FINANCIAL STATEMENTS

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. 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.

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Independent auditors' report continued

Area of focus	How our audit addressed the area of focus
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. 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.	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 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.

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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

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Group Income Statement

For the year ended 31 December

	Notes	2014 £m	2013 £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.

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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.

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Group Statement of Changes in Equity

At 31 December

	Notes	Attributable to owners of the parent						
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £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	Attributable to owners of the parent						
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £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.

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Group Balance Sheet

At 31 December

	Notes	2014 £m	2013 £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

	Notes	2014 £m	2013 £m
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

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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).

FINANCIAL STATEMENTS

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.

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

1 Accounting policies continued

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.

1 Accounting policies continued

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

1 Accounting policies continued

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.

1 Accounting policies continued

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

1 Accounting policies continued

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 £m	Translation exchange £m	Revenue Current rates £m	Revenue £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 £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting items £m	Segment result £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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

2 Segmental analyses continued

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 £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m	Depreciation, amortisation and impairment £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	
Revenue is based on location of sale	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
External revenue	143	155	13,828	15,105	13,971	15,260

	United Kingdom		All foreign countries		Group	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £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 £m	2013 £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 £m	2013 £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.

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3 Profit from operations continued

(d) Other operating expenses include:

	2014 £m	2013 £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 £m	2013 £m
Employee benefit costs	**223**	140
Depreciation and impairment costs	**69**	11
Other operating expenses	**180**	161
Other operating income	**(20)**	(66)
	452	246

3 Profit from operations continued

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.

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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.

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 £m	Group's share £m	Total £m	Group's share £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).

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Notes on the Accounts continued

5 Associates and joint ventures continued

(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 £m	ITC £m	Others £m	Total £m	RAI £m	ITC £m	Others £m	Total £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 £m	2013 £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.

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Notes on the Accounts continued

6 Taxation on ordinary activities continued

(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 £m	2013 £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 £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share 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 £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		3,115	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

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7 Earnings per share continued

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 £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	**3,115**	**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* £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £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.

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Notes on the Accounts continued

9 Intangible assets continued

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 £m	Leasehold property £m	Plant and equipment £m	Assets in the course of construction £m	Total £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.

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Notes on the Accounts continued

10 Property, plant and equipment continued

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

11 Investments in associates and joint ventures continued

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 £m	2013 £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.

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Notes on the Accounts continued

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.

12 Retirement benefit schemes continued

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 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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.

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Notes on the Accounts continued

12 Retirement benefit schemes continued

The amounts recognised in the Income Statement are as follows:

	Pension schemes		Health care schemes		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Movements in the year (note 20)	**7**	(5)	**–**	–	**7**	(5)

12 Retirement benefit schemes continued

The movements in scheme liabilities are as follows:

	Pension schemes		Health care schemes		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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.

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Notes on the Accounts continued

12 Retirement benefit schemes continued

The movements in funded scheme assets are as follows:

	Pension schemes		Health care schemes		Total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £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 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £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 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Actual return on scheme assets	**705**	346	**1**	1	**706**	347

12 Retirement benefit schemes continued

The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes		Health care schemes		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £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.

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Notes on the Accounts continued

12 Retirement benefit schemes continued

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

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Notes on the Accounts continued

13 Deferred tax continued

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 £m	2013 £m
Deferred tax assets	**(311)**	(248)
Deferred tax liabilities	**495**	514
	184	266

Deferred tax expected to be recovered within 12 months:

	2014 £m	2013 £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 £m	2013 £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 £m	2013 £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

14 Trade and other receivables continued

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.

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Notes on the Accounts continued

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 £m	Liabilities £m	Assets £m	Liabilities £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 £m	Liabilities £m	Assets £m	Liabilities £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.

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Notes on the Accounts continued

16 Derivative financial instruments 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 £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £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) £m	Liabilities (Inflow)/ Outflow £m	Assets Inflow/ (Outflow) £m	Liabilities (Inflow)/ Outflow £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 £m	Liabilities £m	Assets £m	Liabilities £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

16 Derivative financial instruments continued

(a) Interest rate swaps

								2014
					Interest rate %			
	Maturity date	Principal currency	m	£m	Original	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
					Interest rate %			
	Maturity date	Principal currency	m	£m	Original	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.

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16 Derivative financial instruments continued

(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).

16 Derivative financial instruments continued

(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	–	–

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Notes on the Accounts continued

17 Inventories

	2014 £m	2013 £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 £m	2013 £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 £m	2013 £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 £m	2013 £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 £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £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

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Notes on the Accounts continued

20 Capital and reserves – reconciliation of movement in total equity continued

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £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.

20 Capital and reserves – reconciliation of movement in total equity continued

(a) Share premium account, capital redemption reserves and merger reserves comprise:

	Share premium account £m	Capital redemption reserves £m	Merger reserves £m	Total £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.

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Notes on the Accounts continued

20 Capital and reserves – reconciliation of movement in total equity continued

Movements in other reserves and retained earnings (which are after deducting treasury shares) shown above comprise:

							Retained earnings	
	Translation reserve £m	Hedging reserve £m	Available-for-sale reserve £m	Revaluation reserve £m	Other £m	Total other reserves £m	Treasury shares £m	Other £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

20 Capital and reserves – reconciliation of movement in total equity continued

	Translation reserve £m	Hedging reserve £m	Available-for-sale reserve £m	Revaluation reserve £m	Other £m	Total other reserves £m	Retained earnings: Treasury shares £m	Retained earnings: Other £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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

20 Capital and reserves – reconciliation of movement in total equity continued

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 £m	2013 £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 £m	2013 £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).

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Notes on the Accounts continued

21 Borrowings continued

Borrowings are repayable as follows:

	Per Balance Sheet		Contractual gross maturities	
	2014 £m	2013 £m	**2014 £m**	2013 £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 £m	US dollar £m	UK sterling £m	Euro £m	Canadian dollar £m	Other currencies £m	Total £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 £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 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.

21 Borrowings continued

Finance lease liabilities per the Balance Sheet and on a contractual gross maturity basis are payable as follows:

	2014 £m	2013 £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 £m	2013 £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 £m	2013 £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

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Notes on the Accounts continued

22 Other provisions for liabilities and charges

	Restructuring of existing businesses £m	Employee related benefits £m	Fox River £m	Other provisions £m	Total £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 £m	2013 £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.

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24 Financial instruments and risk management continued

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.

24 Financial instruments and risk management continued

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

24 Financial instruments and risk management continued

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 £m	Level 2 £m	Level 3 £m	Total £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

24 Financial instruments and risk management continued

				2013
	Level 1 £m	Level 2 £m	Level 3 £m	Total £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 £m	Available-for-sale investments £m
1 January	**36**	37
Differences on exchange	**–**	(1)
31 December	**36**	36

FINANCIAL STATEMENTS

Notes on the Accounts continued

24 Financial instruments and risk management continued

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* £m	Related amounts not offset in the Group Balance Sheet £m	Net amount £m	Amount presented in the Group Balance Sheet* £m	Related amounts not offset in the Group Balance Sheet £m	Net amount £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 £m	2013 £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).

25 Cash flow continued

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)).

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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 £m	Cash-settled £m	Equity-settled £m	Cash-settled £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

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Notes on the Accounts continued

27 Share-based payments continued

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 £m	Unvested £m	Vested £m	Unvested £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.

27 Share-based payments continued

(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

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27 Share-based payments continued

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 £m	2013 £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.

FINANCIAL STATEMENTS

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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.

30 Contingent liabilities and financial commitments continued

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.

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Notes on the Accounts continued

30 Contingent liabilities and financial commitments continued

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		
	31 December 2013	3,063		
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 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.

30 Contingent liabilities and financial commitments continued

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

30 Contingent liabilities and financial commitments continued

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. Imperial and the UK Companies have all been served.	On 5–7 November 2012, appeals by the BAT defendants of both the jurisdictional and costs orders were heard by the Court of Appeal. 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.

30 Contingent liabilities and financial commitments continued

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, 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.

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Notes on the Accounts continued

30 Contingent liabilities and financial commitments continued

33. continued

Canadian province	Act pursuant to which claim was brought	Companies named as defendants and date served	Current stage
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2005	Investments, Industries, and Carreras Rothmans Limited have been named as defendants. Imperial and the UK Companies have been served.	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. 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. 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.

30 Contingent liabilities and financial commitments continued

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

30 Contingent liabilities and financial commitments continued

(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.

30 Contingent liabilities and financial commitments continued

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.

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Notes on the Accounts continued

30 Contingent liabilities and financial commitments continued

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.

30 Contingent liabilities and financial commitments continued

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.

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30 Contingent liabilities and financial commitments continued

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.

30 Contingent liabilities and financial commitments continued

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.

FINANCIAL STATEMENTS

Notes on the Accounts continued

30 Contingent liabilities and financial commitments continued

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.

30 Contingent liabilities and financial commitments continued

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

FINANCIAL STATEMENTS

Notes on the Accounts continued

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.

	Souza Cruz Group		Malaysia Group	
Summarised financial information	2014 £m	2013 £m	2014 £m	2013 £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.

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Five-Year Summary

For the years ended 31 December	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Income Statement					
Gross turnover (including duty, excise and other taxes)	**42,506**	46,185	45,872	46,123	43,855
Revenue (after deducting duty, excise and other taxes)	**13,971**	15,260	15,190	15,399	14,883
Profit from operations	**4,546**	5,526	5,372	4,675	4,278
Adjusted profit from operations	**5,403**	5,820	5,641	5,473	4,944
Profit before taxation	**4,848**	5,799	5,592	4,870	4,334
Profit for the year	**3,393**	4,199	4,076	3,321	3,092

	2014 pence	2013 pence	2012 pence	2011 pence	2010 pence
Earnings per share					
– basic unadjusted	**167.1**	205.4	195.8	154.4	142.9
– diluted unadjusted	**166.6**	204.6	194.8	153.5	142.1
– diluted adjusted	**208.1**	216.6	205.2	191.9	173.4
Dividends declared per share	**148.1**	142.4	134.9	126.5	114.2

At 31 December	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Balance Sheet					
Non-current assets	**17,035**	17,363	18,141	18,624	19,203
Current assets	**9,132**	9,518	9,186	8,495	8,657
Total assets	**26,167**	26,881	27,327	27,119	27,860
Owners of the parent	**5,510**	6,634	7,472	8,167	9,206
Non-controlling interests	**304**	301	307	307	342
Total equity	**5,814**	6,935	7,779	8,474	9,548
Non-current liabilities	**11,584**	11,510	11,406	10,798	10,667
Current liabilities	**8,769**	8,436	8,142	7,847	7,645
Total liabilities	**20,353**	19,946	19,548	18,645	18,312
Total equity and liabilities	**26,167**	26,881	27,327	27,119	27,860

FINANCIAL STATEMENTS

Half-Yearly Analysis of Profit

The figures shown below have been produced using average rates of exchange on a half-yearly basis since the beginning of the year. Thus the discrete half year to 30 June has not been restated for subsequent movements in foreign exchange rates during the year, which are reflected in the results for the subsequent half year to 31 December.

		6 months to	Year to
	30 Jun 2014 £m	31 Dec 2014 £m	31 Dec 2014 £m
Profit from operations	**2,458**	**2,088**	**4,546**
Analysed as:			
– adjusted profit from operations	**2,665**	**2,738**	**5,403**
– restructuring and integration costs	**(179)**	**(273)**	**(452)**
– amortisation of trademarks and similar intangibles	**(28)**	**(30)**	**(58)**
– Fox River	**–**	**27**	**27**
– Flintkote	**–**	**(374)**	**(374)**
	2,458	**2,088**	**4,546**
Net finance costs	**(208)**	**(209)**	**(417)**
Share of post-tax results of associates and joint ventures	**364**	**355**	**719**
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	**349**	**363**	**712**
– issue of shares and change in shareholding	**16**	**(2)**	**14**
– restructuring and integration costs	**5**	**(1)**	**4**
– MSA receipts	**5**	**–**	**5**
– other	**(11)**	**(5)**	**(16)**
	364	**355**	**719**
Profit before taxation	**2,614**	**2,234**	**4,848**
Earnings per share			
Basic	**93.3p**	**73.8p**	**167.1p**
Diluted	**93.1p**	**73.5p**	**166.6p**
Adjusted diluted	**101.8p**	**106.3p**	**208.1p**

		6 months to	Year to
	30 Jun 2013 £m	31 Dec 2013 £m	31 Dec 2013 £m
Profit from operations	2,807	2,719	5,526
Analysed as:			
– adjusted profit from operations	2,944	2,876	5,820
– restructuring and integration costs	(97)	(149)	(246)
– amortisation of trademarks and similar intangibles	(40)	(34)	(74)
– gain on deemed partial disposal of a trademark	–	26	26
	2,807	2,719	5,526
Net finance costs	(241)	(225)	(466)
Share of post-tax results of associates and joint ventures	425	314	739
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	368	355	723
– issue of shares and change in shareholding	27	(5)	22
– restructuring and integration costs	(2)	(2)	(4)
– MSA receipts	34	(1)	33
– other	(2)	(33)	(35)
	425	314	739
Profit before taxation	2,991	2,808	5,799
Earnings per share			
Basic	106.6p	98.8p	205.4p
Diluted	106.1p	98.5p	204.6p
Adjusted diluted	109.1p	107.5p	216.6p

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Principal subsidiaries and other Group undertakings

Principal subsidiary undertakings

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. The subsidiary undertakings listed below are therefore the main corporate entities in those countries which, in aggregate, contributed over 80% of Group revenue and profit from operations.

	% equity shares held
Centre Corporate Companies	
B.A.T. (U.K. and Export) Ltd	100
B.A.T. Capital Corporation (incorporated in the United States of America)	100*
B.A.T. International Finance p.l.c.	100*
BATMark Ltd	100*
British-American Tobacco (Holdings) Ltd	100
British American Tobacco Holdings (The Netherlands) B.V. (incorporated in The Netherlands)	100
British American Tobacco International Ltd (incorporated in Switzerland)	100
British American Tobacco (Brands) Inc (incorporated in the United States of America)	100
British American Tobacco (Brands) Ltd	100
British American Tobacco (GLP) Ltd	100
British American Tobacco (Investments) Ltd	100
Asia-Pacific	
Australia	
British American Tobacco Australia Ltd.	100
Bangladesh	
British American Tobacco Bangladesh Company Ltd	73
Indonesia	
PT Bentoel Internasional Investama Tbk	85
Japan	
British American Tobacco Japan, Ltd	100
Malaysia	
British American Tobacco (Malaysia) Berhad	50
New Zealand	
British American Tobacco (New Zealand) Ltd	100
Pakistan	
Pakistan Tobacco Co. Ltd	94
Philippines	
British American Tobacco (Philippines) Limited (incorporated in the United Kingdom)	100
South Korea	
British American Tobacco Korea Ltd	100
British American Tobacco Korea Manufacturing Ltd	100
Taiwan	
B.A.T Services Ltd (incorporated in the United Kingdom)	100
Vietnam	
British-American Tobacco Marketing (Singapore) Private Limited (incorporated in Singapore)	100

	% equity shares held
Americas	
Argentina	
Nobleza-Piccardo S.A.I.C.y F.	99
Brazil	
Souza Cruz, S.A.	75
Canada	
Imperial Tobacco Canada Ltd	100
Chile	
British American Tobacco Chile Operaciones, S.A.	99
Colombia	
British American Tobacco Colombia S.A.S.	100
Mexico	
British American Tobacco Mexico, S.A. de C.V.	100
Venezuela	
C.A. Cigarrera Bigott Sucs.	100
Western Europe	
Belgium	
British American Tobacco Belgium S.A.	100
Czech Republic	
British American Tobacco (Czech Republic), s.r.o.	100
Denmark	
British American Tobacco Denmark A/S (House of Prince A/S)	100
France	
British American Tobacco France SAS	100
Germany	
British-American Tobacco (Germany) GmbH	100
British American Tobacco (Industrie) GmbH	100
Italy	
British American Tobacco Italia S.p.A.	100
Netherlands	
British American Tobacco Nederland B.V.	100
British American Tobacco Western Europe Region B.V.	100
Poland	
British-American Tobacco Polska S.A.	100
British American Tobacco Polska Trading sp. zo.o.	100
Romania	
British-American Tobacco (Romania) Trading SRL	100
Spain	
British American Tobacco España, S.A.	100
Switzerland	
British American Tobacco Switzerland S.A.	100
United Kingdom	
British American Tobacco UK Ltd	100

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Principal subsidiaries and other Group undertakings

Principal subsidiary undertakings continued

	% equity shares held
Eastern Europe, Middle East and Africa	
Algeria	
British American Tobacco (Algérie) S.P.A.	51
Egypt	
British American Tobacco Egypt LLC	100
Iran	
B.A.T. Pars Company (Private Joint Stock)	100
Kazakhstan	
British American Tobacco Kazakhstan Trading LLP	100
Morocco	
British American Tobacco Exports B.V. (incorporated in the Netherlands)	100
Nigeria	
British American Tobacco (Nigeria) Ltd.	100
British American Tobacco Marketing Nigeria Ltd	100
Russia	
CJSC British American Tobacco – SPb	100†
CJSC 'International Tobacco Marketing Services'	100
South Africa	
British American Tobacco Holdings South Africa (Pty) Ltd	100
Turkey	
British American Tobacco Tütün Mamulleri Sanayi ve Ticaret A.S.	100
Ukraine	
A/T B.A.T. – Prilucky Tobacco Co.	99

Those subsidiary undertakings listed here that are held directly by British American Tobacco p.l.c. are indicated thus *; all others are held by sub-holding companies.

Unless otherwise stated, Centre Corporate Companies are subsidiary undertakings incorporated in the United Kingdom and the country of incorporation and operation of regional subsidiary undertakings is that under which the company is listed.

All identified subsidiary undertakings are involved in activities related to the manufacture, distribution or sale of tobacco products. All companies' shares are ordinary shares or common stock except for those indicated thus †, which include preference shares.

A complete list of Group subsidiary and associate undertakings will be attached to the next British American Tobacco p.l.c. annual return to the Registrar of Companies. A broader description of the Group's operations and sphere of activities can be found online at www.bat.com

Principal joint operations

	% equity shares held
Asia-Pacific	
Hong Kong	
CTBAT International Ltd – tobacco	50

Principal associate undertakings

		Latest published information	Total issued capital £m	% shares held
Americas				
United States of America				
Reynolds American Inc. – tobacco	# Common Stock # Preferred Stock	31.12.14	* **	42.0
Asia-Pacific				
India				
ITC Ltd – FMCG including tobacco – agri-business – paperboard, paper and packaging – hotels	# Ordinary	31.12.14	80	30.2

Listed overseas.

* As at 31 December 2014, Reynolds American Inc. had issued 531,283,513 shares (US$0.0001 Common Stock), of which the Group held 223,334,019.

** As at 31 December 2014, Reynolds American Inc. had issued 1,000,000 shares (US$0.01 Preferred Stock), in which the Group held no interest.

FINANCIAL STATEMENTS

Independent auditors' report

To the members of British American Tobacco p.l.c.

Report on the Parent Company financial statements

Our opinion

In our opinion, the Parent Company financial statements (the 'financial statements'):

– give a true and fair view of the state of the Parent Company's affairs as at 31 December 2014;

– have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

– have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

British American Tobacco p.l.c.'s financial statements comprise:

– the Parent Company Balance Sheet as at 31 December 2014; and

– the notes to the financial statements, 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 to the financial statements. 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 International Standards on Auditing (UK and Ireland) ('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 Company acquired in the course of performing our audit; or

– otherwise misleading.

We have no exceptions to report arising from this responsibility.

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; or

– adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

– the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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.

FINANCIAL STATEMENTS

Independent auditors' report continued

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 Parent 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 Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

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 Group financial statements of British American Tobacco 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, United Kingdom
25 February 2015

FINANCIAL STATEMENTS

Balance Sheet – British American Tobacco p.l.c.

At 31 December

	Notes	2014 £m	2013 £m
Assets			
Fixed assets			
Investments in Group companies	2	**4,356**	4,350
		4,356	4,350
Current assets			
Debtors	3	**9,116**	8,101
Cash at bank and in hand		**4**	3
Total current assets		**9,120**	8,104
Total assets		**13,476**	12,454
Equity			
Capital and reserves			
Called up share capital		**507**	507
Share premium account		**74**	70
Capital redemption reserves		**101**	101
Other reserves		**90**	90
Profit and loss account		**8,902**	7,801
after deducting			
– cost of treasury shares		**(5,057)**	(4,309)
Shareholders' funds	4	**9,674**	8,569
Liabilities			
Creditors	5	**3,802**	3,885
Total equity and liabilities		**13,476**	12,454

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

On behalf of the Board

Richard Burrows
Chairman
25 February 2015

FINANCIAL STATEMENTS

Notes on the Accounts

1 Accounting policies

Basis of accounting

The Parent Company financial statements have been prepared on the going concern basis under the historical cost convention except as described in the accounting policy below on financial instruments and in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Principles.

The Company is a public limited company which is listed on the London Stock Exchange and the Johannesburg Stock Exchange and is incorporated and domiciled in the UK.

Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the profit and loss account in the year.

Accounting for income

Income is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts, as appropriate.

Taxation

Taxation provided is that chargeable on the profits of the year, together with deferred taxation. Deferred taxation is provided in full on timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. However, the Company does not discount deferred tax assets and liabilities.

Fixed asset investments

Fixed asset investments are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value.

Dividends

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

Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

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.

Related parties

The Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly-owned subsidiaries of British American Tobacco p.l.c. Group.

Financial instruments

The financial instrument disclosures of the Company are included in the Group financial statements which are included in this Annual Report. Consequently, the Company is exempt under paragraph 2D (b) of FRS 29 from publishing these financial instruments disclosures.

Financial guarantees are initially recorded at fair value, and subsequently carried at this fair value less accumulated amortisation.

Share-based payments

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

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

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

Future changes to accounting policies

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

FRS 100 sets out the overall financial reporting framework for companies in the UK and Ireland. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting policies as in their listed group accounts, but with fewer disclosures. FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying EU-adopted IFRS, FRS 101 or the FRSSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Company will adopt the accounting requirements of the reduced disclosure framework under FRS 101 in the Company's reporting for 2015. Given that the Company currently applies the fair value provisions of historic UK GAAP, the adoption of FRS 101 from 1 January 2015 will have no material impact on profit or equity.

2 Investments in Group companies

The Company's directly wholly-owned subsidiaries are British American Tobacco (1998) Limited, B.A.T. International Finance p.l.c., B.A.T Capital Corporation and BATMark Limited.

The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the Balance Sheet.

	2014 £m	2013 £m
1 January	**4,350**	4,333
Additions	**6**	17
31 December	**4,356**	4,350

3 Debtors

	2014 £m	2013 £m
Amounts due from Group undertakings	**9,116**	8,101

Included within amounts due from Group undertakings is an amount of £9,036 million (2013: £8,024 million) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR.

Amounts totalling £20 million (2013: £23 million) due from Group undertakings are unsecured, interest-free and repayable on demand.

Included in debtors are amounts of £60 million (2013: £54 million) falling due after one year, all of which is unsecured and interest-free.

4 Shareholders' funds

	Share capital £m	Share premium account £m	Capital redemption reserves £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2014	**507**	**70**	**101**	**90**	**7,801**	**8,569**
Increase in share capital – share options	**–**	**4**	**–**	**–**	**–**	**4**
Profit for the year	**–**	**–**	**–**	**–**	**4,561**	**4,561**
Dividends and other appropriations ordinary shares	**–**	**–**	**–**	**–**	**(2,712)**	**(2,712)**
Consideration paid for share buy-back programme	**–**	**–**	**–**	**–**	**(800)**	**(800)**
Consideration paid for purchase of own shares held in employee share ownership trusts	**–**	**–**	**–**	**–**	**(47)**	**(47)**
Consideration received on the exercise of options over own shares held in employee share ownership trusts	**–**	**–**	**–**	**–**	**1**	**1**
Other movements	**–**	**–**	**–**	**–**	**98**	**98**
31 December 2014	**507**	**74**	**101**	**90**	**8,902**	**9,674**

Dividends paid are recognised in the year in which they are approved by shareholders, and dividends received are recognised in the year in which they are received. The final dividend which has been declared for the year ended 31 December 2014 is shown in note 8 to the Group financial statements and will be recognised in the financial statements for the year ended 31 December 2015.

As permitted by Section 408 of the Companies Act 2006, the profit and loss of the Company has not been presented in these financial statements. The profit for the year ended 31 December 2014 was £4,561 million (2013: £4,336 million).

Details of Directors' remuneration, share options and retirement benefits are given in the Remuneration Report. Details of key management compensation are included in note 29 of the Group financial statements. The Company had two employees at 31 December 2014 (2013: three). The costs of these employees are borne by another Group company.

Shareholders' funds are stated after deducting the cost of treasury shares which include £4,845 million (2013: £4,045 million) for shares repurchased and not cancelled and £212 million (2013: £264 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. As at 31 December 2014 treasury shares include 6,357,513 of shares held in trust and 162,645,590 of shares repurchased and not cancelled as part of the Company's share buy-back programme.

Other movements in shareholders' funds principally relate to the release of treasury shares as a result of the exercise of share options.

FINANCIAL STATEMENTS

Notes on the Accounts continued

4 Shareholders' funds continued

Called-up share capital	Ordinary shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2014	**2,026,456,406**	**506.61**
Changes during the year		
– share option schemes	**236,623**	**0.06**
31 December 2014	**2,026,693,029**	**506.67**

Called-up share capital	Ordinary shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2013	2,026,267,623	506.57
Changes during the year		
– share option schemes	188,783	0.04
31 December 2013	2,026,456,406	506.61

Share premium

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.

5 Creditors

	2014 £m	2013 £m
Amounts due to Group undertakings	**9**	101
Loans due to Group undertakings	**3,617**	3,617
Sundry creditors	**176**	167
	3,802	3,885

Amounts due to Group undertakings of £9 million (2013: £101 million) are unsecured, interest-free and repayable on demand.

Loans due to Group undertakings of £3,617 million (2013: £3,617 million) are unsecured, bear interest at rates between 1.87% and 1.92% (2013: 1.79% and 1.80%) and are repayable in 2017.

Included in sundry creditors is an amount of £47 million (2013: £47 million) due within one year and the remaining balance of £129 million (2013: £120 million) due after one year in respect of the fair value of guarantees.

6 Audit fees

	2014	2013
Fees payable to PricewaterhouseCoopers LLP		
– Audit fees	**£30,000**	£30,000
– Fees paid for other services	**£nil**	£nil

7 Contingent liabilities and financial commitments

British American Tobacco p.l.c. has guaranteed borrowings by subsidiary undertakings of £11.1 billion (2013: £11.3 billion) and total borrowing facilities of £25.3 billion (2013: £17.4 billion).

There are contingent liabilities in respect of litigation in various countries (note 30 to the Group financial statements). In addition, the Company has cross-guaranteed the liabilities of the British American Tobacco UK Pension Fund which had a deficit according to the last formal triennial actuarial valuation in March 2014 of £264 million and which had a deficit on an IAS 19 basis at 31 December 2014 of £282,000 (2013: £75,169,000).

FINANCIAL STATEMENTS

Shareholder and contact information

Listings and shareholder services

Premium listing

London Stock Exchange (Share Code: BATS; ISIN: GB0002875804)

United Kingdom Registrar

Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
tel: 0800 408 0094; +44 870 889 3159
web-based enquiries: www.investorcentre.co.uk/contactus

www.computershare.com/uk/investor/bri

Access the web-based enquiry service of Computershare Investor Services PLC for holders of shares on the UK share register; view details of your British American Tobacco shareholding and recent dividend payments and register for shareholder electronic communications to receive notification of British American Tobacco shareholder mailings by email.

www.computershare.com/dealing/uk

Go online or telephone 0870 703 0084 (UK) to buy or sell British American Tobacco shares traded on the London Stock Exchange. The internet share dealing service is only available to shareholders resident in countries in the European Economic Area.

Secondary listing

JSE (Share Code: BTI)

Shares are traded in electronic form only and transactions settled electronically through Strate.

South Africa Registrar

Computershare Investor Services Proprietary Limited
PO Box 61051, Marshalltown 2107, South Africa
tel: 0861 100 925; +27 11 870 8222
email enquiries: web.queries@computershare.co.za

American Depositary Receipts

NYSE MKT (Symbol: BTI; CUSIP No. 110448107)

British American Tobacco sponsors an American Depositary Receipt (ADR) programme in the United States. Each ADR represents two of the Company's ordinary shares.

Enquiries regarding ADR holder accounts and payment of dividends should be directed to:

Citibank Shareholder Services
PO Box 43077, Providence, Rhode Island 02940-3077, USA
tel: 1-888 985-2055 (toll-free) or +1 781 575 4555
email enquiries: citibank@shareholders-online.com
website: www.citi.com/dr

Publications

Copies of current and past Annual Reports are available on request. Copies of the Group corporate brochure, We are BAT, are also available. Highlights from these publications can be produced in alternative formats such as Braille, audio tape and large print.

Contact:
British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326
email: bat@team365.co.uk

Holders of shares held on the South Africa register can contact the Company's Representative office in South Africa using the contact details shown overleaf.

Our website – www.bat.com

Access comprehensive information about British American Tobacco and download shareholder publications at the corporate website; visit the Investors section for valuation and charting tools and dividend and share price data and subscribe to the email alert services for key financial events in the British American Tobacco financial calendar; download the British American Tobacco Investor Relations app to access all the latest financial information on your iPad, iPhone or Android device.

Dividend Reinvestment Plan

Available to the majority of shareholders on the UK register, this is a straightforward and economic way of utilising your dividends to build up your shareholding in British American Tobacco. Contact Computershare Investor Services PLC in the UK for details.

Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA.

Contact:
The Share Centre
PO Box 2000, Aylesbury, Bucks HP21 8ZB
tel: 0800 800 008; +44 1296 414 141
email enquiries: service@share.co.uk
website: www.share.co.uk

(The tax advantages of ISAs depend on your individual circumstances and the benefits of ISAs could change in the future. You should note that investments, their value and the income they provide can go down as well as up and you might not get back what you originally invested.)

Capital gains tax

Fact sheet for British American Tobacco historical UK capital gains tax information; contact the British American Tobacco Company Secretarial Department, tel: +44 20 7845 1000 or access online at www.bat.com/cgt

FINANCIAL STATEMENTS

Shareholder and contact information continued

Final dividend 2014 – dates in 2015

Please see 'Other corporate disclosures' (page 109) for further details.

26 February	Dividend announced (including amount of dividend per share in both sterling and rand, applicable exchange rate and conversion date – 24 February 2015; plus additional applicable information as required in respect of South Africa Dividends Tax)
26 February to 20 March	From the commencement of trading on 26 February to 20 March 2015 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted
13 March	Last day to trade (JSE)
16 March to 20 March	From the commencement of trading on 16 March to 20 March 2015 (inclusive), no transfers between the UK main register and the South Africa branch register; no shares may be dematerialised or rematerialised
16 March	Ex-dividend date (JSE)
19 March	Ex-dividend date (LSE)
20 March	Record date (LSE and JSE)
15 April	Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (UK main register only)
7 May	Payment date (sterling and rand)

Financial calendar 2015

29 April	Interim Management Statement
29 April	Annual General Meeting Milton Court Concert Hall, Silk Street, London EC2Y 9BH
29 July	Half-Yearly Report
28 October	Interim Management Statement

Analyses of shareholders

The high and low prices at which the Company's shares are recorded as having traded during the year on each of the LSE and the JSE are as follows:

	High	Low
LSE	£37.945	£28.81
JSE	R665.47	R524.82

At 31 December 2014 there was a total of 2,026,693,029 ordinary shares in issue held by 119,800 shareholders. These shareholdings are analysed as follows:

(a) by listing as at 31 December 2014:

Register	Total number of shares	Percentage of issued share capital	Number of holders
UK	1,713,604,682	84.55	47,441
South Africa	313,088,347	15.45	72,359

b) by category of shareholder and size of shareholding as at 31 December 2014 (UK register) and 24 December 2014 (South Africa register), being the latest practicable dates on which equivalent information was available on both registers:

UK Register

Category of UK shareholder	Number of UK holders	Percentage of total UK holders	Number of UK ordinary shares	Percentage of UK ordinary share capital
Individuals	38,372	80.88	41,877,555	2.44
Financial institutions/ Pension Funds	274	0.58	3,809,176	0.22
Nominee companies	8,554	18.03	1,500,918,474	87.59
Other corporate holders	240	0.51	4,353,887	0.26
Treasury Shares (UK)	1	<0.01	162,645,590	9.49

South Africa Register

Category of SA shareholder	Number of SA holders	Percentage of total SA holders	Number of SA ordinary shares	Percentage of SA ordinary share capital
Individuals	53,487	73.92	27,529,972	8.79
Financial institutions/ Pension funds	2,385	3.30	212,276,244	67.80
Nominee companies	14,206	19.63	62,475,446	19.96
Other corporate holders	2,281	3.15	10,806,685	3.45

Combined Registers

Category of shareholder	Number of holders	Percentage of total holders	Number of ordinary shares	Percentage of issued ordinary share capital
Individuals	91,859	76.68	69,407,527	3.42
Financial institutions/ Pension funds	2,659	2.22	216,085,420	10.66
Nominee companies	22,760	19.00	1,563,393,920	77.14
Other corporate holders	2,521	2.10	15,160,572	0.75
Treasury shares (UK)	1	<0.01	162,645,590	8.03

UK Register

	Number of holders	Percentage of UK ordinary share capital
1 – 1,999	39,920	1.09
2,000 – 9,999	5,713	1.26
10,000 – 199,999	1,293	3.65
200,000 – 499,999	221	4.08
500,000 and over	293	80.43
Treasury shares (UK)	1	9.49

South Africa Register

	Number of holders	Percentage of SA ordinary share capital
1 – 1,999	65,743	6.55
2,000 – 9,999	4,747	6.03
10,000 – 199,999	1,686	21.06
200,000 – 499,999	102	10.28
500,000 and over	81	56.08

Combined Registers

	Number of holders	Percentage of issued ordinary share capital
1 – 1,999	105,663	1.94
2,000 – 9,999	10,460	1.99
10,000 – 199,999	2,979	6.34
200,000 – 499,999	323	5.04
500,000 and over	374	76.66
Treasury shares (UK)	1	8.03

Registered office

Globe House, 4 Temple Place, London WC2R 2PG
tel: +44 20 7845 1000, facsimile: +44 20 7240 0555
Incorporated in England and Wales No. 3407696

Representative Office in South Africa

34 Alexander Street, Stellenbosch 7600, South Africa
PO Box 631, Cape Town 8000, South Africa
tel: +27 21 888 3194

Secretary

Nicola Snook

General Counsel

Neil Withington

Investor relations

Enquiries should be directed to Mike Nightingale or Rachael Brierley
tel: +44 20 7845 1180

Press office

Enquiries should be directed to Will Hill or Anna Vickerstaff
tel: +44 20 7845 2888
email: press_office@bat.com

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place, London WC2N 6RH

References in this publication to 'British American Tobacco', 'BAT, 'we', 'us', and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company) (No. 3407696) and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

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