

British & American Investment Trust PLC

Annual Financial Report
for the year ended 31 December 2015

Registered number: 00433137

Directors

J Anthony V Townsend (Chairman)
Jonathan C Woolf (Managing Director)
Dominic G Dreyfus (Non-executive)
Ronald G Paterson (Non-executive)

Registered office

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Registered in England
No.433137
29 April 2016

This is the Annual Financial Report as required to be published under DTR 4 of the UKLA Listing Rules.

Financial Highlights

For the year ended 31 December 2015

	2015			2014		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Profit/(loss) before tax – realised	2,701	(1,219)	1,482	2,416	(713)	1,703
Profit/(loss) before tax – unrealised	–	3,925	3,925	–	(3,226)	(3,226)
Profit/(loss) before tax – total	2,701	2,706	5,407	2,416	(3,939)	(1,523)
Earnings per £1 ordinary share – basic	9.51p	10.83p	20.34p	8.48p	(15.76)p	(7.28)p
Earnings per £1 ordinary share – diluted	7.80p	7.73p	15.53p	7.06p	(11.25)p	(4.19)p
Net assets			30,211			27,126
Net assets per ordinary share – deducting preference shares at par			81p			69p
– diluted			86p			78p
Diluted net asset value per ordinary share at 25 April 2016			69p			
Dividends declared or proposed for the period per ordinary share						
– interim paid			2.7p			2.7p
– final proposed			5.5p			5.3p
per preference share			3.5p			3.5p

Basic net assets and earnings per share are calculated using a value of par for the preference shares.

Consequently, when the net asset value attributed to ordinary shares remains below par the diluted net asset value will show a higher value than the basic net asset value.

Chairman's Statement

I report our results for the year ended 31 December 2015.

Revenue

The return on the revenue account before tax amounted to £2.7 million (2014: £2.4 million), an increase of 12 percent. This year, and particularly in the second half, external dividends received by the parent company were considerably higher than those received via group subsidiaries, accounting for the reversal to the decline in revenues reported at the interim stage.

Gross revenues totalled £3.2 million (2014: £2.9 million). Film income of £88,000 (2014: £165,000) and property unit trust income of £17,000 (2014: £24,000) was received in our subsidiary companies. In accordance with FRS10, these income streams are not included within the revenue figures noted above.

The total return before tax amounted to a gain of £5.4 million (2014: £1.5 million loss), which comprised net revenue of £2.7 million, a realised loss of £0.9 million and an unrealised gain of £3.9 million. The revenue return per ordinary share was 9.5p (2014: 8.5p) on an undiluted basis and 7.8p (2014: 7.1p) on a diluted basis.

Net Assets and Performance

Net assets at the year end were £30.2 million (2014: £27.1 million), an increase of 11.4 percent. This compares to decreases in the FTSE 100 and All Share indices of 4.9 percent and 2.5 percent, respectively, over the period. On a total return basis, after adding back dividends paid during the year, our net assets increased by 20.0 percent compared to a 1.3 percent decrease and a 1.0 percent increase in the FTSE 100 and All Share indices, respectively. This strong outperformance for the year built on the gains already recorded for the first half and was due to a continued recovery in the value of our largest US investment, Geron Corporation, and a strengthening in the value of the US dollar by 5 percent. The reasons for the recovery in the value of our investment in Geron were explained in detail in my last full year and interim statements and followed an important partnership agreement entered into with Johnson & Johnson at the end of 2014.

This strong result for the full year allowed us to maintain the outperformance reported at the interim stage against our investment trust sector on price and total return over all periods up to 10 years.

More generally in 2015, the UK and leading equity markets had traded well ahead in the first half by as much as 8 percent but by June had reversed to being flat as the Greek sovereign debt crisis in the Eurozone came to a head and then in August markets suffered an abrupt and significant decline of over 10 percent. This sudden retreat was seen in global markets throughout as fears surfaced about significant economic weakness in China indicated by weak oil and commodity prices as well as the expectation of the first US dollar interest rate rise for almost 10 years in September. In the event the rate increase did not occur as anticipated because of the weakness in global markets but was finally implemented in December. Following the disruption in August, equity markets stabilised in the final quarter but never regained the highs seen in the first half and finished the year flat or slightly down.

The net asset value per ordinary share increased to 86p (2014: 78p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share increased to 81p (2014: 69p).

Dividend

We are pleased to recommend an increased final dividend of 5.5p per ordinary share, which together with the interim dividend makes a total payment for the year of 8.2p (2014: 8.0p) per ordinary share. This represents an increase of 2.5 percent over the previous year's total dividend and a yield of 8.6 percent based on the share price of 95p at the end of the year. The final dividend will be payable on 23 June 2016 to shareholders on the register at 20 May 2016. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

Outlook

Global equity markets opened the year in significant retreat, falling by over 10 percent in two months. This was again the result of growth fears in China in the context of extremely low oil prices which had fallen by over 50 percent in less than a year to 12 year lows, exacerbating flows out of equity markets as Chinese and oil producing sovereign investors disinvested, as well as the aftermath of the albeit small and measured rise in US \$ interest rates in December. Investors sensed a significant change in sentiment towards global growth prospects and developing economy markets suffered particularly with risk appetite falling away. By March, however, markets had stabilised and regained their opening levels following a modest recovery in the level of oil prices. Nevertheless, there remains much nervousness and particularly in the UK in the run up to the referendum in June on continued membership of the European Union. With opinion polls predicting a close result and much financial well-being hanging on the outcome, a high level of volatility in investment and currency markets as well as disruption to economic investment are expected in the short term until the votes are cast. Given the high degree of uncertainty surrounding the EU referendum, we will await the outcome before taking any major new investment decisions.

As at 25 April 2016, our net assets had decreased to £24.0 million, a decrease of 20.5 percent since the beginning of the calendar year. This decrease reflects a drop in the value of our US investments. This is equivalent to 56 pence per share (prior charges deducted at par) and 69 pence per share on a diluted basis. Over the same period the FTSE 100 increased 0.3 percent and the All Share Index decreased 0.2 percent.

Anthony Townsend

29 April 2016

Managing Director's report

In 2015, UK and US equity markets followed a familiar trend of recent years by rising for most of the first half only to fall back by June to end the period flat. The UK market had risen by 7 percent by May only to lose the gain completely by the end of June. As in previous years, markets were generally supported by the huge volumes of liquidity still being provided by all the developed economy central banks but with one eye always on the prospect of the first rise in interest rates in the USA. This had had been expected for some time, given the steady but relatively modest recovery in economic growth in the USA since 2010 and indeed in the UK. But the decision to increase was postponed on many occasions over the last two years in both countries until finally in December the Federal Reserve increased rates by 0.25 percent to 0.5 percent.

As noted above, in August 2015 global equity markets experienced a sharp reversal by over 10 percent as fears over continued levels of growth in China forced a reassessment of global growth expectations. The long awaited increase in US interest rates also weighed on the market at this time, with September being generally considered the likely month for the rate increase to be announced.

The fears relating to China developed out of a sharp drop in the crude oil price which has lately become highly correlated to equity market movements. Oil prices had fallen from the previously sustained levels of around US\$130 per barrel prior to 2015 to US\$70 per barrel in the first half of 2015 and then fell lower to US\$50 in August, a fall of over 60 percent in less than a year. Commodities prices also fell and were seen as a further indicator of China's slowing economic activity. It was also judged to be symptomatic of the economic strategy being promoted by the Chinese authorities away from manufacturing to service and consumer based activities. This change was seen as a potential drag on growth for other economies over time as global trade and exports would be likely to be adversely affected.

With the postponement again in September of any interest rate rise in the USA, the equity markets stabilised in the final quarter but ended the year in negative territory, with the US and UK indices down 2 percent and 5 percent, respectively.

Our portfolio significantly outperformed the benchmark at both the half year and full year, as reported above. This was due to a recovery in the share price of our principal US investment Geron Corporation which rose by 49 percent. This increase was also assisted by a strengthening in the US dollar by 5 percent over the year. Geron's recovery followed the completion of a landmark development and sales agreement with Johnson & Johnson previously reported on for its proprietary cancer drug platform, Imetelstat, at the end of 2014 and reflected the market's gradual appreciation of the prospects for the drug as clinical trials progressed and results began to be published.

As noted above, our performance in 2015 showed outperformance against our AIC sector for all periods up to 10 years in terms of price and total return and, when taking our dividends into account, has thus given shareholders positive and superior returns over these periods.

Outlook

Since the beginning of 2016, equity market volatility has increased substantially. The correlation of markets to the oil price has continued and with oil prices falling to below US\$30 per barrel in January, equity markets fell sharply in January and February by over 10 percent. While some stability returned in March allowing markets to regain their year opening levels, further falls have been seen in April.

This instability is expected to continue, with the vast number of significant political and related economic events currently in play. These include unpredictable and so far unconventional US presidential elections, continued instability in the Middle East with allied terrorist events in Europe, the refugee crisis in Europe, the unresolved sovereign credit situation in Greece, the EU referendum in the UK and a generally perceived deterioration in prospects for world growth.

Against this very uncertain background in the short to medium term, we will await further developments before taking any major investment decisions.

Jonathan Woolf

29 April 2016

Income statement

For the year ended 31 December 2015

	2015			2014		
	Revenue return £ 000	Capital return £ 000	Total £ 000	Revenue return £ 000	Capital return £ 000	Total £ 000
Investment income (note 2)	3,206	-	3,206	2,871	-	2,871
Holding gains/(losses) on investments at fair value through profit or loss	-	3,925	3,925	-	(3,226)	(3,226)
Losses on disposal of investments at fair value through profit or loss	-	(927)	(927)	-	(313)	(313)
Foreign exchange losses	(53)	(47)	(100)	-	(147)	(147)
Expenses	(417)	(231)	(648)	(398)	(225)	(623)
Profit/(loss) before finance costs and tax	2,736	2,720	5,456	2,473	(3,911)	(1,438)
Finance costs	(35)	(14)	(49)	(57)	(28)	(85)
Profit/(loss) before tax	2,701	2,706	5,407	2,416	(3,939)	(1,523)
Tax	28	-	28	54	-	54
Profit/(loss) for the period	2,729	2,706	5,435	2,470	(3,939)	(1,469)
Earnings per share						
Basic – ordinary shares	9.51p	10.83p	20.34p	8.48p	(15.76)p	(7.28)p
Diluted – ordinary shares	7.80p	7.73p	15.53p	7.06p	(11.25)p	(4.19)p

The company does not have any income or expense that is not included in the profit/(loss) for the period. Accordingly, the 'Profit/(loss) for the period' is also the 'Total Comprehensive Income for the period' as defined in IAS 1 (revised) and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All profit and total comprehensive income is attributable to the equity holders of the company.

Statement of changes in equity

For the year ended 31 December 2015

	Share capital	Capital reserve	Retained earnings	Total
	£ 000	£ 000	£ 000	£ 000
Balance at 31 December 2013	35,000	(6,355)	2,250	30,895
Changes in equity for 2014				
(Loss)/profit for the period	-	(3,939)	2,470	(1,469)
Ordinary dividend paid (note 4)	-	-	(1,950)	(1,950)
Preference dividend paid (note 4)	-	-	(350)	(350)
Balance at 31 December 2014	35,000	(10,294)	2,420	27,126
Changes in equity for 2015				
Profit for the period	-	2,706	2,729	5,435
Ordinary dividend paid (note 4)	-	-	(2,000)	(2,000)
Preference dividend paid (note 4)	-	-	(350)	(350)
Balance at 31 December 2015	35,000	(7,588)	2,799	30,211

Registered number: 00433137

Balance Sheet

For the year ended 31 December 2015

	2015	2014
	£ 000	£ 000
Non-current assets		
Investments - fair value through profit or loss	37,497	27,334
Subsidiaries - fair value through profit or loss	6,789	6,499
	<u>44,286</u>	<u>33,833</u>
Current assets		
Receivables	1,587	1,406
Derivatives - fair value through profit or loss	-	87
Cash and cash equivalents	344	250
	<u>1,931</u>	<u>1,743</u>
Total assets	<u>46,217</u>	<u>35,576</u>
Current liabilities		
Trade and other payables	9,124	1,414
Bank loan	2,339	2,743
	<u>(11,463)</u>	<u>(4,157)</u>
Total assets less current liabilities	<u>34,754</u>	<u>31,419</u>
Non - current liabilities	(4,543)	(4,293)
Net assets	<u>30,211</u>	<u>27,126</u>
Equity attributable to equity holders		
Ordinary share capital	25,000	25,000
Convertible preference share capital	10,000	10,000
Capital reserve	(7,588)	(10,294)
Retained revenue earnings	2,799	2,420
Total equity	<u>30,211</u>	<u>27,126</u>

Approved: 29 April 2016

Cash flow statement

For the year ended 31 December 2015

	Year ended 2015 £ 000	Year ended 2014 £ 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	5,407	(1,523)
Adjustments for:		
(Profits)/losses on investments	(2,998)	3,539
Scrip dividends	(397)	(25)
Proceeds on disposal of investments at fair value through profit and loss	14,596	5,866
Purchases of investments at fair value through profit and loss	(13,349)	(4,170)
Interest paid	49	85
Operating cash flows before movements in working capital	3,308	3,772
Increase in receivables	(181)	(784)
Decrease in payables	(258)	(2,277)
NET CASH FROM OPERATING ACTIVITIES BEFORE INTEREST	2,869	711
Interest paid	(49)	(85)
NET CASH FROM OPERATING ACTIVITIES AFTER INTEREST BEFORE TAXATION	2,820	626
Taxation	28	54
NET CASH FROM OPERATING ACTIVITIES	2,848	680
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on ordinary shares	(2,000)	(1,950)
Dividends paid on preference shares	(350)	-
Bank loan	(404)	1,295
NET CASH USED IN FINANCING ACTIVITIES	(2,754)	(655)
NET INCREASE IN CASH AND CASH EQUIVALENTS	94	25
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	250	225
CASH AND CASH EQUIVALENTS AT END OF YEAR	344	250

Purchases and sales of investments are considered to be operating activities of the company, given its purpose, rather than investing activities.

1 Basis of preparation and going concern

The financial information set out above contains the financial information of the company for the year ended 31 December 2015. The company has prepared its financial statements under IFRS. The financial statements have been prepared on a going concern basis adopting the historical cost convention except for the measurement at fair value of investments, derivative financial instruments and subsidiaries.

The information for the year ended 31 December 2015 is an extract from the statutory accounts to that date. Statutory company accounts for 2014, which were prepared under IFRS as adopted by the EU, have been delivered to the registrar of companies and company statutory accounts for 2015, prepared under IFRS as adopted by the EU, will be delivered in due course.

The auditors have reported on the 31 December 2015 year end accounts and their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The directors, having made enquiries, consider that the company has adequate financial resources to enable it to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the company's accounts.

2 Income

	2015 £ 000	2014 £ 000
Income from investments		
UK dividends	1,725	528
Overseas dividends	348	42
Scrip and in specie dividends	397	25
Dividend from subsidiary	580	2,151
Interest on fixed income securities	134	103
	<u>3,184</u>	<u>2,849</u>
Other income	<u>22</u>	<u>22</u>
Total income	<u>3,206</u>	<u>2,871</u>
Total income comprises:		
Dividends	3,050	2,746
Interest	134	103
Other interest	22	22
	<u>3,206</u>	<u>2,871</u>
Dividends from investments		
Listed investments	2,470	595
Unlisted investments	580	2,151
	<u>3,050</u>	<u>2,746</u>

Of the £3,050,000 (2014 – £2,746,000) dividends received in the company accounts, £1,586,000 (2014 – £nil) related to special and other dividends received from investee companies that were bought after the dividend announcement. There was a corresponding capital loss of £869,000 (2014 – £nil), on these investments.

Under IFRS 10 the income analysis is for the parent company only rather than that of the consolidated group. Thus film revenues of £88,000 (2014 – £165,000) received by the subsidiary British and American Films Limited and property unit trust income of £17,000 (2014 – £24,000) received by the subsidiary BritAm Investments Limited are shown separately in this paragraph.

3 Earnings per ordinary share

The calculation of the basic (after deduction of preference dividend) and diluted earnings per share is based on the following data:

	2015			2014		
	Revenue return	Capital return	Total	Revenue return	Capital return	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Earnings:						
Basic	2,379	2,706	5,085	2,120	(3,939)	(1,819)
Preference dividend	350	-	350	350	-	350
Diluted	<u>2,729</u>	<u>2,706</u>	<u>5,435</u>	<u>2,470</u>	<u>(3,939)</u>	<u>(1,469)</u>

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period after tax and after deduction of dividends in respect of preference shares and on 25 million (2014: 25 million) ordinary shares in issue.

The diluted revenue, capital and total return is based on the net revenue, capital and total return for the period after tax and on 35 million (2014: 35 million) ordinary and preference shares in issue.

4 Dividends

	2015 £ 000	2014 £ 000
Amounts recognised as distributions to equity holders in the period:		
Dividends on ordinary shares:		
Final dividend for the year ended 31 December 2014 of 5.3p (2013:5.1) per share	1,325	1,275
Interim dividend for the year ended 31 December 2015 of 2.7p (2014:2.7p) per share	675	675
	<u>2,000</u>	<u>1,950</u>
Proposed final dividend for the year ended 31 December 2015 of 5.5p (2014:5.3p) per share	<u>1,375</u>	<u>1,325</u>
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the 6 months ended 31 December 2014 of 1.75p (2013:1.75p) per share	175	175
Preference dividend for the 6 months ended 30 June 2015 of 1.75p (2014:1.75p) per share	175	175
	<u>350</u>	<u>350</u>
Proposed preference dividend for the 6 months ended 31 December 2015 of 1.75p (2014:1.75p) per share	<u>175</u>	<u>175</u>

The preference dividend for the 6 months ended 30 June 2014 was paid as dividend in specie.

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements in accordance with IFRS.

We have set out below the total dividend payable in respect of the financial year, which is the basis on which the retention requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

Dividends proposed for the period

	2015 £ 000	2014 £ 000
Dividends on ordinary shares:		
Interim dividend for the year ended 31 December 2015 of 2.7p (2014:2.7p) per share	675	675
Proposed final dividend for the year ended 31 December 2015 of 5.5p (2014:5.3p) per share	<u>1,375</u>	<u>1,325</u>
	<u>2,050</u>	<u>2,000</u>
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the year ended 31 December 2015 of 1.75p (2014:1.75p) per share	175	175
Proposed preference dividend for the year ended 31 December 2015 of 1.75p (2014:1.75p) per share	<u>175</u>	<u>175</u>
	<u>350</u>	<u>350</u>

5 Net asset values

	Net asset value per share		Net assets attributable	
	2015	2014	2015	2014
	£	£	£ 000	£ 000
Ordinary shares				
Undiluted	0.81	0.69	20,211	17,126
Diluted	0.86	0.78	30,211	27,126

The undiluted and diluted net asset values per £1 ordinary share are based on net assets at the year end and 25 million (undiluted) ordinary and 35 million (diluted) ordinary and preference shares in issue.

The undiluted net asset value per convertible £1 preference share is the par value of £1. The diluted net asset value per ordinary share assumes the conversion of the preference shares to ordinary shares.

Principal risks and uncertainties

The principal risks facing the company relate to its investment activities and include market risk (other price risk, interest rate risk and currency risk), liquidity risk and credit risk. The other principal risks to the company are loss of investment trust status and operational risk. These will be explained in more detail in the notes to the 2015 Annual Report and Accounts, but remain unchanged from those published in the 2014 Annual Report and Accounts.

Related party transactions

The company rents its offices from Romulus Films Limited, and is also charged for its office overheads.

The salaries and pensions of the company's employees, except for the three non-executive directors, are paid by Remus Films Limited and Romulus Films Limited and are recharged to the company.

During the year the company entered into an investment transaction to sell stock for US dollars 98,498 to British and American Films Limited. During the year the company entered into an investment transaction to buy stock from Second BritAm Investments Limited for £2,407.

During the year the company entered into a number of investment transactions with Geminion Investments Limited. The purpose of these transactions, which were all conducted through a London Stock Exchange broker, was for the company to purchase cum dividend stocks and sell these stocks ex dividend so as to capture the associated dividends as disclosed in Note 2 of the financial statements.

There have been no other related party transactions during the period, which have materially affected the financial position or performance of the company.

Capital Structure

The company's capital comprises £35,000,000 (2014 – £35,000,000) being 25,000,000 ordinary shares of £1 (2014 – 25,000,000) and 10,000,000 non-voting convertible preference shares of £1 each (2014 – 10,000,000). The rights attaching to the shares will be explained in more detail in the notes to the 2015 Annual Report and Accounts, but remain unchanged from those published in the 2014 Annual Report and Accounts.

Directors' responsibility statement

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The directors confirm that to the best of their knowledge the financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and the profit/(loss) of the company and that the Chairman's Statement, Managing Director's Report and the Directors' report include a fair review of the information required by rules 4.1.8R to 4.2.11R of the FSA's Disclosure and Transparency Rules, together with a description of the principal risks and uncertainties that the company faces.

Annual General Meeting

This year's Annual General Meeting has been convened for Friday 17 June 2016 at 12.15pm at Wessex House, 1 Chesham Street, London SW1X 8ND.