US entity by the name of BATUS, Inc. ("BATUS"), which in 1980 became the holding company for all of Industries' US subsidiaries, including Appvion. As the holding company, BATUS obtained insurance policies for itself and its subsidiaries that included coverage for certain environmental liabilities. Industries/BATUS spun off the Appvion business in 1990 via a Demerger Agreement with Wiggins Teape Appleton p.l.c., now known as Windward Prospects Ltd ("Windward"), and Wiggins Teape Appleton (Holdings) p.l.c., now known as Arjo Wiggins US Holdings Ltd (collectively, the "AWA Entities"), obtaining what Industries believes were full indemnities from the AWA Entities and Appvion for past and future environmental claims.

Disputes between NCR, Appvion, and Industries as to the indemnities given and received under the original purchase agreement in 1978 have been the subject of litigation that was commenced in 1995, a settlement agreement effective from 1998 (the "Settlement Agreement"), and an arbitration award in 2005. NCR has taken the position that, under the terms of the Settlement Agreement and the arbitration award, Industries and Appvion generally have an obligation to bear 60% of the Fox River environmental remediation costs imposed on NCR, but Industries has never been required to pay any sums in this regard because, until May 2012, Appvion and the

AWA Entities paid such costs, and the authorities have not identified Industries or BATUS as PRPs. Windward also has a separate and indirect indemnification obligation to Appvion in respect of the clean-up costs.

Subsequent to the preliminary injunction entered and affirmed against NCR in 2012, and by letters dated 3 May 2012, NCR made demands on both Appvion and Industries for payment of the sum of US$6.6 million, stated to be due on a joint and several basis pursuant to the terms of the Settlement Agreement and being 60% of costs paid by NCR so that remedial work could begin in accordance with the preliminary injunction. Appvion refused to pay this sum, whereupon NCR filed a motion in Wisconsin in order to enforce the terms of the Settlement Agreement and arbitration award against Appvion. In a ruling handed down in September 2012 the court declined to enforce the terms of the Settlement Agreement and arbitration award, holding that the amount, of which Appvion is liable to pay 60%, must be ascertained via the dispute resolution provisions of the Settlement Agreement. Industries understands that NCR subsequently invoked the dispute resolution provisions contained in the Settlement Agreement as against Appvion, and on 29 March 2013 commenced an arbitration against Appvion seeking to recover incurred and on-going clean-up costs of at least US$39.9 million (plus interest and legal costs) and a declaration that Appvion is liable to NCR under the Settlement Agreement for 60% of all "Claims, Damages and Group Defence Costs" (as defined in the Settlement Agreement) it will incur. NCR has continued to make payment demands on Appvion since commencing the arbitration and, as at 15 November 2013, was seeking payment of approximately US$80.7 million from Appvion.

Appvion sought to join Industries to the arbitration on the basis it was a necessary party and included a new claim that Industries is liable for 50% of Appvion's past liability and future liability to NCR under the Settlement Agreement. On 8 October 2013, the arbitral panel rejected Appvion's attempted joinder and the arbitration will proceed between NCR and Appvion only.

Industries is aware that Windward settled the majority of Appvion's insurance claims (over which it had control) at what Industries believes constituted a significant discount, and has made dividend payments to its former and current shareholders of approximately US$810 million, leaving it holding, according to its latest accounts, approximately US$70 million of net assets. Accordingly, there may be a greater risk that the assets of Windward are insufficient to meet its obligations under the indemnities Industries believes it has been granted. Appvion's own accounts indicate limited financial resources.

It is possible, although Industries considers it unlikely, that French law could govern some of the claims Industries considers Windward has against its former shareholder, Sequana S.A. ("Sequana"), in relation to the dividend payments, which would mean that the limitation period in respect of those claims could have potentially expired in December 2013. In order to protect its position in the event that French law was held to govern the claims, Industries applied to the English Court on 2 October 2013 to seek to appoint a receiver over the relevant causes of action. Judgment was handed down on 21 November 2013. The judge held that absent an appropriate undertaking from Windward, receivers should be appointed in order to commence the dividend claims in the name of Windward and thereby protect the limitation position.

In addition to taking steps to protect claims which Industries considers Windward has against Sequana, Industries filed its own direct claims seeking to recover the dividend payments from Sequana in both the High Court of Justice of England and Wales (the "High Court") on 9 December 2013 and before the Commercial Court of Nanterre, France, on 13 December 2013.

In December 2011, Windward asserted that it did not indemnify Industries pursuant to the terms of the 1990 Demerger Agreement in respect of Industries' obligations under the Settlement Agreement. Industries disputes Windward's position and has commenced proceedings in the High Court against both Windward and Appvion (which has also denied owing Industries an indemnity). Windward served its defence on 8 July 2013. Appvion has challenged the jurisdiction of the English Court and a hearing took place on 2 and 3 October 2013. Judgment was handed down on 20 December 2013. The Court dismissed Appvion's challenge, holding that the English Court should exercise its jurisdiction to hear the claim. The proceedings are now continuing in the English High Court against both Windward and Appvion. On 12 February 2014, Appvion served a Defence and Counterclaim. The Counterclaim seeks recovery of 50% of Appvion's previous clean-up related payments (alleged to be 50% of US$211.25 million, or US$105.6 million).

While Industries believes it may have defences to any claims brought by NCR against it under the Settlement Agreement and arbitration award, taking into account court decisions and the possibility of appeals, sums paid to date on the clean-up and other available information, Industries believes it may have an exposure of some £267 million (as at 31 December 2013) in relation to clean-up related costs. Accordingly, Industries has retained a provision of £267 million.

Industries is aware that NCR is also being pursued by Georgia-Pacific, as the owner of a facility on the Kalamazoo River in Michigan which released PCBs into that river. Georgia-Pacific has been designated as a PRP in respect of the river. Georgia-Pacific contends that NCR is responsible for, or should contribute to, the clean-up costs, because (i) a predecessor to NCR's Appleton Papers Division sold "broke" containing PCBs to Georgia-Pacific or others for recycling; (ii) NCR itself sold paper containing PCBs to Georgia-Pacific or others for recycling; and/or (iii) NCR is liable for sales to Georgia-Pacific or others of PCB containing broke by Mead Corporation, which, like the predecessor to NCR's Appleton Papers Division, coated paper with the PCB containing emulsion manufactured by NCR. A full trial on liability took place in February 2013. On 26 September 2013, the Michigan Court held that NCR was liable as a PRP on the basis that broke sales constituted an arrangement for the disposal of hazardous material for the purposes of CERCLA. The decision was based on NCR's knowledge of the hazards of PCBs from at least 1969, but the court did not specify directly the entity(ies) whose broke sales form the basis of NCR's liability. NCR will have the ability to appeal the ruling once a final judgment has been entered or it has been otherwise certified for appeal. The second phase of the Kalamazoo trial, scheduled to commence on 28 July 2015, will determine the apportionment of liability among NCR, Georgia-Pacific and the other PRPs (International Paper Company and Weyerhauser Company). Industries anticipates that NCR may seek to recover from Appvion and/or Industries 60% of any Kalamazoo clean-up costs for which it is found liable on the basis, it would be asserted, that the river constitutes a "Future Site" for the purposes of the Settlement Agreement. Industries believes it may have defences to any such claim by NCR. The quantum of the clean-up costs for the Kalamazoo River is presently unclear (as is the extent of NCR's liability in respect of such costs), but could run into the hundreds of millions of dollars.

As detailed above, Industries is taking active steps to protect its interests, including seeking to confirm its indemnities and to procure the repayment of the Windward dividends, with a view to restoring value to Windward and, accordingly, the indemnities it believes were granted to Industries.

General litigation conclusion

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere. If an adverse judgment is entered against any of the Group's companies in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. In any event, with regard to US litigation, the Group has the benefit of the RJRT Indemnification. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in particular quarterly or annual periods could be materially affected by this and by the final outcome of any particular litigation.

Having regard to all these matters, with the exception of Fox River, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation; and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

Tax disputes

The Group has exposures in respect of the payment or recovery of a numbers of taxes. The Group is and has been subject to a number of tax audits covering, among others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense.

The following matters may proceed to litigation:

Brazil

The Brazilian Federal Tax Authority has filed two claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The first reassessment was for the years 2004–2006 in the sum of R$476 million (£122 million) to cover tax, interest and penalties. The second reassessment was for the years 2007 and 2008 in the amount of R$244m (£62 million) to cover tax, interest and penalties.

Souza Cruz appealed both reassessments and the matters are at the second tier administrative appeal process. Regarding the first assessment the Souza Cruz appeal was rejected although the written judgment of that tribunal is still awaited. The appeal against the second assessment was upheld at the second tier tribunal. There is one further administrative appeal level before the matter enters the judicial system.

Souza Cruz has decided not to participate in the tax amnesty programme (REFIS) announced by the Brazilian Government in 2013.

Canada

The Canada Revenue Agency (CRA) has challenged the treatment of dividend income received by Imperial Tobacco Canada Ltd (ITCAN) from its investments in fellow group subsidiaries. The CRA and provincial tax authorities reassessed ITCAN for the years 2002 to 2005 in the sum of CAN$99 million (£56 million). ITCAN has appealed and paid the sum of CAN$58 million (£33 million) to enable it to pursue the appeal. The CRA has reassessed ITCAN for the years 2006–2009 in the sum of CAN$104 million (£59 million) and has accepted a letter of credit in the amount of CAN$58 million (£33 million) in lieu of payment. The provincial tax authorities are considering reassessments for the years 2006–2009 in the sum of CAN$53m (£30 million) and whether or not to accept letters of credit for CAN$32m (£18 million) in lieu of payment. The matter may proceed to litigation although no court date has yet been set.

South Africa

SARS has challenged the debt financing of British American Tobacco South Africa and reassessed the years 2006–2008 in the sum of R600 million (£35 million). BATSA has appealed the assessments and discussions with the authorities are ongoing.

The Group believes that the Group’s companies have meritorious defences in law and fact in each of the above matters and intends to pursue each dispute through the judicial system as necessary. The Group does not consider it appropriate to make provision for these amounts assessed nor for any potential further amounts which may be assessed in subsequent years.

While the amounts that may be payable or receivable in relation to tax disputes could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group’s financial condition.

Operating leases

Total future minimum lease payments under non-cancellable operating leases comprise leases where payments fall due:

	2013	**2012**
	£m	**£m**
Property		
Within one year	**55**	56
Between one and five years	**114**	126
Beyond five years	**29**	49
	198	231
Plant and equipment		
Within one year	**25**	26
Between one and five years	**40**	37
	65	63

31 Interests in subsidiaries

Subsidiaries with material non-controlling interests

Non-controlling interests principally arise from the Group's listed investments in Brazil (Souza Cruz SA) and Malaysia (British American Tobacco (Malaysia) Berhad) where the Group holds 75% and 50% of the respective listed holding companies. Summarised financial information for these subsidiaries is shown below as required by IFRS 12 *Disclosure of Interests in Other Entities.* As part of the Group's reporting processes, both entities report consolidated financial information for their respective groups which have been adjusted to comply with Group accounting policies which may differ to local accounting practice. Goodwill in respect of Malaysia, which arose as a result of the acquisition of the Rothmans group referred to in note 9, has not been included as part of the net assets below. No adjustments have been made to the information below for the elimination of intercompany transactions and balances with the rest of the Group.

Summarised financial information	Souza Cruz Group		Malaysia Group	
	2013	**2012**	**2013**	**2012**
	£m	**£m**	**£m**	**£m**
Revenue	**1,838**	1,946	**504**	452
Profit for the year	**504**	527	**167**	164
- *Attributable to non-controlling interests*	**126**	130	**84**	82
Total comprehensive income	**388**	457	**167**	164
- *Attributable to non-controlling interests*	**94**	111	**83**	82
Dividends paid to non-controlling interests	**(117)**	(114)	**(81)**	(76)
Summary net assets:				
Non-current assets	**424**	474	**61**	75
Current assets	**1,261**	1,414	**104**	119
Non-current liabilities	**(118)**	(163)	**(7)**	(59)
Current liabilities	**(908)**	(975)	**(152)**	(134)
Total equity at the end of the year	**659**	750	**6**	1
- *Attributable to non-controlling interests*	**181**	207	**3**	1
Net cash generated from operating activities	**588**	597	**166**	151
Net cash used in investing activities	**61**	(28)	**(5)**	(7)
Net cash used in financing activities	**(619)**	(502)	**(165)**	(190)
Differences on exchange	**(63)**	(97)	**(1)**	—
Decrease in net cash and cash equivalents	**(33)**	(30)	**(5)**	(46)
Net cash and cash equivalents at 1 January	**391**	421	**16**	62
Net cash and cash equivalents at 31 December	**358**	391	**11**	16

Other shareholdings

In Principal subsidiary undertakings, the Group discloses that it holds 85% of the equity shares of PT Bentoel Internasional Investama Tbk ('Bentoel'). In 2011, the Group sold 984 million shares, representing approximately 14% of Bentoel's share capital, for the purposes of fulfilling certain obligations pursuant to Bapepam LK (Indonesia) takeover regulations. The Group simultaneously entered into a total return swap on 971 million of the shares. As a consequence of this and for the duration of the swap, while the Group does not have legal ownership of these shares, it retains the risks and rewards which results in the Group continuing to recognise an effective interest in 99% of Bentoel's net assets and results.

B.A.T. International Finance p.l.c.

Group Income Statement
for the year ended 31 December 2014

	2014 £m	2013 £m
Interest income (note 3)	**615**	539
Interest expense (note 4)	**(455)**	(443)
Net commitment fee income (note 5)	**8**	4
Net fair value gains on derivatives and exchange differences (note 6)	**80**	50
Net finance income	**248**	150
Other operating expenses (note 7)	**(4)**	(2)
Profit before taxation	**244**	148
Taxation on ordinary activities (note 8)	**(3)**	(3)
Profit for the year	**241**	145

All the activities during both years are in respect of continuing operations.

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

B.A.T. International Finance p.l.c.

Group Statement of Comprehensive Income
for the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year	**241**	145
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Gains / (losses) on exchange	**53**	(18)
Cash flow hedges		
- reclassified and reported in profit for the year	**1**	—
Total other comprehensive income for the year	**54**	(18)
Total comprehensive income for the year	**295**	127

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

B.A.T. International Finance p.l.c.

Group Statement of Changes in Equity
for the year ended 31 December 2014

	2014				
	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 January 2014	**231**	**(1)**	**172**	**1,074**	**1,476**
Total comprehensive income for the year (page 5)	**—**	**1**	**53**	**241**	**295**
Balance at 31 December 2014	**231**	**—**	**225**	**1,315**	**1,771**

	2013				
	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m
Balance at 1 January 2013	231	(1)	190	929	1,349
Total comprehensive income / (loss) for the year (page 5)	—	—	(18)	145	127
Balance at 31 December 2013	231	(1)	172	1,074	1,476

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

B.A.T. International Finance p.l.c.

Group Balance Sheet
at 31 December 2014

	2014	2013
	£m	£m
Assets		
Cash and cash equivalents (note 9)	**50**	215
Amounts due on demand from fellow subsidiaries (note 10)	**977**	869
Derivative financial instruments (note 11)	**731**	528
Other receivables (note 13)	**14**	11
Loans due from parent undertaking (note 14a)	**3,624**	3,621
Loans due from fellow subsidiaries (note 14b)	**30,049**	27,481
Total assets	**35,445**	32,725
Liabilities		
Bank overdrafts (note 15)	**152**	177
Amounts repayable on demand to parent undertaking (note 16a)	**9,036**	8,024
Amounts repayable on demand to fellow subsidiaries (note 16b)	**14,125**	13,546
Derivative financial instruments (note 11)	**714**	505
Other payables (note 17)	**8**	1
Term deposits repayable to fellow subsidiaries (note 18)	**735**	721
Issued debt (note 15)	**8,904**	8,275
Total liabilities	**33,674**	31,249
Equity		
Share capital	**231**	231
Hedging reserve	**—**	(1)
Translation reserve	**225**	172
Retained earnings	**1,315**	1,074
Total equity (note 19)	**1,771**	1,476
Total equity and liabilities	**35,445**	32,725

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

The financial statements on page 5 to 34 were approved by the Board and signed on its behalf by

Neil Arthur Wadey, Director
25 February 2015

B.A.T. International Finance p.l.c.

Group Cash Flow Statement
for the year ended 31 December 2014

	2014	2013
	£m	£m
Cash flows from operating activities		
Interest receipts	**319**	351
Interest payments	**(449)**	(418)
Net (outflow) on fees	**(2)**	(1)
Other payments	**—**	(1)
	(132)	(69)
(Decrease) / Increase in operating assets and liabilities:		
Net short-term funds inflow from fellow subsidiaries and parent undertaking	**1,483**	4,367
Proceeds from external debt	**981**	1,920
Repayment of external debt	**(369)**	(338)
Movements relating to derivative financial instruments	**63**	42
Net cash (outflow) on loans to fellow subsidiaries	**(2,221)**	(5,796)
Net cash inflow / (outflow) on borrowings from fellow subsidiaries	**51**	(499)
Net cash (outflow) from operating activities	**(144)**	(373)
Gains / (losses) on exchange	**4**	(12)
Net decrease in cash and cash equivalents	**(140)**	(385)
Net cash and cash equivalents at 1 January	**38**	423
Net cash and cash equivalents at 31 December (note 9)	**(102)**	38

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

Notes are shown on pages 9 to 34.

Group Notes on the Accounts

1. Accounting policies

Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments. The presentation of the Group balance sheet is based on liquidity.

The preparation of the Group financial statements requires management 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 relate to calculation of fair value assets and liabilities using exchange rates and market expectations of future interest rates as at the balance sheet date. These are set out in the accounting policies below, together with the related notes on the accounts.

Due to the nature of the entity, investing and financing activities are captured as part of operating activities within the Group cash flow statement.

Basis of consolidation

The consolidated financial information includes the financial statements of B.A.T. International Finance p.l.c. and its subsidiary undertakings.

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

The functional currency of the Group is sterling and this is also the presentation currency of the Group.

The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling at average rates of exchange in each year, provided that the average rate approximates the exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at rates of exchange at the end of each year.

The differences between retained profits of foreign currency subsidiary undertakings translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of foreign currency net assets at the beginning of the year. Any differences that have arisen since 1 January 2004 are presented as a separate component of equity. As permitted under IFRS 1, any differences prior to that date are not included in this separate component of equity. Where a disposal of an investment in a Group undertaking results in a loss of control of a subsidiary undertaking, the cumulative amount of the related foreign exchange differences deferred in the separate component of equity are recognised in the income statement when the gain or loss on disposal is recognised. These related exchange differences comprise the exchange differences on all amounts deemed to be part of the net investment in the undertaking, which are recycled to the income statement when a disposal occurs.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency assets and liabilities at year end rates of exchange are recognised in the income statement, except when deferred as qualifying cash flow hedges in the hedging reserve, on intercompany net investment loans and qualifying net investment hedges in the translation reserve.

Accounting for income

As a financing vehicle, the Group's primary sources of income comprise interest on loans to fellow subsidiaries and net fee income. These are recognised on an effective interest rate method, and all income is only recognised to the extent that it is considered to be collectable.

Net fee income comprises commitment fees received in respect of undrawn revolving credit facilities provided to fellow subsidiaries, and commitment fees paid in respect of revolving credit facilities provided by external banks.

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 substantially enacted at the balance sheet date in the countries where the Group operates and generates taxable income.

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. Deferred tax is provided on temporary differences arising on investments in Group undertakings, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future. 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 income statement 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.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

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 either 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; and
- Cash and cash equivalents: 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. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are shown as a separate category in the liabilities section on the Balance Sheet.

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. Such evidence might include financial difficulties of the counterparty, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable.

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:

- 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 income statement. The accumulated gains and losses are reclassified to the income statement in the same period as the hedged item;
- for derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;
- for derivatives that are designated as hedges of net investments in foreign currency operations, 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 income statement. Where non-derivatives, such as foreign currency borrowings, are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are recognised in the income statement when the foreign currency operation is disposed of; and
- 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 income statement in the period in which they arise.

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each reporting date 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 income statement 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 income statement.

Segmental analysis

Senior management of the BAT Group Treasury function, including the BAT Group Treasurer, who is also a Director of the Company, are identified as the chief operating decision maker (CODM), and are responsible for managing within an overall policy framework, the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group is the central vehicle used by BAT Group Treasury for managing these risks. The Group does not report segment information internally as the Group is managed by senior management of the BAT Group Treasury function as a single segment entity in the context of the BAT Group as a whole.

The prices agreed between Group companies, and with BAT Group entities, for intra-BAT Group loans and borrowings, and charges for such are based on normal commercial practices which would apply between independent businesses.

Dividends

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are payable.

Future changes to Group accounting policies

Certain changes to IFRS will be applicable to the Group financial statements in future years. Set out below are those which are considered to be most relevant to the Group.

IFRS 9 *Financial Instruments*. This standard was finalised and published in July 2014 as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. Further due diligence will be carried out before implementation, but the anticipated impact from restatement on the Group's reported profit and equity for 2014 and 2013 is not expected to be material.

All financial assets, including assets currently classified under IAS 39 as available-for-sale and loans and other receivables, should be measured at fair value through profit and loss unless the assets are permitted to be held at amortised cost, or at fair value through other comprehensive income. The classification of financial assets and their subsequent accounting will be determined by the application of dual tests examining the contractual cash flow characteristics of the financial instruments and the Group's business model for managing the assets. Where the fair value option for certain financial liabilities is applied, the portion of fair value changes representing own credit risk would be recognised through other comprehensive income rather than the income statement. However, the Group does not use the fair value option for financial liabilities and carries debt at amortised cost.

For financial assets carried at amortised cost (including loans and other receivables such as trade debtors), impairment losses including an estimate of initial credit risk should be recognised under the "expected loss model" rather than the "incurred loss model" of IAS 39.

The requirements for general hedge accounting seek to better align hedge accounting with the risk management activities of an entity by removing or amending some of the rules within IAS 39. While the flexibility within the new requirements might allow companies to apply hedge accounting where previously they would not have been able to, the Group does not anticipate any material changes arising from these requirements.

The Standard is largely retrospective in application. Subject to EU endorsement, the expected mandatory effective date of implementation is 1 January 2018.

In addition, a number of other interpretations and revisions to existing standards have been issued which will be applicable to the Group's financial statements in future years, but will not have a material effect on reported profit or equity or on the disclosures in the financial statements.

2. Segmental reporting

As the Company is the central financing vehicle for the BAT Group and is domiciled in the UK, all income other than interest on cash and cash equivalents is earned from counterparties within the BAT Group. Interest on cash and cash equivalents of **£1 million** (2013: £2 million) comprises **£1 million** (2013: £1 million) from money market funds and **£nil** (2013: £1 million) from bank current accounts.

Interest income from cash and cash equivalents attributable to the UK is **£1 million** (2013: £2 million) and **£nil** (2013: £nil) attributable to foreign countries.

IFRS 8 considers a group of entities under common control as a single customer. **£66 million** (2013: £66 million) of interest income is generated from the parent undertaking and **£548 million** (2013: £471 million) from fellow subsidiaries controlled directly or indirectly by the parent undertaking, British American Tobacco p.l.c..

3. Interest income

	2014 £m	2013 £m
Interest income		
From the parent undertaking	**66**	66
From fellow subsidiaries	**548**	471
Cash and cash equivalents	**1**	2
	615	539

4. Interest expense

	2014 £m	2013 £m
Interest expense		
Commercial paper	**—**	1
Bank borrowings	**7**	5
Issued debt	**388**	396
	395	402
To the parent undertaking	**17**	12
To fellow subsidiaries	**43**	29
	455	443

5. Net fee income

	2014 £m	2013 £m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**19**	9
Fee expense		
Fees charged on committed borrowing facilities	**(11)**	(5)
	8	4

75% of the fees charged on the committed borrowing facility in 2014 are borne by the Group (2013: 67%), with 25% being borne by fellow subsidiaries (2013: 33%).

6. Net fair value gains on derivatives and exchange differences

	2014 £m	2013 £m
Fair value changes on derivatives comprise:		
Fair value hedging instruments – exchange related movements	**(39)**	13
Fair value hedging instruments – net interest income	**56**	59
Fair value hedging instruments – interest related movements	**140**	(86)
Fair value changes on hedged items	**(131)**	109
Instruments held-for-trading	**(96)**	(13)
Net fair value gains on derivatives	**(70)**	82
Exchange differences	**150**	(32)
	80	50

The Group's borrowings are arranged on both a fixed rate and a floating rate basis and in different currencies. The Group uses a combination of currency and interest rate derivatives to achieve the desired debt profile on a post-hedged basis. The impact from these derivatives, together with the fair value adjustment and exchange differences on the debt are shown within "net fair value gains on derivatives and exchange differences" above whereas the interest expense on the debt is shown within Note 4 "Interest expense".

As such the **£80 million** (2013: £50 million) fair value gain reported within "net fair value gains on derivatives and exchange differences" represents the net impact of the debt and related derivatives and is primarily driven by:

- Net interest income on swaps for the year of **£56 million** (2013: £59 million) to offset the interest expense on issued debt reported within Note 4 "Interest expense"; and

- A gain of **£8 million** (2013: £2 million loss) due to the ineffective portion of fair value hedges and a gain of **£1 million** (2013: £nil gain) from the release of fair value basis adjustments to debt.

Most foreign currency assets and liabilities are maintained in US dollars and euro, which have been translated to sterling at the closing rates on 31 December 2014 of **US$1.5593** and **€1.2886** (2013: US$1.6563 and €1.2020).

7. Other operating expenses

	2014 £m	2013 £m
Other operating expenses	**4**	2

Other operating charges include remuneration of **£164,000** (2013: £167,000) payable to the Company's auditors for the audit of the Group and Company annual financial statements.

The Group has no directly employed employees (2013: nil) and consequently utilises the services of a number of employees whose contracts of service are with fellow subsidiaries, and their remuneration is included in the financial statements of these subsidiaries. An annual management charge is levied from two of these fellow subsidiaries in respect of the cost of employees in the Asia Pacific Treasury Service Centre (Singapore), and in the British American Shared Service Centre (Romania). These charges are included in 'other operating expenses' above.

8. Taxation on ordinary activities

a) Summary of tax

	2014 £m	2013 £m
UK corporation tax		
Comprising:		
- current tax at **21.50%** (2013: 23.25%)	**3**	3
- double tax relief	**(3)**	(3)
Overseas tax comprising:		
- tax on current income	**3**	3
Total current tax expense *(note 8b)*	**3**	3

The Group has not recognised deferred tax assets as there are no deductible temporary differences (2013: £1 million).

b) Factors affecting the tax charge

The standard rate of corporation taxation in the UK changed from 23.0 per cent to 21.0 per cent with effect from 1 April 2014. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 21.50 per cent. The taxation charge differs from the standard 21.50 per cent rate of corporation tax in the UK. The major causes of this difference are listed below:

	2014 £m	2013 £m
Profit before taxation	**244**	148
UK corporation tax at **21.50%** (2013: 23.25%)	**53**	34
Factors affecting the tax rate:		
Permanent differences	**(1)**	—
Temporary differences	**—**	(1)
Overseas taxation	**3**	3
Double tax relief	**(3)**	(3)
BAT Group loss relief claimed for no consideration	**(49)**	(30)
Total current tax expense (*note 8a*)	**3**	3

9. Cash and cash equivalents

	2014 £m	2013 £m
Cash and bank balances	**50**	59
Cash equivalents	**—**	156
	50	215

Cash equivalents comprise short-term deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2014, cash and cash equivalents include **£nil** invested in money market funds (2013: £156 million).

The currency in which cash and cash equivalents are held, are as follows:

	2014 £m	2013 £m
US dollar	**—**	2
UK sterling	**27**	156
Euro	**—**	3
Australian dollar	**8**	—
Romanian leu	**3**	7
Other	**12**	47
	50	215

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts (note 15) and accrued interest, where applicable:

	2014 £m	2013 £m
Cash and cash equivalents as above	**50**	215
Less: bank overdrafts	**(152)**	(177)
Net cash and cash equivalents	**(102)**	38

10. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise unsecured current accounts and cash pooling accounts referred to as In-House Cash (IHC) accounts between fellow subsidiaries and the Group. These are denominated in the following currencies:

	2014 £m	2013 £m
UK sterling	**107**	51
US dollar	**225**	168
Swiss franc	**41**	44
Hong Kong dollar	**96**	94
Euro	**284**	377
Singapore dollar	**8**	36
Australian dollar	**127**	1
New Zealand dollar	**36**	19
Other	**53**	79
	977	869

Amounts due on demand from fellow subsidiaries include amounts of **£nil** (2013: £nil) of interest receivable. There is no material difference between the book value and fair value for amounts due on demand from fellow subsidiaries.

11. Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these assets and liabilities under the IFRS 13 fair value hierarchy is given in note 12.

	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
Fair value hedges				
Interest rate swaps	**137**	**1**	67	25
Cross-currency swaps	**6**	**1**	6	1
Held-for-trading *				
Cross-currency swaps	**18**	**17**	37	37
Interest rate swaps	**264**	**264**	92	92
Forward foreign currency contracts	**306**	**431**	326	350
	731	**714**	528	505

All balances above relate to derivatives with external parties other than those disclosed in note 21.

* Some derivative financial instruments are not designated as hedges and are required to be classified as held-for-trading.

The maturity dates of all derivative financial instruments as recognised in the balance sheet are as follows:

	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
Within one year	**282**	**268**	331	325
Between one and two years	**40**	**40**	19	(3)
Between two and three years *	**35**	**174**	37	37
Between three and four years	**—**	**—**	34	41
Between four and five years	**52**	**—**	—	—
Beyond five years	**322**	**232**	107	105
	731	**714**	528	505

* Derivative liabilities above include certain interest rate swaps maturing in 2017 with a combined fair value of **£33 million**, where the contracting parties hold the right to exercise mutual break-up clauses on 29 June 2015 and 7 July 2015.

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross-settled derivative financial instruments are as follows:

	2014 Assets Inflow £m	2014 Assets Outflow £m	2014 Liabilities Inflow £m	2014 Liabilities Outflow £m
Within one year				
- Cross-currency swaps	**21**	**(29)**	**19**	**(6)**
- Forward foreign exchange contracts	**6,493**	**(6,243)**	**5,292**	**(5,529)**
Between one and two years				
- Cross-currency swaps	**388**	**(356)**	**344**	**(373)**
- Forward foreign exchange contracts	**512**	**(489)**	**489**	**(512)**
Between two and three years				
- Cross-currency swaps	**18**	**(16)**	**1**	**(4)**
- Forward foreign exchange contracts	**49**	**(46)**	**1,714**	**(1,885)**
Between three and four years				
- Cross-currency swaps	**18**	**(17)**	**1**	**(5)**
Between four and five years				
- Cross-currency swaps	**47**	**(45)**	**1**	**(5)**
Beyond five years				
- Cross-currency swaps	**499**	**(555)**	**209**	**(219)**
	8,045	**(7,796)**	**8,070**	**(8,538)**

	2013			
	Assets		Liabilities	
	Inflow	Outflow	Inflow	Outflow
	£m	£m	£m	£m
Within one year				
- Cross-currency swaps	5	(18)	36	(15)
- Forward foreign exchange contracts	6,434	(6,130)	6,166	(6,485)
Between one and two years				
- Cross-currency swaps	6	(18)	36	(18)
- Forward foreign exchange contracts	341	(323)	323	(341)
Between two and three years				
- Cross-currency swaps	400	(344)	361	(418)
Between three and four years				
- Cross-currency swaps	1	(1)	18	(23)
- Forward foreign exchange contracts	—	—	1,414	(1,452)
Between four and five years				
- Cross-currency swaps	1	(1)	18	(25)
Beyond five years				
- Cross-currency swaps	31	(27)	553	(600)
	7,219	(6,862)	8,925	(9,377)

The maturity dates of net-settled derivative financial instruments are as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	Inflow/ (Outflow)	Inflow/ (Outflow)	Inflow/ (Outflow)	Inflow/ (Outflow)
	£m	£m	£m	£m
Within one year	**71**	**(29)**	50	8
Between one and two years	**82**	**(51)**	29	(3)
Between two and three years	**71**	**(49)**	14	(4)
Between three and four years	**51**	**(34)**	14	(14)
Between four and five years	**44**	**(30)**	9	(12)
Beyond five years	**85**	**(72)**	55	(111)
	404	**(265)**	171	(136)

The above maturity analysis comprises the Group's interest rate swaps and non-deliverable forwards.

In summary by type, the fair values of derivative financial instruments are as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Interest rate swaps	**401**	**265**	159	117
Cross-currency swaps	**24**	**18**	43	38
Forward foreign currency contracts	**306**	**431**	326	350
	731	**714**	528	505

(a) Interest rate swaps

	Note	Maturity date	Principal Currency	m	£m	Interest rate Original	Interest rate Swapped	2014 Assets £m	2014 Liabilities £m
Fixed — floating									
	A	2017	USD	600	385	2.1	*Note (a)*	—	**1**
		2017	EUR	600	466	3.7	*Note (a)*	**32**	—
	A	2019	GBP	250	250	6.4	*Note (a)*	**48**	—
		2020	EUR	600	466	4.0	*Note (a)*	**70**	—
	A	2020	GBP	650	650	4.0	*Note (a)*	**27**	—
		2021	EUR	600	466	3.1	*Note (a)*	**34**	—
	A	2022	USD	900	577	3.3	*Note (a)*	**2**	—
		2023*	EUR	750	582	2.8	*Note (a)*	**68**	—
		2023	EUR	750	582	2.4	*Note (a)*	**60**	—
	A	2025	EUR	650	504	2.8	*Note (a)*	**60**	—
Floating — fixed									
		2017	EUR	600	466	*Note (a)*	3.7	—	**32**
		2020	EUR	600	466	*Note (a)*	4.0	—	**70**
		2021	EUR	600	466	*Note (a)*	3.1	—	**34**
		2023*	EUR	750	582	*Note (a)*	2.8	—	**68**
		2023	EUR	750	582	*Note (a)*	2.4	—	**60**
								401	**265**

	Note	Maturity date	Principal Currency	m	£m	Interest rate Original	Interest rate Swapped	2013 Assets £m	2013 Liabilities £m
Fixed — floating									
	A	2014	GBP	500	500	6.0	*Note (a)*	13	—
	A	2014	GBP	250	250	6.0	*Note (a)*	11	—
	A	2017	USD	600	362	2.1	*Note (a)*	—	1
		2017	EUR	600	499	3.7	*Note (a)*	34	—
	A	2019	GBP	250	250	6.4	*Note (a)*	43	—
		2020	EUR	600	499	4.0	*Note (a)*	47	—
	A	2020	GBP	650	650	4.0	*Note (a)*	—	8
		2023	EUR	750	624	2.4	*Note (a)*	—	4
		2023*	EUR	750	624	2.8	*Note (a)*	—	7
	A	2025	EUR	650	541	2.8	*Note (a)*		16
Floating — fixed									
		2017	EUR	600	499	*Note (a)*	3.7	—	34
		2020	EUR	600	499	*Note (a)*	4.0	—	47
		2023*	EUR	750	624	*Note (a)*	2.8	7	—
		2023	EUR	750	624	*Note (a)*	2.4	4	—
								159	117

Note (a): The floating rate interest rates in 2014 and 2013 are based on LIBOR or EURIBOR plus a margin ranging between 67 and 176 basis points (2013: 35 and 268 basis points).

* The €750 million interest rate swap maturing in 2023 has a start date of 2015.

In both **2014** and 2013, swaps denoted with **A** were used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 30. All other swaps were not designated as hedging instruments.

(b) Cross-currency swaps

	Note	Maturity date	Interest rate (%)	Original Currency (m)	Principal £m	Interest rate (%)	Swapped Currency (m)	Principal £m	2014 Assets £m	2014 Liabilities £m
Fixed — floating										
		2016	5.5	GBP 325	325	*Note (b)*	EUR 473	367	**—**	**17**
	B	2019	4.6	EUR 20	16	*Note (b)*	USD 22	14	**5**	**—**
	B	2021	3.6	EUR 600	466	*Note (b)*	GBP 518	518	**1**	**—**
	B	2021	0.6	CHF 320	207	*Note (b)*	GBP 210	210		**1**
Floating — fixed										
		2016	*Note (b)*	EUR 473	367	5.5	GBP 325	325	**18**	**—**
									24	**18**

	Note	Maturity date	Interest rate (%)	Original Currency (m)	Principal £m	Interest rate (%)	Swapped Currency (m)	Principal £m	2013 Assets £m	2013 Liabilities £m
Fixed — floating										
	B	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	394	—	37
	B	2019	4.6	EUR 20	17	*Note (b)*	USD 22	13	6	—
	B	2021	3.6	EUR 600	499	*Note (b)*	GBP 518	518	—	1
Floating — fixed										
		2016	*Note (b)*	EUR 473	394	5.5	GBP 325	325	37	—
									43	38

Note (b): The floating interest rates in 2014 and 2013 are based on LIBOR, CHF LIBOR, EURIBOR, USD LIBOR plus a margin ranging between 64 and 154 basis points (2013: 82 and 154 basis points).

In both **2014** and 2013, swaps denoted with **B** have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 30.

All other swaps have been entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 on page 30.

(c) Forward foreign currency contracts

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions, as well as the hedging of internal and external assets and liabilities.

Forward foreign currency contracts are denominated in the following currencies:

	2014 Asset £m	2014 Liability £m	2013 Asset £m	2013 Liability £m
GBP/EUR	**38**	**—**	19	1
GBP/AUD	**19**	**—**	69	—
GBP/ZAR	**—**	**1**	17	—
GBP/JPY	**22**	**—**	—	—
GBP/USD	**—**	**63**	63	—
EUR/USD	**—**	**46**	18	—
EUR/GBP	**—**	**153**	1	21
JPY/GBP	**—**	**22**	—	2
JPY/USD	**—**	**43**	—	83
USD/EUR	**46**	**—**	—	18
USD/GBP	**63**	**—**	—	64
USD/JPY	**43**	**—**	83	—
ZAR/GBP	**1**	**—**	—	17
Others	**74**	**103**	56	144
	306	**431**	326	350

Certain contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 15 on page 30, and their nominal values are as follows:

	2014		2013	
	Sell	Purchase	Sell	Purchase
	£m	£m	£m	£m
Forward contracts to purchase CHF, sell GBP	**228**	**(223)**	—	—
Forward contracts to purchase GBP, sell CHF	**—**	**—**	225	(226)
Forward contracts to purchase GBP, sell CAD	**202**	**(204)**	207	(211)
Forward contracts to purchase GBP, sell USD	**192**	**(192)**	181	(187)
Forward contracts to purchase GBP, sell EUR	**75**	**(76)**	124	(125)
Forward contracts to purchase EUR, sell DKK	**339**	**(339)**	313	(313)
Forward contracts to purchase EUR, sell NOK	**128**	**(137)**	149	(150)
Forward contracts to purchase EUR, sell SEK	**114**	**(116)**	131	(129)
Forward contracts to purchase EUR, sell GBP	**1,694**	**(1,540)**	1,452	(1,414)
Forward contracts to purchase NOK, sell GBP	**143**	**(128)**	164	(149)

12. Management of financial risks

One of the principal responsibilities of the Company is to manage the financial risks arising from the BAT Group's underlying operations. Specifically, Treasury manages, within an overall policy framework set by the BAT Group's Main Board and Corporate Finance Committee ('CFC'), the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The overall BATIF Group Treasury position is monitored by the CFC, which meets regularly throughout the year and is chaired by the BAT Group Finance Director.

Given the nature of the Group's activities, the Group is managed in accordance with BAT Group Treasury policies and procedures. These policies and procedures include a set of financing principles, including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed. The Group defines capital as equity (see note 19) and net debt which is defined as external borrowings, including derivatives in respect of debt, less cash and cash equivalents. The Group's net debt balances, which are managed as part of the BAT Group's net debt, are as follows:

	2014	2013
	£m	£m
Borrowings — bank overdrafts and issued debt (note 15)	**9,056**	8,452
Derivatives in respect of debt:		
- Assets	**(450)**	(221)
- Liabilities	**432**	197
Cash and cash equivalents (note 9)	**(50)**	(215)
	8,988	8,213

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's balance sheet and related notes.

The Group's management of specific risks is dealt with as follows:

Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the BAT Group, and to obtain this financing from a wide range of providers. The BAT Group has a target average centrally managed debt maturity of at least five years with no more than twenty per cent of centrally managed debt maturing in a single rolling year. The debt held by the Group is part of the BAT Group's centrally managed debt and is therefore not managed to separate targets. As at 31 December 2014, the average debt to maturity of the Group was **6.7 years** (2013: 7.9 years) and the highest proportion of total issued debt maturing in a single rolling year was **18.6 per cent** (2013: 18.4 per cent).

At 31 December 2014, commercial paper of £160 million was outstanding (2013: £521 million).

In September 2014, the Group signed a one year bridge facility of US$4.7 billion with an extension option of up to one year on behalf of BAT Group for their proposed investment in Reynolds American Inc This facility was undrawn as at 31 December 2014.

In September 2014, the Group issued a new CHF 350 million bond with a maturity of 2016; a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018.

In December 2013, the Company repaid a £152 million bond.

In November 2013, the Company repaid a $300 million bond.

In September 2013, the Company issued a new £650 million bond with a maturity of 2026.

In March 2013, the Company issued a new €650 million bond with a maturity of 2025 and a new $300 million bond with a maturity of 2016.

The Group ensures that there is flexibility in funding arrangements with fellow subsidiaries by providing short-term facilities or early repayment rights.

In May 2014, the Group negotiated a new central banking facility of £3 billion with a final maturity of May 2019 (with two additional one-year extensions at the option of the banks). This facility is provided by 22 banks. The new facility is on significantly improved terms compared to the previous central banking facility of £2 billion, with a maturity of December 2015, which was cancelled at the same time. The new facility was undrawn as at 31 December 2014 (2013: undrawn).

It is Group policy that short-term sources of funds (including drawings under both the US$2 billion programme and the £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash.

As the Group is the principal central financing vehicle for the BAT Group, it is used to mobilise cash for the BAT Group through participation in cash pooling and zero balancing bank account structures with fellow subsidiaries.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2014, cash and cash equivalents include **£nil** (2013: £156 million) invested in money market funds.

Although term deposits repayable to fellow subsidiaries as shown in note 18 fall due within one year, they are typically renewed subject to the funding requirements of the counterparty. Loans to fellow subsidiaries, subsidiary companies and the parent undertaking are made on commercial terms. All contractual borrowing covenants have been met and none of them are expected to inhibit the Group's operations or funding plans.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, sterling. Lending and borrowing activities with fellow subsidiaries are usually in the currency of the counterparty resulting in primary balance sheet translation exposures to the US dollar, euro, Canadian dollar, and Danish krone. These exposures are kept under continuous review and the Group's policy is to minimise all balance sheet translation exposure where it is practical and cost effective to do so through matching of currency assets with currency borrowings. At 31 December 2014, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **25 per cent** (2013: 30 per cent) US dollar, **10 per cent** (2013: 9 per cent) euro, **56 per cent** (2013: 50 per cent) sterling, **2 per cent** (2013: 3 per cent) Canadian dollar, **4 per cent** Danish krone (2013: 4 per cent), and **3 per cent** (2013: 4 per cent) other currencies.

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries; these exposures are not normally hedged.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held by the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. All financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10 per cent strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

The Group hedges substantially all of its financial currency exposures not denominated in the functional currency either economically or through use of derivative contracts. This mitigates the sensitivity of fluctuations in the underlying exchange rates. As a result a 10 per cent strengthening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2013: no material change to pre-tax profit). A 10 per cent weakening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2013: no material change to pre-tax profit).

A 10 per cent change in exchange rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group and to safeguard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

The BAT Group has an externally imposed capital requirement in respect of its centrally managed banking facilities, which requires a gross interest cover of 4.5 times. Although the Company is a joint borrower under these central banking facilities, the requirement is based on the half-yearly group financial statements of British American Tobacco p.l.c.

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group's ratio of fixed to floating rate debt forms part of overall BAT Group debt for which targets are set for the desired ratio of floating to fixed rate debt on both a gross basis and net basis (at least 50 per cent fixed on a net basis in the short to the medium-term) as a result of regular reviews of market conditions and strategy by the CFC and the Board of the Company. At 31 December 2014, the relevant ratios of floating to fixed rate external borrowings were **45:55** (2013: 37:63) on a gross basis and **45:55** (2013: 34:66) on a net basis within the Group. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of interest-bearing financial assets and financial liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analysis, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates as a reasonably possible change except where rates are less than 100 basis points. In these instances, it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being **£31 million** higher (2013: £96 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£35 million** lower (2013: £48 million lower).

A 100 basis point change in interest rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

Credit risk

The Group has no significant concentrations of counterparty credit risk in respect of its external financial assets. As the central financing vehicle for the BAT Group, concentrations of credit risk arise from financial assets due from fellow subsidiaries and the parent undertaking. All loans to fellow subsidiaries, subsidiary companies and the parent are priced on an arm's length basis. To determine the appropriate risk premium, the Group consults, where appropriate, with independent financial institutions who assess the asset base and sovereign risk specific to the relevant counterparty. The Group recognises that the sovereign risk of a fellow subsidiary can be the determining factor of default.

Intercompany counterparties have appropriate capital structures to meet their obligations as they fall due. All loans to fellow subsidiaries, subsidiary companies and the parent undertaking are therefore between parties which have been individually reviewed and are considered to be in a position to continue to meet their obligations.

All external derivatives are subject to ISDA documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group targets a long term counterparty credit rating of at least A-/A3. From time to time, the Group may invest in short dated corporate commercial paper. For this, the Group has identified specific counterparties with a minimum short-term rating of A1/P1.

External counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of bank counterparties are reviewed regularly. The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions.

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group balance sheet. In addition, the Group provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2014 is **£5,802 million** (2013: £2,376 million). Guarantees provided to third parties are shown in note 20 on page 33.

Price risk

At 31 December 2014 and 31 December 2013, the Group's financial instruments are not sensitive to price risk.

Hedge accounting

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

Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the balance sheet, the basis for fair values is described below.

Fair value hierarchy

In accordance with the IFRS 13 classification hierarchy, all derivatives held by the Group at 31 December 2014 and 31 December 2013, fall within Level 2. Level 2 financial instruments are not traded in an active market but the fair values are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency. Level 2 financial instruments include OTC derivatives.

Netting arrangement of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group Balance Sheet, together with the Group's right of offset associated with recognised financial assets and recognised financial liabilities, subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	2014			2013		
	Amount presented in the Group balance sheet	Related to amounts not offset in the Group balance sheet	Net amount	Amount presented in the Group balance sheet	Related to amounts not offset in the Group balance sheet	Net amount
	£m	£m	£m	£m	£m	£m
Financial Assets						
- Derivative Financial Instruments (note 11)	**731**	**(369)**	**362**	528	(205)	323
Financial Liabilities						
- Derivative Financial Instruments (note 11)	**(714)**	**369**	**(345)**	(505)	205	(300)

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trade derivatives.

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transaction and amounts owed to it by the defaulting party. If that sum exceeds the amount owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

13. Other receivables

	2014	2013
	£m	£m
Prepayments and accrued income:		
Due from fellow subsidiaries	**6**	6
Other	**8**	5
	14	11

Within the 'other' category of other receivables are prepaid facility fees of **£5 million** (2013: £2 million), which relate to periods which fall beyond one year.

The currency profile of other receivables is **£13 million** (2013: £9 million) sterling and **£1 million** (2013: £2 million) US dollar.

All amounts are unsecured and interest free. Due to their short-term nature, there is no material difference between the book values and fair values of all amounts due from fellow subsidiaries included above as determined using discounted cash flow analysis.

14a. Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2014 of **£3,624 million** fall due within two to three years (2013: £3,621 million within three to four years) and are unsecured and reprice within one year. This loan is in sterling.

Loans due from parent undertaking include **£7 million** of interest receivable at 31 December 2014 (2013: £4 million). There is no material difference between the book value and fair value for loans due from the parent undertaking as determined using discounted cash flow analysis.

Loans due from parent undertaking are unsecured with interest charged at 1.9% per annum and repayable at maturity dates between 2015 and 2017. Loans repayable within one year are expected to be renewed upon maturity and accordingly classified as Loans due from parent undertakings in the Group balance sheet.

14b. Loans due from fellow subsidiaries

Unsecured loans due from fellow subsidiaries are denominated in the following currencies:

	2014	2013
	£m	£m
UK sterling	**24,708**	22,540
Euro	**1,224**	1,270
US dollar	**2,943**	2,766
Danish krone	**343**	314
Canadian dollar	**477**	207
Swiss franc	**228**	223
Swedish krona	**117**	134
Polish zloty	**9**	27
	30,049	27,481

There is no material difference between the book value and fair value for loans due from fellow subsidiaries as determined using discounted cash flow analysis.

Loans due from fellow subsidiaries are unsecured with interest charged at between 0.6% and 9.7% per annum and repayable at maturity dates between 2015 and 2018.

The maturity dates of loans due from fellow subsidiaries as recognised in the balance sheet are as follows:

	2014	2013
	£m	£m
Within one year	**23,946**	22,113
Between one and two years	**3,231**	1,931
Between two and three years	**460**	1,158
Between three and four years	**2,412**	8
Between four and five years	**—**	2,271
Total	**30,049**	27,481

Loans due from subsidiary and fellow subsidiaries repayable within one year are expected to be renewed upon maturity and accordingly are classified as Loans due from fellow subsidiaries in the Group balance sheet.

The timing exposure to interest rate changes when loans reprice is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Greater than 5 years
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2014	**30,049**	**29,596**	**—**	**453**	**—**	**—**	**—**
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2013	27,481	27,481	—	—	—	—	—

Interest rate risk on loans due from fellow subsidiaries is not hedged by the Group.

Loans due from fellow subsidiaries include **£65 million** of interest receivable (2013: £57 million).

15. Bank overdrafts and issued debt

Issued debt	Currency	Maturity dates	Interest rates	2014	2013
				£m	£m
Eurobonds	Euro	2015-2025	2.7 to 5.9%	**3,118**	3,223
	Euro	2018	3m Euribor +50bps	**309**	—
	Swiss franc	2021-2026	0.6 to 1.4%	**420**	—
	Swiss franc	2016	CHF 3m libor +16bps	**226**	—
	UK sterling	2016-2040	4.0 to 7.3%	**2,753**	2,729
	US dollar	2016	1.1 to 1.2%	**194**	182
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act	US dollar	2014-2022	1.4 to 9.5%	**1,724**	1,620
Commercial paper				**160**	521
				8,904	8,275
Bank overdrafts				**152**	177
				9,056	8,452

In September 2014 the Group issued a new CHF 350 million bond with a maturity of 2016; a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018.

Included within borrowings of £8,904 million (2013: £8,275 million) above are £4,004 million (2013: £3,026 million) where the amortised cost has been adjusted as part of a fair value hedge. The carrying value of borrowings subject to fair value hedges has been increased by **£166 million** at 31 December 2014 (2013: increased by £35 million) included in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Czech krona, euro, Singapore dollar, Turkish lira, Norwegian krona, Kuwaiti dinar, US dollar, Danish krone, Polish zloty, Japanese yen, South African rand, Bulgarian lev and Saudi riyal (2013: Czech krona, euro, Singapore dollar, Turkish lira, Australian dollar, Norwegian krona, Kuwaiti dinar, sterling and US dollar).

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2014	2013	2014	2013
	£m	£m	£m	£m
Within one year	**1,775**	876	**1,978**	1,075
Between one and two years	**418**	1,339	**734**	1,717
Between two and three years	**1,346**	180	**1,682**	493
Between three and four years	**755**	1,390	**1,011**	1,727
Between four and five years	**557**	419	**725**	669
Beyond five years	**4,205**	4,248	**5,515**	5,841
Total	**9,056**	8,452	**11,645**	11,522

The contractual gross maturities in each year include the borrowings maturing in that year, together with forecast interest payments on all borrowings which are outstanding for all or part of the year.

Issued debt repayable within one year includes interest payable of **£173 million** (2013: £178 million).

Issued debt is denominated in the following currencies. The Group often uses derivatives to manage the profile of the debt.

	Total £m	GBP £m	USD £m	EUR £m	CHF £m	CAD £m	DKK £m	SEK £m	NOK £m
As at 31 December 2014									
Total issued debt	8,904	2,753	2,078	3,427	646	—	—	—	—
Effect of derivative financial instruments									
Cross-currency swaps	53	728	14	(482)	(207)	—	—	—	—
Forward foreign exchange contracts	160	1,593	192	(2,057)	(223)	202	339	114	—
	9,117	**5,074**	**2,284**	**888**	**216**	**202**	**339**	**114**	**—**
As at 31 December 2013									
Total issued debt	8,275	2,729	2,323	3,223	—	—	—	—	—
Effect of derivative financial instruments									
Cross-currency swaps	15	518	13	(516)	—	—	—	—	—
Forward foreign exchange contracts	(48)	833	187	(1,946)	226	211	319	132	(10)
	8,242	4,080	2,523	761	226	211	319	132	(10)

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-21.

The timing exposure to interest rate changes when borrowings are repriced is as follows:

	Total £m	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Beyond 5 years £m
At 31 December 2014							
Total issued debt	8,904	1,623	418	1,346	755	557	4,205
Effect of derivative financial instruments							
Interest rate swaps	—	2,366	—	(385)	—	(250)	(1,731)
Cross-currency swaps	53	742	—	—	—	(16)	(673)
	8,957	**4,731**	**418**	**961**	**755**	**291**	**1,801**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 December 2013							
Total issued debt	8,275	699	1,339	180	1,390	419	4,248
Effect of derivative financial instruments							
Interest rate swaps	—	1,803	—	—	(362)	—	(1,441)
Cross-currency swaps	15	531	—	—	—	—	(516)
	8,290	3,033	1,339	180	1,028	419	2,291

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-21.

British American Tobacco p.l.c. has provided guarantees for all of the Group's public indebtedness. As at 31 December 2014, the amount of these guarantees was **£8,641 million** (2013: £7,882 million).

The fair value of issued debt is **£10,070 million** (2013: £9,260 million) and has been determined using quoted market prices. **£9,918 million** (2013: £9,083 million) has been calculated using quoted market prices and are within level 1 of the fair value hierarchy. **£152 million** (2013: £177 million) has been calculated based on discounted cash flow analysis and are within level 2 of the fair value hierarchy.

16a Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking at 31 December 2014 of **£9,036 million** (2013: £8,024 million) are unsecured and comprise current account borrowings from the parent. These are denominated in sterling. There is no accrued interest repayable in the current or prior year.

There is no material difference between the book value and fair value for amounts repayable on demand to parent undertaking.

16b Amounts repayable on demand to fellow subsidiaries

Amounts repayable on demand to fellow subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts held with the Group. These are unsecured, and are denominated in the following currencies:

	2014	2013
	£m	£m
UK sterling	**13,243**	12,484
Euro	**353**	412
US dollar	**248**	271
Swiss franc	**44**	97
Norwegian krona	**50**	43
Australian dollar	**4**	78
Hong Kong dollar	**21**	18
Romanian Leu	**91**	105
Other	**71**	38
	14,125	13,546

Amounts repayable on demand to fellow subsidiaries include **£nil** of interest repayable at 31 December 2014 (2013: £nil). There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries as determined using discounted cash flow analysis.

17. Other payables

	2014	2013
	£m	£m
Accrued charges		
Due to fellow subsidiaries	**6**	—
Other	**2**	1
	8	1

The currency profile of other payables is **£8 million** (2013: £1 million) UK sterling.

All amounts are unsecured and interest free. There is no material difference between the book values of other payables and their fair values as determined using discounted cash flow analysis.

18. Term deposits repayable to fellow subsidiaries

Term deposits repayable to fellow subsidiaries are unsecured, and are denominated in the following currencies:

	2014	2013
	£m	£m
UK sterling	**484**	359
Euro	**58**	62
US dollar	**21**	67
Mexican pesos	**52**	—
Hong Kong dollar	**5**	5
Bulgarian lev	**13**	10
Singapore dollar	**32**	32
Japanese yen	**67**	72
Romanian leu	**3**	—
Canadian dollar	**—**	68
Russian rouble	**—**	46
	735	721

Term deposits repayable to fellow subsidiaries include **£0.1 million** of interest payable at 31 December 2014 and reprice within one year (2013: £0.2 million within one year).

In 2014 and 2013, term deposits repayable to fellow subsidiaries fall due within one year.

There is no material difference between the above amounts for term deposits repayable to fellow subsidiaries and their fair values as determined using discounted cash flow analysis.

19. Total equity

	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2014	**231**	**(1)**	**172**	**1,074**	**1,476**
Comprehensive income					
Profit for the year	**—**	**—**	**—**	**241**	**241**
Differences on exchange	**—**	**—**	**53**	**—**	**53**
Cash flow hedges reclassified and reported in other operating expenses	**—**	**1**	**—**	**—**	**1**
31 December 2014	**231**	**—**	**225**	**1,315**	**1,771**

	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2013	231	(1)	190	929	1,349
Comprehensive income					
Profit for the year	—	—	—	145	145
Differences on exchange	—	—	(18)	—	(18)
31 December 2013	231	(1)	172	1,074	1,476

Details relating to the allotted and issued share capital, and movements therein, are included on page 43, note 13 to the Company financial statements.

The translation reserve is as explained in the accounting policy on foreign currencies on page 9. The hedging reserve is as explained in the accounting policy on financial instruments on pages 10-11.

20. Contingent liabilities

The Group is one of the four entities in the BAT Group which have jointly guaranteed borrowing facilities available to B.A.T. Netherlands Finance B.V. of **£2,343 million** (€2,600 million and £325 million). All such facilities have been utilised at the balance sheet date.

The full fair value of the above guarantees is £91 million and recognised in the financial statements of the ultimate parent undertaking, British American Tobacco p.l.c.

Contingent liabilities mature as follows:

	2014	2013
	£m	£m
Within one year	**—**	507
Between one and two years	**325**	—
Between two and three years	**—**	325
Beyond five years	**2,018**	1,712
Total	**2,343**	2,544

The Group has guaranteed a cross-currency swap issued by British American Tobacco Colombia S.A.S., where they receive US dollars on a variable rate and pay a fixed rate of Colombian peso, at 31 December 2014. This cross currency interest rate swap had a liability fair value of **£30 million** (2013: £3 million).

21. Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 Related Party Disclosures, all of which are undertaken in the normal course of the Group's business as a primary financing vehicle for the BAT Group.

Transactions and balances with fellow subsidiaries and the parent undertaking relate mainly to the provision of finance to companies within the BAT Group.

Details of these transactions in the Group Balance Sheet are set out in notes 10, 13, 14, 16, 17, and 18. In addition, outstanding balances with fellow subsidiaries are included within the balance disclosed in note 11 as follows:

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Derivative financial instruments				
Cross-currency swaps	**18**	**—**	37	—
Interest rate swaps	**92**	**327**	38	54
Forward foreign currency contracts	**101**	**164**	32	295
	211	**491**	107	349

Details of these transactions in the Group Income Statement are set out in notes 3, 4 and 5. In addition, balances with fellow subsidiaries are included within the balance disclosed in note 6 as follows:

	2014	2013
	Income/(Expense)	Income/(Expense)
	£m	£m
Derivative financial instruments		
Cross-currency swaps	**(33)**	11
Interest rate swaps	**(54)**	4
Forward foreign currency contracts	**(237)**	(176)
	(324)	(161)

The key management of the Company consists of the members of the Board of Directors and no such person had any material interest during the year in a contract of significance with the Group. The term key management in this context includes the respective members of their households.

22. Principal subsidiary undertakings

The Company holds the entire issued share capital of BATIF Dollar Limited, and of B.A.T Finance B.V., finance companies incorporated in England and Wales and the Netherlands, respectively.

23. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2013: £nil).

24. Parent undertaking

The Company's immediate and 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 and registered as an external company in the Republic of South Africa. Consolidated Group financial statements are prepared by British American Tobacco p.l.c. and are publicly available.

25. Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Independent Auditors' report to the members of B.A.T. International Finance p.l.c. — Group Financial Statements

Report on the Group financial statements

Our opinion

In our opinion, B.A.T. International Finance p.l.c's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

B.A.T. International Finance p.l.c's financial statements comprise:

- the Group Balance Sheet as at 31 December 2014;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the Notes on the Accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006, we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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) (“ISAs (UK & Ireland)”). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group’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.

We primarily focus our work in these areas by assessing the directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We have reported separately on the parent company financial statements of B.A.T. International Finance p.l.c for the year ended 31 December 2014.

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2015

B.A.T. International Finance p.l.c.

Group Income Statement
for the year ended 31 December 2013

	2013	2012
	£m	£m
Interest income (note 3)	**539**	575
Interest expense (note 4)	**(443)**	(424)
Net fee income (note 5)	**4**	1
Net fair value gains on derivatives and exchange differences (note 6)	**50**	17
Net finance income	**150**	169
Other operating expenses (note 7)	**(2)**	(1)
Profit before taxation	**148**	168
Taxation on ordinary activities (note 8)	**(3)**	(4)
Profit for the year	**145**	164

All the activities during both years are in respect of continuing operations.

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

B.A.T. International Finance p.l.c.

Group Statement of Comprehensive Income
for the year ended 31 December 2013

	2013 £m	2012 £m
Profit for the year	**145**	164
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Differences on exchange	**(18)**	(43)
Cash flow hedges		
- net fair value gain / (losses)		
- reclassified and reported in profit for the year		1
Net investment hedges		
- foreign exchange gains on forward exchange contracts		10
- differences on exchange on borrowings		3
Total other comprehensive income for the year	**(18)**	(29)
Total comprehensive income for the year	**127**	135

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

B.A.T. International Finance p.l.c.

Group Statement of Changes in Equity
for the year ended 31 December 2013

	2013				
	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
Balance at 1 January 2013	**231**	**(1)**	**190**	**929**	**1,349**
Total comprehensive income for the year (page 5)			**(18)**	**145**	**127**
Balance at 31 December 2013	**231**	**(1)**	**172**	**1,074**	**1,476**

	2012				
	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m
Balance at 1 January 2012	231	(2)	220	765	1,214
Total comprehensive income for the year (page 5)		1	(30)	164	135
Balance at 31 December 2012	231	(1)	190	929	1,349

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

B.A.T. International Finance p.l.c.

Group Balance Sheet
at 31 December 2013

	2013	2012
	£m	**£m**
Assets		
Cash and cash equivalents (note 9)	**215**	509
Amounts due on demand from fellow subsidiaries (note 10)	**869**	799
Derivative financial instruments (note 11)	**528**	485
Other receivables (note 13)	**11**	12
Loans due from parent undertaking (note 14a)	**3,621**	3,633
Loans due from fellow subsidiaries (note 14b)	**27,481**	21,478
Total assets	**32,725**	26,916
Liabilities		
Bank overdrafts (note 15)	**177**	86
Amounts repayable on demand to parent undertaking (note 16a)	**8,024**	7,750
Amounts repayable on demand to fellow subsidiaries (note 16b)	**13,546**	9,344
Derivative financial instruments (note 11)	**505**	392
Other payables (note 17)	**1**	2
Term deposits repayable to fellow subsidiaries (note 18)	**721**	1,211
Issued debt (note 15)	**8,275**	6,782
Total liabilities	**31,249**	25,567
Equity		
Share capital (note 19)	**231**	231
Hedging reserve (note 19)	**(1)**	(1)
Translation reserve (note 19)	**172**	190
Retained earnings (note 19)	**1,074**	929
Total equity	**1,476**	1,349
Total equity and liabilities	**32,725**	26,916

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

The financial statements on page 5 to 34 were approved by the Board and signed on its behalf by

John Benedict Stevens
4 April 2014

B.A.T. International Finance p.l.c.

Group Cash Flow Statement
for the year ended 31 December 2013

	2013	2012
	£m	£m
Cash flows from operating activities		
Interest receipts	**351**	138
Interest payments	**(418)**	(368)
Net (outflow) / inflow on fees	**(1)**	4
Other payments	**(1)**	(5)
	(69)	(231)
(Decrease) / Increase in operating assets and liabilities:		
Net short-term funds inflow/(outflow) from fellow subsidiaries and parent undertaking	**4,367**	(1,771)
Proceeds from external debt	**1,920**	1,272
Repayment of external debt	**(338)**	(332)
Movements relating to derivative financial instruments	**42**	79
Net cash (outflow) / inflow on loans to fellow subsidiaries	**(5,796)**	2,244
Net cash outflow on borrowings from fellow subsidiaries	**(499)**	(1,346)
Net cash outflow from operating activities	**(373)**	(85)
Differences on exchange	**(12)**	(39)
Net decrease in cash and cash equivalents	**(385)**	(124)
Net cash and cash equivalents at 1 January	**423**	547
Net cash and cash equivalents at 31 December (note 9)	**38**	423

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

Notes are shown on pages 9 to 34.

B.A.T. International Finance p.l.c.

Group Notes on the Accounts

1. Accounting policies

Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments. The presentation of the Group balance sheet is based on liquidity.

With effect from 1 January 2013, the Group has adopted a number of minor changes to IFRS including the amendment to IAS 1 Presentation of Financial Statements which changes the presentation of certain items within other comprehensive income grouping them into items which may recycle to profit and loss and items which will not, and IFRS 13 Fair Value Measurement which provides a single source of fair value measurement and disclosure requirements for use across IFRS. The implementation of IFRS 13 does not require a restatement of historical transactions. The Group has also early adopted IFRS 10 Consolidated Financial Statements and IFRS 12, Disclosure of Interests in Other Entities with effect from 1 January 2013. The aim for these standards is to improve the quality of reporting in relation to the consolidation of subsidiaries, special purpose vehicles and accounting for joint arrangements. The requirements of these standards have not materially affected the Group. In addition, the Group has also adopted the amendment to IFRS 7 Disclosure – offsetting financial assets and financial liabilities. The amendment requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with the Group's recognised financial assets and liabilities on the Group's balance sheet.

The preparation of the Group financial statements requires management 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 relate to calculation of fair value assets and liabilities using exchange rates and market expectations of future interest rates as at the balance sheet date. These are set out in the accounting policies below, together with the related notes to the accounts.

Basis of consolidation

The consolidated financial information includes the financial statements of B.A.T. International Finance p.l.c. and its subsidiary undertakings.

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intergroup balances and transactions, and any unrealised gains arising from intergroup transactions, are eliminated in preparing the consolidated financial statements.

As permitted by section 408(3) of the Companies Act 2006, the Company individual Profit and loss account and related notes have not been included in these financial statements.

Foreign currencies

The functional currency of the Company is sterling and this is also the presentation currency of the Group.

The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling at average rates of exchange in each year provided that the average rate approximates the exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at rates of exchange at the end of each year.

The differences between retained profits of foreign currency subsidiary undertakings translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of foreign currency net assets at the beginning of the year. Any differences that have arisen since 1 January 2004 are presented as a separate component of equity. As permitted under IFRS 1, any differences prior to that date are not included in this separate component of equity. Where a disposal of an investment in a Group undertaking results in a loss of control of a subsidiary undertaking, the cumulative amount of the related foreign exchange differences deferred in the separate component of equity are recognised in the income statement when the gain or loss on disposal is recognised. These related exchange differences comprise the exchange differences on all amounts deemed to be part of the net investment in the undertaking, which are recycled to the income statement when a disposal occurs.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency assets and liabilities at year end rates of exchange are recognised in the income statement, except when deferred as qualifying cash flow hedges in the hedging reserve, on intercompany net investment loans and qualifying net investment hedges in the translation reserve.

Accounting for income

As a financing vehicle, the Group's primary sources of income comprise interest on loans to fellow subsidiaries and net fee income. These are recognised on an effective interest rate method, and all income is only recognised to the extent that it is considered to be collectable.

Net fee income comprises commitment fees received in respect of undrawn revolving credit facilities provided to fellow subsidiaries, and commitment fees paid in respect of revolving credit facilities provided by external banks.

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 substantially enacted at the balance sheet date in the countries where the Group operates and generates taxable income.

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

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

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

Tax is recognised in the income statement 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.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

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 either 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; and
- Cash and cash equivalents: 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. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are shown as a separate category in the liabilities section on the Balance Sheet.

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. Such evidence might include financial difficulties of the counterparty, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable.

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:

- 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 income statement. The accumulated gains and losses are reclassified to the income statement in the same period as the hedged item;
- For derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;
- For derivatives that are designated as hedges of net investments in foreign currency operations, 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 income statement. Where non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are recognised in the income statement when the foreign currency operation is disposed of; and
- 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 income statement in the period in which they arise.

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each reporting date 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 income statement 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 income statement.

Segmental analysis

Senior management of the BAT Group Treasury function, including the BAT Group Treasurer, who is also a Director of the Company, are identified as the chief operating decision maker (CODM), and are responsible for managing within an overall policy framework, the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group is the central vehicle used by BAT Group Treasury for managing these risks. The Group does not report segment information internally as the Group is managed by senior management of the BAT Group Treasury function as a single segment entity in the context of the BAT Group as a whole.

The prices agreed between Group companies, and with BAT Group entities, for intra-BAT Group loans and borrowings, and charges for such are based on normal commercial practices which would apply between independent businesses.

Dividends

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are payable.

Future changes to Group accounting policies

Certain changes to IFRS will be applicable for the Group financial statements in future years. Set out below are those which are considered to affect the Group.

IFRS 9 Financial Instruments has been issued. This standard represents the first and third phase of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. In its current form, it sets out the classification and measurement criteria for financial assets and financial liabilities as well introducing a new model for general hedge accounting. It requires all financial assets, including assets currently classified under IAS 39 as available-for-sale, to be measured at fair value through profit and loss unless the assets can be classified as held at amortised cost. Qualifying equity investments held at fair value may have their fair value changes taken through other comprehensive income by election. Where the fair value option for certain financial liabilities is applied, the portion of fair value changes representing own credit risk would be recognised through other comprehensive income rather than the income statement. The Group does not use the fair value option for financial liabilities. The requirements for general hedge accounting seek to better align hedge accounting with the risk management activities of an entity by removing or amending some of the rules within IAS 39. While the flexibility within the new requirements might allow companies to apply hedge accounting where previously they would not have been able to, the Group does not anticipate any material changes arising from those requirements.

The effect of applying the standard in its current form is therefore not considered to have a material impact on the Group's reported profit or equity. The impact on the Group of further changes to IFRS 9 and the impact of the second phase of the project, covering impairment, will be assessed when the IASB has finalised the proposed requirements. A mandatory implementation date for IFRS 9 has not been set by the IASB, but in any event the Standard has not been endorsed by the EU and will only become applicable once that endorsement has occurred.

In addition, a number of other interpretations and revisions to existing standards have been issued which will be applicable to the Group financial statements in future years and which will have no material effect on reported profit or equity or on the disclosures in the financial statements.

2. Segmental reporting

As the Company is the central financing vehicle for the BAT Group and is domiciled in the UK, all income other than interest on cash and cash equivalents is earned from counterparties within the BAT Group. Interest on cash and cash equivalents of **£2 million** (2012: £1 million) comprises **£1 million** (2012: £0.5 million) from money market funds and **£1 million** (2012: £0.5 million) from bank current accounts.

Interest income from cash and cash equivalents attributable to the UK is **£2 million** (2012: £1 million) and **£nil** (2012: £nil) attributable to foreign countries.

IFRS 8 considers a group of entities under common control as a single customer. **£66 million** (2012: £84 million) of interest income is generated from the parent undertaking and **£471 million** (2012: £490 million) from fellow subsidiaries controlled directly or indirectly by the parent undertaking, British American Tobacco p.l.c.

3. Interest income

	2013 £m	2012 £m
Interest income		
From the parent undertaking	**66**	84
From fellow subsidiaries	**471**	490
Cash and cash equivalents	**2**	1
	539	575

4. Interest expense

	2013 £m	2012 £m
Interest expense		
Commercial paper	**1**	3
Bank borrowings	**5**	5
Issued debt	**396**	351
	402	359
To the parent undertaking	**12**	18
To fellow subsidiaries	**29**	47
	443	424

5. Net fee income

	2013 £m	2012 £m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**9**	6
Fee expense		
Fees charged on committed borrowing facilities	**(5)**	(5)
	4	1

Two-thirds of the fees charged on the committed borrowing facility in 2013 and 2012 are borne by the Group, with one-third being borne by fellow subsidiaries.

6. Net fair value gains on derivatives and exchange differences

	2013 £m	2012 £m
Fair value changes on derivatives comprise:		
Cash flow hedges transferred from equity		(1)
Fair value hedging instruments — exchange related movements	**13**	(15)
Fair value hedging instruments — net interest income	**59**	41
Fair value hedging instruments — interest related movements	**(86)**	23
Fair value changes on hedged items	**109**	(34)
Instruments held-for-trading	**(13)**	(14)
Net fair value gains on derivatives	**82**	0
Exchange differences	**(32)**	17
	50	17

Included within exchange differences above is a gain of **£13 million** (2012: £15 million loss) in respect of items subject to fair value hedges and **£nil** gain (2012: £nil gain) in respect of items subject to cash flow hedges.

The net gains on fair value of derivatives and exchange differences of **£50 million** (2012: £17 million) include a loss of **£2 million** (2012: £11 million gain) due to the ineffective portion of fair value hedges and **£nil** (2012: £nil gain) from the release of fair value basis adjustments to debt.

Most foreign currency assets and liabilities are maintained in US dollars and euros, which have been translated to sterling at the closing rates on 31 December 2013 of **US$1.6563** and **€1.2020** (2012: US$1.6255 and €1.2329).

7. Other operating expenses and employee information

	2013	2012
	£m	£m
Other operating expenses	**2**	1

Other operating charges include remuneration of **£167,000** (2012: £191,000) payable to the Company's auditors for the audit of the Group and Company annual financial statements and **£1,300** (2012: £170,000) for the supply of other assurance services to the Company.

The Group has no directly employed employees (2012: nil) and consequently utilises the services of a number of employees whose contracts of service are with fellow subsidiaries, and their remuneration is included in the financial statements of these subsidiaries. An annual management charge is levied from two of these fellow subsidiaries in respect of the cost of employees in the Asia Pacific Treasury Service Centre (Singapore), and in the British American Shared Service Centre (Romania). These charges are included in 'other operating charges' above.

8. Taxation on ordinary activities

a) Summary of tax

	2013	2012
	£m	£m
UK corporation tax		
Comprising:		
- current tax at **23.25%** (2012: 24.5%)	**3**	4
- double tax relief	**(3)**	(4)
Overseas tax comprising:		
- tax on current income	**3**	4
Total current tax expense (*note 8b*)	**3**	4

The Group has not recognised deferred tax assets in respect of deductible temporary differences of **£1 million** (2012: £2 million).

b) Factors affecting the tax charge

The standard rate of corporation taxation in the UK changed from 24.0 per cent to 23.0 per cent with effect from 1 April 2013. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 23.25 per cent. The taxation charge differs from the standard 23.25 per cent rate of corporation tax in the UK. The major causes of this difference are listed below:

	2013	**2012**
	£m	**£m**
Profit before taxation	**148**	168
UK corporation tax at **23.25%** (2012: 24.5%)	**34**	41
Factors affecting the tax rate:		
Temporary timing differences	**(1)**	(2)
Overseas taxation	**3**	4
Double tax relief	**(3)**	(4)
BAT Group loss relief claimed for no consideration	**(30)**	(35)
Total current tax expense *(note 8a)*	**3**	4

9. Cash and cash equivalents

	2013 £m	2012 £m
Cash and bank balances	**59**	75
Cash equivalents	**156**	434
	215	509

Cash equivalents comprise short-term deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2013, cash and cash equivalents include **£156 million** invested in money market funds (2012: £434 million).

The currency in which cash and cash equivalents are held, are as follows:

	2013 £m	2012 £m
US dollar	**2**	434
UK sterling	**156**	
Euro	**3**	
Australian dollar		33
Romanian leu	**7**	25
Other	**47**	17
	215	509

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts (note 15) and accrued interest, where applicable:

	2013 £m	2012 £m
Cash and cash equivalents as above	**215**	509
Less: bank overdrafts	**(177)**	(86)
Net cash and cash equivalents	**38**	423

10. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise unsecured current accounts and cash pooling accounts referred to as In House Cash accounts (IHC) between fellow subsidiaries and the Group. These are denominated in the following currencies:

	2013 £m	2012 £m
UK sterling	**51**	35
US dollar	**168**	33
Swiss franc	**44**	27
Hong Kong dollar	**94**	109
Euro	**377**	461
Singapore dollar	**36**	73
Other	**99**	61
	869	**799**

Amounts due on demand from fellow subsidiaries include amounts of **£nil** (2012: £nil million) of interest receivable. There is no material difference between the book value and fair value for amounts due on demand from fellow subsidiaries.

11. Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these assets and liabilities under the IFRS 13 fair value hierarchy is given in note 12.

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Fair value hedges				
Interest rate swaps	**67**	**25**	122	
Cross-currency swaps	**6**	**1**	10	
Held-for-trading *				
Cross-currency swaps	**37**	**37**	12	12
Interest rate swaps	**92**	**92**	142	142
Forward foreign currency contracts	**326**	**350**	199	237
Others				1
	528	**505**	485	392

All balances above relate to derivatives with external parties other than those disclosed in note 21.

* Some derivative financial instruments are not designated as hedges and are required to be classified as held-for-trading.

The maturity dates of all derivative financial instruments as recognised in the balance sheet are as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Within one year	**331**	**325**	209	187
Between one and two years	**19**	**(3)**	61	28
Between two and three years	**37**	**37**		
Between three and four years	**34**	**41**	17	17
Between four and five years			45	83
Beyond five years	**107**	**105**	153	77
	528	**505**	485	392

Derivative liabilities above include certain interest rate swaps and cross-currency swaps maturing in 2016, 2017, 2021 and 2025 with a combined fair value of **£65 million**, where the contracting parties hold the right to exercise mutual break-up clauses on 29 June 2015, 7 July 2015, 15 March 2016, 9 November 2016, 21 March 2018, and 21 March 2023.

Group Notes on the Accounts (Continued)

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross-settled derivative financial instruments are as follows:

	2013			
	Assets		Liabilities	
	Inflow	Outflow	Inflow	Outflow
	£m	£m	£m	£m
Within one year				
- Cross-currency swaps	**5**	**(18)**	**36**	**(15)**
- Forward foreign exchange contracts	**6,434**	**(6,130)**	**6,166**	**(6,485)**
Between one and two years				
- Cross-currency swaps	**6**	**(18)**	**36**	**(18)**
- Forward foreign exchange contracts	**341**	**(323)**	**323**	**(341)**
Between two and three years				
- Cross-currency swaps	**400**	**(344)**	**361**	**(418)**
Between three and four years				
- Cross-currency swaps	**1**	**(1)**	**18**	**(23)**
- Forward foreign exchange contracts			**1,414**	**(1,452)**
Between four and five years				
- Cross-currency swaps	**1**	**(1)**	**18**	**(25)**
Beyond five years				
- Cross-currency swaps	**31**	**(27)**	**553**	**(600)**
- Forward foreign exchange contracts				
	7,219	**(6,862)**	**8,925**	**(9,377)**

	2012			
	Assets		Liabilities	
	Inflow	Outflow	Inflow	Outflow
	£m	£m	£m	£m
Within one year				
- Cross-currency swaps	22	(29)	18	(4)
- Forward foreign exchange contracts	7,567	(7,388)	5,806	(5,979)
Between one and two years				
- Cross-currency swaps	22	(29)	18	(4)
- Forward foreign exchange contracts	619	(594)	760	(783)
Between two and three years				
- Cross-currency swaps	24	(31)	18	(6)
Between three and four years				
- Cross-currency swaps	407	(357)	343	(389)
Between four and five years				
- Cross-currency swaps	18	(16)		
Beyond five years				
- Cross-currency swaps	575	(616)		
- Forward foreign exchange contracts			1,379	(1,452)
	9,254	(9,060)	8,342	(8,617)

The maturity dates of net-settled derivative financial instruments are as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	Inflow/ (Outflow)	Inflow/ (Outflow)	Inflow/ (Outflow)	Inflow/ (Outflow)
	£m	£m	£m	£m
Within one year	**50**	**8**	63	(12)
Between one and two years	**29**	**(3)**	63	(11)
Between two and three years	**14**	**(4)**	31	(6)
Between three and four years	**14**	**(14)**	24	(15)
Between four and five years	**9**	**(12)**	20	(12)
Beyond five years	**55**	**(111)**	17	(6)
	171	**(136)**	218	(62)

The above maturity analysis comprises the Group's interest rate swaps.

In summary by type, the fair values of derivative financial instruments are as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Interest rate swaps	**159**	**117**	264	142
Cross-currency swaps	**43**	**38**	22	12
Forward foreign currency contracts	**326**	**350**	199	237
Other				1
	528	**505**	485	392

(a) Interest rate swaps

						Interest rate		2013	
	Note	Maturity date	Principal Currency	m	£m	Original	Swapped	Assets £m	Liabilities £m
Fixed — floating									
	A	2014	GBP	500	500	6.0	*Note (a)*	**13**	
	A	2014	GBP	250	250	6.0	*Note (a)*	**11**	
	A	2017	USD	600	362	2.1	*Note (a)*		**1**
		2017	EUR	600	499	3.7	*Note (a)*	**34**	
	A	2019	GBP	250	250	6.4	*Note (a)*	**43**	
		2020	EUR	600	499	4.0	*Note (a)*	**47**	
	A	2020	GBP	650	650	4.0	*Note (a)*		**8**
		2023	EUR	750	624	2.4	*Note (a)*		**4**
		2023*	EUR	750	624	2.8	*Note (a)*		**7**
	A	2025	EUR	650	541	2.8	*Note (a)*		**16**
Floating — fixed									
		2017	EUR	600	499	*Note (a)*	3.7		**34**
		2020	EUR	600	499	*Note (a)*	4.0		**47**
		2023*	EUR	750	624	*Note (a)*	2.8	**7**	
		2023	EUR	750	624	*Note (a)*	2.4	**4**	
								159	**117**

	Note	Maturity date	Principal Currency	m	£m	Interest rate Original	Interest rate Swapped	2012 Assets £m	2012 Liabilities £m
Fixed — floating									
		2013	EUR	400	324	5.1	*Note (a)*	14	
	A	2013	GBP	150	150	5.8	*Note (a)*	6	
	A	2014	GBP	500	500	6.0	*Note (a)*	26	
	A	2014	GBP	250	250	6.0	*Note (a)*	18	
	A	2017	USD	600	369	2.1	*Note (a)*	4	
		2017	EUR	600	487	3.7	*Note (a)*	45	
	A	2019	GBP	250	250	6.4	*Note (a)*	68	
		2020	EUR	600	487	4.0	*Note (a)*	65	
		2023	EUR	750	608	2.4	*Note (a)*	8	
		2023	EUR	750	608	2.8	*Note (a)*	10	
Floating — fixed									
		2013	EUR	400	324	*Note (a)*	5.1		14
		2017	EUR	600	487	*Note (a)*	3.7		45
		2020	EUR	600	487	*Note (a)*	4.0		65
		2023*	EUR	750	608	*Note (a)*	2.8		10
		2023	EUR	750	608	*Note (a)*	2.4		8
								264	142

Note (a): The floating rate interest rates in 2013 and 2012 are based on LIBOR or EURIBOR plus a margin ranging between 35 and 268 basis points (2012: 35 and 268 basis points).

* The €750 million euro interest rate swap maturing in 2023 has a start date of 2015.

In both **2013** and 2012, swaps denoted with **A** were used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 30. All other swaps were not designated as hedging instruments.

(b) Cross-currency swaps

	Note	Maturity date	Interest rate (%)	Original Currency (m)	Principal £m	Interest rate (%)	Swapped Currency (m)	Principal £m	2013 Assets £m	2013 Liabilities £m
Fixed — floating										
		2016	5.5	GBP 325	325	*Note (b)*	EUR 473	394		**37**
	B	2019	4.6	EUR 20	17	*Note (b)*	USD 22	13	**6**	
	B	2021	3.6	EUR 600	499	*Note (b)*	GBP 518	518		**1**
Floating — fixed										
		2016	*Note (b)*	EUR 473	394	5.5	GBP 325	325	**37**	—
									43	**38**

	Note	Maturity date	Interest rate (%)	Original Currency (m)	Principal £m	Interest rate (%)	Swapped Currency (m)	Principal £m	2012 Assets £m	2012 Liabilities £m
Fixed — floating										
		2016	5.5	GBP 325	325	*Note (b)*	EUR 473	384		12
	B	2019	4.6	EUR 20	16	*Note (b)*	USD 22	12	7	
	B	2021	3.6	EUR 600	487	*Note (b)*	GBP 518	518	3	
Floating — fixed										
		2016	*Note (b)*	EUR 473	384	5.5	GBP 325	325	12	—
									22	12

Note (b): The floating interest rates in 2013 and 2012 are based on LIBOR, EURIBOR, USD LIBOR plus a margin ranging between 82 and 154 basis points (2012: 82 and 154 basis points).

In both **2013** and 2012, swaps denoted with **B** have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 30.

All other swaps have been entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 on page 30.

(c) Forward foreign currency contracts

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions as well as the hedging of internal and external assets and liabilities.

Forward foreign currency contracts are denominated in the following currencies:

	2013 Asset	2013 Liability	2012 Asset	2012 Liability
	£m	£m	£m	£m
GBP/EUR	**19**	**1**	17	7
GBP/AUD	**69**		9	2
GBP/ZAR	**17**		2	1
GBP/CHF	**5**	**1**	10	
GBP/USD	**63**		32	
EUR/USD	**18**		23	1
EUR/GBP	**1**	**21**	6	58
EUR/PLN		**2**		7
USD/EUR		**18**	3	24
USD/GBP		**64**		29
USD/JPY	**83**		57	
ZAR/GBP		**17**	1	1
Others	**51**	**226**	39	107
	326	**350**	199	237

Certain contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 15 on page 30, and their nominal values are as follows:

	2013		2012	
	Sell	Purchase	Sell	Purchase
	£m	£m	£m	£m
Forward contracts to purchase GBP, sell CHF	**225**	**(226)**	221	(221)
Forward contracts to purchase GBP, sell CAD	**207**	**(211)**	287	(292)
Forward contracts to purchase GBP, sell USD	**181**	**(187)**		
Forward contracts to purchase GBP, sell EUR	**124**	**(125)**	362	(362)
Forward contracts to purchase EUR, sell DKK	**313**	**(313)**	344	(344)
Forward contracts to purchase EUR, sell NOK	**149**	**(150)**	166	(166)
Forward contracts to purchase EUR, sell SEK	**131**	**(129)**	131	(131)
Forward contracts to purchase EUR, sell GBP	**1,452**	**(1,414)**	1,452	(1,379)
Forward contracts to purchase NOK, sell GBP	**164**	**(149)**	164	(166)

12. Management of financial risks

One of the principal responsibilities of the Company is to manage the financial risks arising from the BAT Group's underlying operations. Specifically, Treasury manages, within an overall policy framework set by the BAT Group's Main Board and Corporate Finance Committee ('CFC'), the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The overall BATIF Group treasury position is monitored by the CFC, which meets regularly throughout the year and is chaired by the BAT Group Finance Director.

Given the nature of the Group's activities, the Group is managed in accordance with BAT Group treasury policies and procedures. These policies and procedures include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed. The Group defines capital as equity (see note 19) and net debt which is defined as external borrowings, including derivatives in respect of debt, less cash and cash equivalents. The Group's net debt balances, which are managed as part of the BAT Group's net debt, are as follows:

	2013	2012
	£m	£m
Borrowings — bank overdrafts and issued debt (note 15)	**8,452**	6,868
Derivatives in respect of debt:		
- Assets	**(221)**	(301)
- Liabilities	**197**	206
Cash and cash equivalents (note 9)	**(215)**	(509)
	8,213	6,264

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's balance sheet and related notes.

The Group's management of specific risks is dealt with as follows:

Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the BAT Group, and to obtain this financing from a wide range of providers. The BAT Group has a target average centrally managed debt maturity of at least five years with no more than 5 per cent of centrally managed debt maturing in a single rolling year. The debt held by the Group is part of the BAT Group's centrally managed debt and is therefore not managed to separate targets. As at 31 December 2013, the average centrally managed debt maturity was **7.2 years** (2012: 7.2 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 18.3 per cent (2012: 19.3 per cent). As at 31 December 2013, the average debt to maturity of the Group was **7.9 years** (2012: 7.9 years) and the highest proportion of total issued debt maturing in a single rolling year was **18.4 per cent** (2012: 21.1 per cent).

At 31 December 2013, £521 million commercial paper was outstanding (2012: nil).

In December 2013, the Company repaid a £152 million bond.

In November 2013, the Company repaid a $300 million bond.

In September 2013, the Company issued a new £650 million bond with a maturity of 2026.

In March 2013, the Company issued a new €650 million bond with a maturity of 2025 and a new $300 million bond with a maturity of 2016.

In June 2012, the Group repaid €337 million bond due in June 2012.

In June 2012, the Group issued new US$2 billion bonds: US$500 million with a maturity of June 2015; US$600 million with a maturity of June 2017; and US$900 million with a maturity of June 2022.

The Group ensures that there is flexibility in funding arrangements with fellow subsidiaries by providing short-term facilities or early prepayment rights. To ensure that the Group can maintain its liquidity at all times, the Group is a borrower under the BAT Group's central banking facility of £2 billion with a final maturity date of December 2015. The facility is provided by 22 banks and was undrawn as at 31 December 2013 (31 December 2012: undrawn).

In July 2012, the Group established a US$150 million bilateral facility with Sumitomo Mitsui Banking Corporation which matures in 2017 and was undrawn as at 31 December 2013 (31 December 2012: undrawn).

It is Group policy that short-term sources of funds (including drawings under both the US$2 billion programme and the £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. At 31 December 2013, **£521 million** of commercial paper was outstanding (2012: £nil outstanding).

As the Group is the principal central financing vehicle for the BAT Group, it is used to mobilise cash for the BAT Group through participation in cash pooling and zero balancing bank account structures with fellow subsidiaries.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2013, cash and cash equivalents include **£156 million** (2012: £434 million) invested in money market funds.

Although term deposits repayable to fellow subsidiaries as shown in note 18 fall due within one year, they are typically renewed subject to the funding requirements of the counterparty. Loans to fellow subsidiaries, subsidiary companies and the parent undertaking are made on commercial terms. All contractual borrowing covenants have been met and none of them are expected to inhibit the Group's operations or funding plans.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, sterling. Lending and borrowing activity with fellow subsidiaries is usually in the currency of the counterparty resulting in primary balance sheet translation exposures to the US dollar, euro, Canadian dollar, and Danish krone. These exposures are kept under continuous review and the Group's policy is to minimise all balance sheet translation exposure where it is practical and cost effective to do so through matching of currency assets with currency borrowings. At 31 December 2013, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **30 per cent** (2012: 27 per cent) US dollar, **9 per cent** (2012: 7 per cent) euro, **50 per cent** (2012: 52 per cent) sterling, **3 per cent** (2012: 4 per cent) Canadian dollar, **4 per cent** Danish krone (2012: 5 per cent), and **4 per cent** (2012: 5 per cent) other currencies.

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries; these exposures are not normally hedged.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held by the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. All financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10 per cent strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 10 per cent strengthening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2012: £7 million lower). A 10 per cent weakening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2012: £8 million higher).

A 10 per cent change in exchange rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

The currency sensitivity of pre-tax profit is principally due to the impact from forward foreign currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of British American Tobacco p.l.c. These contracts provide cash flow certainty and are designated as net investment hedges in the Group financial statements of British American Tobacco p.l.c. As the Group does not have the underlying investments, the contracts are not designated as hedges in these financial statements and changes in their fair value are recognised through the income statement.

Excluding the impact of these contracts, a 10 per cent strengthening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2012: £3m lower). A 10 per cent weakening of functional currencies against non-functional currencies would result in no material change to pre-tax profit being (2012: £3 million higher).

A 10 per cent change in exchange rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on earnings, cash flow and economic value of the Group and to safeguard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

The BAT Group has an externally imposed capital requirement in respect of its centrally managed banking facilities, which requires a gross interest cover of 4.5 times. Although the Company is a joint borrower under these central banking facilities, the requirement is based on the audited group financial statements of British American Tobacco p.l.c.

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group's ratio of fixed to floating rate debt forms part of overall BAT Group debt for which targets are set for the desired ratio of floating to fixed rate debt on both a gross basis and net basis (at least 50 per cent fixed on a net basis in the short to the medium-term) as a result of regular reviews of market conditions and strategy by the CFC and the Board of the Company. At 31 December 2013, the relevant ratios of floating to fixed rate external borrowings were **37:63** (2012: 37:63) on a gross basis and **34:66** (2012: 29:71) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of interest-bearing financial assets and financial liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analyses, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates as a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being **£96 million** higher (2012: £35 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£48 million** lower (2012: £110 million lower).

A 100 basis point change in interest rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

Credit risk

The Group has no significant concentrations of counterparty credit risk in respect of its external financial assets. As the central financing vehicle for the BAT Group, concentrations of credit risk arise from financial assets due from fellow subsidiaries and the parent undertaking. All loans to fellow subsidiaries, subsidiary companies and the parent are priced on an arm's length basis. To determine the appropriate risk premium, the Group consults, where appropriate, with independent financial institutions who assess the asset base and sovereign risk specific to the relevant counterparty.

Intercompany counterparties have appropriate capital structures to meet their obligations as they fall due. All loans to fellow subsidiaries, subsidiary companies and the parent undertaking are therefore between parties which have been individually reviewed and are considered to be in a position to continue to meet their obligations. The Group recognises that the sovereign risk of a fellow subsidiary can be the determining factor of default.

All external derivatives are subject to ISDA documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group targets a long term counterparty credit rating of at least A-/A3. From time to time, the Group may invest in short dated corporate commercial paper. For this, the Group has identified specific counterparties with a minimum short-term rating of A1/P1.

External counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of bank counterparties are reviewed regularly. The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions.

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group balance sheet. In addition, the Group provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2013 is **£2,376 million** (2012: £720 million). Guarantees provided to third parties are shown in note 20 on page 33.

Price risk

At 31 December 2013 and 31 December 2012, the Group's financial instruments are not sensitive to price risk.

Hedge accounting

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

Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the balance sheet, the basis for fair values is described below.

Fair value hierarchy

In accordance with the IFRS 13 classification hierarchy all derivatives held by the Group at 31 December 2013 and 31 December 2012, fall within Level 2. Level 2 financial instruments are not traded in an active market but the fair values are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency. Level 2 financial instruments include OTC derivatives.

Netting arrangement of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group Balance Sheet, together with the Group's right of offset associated with recognised financial assets and recognised financial liabilities, subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	2013			**2012**		
	Amount presented in the Group balance sheet	**Related to amounts not offset in the Group balance sheet**	**Net amount**	**Amount presented in the Group balance sheet**	**Related to amounts not offset in the Group balance sheet**	**Net amount**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial Assets						
- Derivative Financial Instruments (note 11)	**528**	**(205)**	**323**	485	(212)	273
Financial Liabilities						
- Derivative Financial Instruments (note 11)	**(505)**	**205**	**(300)**	(392)	212	(180)

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trade derivatives.

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transaction and amounts owed to it by the defaulting party. If that sum exceeds the amount owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

13. Other receivables

	2013 £m	2012 £m
Prepayments and accrued income:		
Due from fellow subsidiaries	**6**	3
Other	**5**	9
	11	12

Within the 'other' category of other receivables are prepaid facility fees of **£2 million** (2012: £5 million) which relate to periods which fall beyond one year.

The currency profile of other receivables is **£9 million** (2012: £11 million) UK sterling and **£2 million** (2012: £1 million) US dollar.

All amounts are unsecured and interest free. Due to their short-term nature, there is no material difference between the book values and fair values of all amounts due from fellow subsidiaries included above as determined using discounted cash flow analysis.

14a. Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2013 of **£3,621 million** fall due within three to four years (2012: £3,633 million within four to five years) are unsecured and reprice within one year (2011: £3,633 million within one year). This loan is in sterling.

Loans due from parent undertaking include **£4 million** of interest receivable at 31 December 2013 (2012: £16 million). There is no material difference between the book value and fair value for loan due from the parent undertaking as determined using discounted cash flow analysis.

14b. Loans due from fellow subsidiaries

Unsecured loans due from fellow subsidiaries are denominated in the following currencies:

	2013 £m	2012 £m
UK sterling	**22,540**	16,092
Euro	**1,270**	1,360
US dollar	**2,766**	3,016
Danish krone	**314**	345
Canadian dollar	**207**	288
Swiss franc	**223**	221
Swedish krona	**134**	136
Polish zloty	**27**	20
	27,481	21,478

There is no material difference between the book value and fair value for loans due from fellow subsidiaries as determined using discounted cash flow analysis.

The maturity dates of loans due from fellow subsidiaries as recognised in the balance sheet are as follows:

	2013	2012
	£m	£m
Within one year	**22,113**	16,300
Between one and two years	**1,931**	995
Between two and three years	**1,158**	714
Between three and four years	**8**	370
Between four and five years	**2,271**	662
Beyond five years		2,437
Total	**27,481**	21,478

The timing exposure to interest rate changes when loans reprice is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Greater than 5 years
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2013	**27,481**	**27,481**					
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2012	21,478	18,074	488	479			2,437

Interest rate risk on loans due from fellow subsidiaries is not hedged by the Group.

Loans due from fellow subsidiaries include **£57 million** of interest receivable (2012: £58 million).

15. Borrowings — bank overdrafts and issued debt

Issued debt	Currency	Maturity dates	Interest rates	2013	2012
				£m	£m
Eurobonds	Euro	2014-2021	3.6 to 5.9%	**3,223**	2,646
	UK sterling	2014-2040	5.8 to 7.3%	**2,729**	2,296
	US dollar	2016	1.0 to 1.2%	**182**	
Other bonds issued pursuant to Rule 144A and Reg S under the US Securities Act	US dollar	2014-2022	1.4 to 9.5%	**1,620**	1,840
Commercial paper				**521**	
				8,275	6,782
Bank overdrafts				**177**	86
				8,452	6,868

In December 2013, the Company repaid a £152 million bond.

In November 2013, the Company repaid a $300 million bond.

In September 2013, the Company issued a new £650 million bond with a maturity of 2026.

In March 2013, the Company issued a new €650 million with a maturity of 2025 and a new $300 million bond with a maturity of 2016.

Included within borrowings of **£8,275 million** (2012: £6,782 million) above are **£3,026 million** (2012: £1,995 million) where the amortised cost has been adjusted as part of a fair value hedge. The carrying value of borrowings subject to fair value hedges has been increased by **£35 million** at 31 December 2013 (2012: increased by £143 million) shown in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Czech krona, euro, Singapore dollar, Turkish lira, Australian Dollar, Norwegian krona, Kuwaiti Dinar, sterling and US dollar (2012: Czech krona, euro, Hong Kong dollar, Singapore dollar, Turkish lira, New Zealand Dollar, Danish krona, sterling and US dollar).

Group Notes on the Accounts (Continued)

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2013	**2012**	**2013**	**2012**
	£m	**£m**	**£m**	**£m**
Within one year	**876**	584	**1,075**	693
Between one and two years	**1,339**		**1,717**	332
Between two and three years	**180**	1,317	**493**	1,652
Between three and four years	**1,390**		**1,727**	269
Between four and five years	**419**	1,373	**669**	1,666
Beyond five years	**4,248**	3,594	**5,841**	4,972
Total	**8,452**	6,868	**11,522**	9,584

The contractual gross maturities in each year include the borrowings maturing in that year, together with forecast interest payments on all borrowings which are outstanding for all or part of the year.

Issued debt repayable within one year includes interest payable of **£178 million** (2012: £157 million).

Issued debt is denominated in the following currencies:

	Total	**GBP**	**USD**	**EUR**	**CHF**	**CAD**	**DKK**	**SEK**	**NOK**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2013									
Total issued debt	8,275	2,729	2,323	3,223					
Effect of derivative financial instruments									
Cross-currency swaps	15	518	13	(516)					
Forward foreign exchange contracts	(48)	833	187	(1,946)	226	211	319	132	(10)
	8,242	**4,080**	**2,523**	**761**	**226**	**211**	**319**	**132**	**(10)**
As at 31 December 2012									
Total issued debt	6,782	2,296	1,840	2,646					
Effect of derivative financial instruments									
Cross-currency swaps	28	518	13	(503)					
Forward foreign exchange contracts	66	741		(1,658)	221	287	344	131	
	6,876	3,555	1,853	485	221	287	344	131	

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-21.

The timing exposure to interest rate changes when borrowings are repriced is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2013							
Total issued debt	8,275	699	1,339	180	1,390	419	4,248
Effect of derivative financial instruments							
Interest rate swaps		1,803			(362)		(1,441)
Cross-currency swaps	15	531					(516)
	8,290	**3,033**	**1,339**	**180**	**1,028**	**419**	**2,291**
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2012							
Total issued debt	6,782	498		1,317		1,373	3,594
Effect of derivative financial instruments							
Interest rate swaps		1,369	(750)			(369)	(250)
Cross-currency swaps	28	531					(503)
	6,810	2,398	(750)	1,317		1,004	2,841

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-21.

British American Tobacco p.l.c. has provided guarantees for all of the Group's public indebtedness. As at 31 December 2013, the amount of these guarantees was **£7,882 million** (2012: £5,938 million).

The fair value of issued debt is **£9,260 million** (2012: £7,862 million) and has been determined using quoted market prices. £9,083 million (2012: £7,776 million) has been calculated using quoted market prices and are within level 1 of the fair value hierarchy. **£177 million** (2012: £86 million) has been calculated based on discounted cash flow analysis and are within level 2 of the fair value hierarchy.

16a Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking of **£8,024 million** (2012: £7,750 million) are unsecured and comprise current account borrowings from the parent. These are denominated in sterling. There is no accrued interest repayable in the current or prior year.

There is no material difference between the book value and fair value for amounts repayable on demand to parent undertaking.

16b Amounts repayable on demand to fellow subsidiaries

Amounts repayable on demand to fellow subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts held with the Group. These are unsecured, and are denominated in the following currencies:

	2013	2012
	£m	£m
UK sterling	**12,484**	8,029
Euro	**412**	435
US dollar	**271**	470
Swiss franc	**97**	35
Norwegian krona	**43**	48
Australian dollar	**78**	135
Hong Kong dollar	**18**	19
Romanian Leu	**105**	103
Other	**38**	70
	13,546	9,344

Group Notes on the Accounts (Continued)

Amounts repayable on demand to fellow subsidiaries include **£nil** of interest repayable at 31 December 2013 (2012: £nil). There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries as determined using discounted cash flow analysis.

17. Other payables

	2013 £m	2012 £m
Accrued charges		
Other	**1**	2
	1	2

The currency profile of other payables is **£1 million** (2012: £2 million) UK sterling.

All amounts are unsecured and interest free. There is no material difference between the book values of other payables and their fair values as determined using discounted cash flow analysis.

18. Term deposits repayable to fellow subsidiaries

Term deposits repayable to fellow subsidiaries are unsecured, and are denominated in the following currencies:

	2013 £m	2012 £m
UK sterling	**359**	473
Euro	**62**	553
US dollar	**67**	62
Swiss franc		15
Hong Kong dollar	**5**	5
Bulgarian lev	**10**	
Singapore dollar	**32**	33
Japanese Yen	**72**	68
Romanian leu		2
Canadian Dollar	**68**	
Russian Rouble	**46**	
	721	1,211

Term deposits repayable to fellow subsidiaries include **£0.2 million** of interest payable at 31 December 2013 (2012: £0.3 million) and reprice within one year (2012: £1 million within one year).

In 2013 and 2012, term deposits repayable to fellow subsidiaries fall due within one year.

There is no material difference between the above amounts for term deposits repayable to fellow subsidiaries and their fair values as determined using discounted cash flow analysis.

19. Total equity

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2013	**231**	**(1)**	**190**	**929**	**1,349**
Comprehensive income					
Profit for the year				**145**	**145**
Differences on exchange			**(18)**		**(18)**
Cash flow hedges					
net fair value losses					
reclassified and reported in profit and loss					
Net investment hedges					
net fair value gains					
differences on exchange on borrowings					
31 December 2013	**231**	**(1)**	**172**	**1,074**	**1,476**

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2012	231	(2)	220	765	1,214
Comprehensive income					
Profit for the year				164	164
Differences on exchange			(43)		(43)
Cash flow hedges					
net fair value losses					
reclassified and reported in profit and loss		1			1
Net investment hedges					
net fair value gains					
differences on exchange on borrowings			13		13
31 December 2012	231	(1)	190	929	1,349

Details relating to the allotted and issued share capital, and movements therein, are included on page 43, note 13 to the company financial statements.

The translation reserve is as explained in the accounting policy on foreign currencies on page 9. The hedging reserve is as explained in the accounting policy on financial instruments on pages 10-11.

20. Contingent liabilities

The Group is one of the three entities in the BAT Group which have jointly guaranteed borrowing facilities available to B.A.T. Capital Corporation of **£25 million** (US$40 million) and to B.A.T. Holdings (The Netherlands) B.V. of **£2,519 million** (€2,600 million and £325 million). All such facilities have been utilised at the balance sheet date.

The full fair value of the above guarantees is recognised in the financial statements of the ultimate parent undertaking, British American Tobacco p.l.c.

Contingent liabilities mature as follows:

	2013 £m	2012 £m
Within one year	**507**	436
Between one and two years		487
Between two and three years	**325**	
Between three and four years		325
Between four and five years		
Beyond five years	**1,712**	1,647
Total	**2,544**	2,895

The Group has guaranteed a cross currency swap issued out of British American Tobacco Colombia S.A.S., receive variable US Dollars, pay fixed Colombian Peso, at 31 December 2013 this cross currency interest rate swap had a liability fair value of **£3 million** (2012: £19 million)

21. Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 Related Party Disclosures, all of which are undertaken in the normal course of the Group's business as a primary financing vehicle for the BAT Group.

Transactions and balances with fellow subsidiaries and the parent undertaking relate mainly to the provision of finance to companies within the BAT Group.

Details of these transactions in the Group Balance Sheet are set out in notes 10, 13, 14, 16, 17, and 18. In addition, outstanding balances with fellow subsidiaries are included within note 11 as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Derivative financial instruments				
Cross-currency swaps	**37**		12	
Interest rate swaps	**38**	**54**	55	87
Forward foreign currency contracts	**32**	**295**	48	181
	107	**349**	115	268

Details of these transactions in the Group Income Statement are set out in notes 3, 4 and 5. In addition, balances with fellow subsidiaries are included within note 6 as follows:

	2013	2012
	Income/(Expense)	Income/(Expense)
	£m	£m
Derivative financial instruments		
Cross-currency swaps	**11**	(29)
Interest rate swaps	**4**	(14)
Forward foreign currency contracts	**(176)**	(145)
	(161)	(188)

The key management of the Company consist of the members of the Board of Directors and no such person had any material interest during the year in a contract of significance with the Group. The term key management in this context includes the respective members of their households.

22. Principal subsidiary undertakings

The Company holds the entire issued share capital of BATIF Dollar Limited, and of B.A.T Finance B.V., finance companies incorporated in England and Wales and the Netherlands, respectively.

23. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2012: £nil).

24. Parent undertaking

The Company's immediate and 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 and registered as an external company in the Republic of South Africa. Consolidated group financial statements are prepared by British American Tobacco p.l.c. and are publicly available.

25. Post balance sheet events

In March 2014, the Group issued new €400 million Floating Rate Note with a maturity of March 2018.

26. Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Independent Auditors' report to the members of B.A.T. International Finance p.l.c. — Group Financial Statements

Report on the Group financial statements

Our opinion

In our opinion, the Group financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements (the "financial statements"), which are prepared by B.A.T. International finance p.l.c., comprise:

- the Group Balance Sheet as at 31 December 2013;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Statement of Changes in Equity and Group Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group'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 matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the parent company financial statements of British American Tobacco International Finance p.l.c. for the year ended 31 December 2013.

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 April 2014

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