B.A.T. INTERNATIONAL FINANCE p.l.c.

2010
Annual Report

B.A.T. INTERNATIONAL FINANCE p.l.c.

ANNUAL REPORT 31 DECEMBER 2010

Contents

Notice of Meeting

Notice is hereby given that the Annual General Meeting of B.A.T. International Finance p.l.c. will be held at Globe House, 4 Temple Place, London, WC2R 2PG on 7 April 2011 at 11am for the transaction of the following business:

1. To receive the financial statements for the year ended 31 December 2010 and the reports of the Directors and the Auditors thereon.

2. To reappoint Directors.

3. To reappoint the Auditors.

4. To authorise the Directors to determine the Auditors' remuneration.

By Order of the Board

Nicola Snook, Secretary
31 March 2011

Note:
A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. Such proxy need not be a member of the Company.

Secretary and Registered Office
Nicola Snook
Globe House
4 Temple Place
London WC2R 2PG

Registered Number 1060930

Registered Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London WC2N 6RH

Directors' Report for the year ended 31 December 2010

Introduction
The Directors present their Annual Report and the audited Financial Statements for B.A.T. International Finance p.l.c. ('Company') and its subsidiaries ('Group') for the year ended 31 December 2010.

Board of Directors
The names of the persons who served as Directors of the Company during the period 1 January 2010 to the date of this report are as follows:

John Benedict Stevens
Kenneth John Hardman
Robert Lee Allen
Michael Scott Hayes (appointed 2 February 2010)
Gary Richard Armstrong (resigned 28 January 2010)
Robert James Casey (appointed 12 August 2010)

In accordance with the Articles of Association, Mr R.J. Casey, having been appointed since the date of the last Annual General Meeting, resigns from the Board at the forthcoming Annual General Meeting and together with Mr K. J. Hardman, who is subject to retirement by rotation, and, being eligible, offer themselves for reappointment.

Business Review for the year ended 31 December 2010
The Group's profit for the financial year amounted to **£82 million** (2009: £500 million). Total equity has increased by **£131 million** (2009: increased by £554 million). The Directors do not recommend payment of a dividend for the year (2009: £nil).

The Group enters into forward foreign currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of British American Tobacco p.l.c. These contracts do not qualify for hedge accounting under the terms of IAS 39 in these financial statements and changes in their fair value are recognised through the income statement. With effect from 29 December 2010, the Group has reduced the income statement impact of these external forward foreign currency contracts by entering into offsetting contracts with fellow subsidiaries. Consequently, most of the income statement impact of this activity is now borne by fellow subsidiaries, reducing the sensitivity of the Group's income statement to changes in exchange rates.

The Company is a borrower under the new BAT Group central banking facility negotiated in December 2010. This central banking facility of £2 billion has a final maturity date of December 2015. The existing central banking facility of £1.75 billion, with a final maturity date of March 2012, was cancelled at the same time. This facility was undrawn as at 31 December 2010.

On 10 March 2010, the Company novated its €519 million bond maturing in 2013 to a fellow subsidiary at fair value resulting in a charge to the income statement of £24 million. In addition, on 25 June 2010, the Company purchased and cancelled €413 million of its €750 million bond maturing in 2012. At the same time, the Company issued a new £275 million bond with a maturity of 2040. This did not have a material impact on the income statement.

The Company repaid a €900 million bond in February 2009 which was financed by bond issues during 2008. In 2009, the Company also issued a new £250 million bond with a maturity of June 2022.

In November 2009, the terms of €481 million of the €1.0 billion bond maturing in 2013 were modified by extending the maturity to 2021. At the same time, the Company issued an additional €169 million bond with a maturity of 2021. In addition, £199 million of the £350 million bond maturing in 2013 was purchased and cancelled; at the same time the Company issued a new £500 million bond with a maturity of 2034.

Principal activities, risks and uncertainties
The principal activities of the Group comprise the raising of finance for the BAT Group, the management of financial risks arising from the BAT Group's underlying operations and the management of the BAT Group's cash resources. The Group's treasury operations and management of financial risks are described fully in note 12 on pages 22-26. All these activities are carried out under defined policies, procedures and limits. It is intended that the Group will continue to undertake business relating to these activities.

Given the nature of the Group's activities, the Group's capital base is managed within the overall framework of the BAT Group and the Company's Directors consider that key performance indicators based solely on the Group's results are not necessary or appropriate for an understanding of the Group's specific development, performance or position of its business. However, key performance indicators relevant to the BAT Group, and which may be relevant to the Group, are disclosed in Measuring Our Performance in the Business Review of British American Tobacco p.l.c. and do not form part of this report.

The Board of British American Tobacco p.l.c. reviews and agrees the overall treasury policies and procedures, delegating appropriate authority to the Company. The British American Tobacco p.l.c. Finance Director is a member of the Board of the Company and any significant change to agreed policies is subject to prior approval by the Board of British American Tobacco p.l.c.

Directors' Report continued

Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the BAT Group's treasury policy. The Group's treasury position is monitored by the BATGroup Corporate Finance Committee, which meets regularly and is chaired by the British American Tobacco p.l.c. Finance Director. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and audits, both internal and external.

Directors' indemnities

Throughout the period 1 January 2010 to the date of this report, an indemnity has been in force under which Mr J. B. Stevens, as a Director of the Company, is, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which he may incur in or about the execution of his duties to the Company or as a result of things done by him as a Director on behalf of the Company.

Directors' responsibilities in relation to the financial statements

The following statement sets out the responsibilities of the Directors in relation to the financial statements of both the Group and the Company. The reports of the independent auditors for the Group and the Company shown on pages 34 and 43 set out their responsibilities in relation to those financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group and Company for the financial year. In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
  state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The applicable accounting standards referred to above are: (a) United Kingdom Generally Accepted Accounting Principles (UK GAAP) for the Company; and (b) International Financial Reporting Standards (IFRS) as adopted by the European Union and implemented in the UK for the Group.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Group and the Company and to enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation, and that the Company's financial statements comply with the Companies Act 2006. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and, in that context, having proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are required to prepare financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors, as listed on page 2, consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

Directors' declaration in relation to relevant audit information

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' responsibility statement

The Directors confirm to the best of their knowledge and belief that:

- the financial statements, prepared in accordance with the applicable accounting standards identified above, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

The names of the Directors are listed in this Directors' report on page 2. Neither the Company nor the Directors accept any liability to any person in relation to this Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

Auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Going concern
After reviewing the Group's annual budget and plans, the Directors consider that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

N. Snook.

Nicola Snook, Secretary
31 March 2011

B.A.T. International Finance p.l.c.
Registered Number 1060930

Group Income Statement

for the year ended 31 December

	2010 £m	2009 £m
Interest income (note 3)	535	754
Interest expense (note 4)	(489)	(483)
Net fee income (note 5)	8	5
Net gains on fair value of derivatives and exchange differences (note 6)	37	233
Net finance income	91	509
Other operating charges (note 7)	(1)	(1)
Profit before taxation	90	508
Tax expense (note 8)	(8)	(8)
Profit for the financial year	82	500

All the activities during both years are in respect of continuing operations.

Group Statement of Comprehensive Income

for the year ended 31 December

	2010 £m	2009 £m
Profit for the financial year	82	500
Other comprehensive income		
Differences on exchange	59	(228)
Cash flow hedges		
- net fair value gains/(losses)	1	(41)
- reclassified and reported in profit for the financial year		52
Net investment hedges		
- net fair value gains		49
- differences on exchange on borrowings	(11)	(8)
Total other comprehensive income/(expense) for the year	49	(176)
Total comprehensive income for the year	131	324

Notes are shown on pages 9 to 33.

Group Statement of Changes in Equity

for the year ended 31 December

					2010
	Share capital	**Hedging reserve**	**Translation reserve**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**
Total comprehensive income for the year (page 5)		**1**	**48**	**82**	**131**
Balance at 1 January	**231**	**(2)**	**157**	**600**	**986**
Balance at 31 December	**231**	**(1)**	**205**	**682**	**1,117**

					2009
	Share capital	Hedging reserve	Translation reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m
Total comprehensive income/(expense) for the year (page 5)		11	(187)	500	324
Issue of share capital	230				230
Total changes in equity for the year	230	11	(187)	500	554
Balance at 1 January	1	(13)	344	100	432
Balance at 31 December	231	(2)	157	600	986

Notes are shown on pages 9 to 33.

Group Balance Sheet

31 December

	2010 £m	2009 £m
Assets		
Cash and cash equivalents (note 9)	**690**	719
Amounts due on demand from fellow subsidiaries (note 10)	**597**	1,146
Derivative financial instruments (note 11)	**620**	485
Other receivables (note 13)	**14**	6
Loans due from parent undertaking (note 14a)	**3,628**	3,628
Loans due from fellow subsidiaries (note 14b)	**13,676**	12,582
Total assets	**19,225**	18,566
Liabilities		
Bank overdrafts (note 15)	**49**	44
Amounts repayable on demand to parent undertaking (note 16a)	**2,967**	2,285
Amounts repayable on demand to fellow subsidiaries (note 16b)	**5,455**	4,504
Derivative financial instruments (note 11)	**404**	310
Other payables (note 17)	**24**	20
Term deposits repayable to fellow subsidiaries (note 18)	**3,195**	3,609
Issued debt (note 15)	**6,014**	6,808
Total liabilities	**18,108**	17,580
Shareholders' equity		
Share capital (note 19)	**231**	231
Hedging reserve (note 19)	**(1)**	(2)
Translation reserve (note 19)	**205**	157
Retained earnings (note 19)	**682**	600
Total shareholders' equity	**1,117**	986
Total equity and liabilities	**19,225**	18,566

On behalf of the Board

R. L. Allen
31 March 2011

Notes are shown on pages 9 to 33.

Group Cash Flow Statement

for the year ended 31 December

	2010 £m	2009 £m
Cash flows from operating activities		
Interest receipts	**323**	430
Interest payments	**(426)**	(418)
Net inflow on fees	**11**	6
Other (payments)/ receipts	**(10)**	10
	(102)	28
Increase/ (decrease) in operating assets and liabilities:		
Net short-term funds inflow from fellow subsidiaries and parent undertaking	**164**	395
Proceeds from external debt	**271**	1,005
Repayment of external debt	**(966)**	(1,362)
Movements relating to derivative financial instruments	**(231)**	(191)
Net cash inflow on loans to fellow subsidiaries	**867**	328
Net cash (outflow)/ inflow on borrowings from fellow subsidiaries	**(4)**	3
Net cash (outflow)/ inflow from operating activities	**(1)**	206
Effects of exchange rate changes on cash and cash equivalents	**(33)**	(10)
Net (decrease)/ increase in cash and cash equivalents	**(34)**	196
Net cash and cash equivalents at1 January	**675**	479
Net cash and cash equivalents at31 December (note 9)	**641**	675

Notes are shown on pages 9 to 33.

Group Notes on the Accounts

1. Accounting policies

Basis of accounting
The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention except as described in the accounting policy below on financial instruments. The presentation of the Group balance sheet is based on liquidity.

None of the new and amended IFRSs and IFRIC interpretations adopted by the Group with effect from 1 January 2010 had any effect on reported profit or equity or on the disclosures in the financial statements.

The preparation of the Group financial statements requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions relate to calculation of fair value assets and liabilities using exchange rates and market expectations of future interest rates as at the balance sheet date. These are set out in the accounting policies below, together with the related notes to the accounts.

Basis of consolidation
The consolidated financial information includes the financial statements of B.A.T. International Finance p.l.c. and its subsidiary undertakings.

A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities.

Intercompany balances and transactions, and any unrealised gains arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

As permitted by section 408(3) of the Companies Act 2006, the Company individual Profit and loss account and related notes have not been included in these financial statements. The Company profit was **£17 million** (2009: £419 million).

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 at average rates of exchange in each year provided that the average rate approximates the exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at rates of exchange at the end of each year.

The differences between retained profits of foreign currency subsidiary undertakings translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of foreign currency net assets at the beginning of the year. Any differences that have arisen since 1 January 2004 are presented as a separate component of equity. As permitted under IFRS 1, any differences prior to that date are not included in this separate component of equity. Where a disposal of an investment in a Group undertaking results in a loss of control of a subsidiary undertaking, the cumulative amount of the related foreign exchange differences deferred in the separate component of equity are recognised in the income statement when the gain or loss on disposal is recognised. These related exchange differences comprise the exchange differences on all amounts deemed to be part of the net investment in the undertaking, which are recycled to the income statement when a disposal occurs.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end rates of exchange are recognised in the income statement, except when deferred as qualifying cash flow hedges in the hedging reserve, on intercompany net investment loans and qualifying net investment hedges in the translation reserve.

Accounting for income
As a financing vehicle, the Group's primary sources of income comprise interest on loans to fellow subsidiaries and net fee income. These are recognised on a time proportion basis, and all income is only recognised to the extent that it is considered to be collectable.

Net fee income comprises commitment fees received in respect of undrawn revolving credit facilities provided to fellow subsidiaries, and commitment fees paid in respect of revolving credit facilities provided by external banks.

1. **Accounting policies** continued

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

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, deferred tax assets and liabilities are not discounted.

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

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

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Financial assets and financial liabilities are initially recognised at fair value, plus directly attributable transaction costs where applicable, with subsequent measurement as set out below.

Non-derivative financial assets are classified on initial recognition as either loans and receivables or cash and cash equivalents as follows:

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

- Cash and cash equivalents: cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments including investments in certain money market funds. Cash equivalents normally comprise instruments with maturities of three months or less at date of acquisition. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are shown as a separate category in the liabilities section on the Balance Sheet.

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. These estimates for irrecoverable amounts are recognised when there is objective evidence that the full amount receivable will not be collected according to the original terms of the asset. Such evidence might include financial difficulties of the counterparty, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable.

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

Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- For derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. The accumulated gains and losses are reclassified to the income statement in the same period as the hedged item;

1. **Accounting policies** continued

Financial instruments continued

- For derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;

- For derivatives that are designated as hedges of net investments in foreign currency operations, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are recognised in the income statement when the foreign currency operation is disposed of; and

- For derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the income statement in the period in which they arise.

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed 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.

Segmental analysis
Senior management of the BAT Group Treasury function, including the BAT Group Treasurer, who is also a Director of the Company, are identified as the chief operating decision maker, and are responsible for managing within an overall policy framework, the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group is the central vehicle used by BAT Group Treasury for managing these risks. The Group does not report segment information internally as the Group is managed by senior management of the BAT Group Treasury function as a single segment entity in the context of the BAT Group as a whole.

The prices agreed between Group companies, and with BAT Group entities, for intra-BAT Group loans and borrowings, and charges for such are based on normal commercial practices which would apply between independent businesses.

Dividends
Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are paid.

Future changes to Group accounting policies
Certain changes to IFRS will be applicable for the Group financial statements in future years. Set out below are those which are considered to affect the Group.

IFRS 9 Financial Instruments has been issued. This standard represents the first phase of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement, and has mandatory application for accounting periods beginning on or after 1 January 2013, with early adoption permitted. In its current form, it sets out the classification and measurement criteria for financial assets and financial liabilities. The standard requires all financial assets to be measured at fair value through profit and loss unless the assets can be classified as held at amortised cost. Where the fair value option for certain financial liabilities is applied, the portion of fair value changes representing own credit risk would be recognised through other comprehensive income rather than the income statement. The effect of applying the standard in its current form is not considered to have a material impact on the Group's reported profit or equity. These changes have not been endorsed by the EU and will only become applicable once that endorsement has occurred.

The Annual Improvements to IFRS (issued in May 2010) have varying application dates commencing with annual periods ending on or after 1 July 2010. The main effect of these amendments is to amend certain disclosures regarding credit and other risks in respect of financial instruments. These changes have now been endorsed by the EU and will be applied in the Annual Report for the year ended 31 December 2011.

In addition, a number of other interpretations and revisions to existing standards have been issued which will be applicable to the Group financial statements in future years and which will have no material effect on reported profit or equity or on the disclosures in the financial statements.

Group Notes on the Accounts

2. Segmental reporting

As the Company is the central financing vehicle for the BAT Group and is domiciled in the UK, all income other than interest on cash and cash equivalents is earned from counterparties within the BAT Group. Interest on cash and cash equivalents of **£4 million** (2009: £5 million) comprises **£3 million** (2009: £5 million) from money market funds and **£1 million** (2009: £nil) from bank current accounts.

Interest income from cash and cash equivalents attributable to the UK is **£4 million** (2009: £5 million) and **£nil** (2009: £nil) attributable to foreign countries.

IFRS 8 considers a group of entities under common control as a single customer. **£58 million** (2009: £114 million) of interest income is generated from the parent undertaking and **£473 million** (2009: £635 million) from fellow subsidiaries controlled directly or indirectly by the parent undertaking, British American Tobacco p.l.c.

3. Interest income

	2010 £m	2009 £m
Interest income		
From the parent undertaking	**58**	114
From fellow subsidiaries	**473**	635
Cash and cash equivalents	**4**	5
	535	754

4. Interest expense

	2010 £m	2009 £m
Interest expense		
Euro commercial paper	**2**	3
Bank borrowings	**2**	10
Issued debt	**385**	370
	389	383
To the parent undertaking	**6**	10
To fellow subsidiaries	**94**	90
	489	483

5. Net fee income

	2010 £m	2009 £m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**10**	7
Fee expense		
Fees charged on committed borrowing facilities	**(2)**	(2)
	8	5

Two-thirds of the fees charged on the committed borrowing facility in 2010 and 2009 are borne by the Group, with one-third being borne by fellow subsidiaries.

6. Net gains/(losses) on fair value of derivatives and exchange differences

	2010 £m	2009 £m
Fair value changes on derivatives comprise:		
Cash flow hedges transferred from equity		(52)
Fair value changes on hedged items	**(30)**	10
Fair value hedges		
- interest on interest rate and cross currency swaps	**53**	39
- fair value movement on interest rate and cross currency swaps	**70**	(10)
Instruments not designated as hedges	**(312)**	343
Net fair value (losses)/gains on derivatives	**(219)**	330
Exchange differences	**256**	(97)
	37	233

6. Net gains/(losses) on fair value of derivatives and exchange differencescontinued

The £196 million movement year on year is mainly due to changes in exchange ratesimpacting the fair value of foreign exchange forward contracts used to manage currency risk on behalf of British American Tobacco p.l.c. where the contracts do not qualify for hedge accounting under the terms of IAS 39 in these financial statements. With effect from 29 December 2010, the Group has reduced the impact of these external foreign exchange forward contracts by entering into offsetting contracts with fellow subsidiaries. The net gains in the year also include the release of fair value basis adjustments to debt in respect of the €519 million bond novated to a fellow Group subsidiary and the cancelled €413 million of the Group's €750 million bond maturing in 2012 as a result of these bonds being subject to fair value hedges of interest rate risk.

Included within exchange differences above is a gain of **£1 million** (2009: £12 million) in respect of items subject to fair value hedges.

The interest expense on issued debt of **£385 million** (2009: £370 million) in note 4 includes **£100 million** (2009: £89 million) subject to fair value hedges.

The net gains on fair value of derivatives and exchange differences of **£37 million** (2009: £233 million) includes a gain of **£9 million** (2009: £12 million gain) due to the ineffective portion of fair value hedges and a gain of £32 million from therelease of fair value basis adjustments to debt, which is offset by a loss on extinguishment of debt of £56 million included within interest expense.

Most foreign currency assets and liabilities are maintained in US dollars and euros, which have been translated to sterling at the closing rates on 31 December 2010 of **US$1.56565** and **€1.16705** (2009: US$1.61485 and €1.1255).

7. Other operating charges and employee information

	2010 £m	2009 £m
Other operating charges	**1**	1

Other operating charges include remuneration of £132,000 (2009: £118,000) payable to the Company's auditors for the audit of the Group and Company annual financial statements and £40,000 (2009: £82,000) for the supply of other services to the Company.

The Group has no directly employed employees and consequently utilises the services of a number of employees whose contracts of service are with fellow subsidiaries and their remuneration is included in the financial statements of these subsidiaries. An annual management charge is levied from two of these fellow subsidiaries in respect of the cost of employees in the Asia Pacific Treasury Service Centre (Singapore), and in the British American Shared Service Centre (Romania). These charges are included in 'other operating charges' above.

8. Tax expense

a) Summary of tax

	2010 £m	2009 £m
UK corporation tax		
Comprising:		
- current tax at **28%** (2009: 28%)	**6**	1
- double tax relief	**(6)**	(1)
Overseas tax comprising:		
- tax on current income	**8**	8
Total current tax expense (*note 8b)*	**8**	8

At the balance sheet date the Group has unused tax losses of **£nil** (2009: £16 million). The Group has not recognised deferred tax assets in respect of deductible temporary differences of **£5 million** (2009: £6 million).

8. **Tax expense** continued

b) **Factors affecting the tax charge**

The taxation charge differs from the standard 28 per cent rate of corporation tax in the UK. The major causes of this difference are listed below:

	2010 £m	2009 £m
Profit before taxation	**90**	508
UK corporation tax at **28%** (2009: 28%)	**25**	142
Factors affecting the tax rate:		
Permanent differences	**(1)**	(118)
Overseas taxation	**8**	8
Double tax relief	**(6)**	(1)
BAT Group loss relief claimed for no consideration	**(18)**	(23)
Total current tax expense (*note 8a)*	**8**	8

Permanent differences include losses previously not recognised.

9. **Cash and cash equivalents**

	31 December 2010 £m	31 December 2009 £m
Cash and bank balances	**21**	50
Cash equivalents	**669**	669
	690	719

Cash equivalents comprise short-term deposits and investments in money market funds with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates their fair value.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2010, cash and cash equivalents include **£642 million** invested in money market funds (2009: £669 million).

The currency in which cash and cash equivalents are held, together with the effective interest rates applicable to cash and cash equivalents are as follows:

	31 December 2010 £m	31 December 2009 £m	31 December 2010 %	31 December 2009 %
UK sterling	**643**	431	**0.5**	0.4
Euro		244		0.3
Australian dollar	**8**	32	**4.5**	3.1
Other	**39**	12	**1.1**	0.5
	690	719		

9. Cash and cash equivalents continued

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts (note 15) and accrued interest where applicable:

	31 December 2010 £m	31 December 2009 £m
Cash and cash equivalents as above	690	719
Less: bank overdrafts	(49)	(44)
Net cash and cash equivalents	641	675

10. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts between fellow subsidiaries and the Group. These are denominated in the following currencies, and have the following effective interest rates:

	31 December 2010 £m	31 December 2009 £m	31 December 2010 %	31 December 2009 %
UK sterling	419	881	0.7	0.7
US dollar	24	1	0.3	0.2
Euro	143	244	1.1	0.6
Czech Krona		9		0.5
Swiss franc		8		0.1
Other	11	3	3.3	9.5
	597	1,146		

Amounts due on demand from fellow subsidiaries include amounts of **£0.2 million** (2009: £0.3 million) of interest receivable. There is no material difference between the book value and fair value for amounts due on demand from fellow subsidiaries.

11. Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these assets and liabilities under the IFRS 7 fair value hierarchy is given in note 12.

	31 December 2010		31 December 2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges				
Interest rate swaps	105		108	1
Cross-currency swaps	5		5	
Cash flow hedges				
Cross-currency swaps	11		10	
Held-for-trading*				
Cross-currency swaps	242	51	204	79
Interest rate swaps	42	42		
Forward foreign currency contracts	210	306	154	223
Others	5	5	4	7
	620	404	485	310

All balances above relate to derivatives with external parties other than those disclosed in note 21.

* Some derivative financial instruments are not designated as hedges and have been classified as held-for-trading derivatives.

Group Notes on the Accounts

11. Derivative financial instruments continued

The maturity dates of all derivative financial instruments as recognised in the balance sheet are as follows:

	31 December 2010		31 December 2009	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Within one year	**407**	**279**	189	209
Between one and two years	**26**	**20**	127	8
Between two and three years	**37**	**29**	22	2
Between three and four years	**31**		31	5
Between four and five years			4	2
Beyond five years	**119**	**76**	112	84
	620	**404**	485	310

Included in liabilities that have maturities beyond 5 years are certain cross-currency swaps maturing in September 2016 with a combined fair value of **£43 million** (2009: £67 million), where the contracted parties hold the right to exercise mutual break-up clauses on 15 March 2011 or on 15 March 2016. In addition, liabilities that have maturities beyond 5 years include certain interest rate swaps maturing in July 2020 with a combined fair value of **£8 million**, where the contracted parties hold the right to exercise mutual break-up clauses on 29 June 2015 and 7 July 2015.

For all cash flow hedges, the timing of expected cash flows is as follows:

	31 December 2010		31 December 2009	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Within one year	**11**		10	

The Group's cash flow hedges are in respect of a debt instrument and a loan to a fellow subsidiary. The timing of the expected cash flows in respect of derivatives designated as cash flow hedges is broadly expected to be comparable to the timing of when the hedged item will affect profit or loss.

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross settled derivative financial instruments are as follows:

	31 December 2010			
	Assets		**Liabilities**	
	Inflow	**Outflow**	**Inflow**	**Outflow**
	£m	**£m**	**£m**	**£m**
Within one year				
- Cross-currency swaps	**1,622**	**(1,398)**	**18**	**(8)**
- Forward foreign exchange contracts	**6,078**	**(5,885)**	**8,941**	**(9,227)**
- Other	**1,379**	**(1,373)**		
Between one and two years				
- Cross-currency swaps	**10**	**(18)**	**18**	**(9)**
- Forward foreign exchange contracts	**515**	**(500)**	**524**	**(542)**
Between two and three years				
- Cross-currency swaps	**15**	**(19)**	**18**	**(14)**
- Forward foreign exchange contracts	**39**	**(39)**	**39**	**(39)**
Between three and four years				
- Cross-currency swaps	**16**	**(18)**	**18**	**(16)**
Between four and five years				
- Cross-currency swaps	**18**	**(19)**	**18**	**(18)**
Beyond five years				
- Cross-currency swaps	**440**	**(360)**	**343**	**(419)**
	10,132	**(9,629)**	**9,937**	**(10,292)**

11. Derivative financial instruments continued

	31 December 2009			
	Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m
Within one year				
- Cross currency swaps	112	(88)	18	(8)
- Forward foreign exchange contracts	5,592	(5,445)	6,178	(6,400)
- Other	1,282	(1,276)		
Between one and two years				
- Cross currency swaps	1,468	(1,308)	18	(13)
- Forward foreign exchange contracts	437	(428)	392	(401)
Between two and three years				
- Cross currency swaps	18	(18)	18	(17)
- Forward foreign exchange contracts	57	(54)	54	(57)
Between three and four years				
- Cross currency swaps	19	(19)	18	(18)
Between four and five years				
- Cross currency swaps	20	(18)	18	(19)
Beyond five years				
- Cross currency swaps	480	(378)	361	(458)
	9,485	(9,032)	7,075	(7,391)

The maturity dates of net settled derivative financial instruments are as follows:

	31 December 2010		31 December 2009	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Within one year	**40**	**(3)**	44	(9)
Between one and two years	**32**	**2**	32	(2)
Between two and three years	**14**	**(5)**	18	6
Between three and four years	**15**	**(3)**	3	7
Between four and five years	**11**	**(7)**	3	7
Beyond five years	**54**	**(45)**	15	
	166	**(61)**	115	9

The above analysis relates primarily to the Group's interest rate swaps.

Group Notes on the Accounts

11. Derivative financial instruments continued

In summary by type, the fair values of derivative financial instruments areas follows:

	31 December 2010		31 December 2009	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Interest rate swaps	**147**	**42**	108	1
Cross-currency swaps	**258**	**51**	219	79
Forward foreign currency contracts	**210**	**306**	154	223
Other	**5**	**5**	4	7
	620	**404**	485	310

(a) Interest rate swaps

							31 December 2010	
	Maturity date	**Principal Currency**	**m**	**£m**	**Interest rate Original**	**Swapped**	**Assets £m**	**Liabilities £m**
Fixed – floating								
1	2012	EUR	337	289	3.6	*Note (a)*	**14**	
2	2013	EUR	400	343	5.1	*Note (a)*	**31**	
3	2013	GBP	150	150	5.8	*Note (a)*	**12**	
4	2014	GBP	500	500	6.0	*Note (a)*	**20**	
5	2014	GBP	250	250	6.0	*Note (a)*	**20**	
6	2017	EUR	600	514	3.7	*Note (a)*		**3**
7	2019	GBP	250	250	6.4	*Note (a)*	**39**	
8	2020	EUR	600	514	4.0	*Note (a)*		**8**
Floating - fixed								
9	2013	EUR	400	343	*Note (a)*	5.1		**31**
10	2017	EUR	600	514	*Note (a)*	3.7	**3**	
11	2020	EUR	600	514	*Note (a)*	4.0	**8**	
							147	**42**

							31 December 2009	
	Maturity date	**Principal Currency**	**m**	**£m**	**Interest rate Original**	**Swapped**	Assets £m	Liabilities £m
Fixed – floating								
1	2012	EUR	750	666	3.6	*Note (a)*	33	
2	2013	EUR	400	355	5.1	*Note (a)*	31	
3	2013	GBP	150	150	5.8	*Note (a)*	8	
4	2014	GBP	500	500	6.0	*Note (a)*		1
5	2014	GBP	250	250	6.0	*Note (a)*	11	
12	2015	EUR	650	578	4.9	*Note (a)*	1	
7	2019	GBP	250	250	6.4	*Note (a)*	24	
							108	1

Note (a): The floating rate interest rates in 2010 and 2009 are based on LIBOR or EURIBOR plus a margin ranging between 32 and 268 basis points.

In 2010, Swaps 2, 6, 8, 9, 10 and 11 were not designated as hedging instruments, and Swaps 1, 3, 4, 5 and 7 were used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 29. In 2009 all the fixed to floating interest rate swaps were used to manage the interest rate profile of external borrowings and are reflected in the comparative repricing table in note 15 on page 29.

The reduction in the principal amounts in respect of Swaps 1 and 12 during 2010 reflect decisions taken by the Group to restructure its interest rate swap portfolio. This restructuring resulted in the partial termination of Swap 1 and the full termination of Swap 12.

11. Derivative financial instruments continued

(b) Cross-currency swaps

	Maturity date	Interest rate (%)	Principal Original Currency (m)	Principal £m	Interest rate (%)	Principal Swapped Currency (m)	Principal £m	31 December 2010 Assets £m	31 December 2010 Liabilities £m
Fixed - fixed									
1	2011	6.9	AUD 800	524	4.5	SGD 944	471	**50**	
2	2011	5.9	EUR 465	398	6.2	DKK 3,468	399	**11**	
Fixed – floating									
3	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	405		**51**
4	2019	4.6	EUR 20	17	*Note (b)*	USD 22	14	**5**	
Floating – fixed									
5	2016	*Note (b)*	EUR 473	405	5.5	GBP 325	325	**51**	
Floating- floating									
6	2011	*Note (b)*	AUD 300	196	*Note (b)*	SGD 301	150	**50**	
7	2011	*Note (b)*	AUD 600	393	*Note (b)*	SGD 619	309	**91**	
								258	**51**

	Maturity date	Interest rate (%)	Principal Original Currency (m)	Principal £m	Interest rate (%)	Principal Swapped Currency m	Principal £m	31 December 2009 Assets £m	31 December 2009 Liabilities £m
Fixed - fixed									
1	2011	6.9	AUD 800	446	4.5	SGD 944	416	22	
2	2011	5.9	EUR 465	413	6.2	DKK 3,468	414	10	
Fixed – floating									
3	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	420		79
4	2019	4.6	EUR 20	18	*Note (b)*	USD 22	14	5	
Floating – fixed									
5	2016	*Note (b)*	EUR 473	420	5.5	GBP 325	325	79	
Floating- floating									
6	2011	*Note (b)*	AUD 300	167	*Note (b)*	SGD 301	133	37	
7	2011	*Note (b)*	AUD 600	334	*Note (b)*	SGD 619	273	66	
								219	79

Note (b): The floating interest rates in 2010 and 2009 are based on LIBOR, EURIBOR, SOR or BBSW plus a margin ranging between 82 and 508 basis points (2009: 82 and 508 basis points).

Swap 4 in the current year and prior year has been used to manage the interest rate profile of external borrowings and is reflected in the repricing table in note 15 on page 29.

All other swaps have been entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 on page 29.

11. Derivative financial instruments continued

(c) Forward foreign currency contracts

Forward foreign currency contracts are denominated in the following currencies:

Fair value of assets

	31 December 2010 Currencies purchased forward									
	AUD £m	**CAD £m**	**CHF £m**	**EUR £m**	**GBP £m**	**JPY £m**	**USD £m**	**ZAR £m**	**Other £m**	**Total £m**
Currencies sold Forward										
CAD					1					**1**
DKK					2					**2**
EUR	1		12		12		11		5	**41**
GBP		4	3	12			11	7	6	**43**
HKD					3					**3**
NZD	1									**1**
USD	6	1		9	42	54			5	**117**
Other				1	1					**2**
	8	**5**	**15**	**22**	**61**	**54**	**22**	**7**	**16**	**210**

Fair value of liabilities

	31 December 2010 Currencies purchased forward									
	AUD £m	**CAD £m**	**CHF £m**	**EUR £m**	**GBP £m**	**JPY £m**	**USD £m**	**ZAR £m**	**Other £m**	**Total £m**
Currencies sold Forward										
AUD				1	37		6		1	**45**
CAD					15		1			**16**
CHF				12	24					**36**
DKK					1					**1**
EUR					29		9		1	**39**
GBP		2		4			36	2		**44**
JPY							54			**54**
USD				11	16					**27**
Other				10	28		6			**44**
		2		**38**	**150**		**112**	**2**	**2**	**306**

11. Derivative financial instruments continued

(c) Forward foreign currency contracts continued

Fair value of assets

Currencies sold Forward	31 December 2009 Currencies purchased forward									
	AUD £m	CAD £m	CHF £m	EUR £m	GBP £m	JPY £m	USD £m	ZAR £m	Other £m	Total £m
AUD					3					3
CHF					3					3
EUR	1		1		34		6		4	46
GBP	3	1	1	2			6	2		15
HKD					2					2
JPY							11			11
SAR					3					3
USD	6	2		8	46	6			1	69
Other				1					1	2
	10	3	2	11	91	6	23	2	6	154

Fair value of liabilities

Currencies sold Forward	31 December 2009 Currencies purchased forward								
	AUD £m	CZK £m	DKK £m	EUR £m	GBP £m	JPY £m	SAR £m	USD £m	Total £m
AUD				1	11			6	18
CAD				71	17			2	90
CHF				1	4				5
EUR		1			7			8	16
GBP	1			10			3	9	23
HUF				1	1				2
JPY								6	6
NOK			1	4					5
SEK				2					2
SGD					2			1	3
USD				6	15	11			32
ZAR					17				17
Other				3	1				4
	1	1	1	99	75	11	3	32	223

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. Certain contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 15 on page 29, and their nominal values are as follows:

	31 December 2010		31 December 2009	
	Sell	**Purchase**	Sell	Purchase
	£m	**£m**	£m	£m
Forward contracts to purchase GBP, sell CHF	**189**	**(181)**	165	(167)
Forward contracts to purchase GBP, sell AUD	**1,048**	**(1,074)**	947	(942)
Forward contracts to purchase GBP, sell CAD	**299**	**(292)**	413	(401)
Forward contracts to purchase EUR, sell DKK			177	(177)
Forward contracts to purchase EUR, sell NOK	**164**	**(160)**	160	(156)
Forward contracts to purchase EUR, sell SEK	**132**	**(130)**	177	(175)
Forward contracts to purchase EUR, sell GBP	**367**	**(372)**	221	(218)

11. Derivative financial instruments continued

(d) Others

	31 December 2010		31 December 2009	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Bund forwards (note i)	**5**		4	
Interest derivative (note ii)		**5**		7
	5	**5**	4	7

Notes:
i) Forward contracts to purchase and sell German government securities with a nominal value of **€1.6 billion** (2009: €1.4 billion), taken out to manage the BAT Group's financing arrangements and maturing within one year.
ii) Remaining impact of an interest derivative with a nominal value of €1 billion maturing in 2013.

12. Management of financial risks

One of the principal responsibilities of the Company is to manage the financial risks arising from the BAT Group's underlying operations. Specifically, Treasury manages, within an overall policy framework set by the BAT Group's Main Board and Corporate Finance Committee ('CFC'), the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The overall BAT Group treasury position is monitored by the CFC which meets regularly throughout the year and is chaired by the BAT Group Finance Director.

Given the nature of the Group's activities, the Group is managed in accordance with BAT Group treasury policies and procedures. These policies and procedures include a set of financing principles including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed. The Group defines capital as equity (see note 19) and net debt which is defined as external borrowings, including derivatives in respect of debt, less cash and cash equivalents. The Group's net debt balances which are managed as part of the BAT Group's net debt are as follows:

	2010	2009
	£m	£m
Borrowings - bank overdrafts and issued debt (note 15)	**6,063**	6,852
Derivatives in respect of debt:		
- Assets	**(126)**	(139)
- Liabilities	**84**	42
Cash and cash equivalents (note 9)	**(690)**	(719)
	5,331	6,036

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's balance sheet and related notes.

The Group's management of specific risks is dealt with as follows:

Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the BAT Group, and obtaining this financing from a wide range of providers. The BAT Group has a target average centrally managed debt maturity of at least 5 years with no more than 20 per cent of centrally managed debt maturing in a single rolling year. The debt held by the Group is part of the BAT Group's centrally managed debt and is therefore not managed to separate targets. As at 31 December 2010, the average debt to maturity of the Group was **9.7 years** (2009: 8.6 years) and the highest proportion of total issued debt maturing in a single rolling year was **18.4 per cent** (2009: 16.7 per cent). It is Group policy that short-term sources of funds (including drawings under the Euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. The ECP programme was undrawn at 31 December 2010 (2009: £187 million outstanding).

The Group ensures that there is flexibility in funding arrangements with fellow subsidiaries by providing short-term facilities or early prepayment rights. To ensure that the Group can maintain its liquidity at all times, the Group is a borrower under the BAT Group's new central banking facility of £2 billion, which was negotiated in December 2010 to replace the existing £1.75 billion facility which had a final maturity date of March 2012. The new central banking facility of £2 billion has a final maturity date of December 2015 and was undrawn at 31 December 2010.

12. Management of financial risks continued

On 10 March 2010, the Company novated its €519 million bond maturing in 2013 to a fellow subsidiary within the BAT Group. In addition, on 25 June 2010, the Company purchased and cancelled €413 million of its €750 million bond maturing in 2012. At the same time, the Company issued a new £275 million bond with a maturity of 2040. This did not have a material impact on the income statement.

The Company repaid a €900 million bond in February 2009 which was financed by bond issues during 2008. During 2009, the Company also issued a new £250 million bond maturing in June 2022.

In November 2009, the terms of €481 million of the €1.0 billion bond maturing in 2013 were modified by extending the maturity to 2021. At the same time, the Company issued an additional €169 million bond with a maturity of 2021. In addition, £199 million of the £350 million bond maturing in 2013 was purchased and cancelled; at the same time the Company issued a new £500 million bond with a maturity of 2034.

As the Group is the principal central financing vehicle for the BAT Group, it is used to mobilise cash for the BAT Group through participation in cash pooling and zero balancing bank account structures with fellow subsidiaries.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2010, cash and cash equivalents include **£642 million** (2009: £669 million) invested in money market funds.

Although term deposits repayable to fellow subsidiaries as shown in note 18 fall due within one year, they are typically renewed subject to the funding requirements of the counterparty. Loans to fellow subsidiaries, subsidiary companies and the parent undertaking are made on commercial terms. All contractual borrowing covenants have been met and none of them are expected to inhibit the Group's operations or funding plans.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, sterling. Lending and borrowing activity with fellow subsidiaries is usually in the currency of the counterparty resulting in primary balance sheet translation exposures to the US dollar, Euro, Canadian dollar, Australian dollar, Singapore dollar, Danish krone, Norwegian krone and Swedish krona. These exposures are kept under continuous review and the Group's policy is to minimise all balance sheet translation exposure where it is practicable and cost effective to do so through matching of currency assets with currency borrowings. At 31 December 2010, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **11 per cent** (2009: 9 per cent) US dollar, **34 per cent** (2009: 45 per cent) euro, **18 per cent** (2009: 10 per cent) sterling, **5 per cent** (2009: 6 per cent) Canadian dollar, **17 per cent** Australian dollar (2009: 14 per cent), **7 per cent** Danish krone (2009: 9 per cent), **3 per cent** Norwegian krone (2009: 2 per cent), **2 per cent** Swedish krona (2009: 3 per cent), and **3 per cent** (2009: 2 per cent) other currencies.

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries; these exposures are not normally hedged.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held by the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. All financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10 per cent strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

12. Management of financial risks continued

Currency risk continued

A 10 per cent strengthening and a 10 per cent weakening of functional currencies against non-functional currencies would have the following impact on pre-tax profit:

	Impact on pre-tax profit			
	31 December 2010		31 December 2009	
	10% Increase £m	10% Decrease £m	10% Increase £m	10% Decrease £m
US dollar			47	(58)
Euro	7	(8)	19	(23)
Canadian dollar			15	(18)
Australian dollar	(3)	4	(5)	7
Swiss franc			12	(15)
Singapore dollar	6	(7)	8	(10)
South African rand			15	(18)
Other	2	(3)	7	(9)
	12	(14)	118	(144)

A 10 per cent change in exchange rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

The currency sensitivity of pre-tax profit is principally due to the impact from forward foreign currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of British American Tobacco p.l.c. These contracts provide cash flow certainty and are designated as net investment hedges in the Group financial statements of British American Tobacco p.l.c. As the Group does not have the underlying investments, the contracts are not designated as hedges in these financial statements and changes in their fair value are recognised through the income statement. With effect from 29 December 2010, the Group has reduced the income statement impact of these external forward foreign currency contracts by entering into offsetting contracts with fellow subsidiaries. Consequently, most of the income statement impact of this activity will now be borne by fellow subsidiaries.

Excluding the impact of these contracts, a 10 per cent strengthening and a 10 per cent weakening of functional currencies against non-functional currencies would have the following impact on pre-tax profit and other comprehensive income:

	Impact on pre-tax profit			
	31 December 2010		31 December 2009	
	10% Increase £m	10% Decrease £m	10% Increase £m	10% Decrease £m
US dollar*	5	(6)		
Euro	(4)	5	(11)	13
Canadian dollar				
Australian dollar	(3)	4	(5)	7
Swiss franc				
Singapore dollar	3	(3)	6	(7)
Other	(4)	4	4	(5)
	(3)	4	(6)	8

* The sensitivity in 2010 arises from the Group hedging highly probable future cash flows on behalf of fellowsubsidiaries.

A 10 per cent change in exchange rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

Interest rate risk

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

12. Management of financial risks continued

Interest rate risk continued

The BAT Group has an externally imposed capital requirement in respect of its centrally managed banking facilities, which requires a gross interest cover of 4.5 times. Although the Company is a joint borrower under these central banking facilities, the requirement is based on the audited group financial statements of British American Tobacco p.l.c.

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group's ratio of fixed to floating rate debt forms part of overall BAT Group debt for which targets are set for the desired ratio of floating to fixed rate debt on both a gross basis and net basis (at least 50 per cent fixed on a net basis in the short to the medium-term) as a result of regular reviews of market conditions and strategy by the CFC and the Board of the Company. At 31 December 2010, the relevant ratios of floating to fixed rate external borrowings were **26:74** (2009: 43:57) on a gross basis and **14:86** (2009: 37:63) 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 profileof liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of interest-bearing financial assets and financial liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analyses, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates as a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis point change in currency interest rates (where applicable) would have the following impact on pre-tax profit:

	31 December 2010		31 December 2009	
	100 bps Increase £m	**100 bps Decrease £m**	100 bps Increase £m	100 bps Decrease £m
US dollar	**26**	**(14)**	26	(10)
UK Sterling*	**(25)**	**(18)**	(41)	3
Euro	**11**	**(13)**		2
Canadian dollar			3	
Australian dollar	**6**	**(6)**	6	(6)
Other	**6**	**(7)**	11	(10)
	24	**(58)**	5	(21)

* The Group lends at fixed rates or on 3 month, 6 month or 1 year floating interest rates but borrows from fellow subsidiaries at short-term floating rates. Sterling interest rates are lower than 1 per cent across most of the yield curve, particularly on short-term interest rates. This means that a 1 per cent reduction in interest rates would have a larger impact on income from floating rate loans than on the expense on floating rate borrowings.

A 100 basis point change in interest rates would have no impact on items recognised directly in other comprehensive income for the current and prior year.

Credit risk

The Group has no significant concentrations of counterparty credit risk in respect of its external financial assets. As the central financing vehicle for the BAT Group, concentrations of credit risk arise from financial assets due from fellow subsidiaries and the parent undertaking. All loans to fellow subsidiaries, subsidiary companies and the parent are priced on an arm's length basis. To determine the appropriate risk premium, the Group consults, where appropriate, with independent financial institutions who assess the asset base and sovereign risk specific to the relevant counterparty.

Intercompany counterparties have appropriate capital structures to meet their obligations as they fall due. All loans to fellow subsidiaries, subsidiary companies and the parent undertaking are therefore between parties which have been individually reviewed and are considered to be in a position to continue to meet their obligations. The Group recognises that the sovereign risk of a fellow subsidiary can be the determining factor of default.

All derivatives are subject to ISDA documentation.

12. Management of financial risks continued

Credit risk continued

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/A2. From time to time, the Group may invest in short dated corporate commercial paper. For this, the Group has identified specific counterparties with a minimum short-term rating of A1/P1.

External counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of bank counterparties are reviewed regularly. The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions.

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group balance sheet. In addition, the Group provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2010 is **£413 million** (2009: £965 million). Guarantees provided to third parties are shown in note 20 on page 32.

Price risk

At 31 December 2010 and 31 December 2009, the Group's financial instruments are not sensitive to price risk.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained and is expected to remain highly effective.

Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the balance sheet, the basis for fair values is described below.

Fair value hierarchy

In accordance with the IFRS 7 classification hierarchy all derivatives held by the Company at 31 December 2010 and 31 December 2009, fall within Level 2. Level 2 financial instruments are not traded in an active market but the fair values are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency. Level 2 financial instruments include certain money market securities and most OTC derivatives.

13. Other receivables

	31 December 2010 £m	31 December 2009 £m
Prepayments and accrued income:		
Due from fellow subsidiaries	**3**	6
Other	**11**	
	14	6

Within the 'other' category of other receivables are prepaid facility fees of **£9 million** (2009: £nil) which relate to periods which fall beyond 1 year.

The currency profile of other receivables is **£12 million** (2009: £1 million) sterling, **£nil** (2009: £1 million) euros, **£1 million** (2009: £nil) Canadian dollar, **£nil** Australian dollar (2009: £3 million) and **£1 million** (2009: £1 million) in other currencies.

There is no material difference between the book values for other receivables and their fair values.

14a. Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2010 of **£3,628 million** fall due within two years (2009: £3,628 million within three years) and reprice within one year (2009: £3,628 million within one year). The effective interest rate is **1.7 per cent** (2009: 1.6 per cent).

Loans due from parent undertaking include **£11 million** of interest receivable at 31 December 2010 (2009: £11 million). The fair value of loans due from the parent undertaking is **£3,630 million** (2009: £3,630 million).

14b. Loans due from fellow subsidiaries

Loans due from fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates:

	31 December 2010 £m	31 December 2009 £m	**31 December 2010 %**	31 December 2009 %
UK sterling	**4,299**	2,423	**2.6**	2.5
Euro	**3,762**	3,930	**3.1**	4.7
US dollar	**3,050**	2,843	**2.5**	2.5
Singapore dollar	**1,018**	907	**5.3**	4.8
Danish krone	**408**	602	**7.5**	6.2
Canadian dollar	**335**	964	**5.3**	6.0
Swiss franc	**195**	165	**1.3**	1.4
Norwegian krone	**168**	162	**4.3**	3.7
Hong Kong dollar	**162**	199	**2.3**	2.1
Swedish krona	**133**	178	**2.6**	2.1
Polish zloty	**66**	93	**6.2**	5.9
Hungarian forint	**59**	74	**6.7**	7.7
New Zealand dollar		23		6.7
Mexican peso	**21**	19	**11.0**	11.1
	13,676	12,582		

There is no material difference between the book value and fair value for loans due from fellow subsidiaries.

The maturity dates of loans due from fellow subsidiaries as recognised in the balance sheet are as follows:

	31 December 2010 £m	31 December 2009 £m
Within one year	**8,179**	3,725
Between one and two years	**1,736**	6,154
Between two and three years	**2,430**	2,144
Between three and four years	**271**	473
Between four and five years	**971**	
Beyond five years	**89**	86
Total	**13,676**	12,582

The exposure to interest rate changes when loans reprice is as follows:

	Total £m	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Greater than 5 years £m
As at 31 December 2010	**13,676**	**13,587**					**89**
As at 31 December 2009	12,582	10,593	1,754	59	90		86

Interest rate risk on loans due from fellow subsidiaries is not hedged by the Group.

Loans due from fellow subsidiaries include **£96 million** of interest receivable (2009: £108 million).

Loans totalling **€1.6 billion** (2009: €1.4 billion) due from a fellow subsidiary will be settled by delivery of German government securities. Forward sale contracts are in place to hedge the value of these securities (see note 11).

15. Borrowings - bank overdrafts and issued debt

	Currency	Maturity dates	Interest rates	**31 December 2010 £m**	31 December 2009 £m
Issued debt					
Eurobonds	Euro	2012-2021	3.6 to 5.9%	**3,109**	4,056
	UK sterling	2013-2040	5.8 to 7.3%	**2,268**	1,945
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act	US dollar	2013-2018	8.1 to 9.5%	**637**	620
Euro commercial paper					187
				6,014	6,808
Bank overdrafts				**49**	44
				6,063	6,852

On 10 March 2010, the Company novated its €519 million bond maturing in 2013 to a fellow subsidiary within the BAT Group. In addition, on 25 June 2010, the Company purchased and cancelled €413 million of its €750 million bond maturing in 2012. At the same time, the Company issued a new £275 million bond with a maturity of 2040.

The Company repaid a €900 million bond in February 2009 which was financed by bond issues during 2008. During 2009, the Company also issued a new £250 million bond maturing in June 2022.

In November 2009, the terms of €481 million of the €1.0 billion bond maturing in 2013 were modified by extending the maturity to 2021. At the same time, the Company issued an additional €169 million bond with a maturity of 2021. In addition, £199 million of the £350 million bond maturing in 2013 was purchased and cancelled; at the same time the Company issued a new £500 million bond with a maturity of 2034.

Included within borrowings of **£6,014 million** (2009: £6,808 million) above are **£1,434 million** (2009: £2,698 million) where the amortised cost has been adjusted as part of a fair value hedge. The carrying value of borrowings subject to fair value hedges has been increased by **£109 million** at 31 December 2010 (2009: increased by £79 million) shown in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Czech krona, Euro, Swedish krone, Singapore dollar, Turkish lira, UK sterling, US dollar and South African rand (2009: Czech krona, Euro, Turkish lira, US dollar and South African rand).

Issued debt is repayable as follows:

	Per balance sheet		Contractual gross maturities	
	31 December 2010 £m	31 December 2009 £m	**31 December 2010 £m**	31 December 2009 £m
Within one year	**186**	375	**355**	546
Between one and two years	**297**		**643**	380
Between two and three years	**361**	689	**688**	1,046
Between three and four years		826	**320**	1,155
Between four and five years	**1,067**		**1,391**	308
Beyond five years	**4,103**	4,918	**6,070**	6,873
Total	**6,014**	6,808	**9,467**	10,308

The contractual gross maturities in each year include the borrowings maturing in that year together with forecast interest payments on all borrowings which are outstanding for all or part of the year.

Issued debt repayable within one year includes interest payable of **£186 million** (2009: £188 million).

15. Borrowings - bank overdrafts and issued debtcontinued

Issued debt is denominated in the following currencies:

	Total £m	GBP £m	USD £m	EUR £m	CHF £m	AUD £m	CAD £m	DKK £m	SEK £m	NOK £m
As at 31 December 2010										
Total issued debt	6,014	2,268	637	3,109						
Effect of derivative financial instruments										
Cross-currency swaps	(2)		14	(415)				399		
Forward foreign exchange contracts	(10)	(1,180)		(662)	189	1,048	299		132	164
	6,002	**1,088**	**651**	**2,032**	**189**	**1,048**	**299**	**399**	**132**	**164**
As at 31 December 2009										
Total issued debt	6,808	1,949	629	4,230						
Effect of derivative financial instruments										
Cross-currency swaps	(3)		14	(431)				414		
Forward foreign exchange contracts	24	(1,289)		(726)	165	947	413	177	177	160
	6,829	660	643	3,073	165	947	413	591	177	160

Details of the derivative financial instruments included in these tables are given in note 11 on pages 15-22.

The exposure to interest rate changes when borrowings are repriced is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years
At 31 December 2010	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total issued debt	6,014	186	297	361		1,067	4,103
Effect of derivative financial instruments							
Interest rate swaps		1,439	(289)	(150)	(750)		(250)
Cross-currency swaps	(3)	14					(17)
	6,011	**1,639**	**8**	**211**	**(750)**	**1,067**	**3,836**
At 31 December 2009	£m	£m	£m	£m	£m	£m	£m
Total issued debt	6,808	375		689	826		4,918
Effect of derivative financial instruments							
Interest rate swaps		2,749		(666)	(505)	(750)	(828)
Cross-currency swaps	(4)	14					(18)
	6,804	3,138		23	321	(750)	4,072

Details of the derivative financial instruments included in these tables are given in note 11 on pages 15-22.

British American Tobacco p.l.c. has provided guarantees for all of the Company's public indebtedness. As at 31 December 2010, the amount of these guarantees was **£5,821 million** (2009: £6,653 million).

The fair value of issued debt is **£6,655 million** (2009: £7,333 million) and has been determined using quoted market prices.

15. Borrowings - bank overdrafts and issued debtcontinued

Effective interest rates of issued debt and bank overdrafts are as follows:

	31 December 2010 £m	31 December 2009 £m	**31 December 2010 %**	31 December 2009 %
UK sterling	**2,278**	1,949	**6.4**	6.5
US dollar	**646**	659	**9.5**	8.8
Euro	**3,130**	4,231	**5.5**	4.9
Other	**9**	13	**1.8**	12.8
	6,063	6,852		

The values and rates above do not reflect the effect of interest rate and cross-currency swaps detailed in note 11 on pages 15-22.

16a Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking of **£2,967 million** (2009: £2,285 million) comprise current account borrowings from the parent. These are denominated in sterling and have an effective interest rate of **0.4 per cent** (2009: 0.4 per cent). There is no accrued interest repayable in the current or prior year.

There is no material difference between the book value and fair value for amounts repayable on demand to parent undertaking.

16b Amounts repayable on demand to fellow subsidiaries

Amounts repayable on demand to fellow subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts held with the Group. These are denominated in the following currencies and have the following effective interest rates:

	31 December 2010 £m	31 December 2009 £m	**31 December 2010 %**	31 December 2009 %
UK sterling	**4,539**	3,745	**0.5**	0.4
Euro	**534**	421	**0.7**	0.3
US dollar	**130**	152	**0.0**	0.0
Swiss franc	**134**	85	**0.0**	0.0
New Zealand dollar	**38**	5	**2.8**	2.4
Australian dollar	**37**	44	**4.5**	3.6
Hong Kong dollar	**16**	16	**0.0**	0.0
Romanian leu		13		8.8
Other	**27**	23	**2.4**	2.8
	5,455	4,504		

Amounts repayable on demand to fellow subsidiaries include **£0.4 million** of interest repayable at 31 December 2010 (2009: £0.4 million). There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries.

17. Other payables

	31 December 2010 £m	31 December 2009 £m
Accrued charges and deferred income		
Due to fellow subsidiaries	**15**	3
Other	**9**	17
	24	20

The currency profile of other payables is **£23 million** (2009: £20 million) UK sterling and **£1 million** (2009: £nil) Australian dollar.

There is no material difference between the book values of other payables and their fair values.

18. Term deposits repayable to fellow subsidiaries

Term deposits repayable to fellow subsidiaries are denominated in the following currencies and have the following effective interest rates:

	31 December 2010 £m	31 December 2009 £m	**31 December 2010 %**	31 December 2009 %
UK sterling	**2,828**	2,852	**0.7**	0.6
Euro	**93**	481	**0.9**	0.7
US dollar	**143**	167	**0.2**	0.2
Norwegian krone	**31**	45	**1.8**	1.5
Swiss franc		42		0.3
Hong Kong dollar	**11**	13	**0.2**	0.0
Swedish krone	**8**	9	**1.4**	0.3
Danish krone	**26**		**0.7**	
Romanian leu	**55**		**3.9**	
	3,195	3,609		

Term deposits repayable to fellow subsidiaries include **£0.6 million** of interest payable at 31 December 2010 (2009: £1.5 million) and reprice within one year (2009: £3,609 million within one year).

Term deposits repayable to fellow subsidiaries fall due as follows:

	Per balance sheet		**Contractual gross maturities**	
	31 December 2010 £m	31 December 2009 £m	**31 December 2010 £m**	31 December 2009 £m
Within one year	**3,195**	3,609	**3,199**	3,613

There is no material difference between the above amounts for term deposits repayable to fellow subsidiaries and their fair values.

19. Total shareholders' equity

	Share capital £m	**Hedging reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2010	**231**	**(2)**	**157**	**600**	**986**
Comprehensive income and expense					
Profit for the financial year				82	82
Differences on exchange			59		59
Cash flow hedges					
net fair value losses					
reclassified and reported in profit and loss		1			1
Net investment hedges					
net fair value gains					
differences on exchange on borrowings			(11)		(11)
31 December 2010	**231**	**(1)**	**205**	**682**	**1,117**

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2009	1	(13)	344	100	432
Comprehensive income and expense					
Profit for the financial year				500	500
Differences on exchange			(228)		(228)
Cash flow hedges					
net fair value losses		(41)			(41)
reclassified and reported in profit and loss		52			52
Net investment hedges					
net fair value gains			49		49
differences on exchange on borrowings			(8)		(8)
Other changes in equity					
Issue of share capital	230				230
31 December 2009	231	(2)	157	600	986

19. Total shareholders' equity continued

Details relating to the allotted and issued share capital, and movements therein, are included on page 41, note 14 to the parent company financial statements.

The translation reserve is as explained in the accounting policy on foreign currencies on page 9. The hedging reserve is as explained in the accounting policy on financial instruments on pages 10-11.

20. Contingent liabilities

The Group is one of the three entities in the BAT Group which have jointly guaranteed borrowing facilities available to British American Tobacco Mexico, S.A. de C.V. of **£441 million** (US$690 million), to B.A.T. Capital Corporation of **£26 million** (US$40 million) and to B.A.T. Holdings (The Netherlands) B.V. of **£2,253 million** (€2,250 million and £325 million). All such facilities have been utilised at the balance sheet date.

Additionally, the Company is one of the two entities in the BAT Group which have jointly guaranteed a borrowing facility available to British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi of **£386 million** (€450 million).

The full fair value of the above guarantees is recognised in the financial statements of the ultimate parent undertaking, British American Tobacco p.l.c.

Contingent liabilities mature as follows:

	31 December 2010 £m	31 December 2009 £m
Within one year	**455**	491
Between one and two years	**441**	889
Between two and three years	**831**	1,049
Between three and four years	**514**	
Between four and five years		533
Beyond five years	**865**	325
Total	**3,106**	3,287

21. Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24, all of which are undertaken in the normal course of the Group's business as a primary financing vehicle for the BAT Group.

Transactions and balances with fellow subsidiaries and the parent undertaking relate mainly to the provision of finance to companies within the BAT Group.

Details of these transactions in the Group Balance Sheet are set out in notes 10, 13, 14, 16, 17, and 18. In addition, outstanding balances with fellow subsidiaries are included within note 11 as follows:

	31 December 2010		31 December 2009	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivative financial instruments				
Cross-currency swaps	**242**		204	
Interest rate swaps	**8**	**34**		
Forward foreign currency contracts	**103**	**63**	38	107
	353	**97**	242	107

Details of these transactions in the Group Income Statement are set out in notes 3, 4 and 5. In addition, balances with fellow subsidiaries are included within note 6 as follows:

	2010 Income/(Expense) £m	2009 Income/(Expense) £m
Derivative financial instruments		
Cross-currency swaps	**69**	201
Interest rate swaps	**1**	
Forward foreign currency contracts	**11**	(72)
	81	129

21. Related party disclosures continued

On 10 March 2010, the Company novated its €519 million bond maturing in 2013 to a fellow subsidiary at fair value resulting in a charge to the income statement of £24 million.

As explained more fully in note 12, with effect from 29 December 2010, the Group has reduced the income statement impact of its external dividend hedging forward foreign currency contracts by entering into offsettingcontracts with fellow subsidiaries. The related party balances and transactions above include the impact of these derivatives.

The key management of the Company consist of the members of the Board of Directors and no such person had any material interest during the year in a contract of significance with the Group. The term key management in this context includes the respective members of their households.

23. Principal subsidiary undertakings

The Company holds the entire issued share capital of BATIF Dollar Limited, and of B.A.T Finance B.V. - finance companies incorporated in England and Wales and the Netherlands respectively.

24. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2009: £nil).

25. Parent undertaking

The Company's immediate and ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c., being incorporated in the United Kingdom and registered in England and Wales and registered as an external Company in the Republic of South Africa. Consolidated group financial statements are prepared by British American Tobacco p.l.c. and are publicly available.

26. Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Report of the Independent Auditors - Group Financial Statements

We have audited the Group financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2010, which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Cash Flow Statement and the Group Notes on the accounts. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

This report, including the opinion, 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.

Scope of the audit of the financial statements
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.

Opinion on financial statements
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Parent Company financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2010.

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place, London
31 March 2011

Balance Sheet – B.A.T. International Finance p.l.c.

Registered Number 1060930

31 December

	2010 £m	2009 £m
Assets		
Fixed assets		
Investments in subsidiaries (note 2)	**1,160**	1,160
Loans due from parent undertaking (note 3a)	**3,628**	3,628
Loans due from fellow subsidiaries (note 3b)	**10,667**	9,739
	15,455	14,527
Current assets		
Amounts due on demand from subsidiaries (note 4)	**1,330**	1,277
Amounts due on demand from fellow subsidiaries (note 5)	**597**	1,146
Prepayments and accrued income (note 6)	**14**	6
Derivative financial instruments (note 7)	**620**	485
Short-term deposits and cash (note 9)	**690**	719
	3,251	3,633
Total assets	**18,706**	18,160
Liabilities		
Creditors		
Issued debt (note 10)	**6,014**	6,808
Bank overdrafts (note 10)	**49**	44
Amounts payable on demand to parent undertaking (note 11a)	**2,967**	2,285
Amounts payable on demand to fellow subsidiaries (note 11b)	**5,455**	4,504
Borrowings from fellow subsidiaries (note 12)	**3,195**	3,609
Derivative financial instruments (note 7)	**404**	310
Accruals and deferred income (note 13)	**24**	20
	18,108	17,580
Capital and reserves		
Called up share capital (note 14)	**231**	231
Hedging reserve (note 14)	**(2)**	(3)
Retained earnings (note 14)	**369**	352
Total shareholder's equity	**598**	580
Total equity and liabilities	**18,706**	18,160

On behalf of the Board

R. L. Allen
31 March 2011

Notes are shown on pages 36-41

Notes on the Accounts – B.A.T. International Finance p.l.c.

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 preparation of the Group's financial statements under International Financial Reporting Standards has led to the use of the 'liquidity format' for the balance sheet in those financial statements. In order to aid comparability between the Group and Company, the format of the Company balance sheet has been presented within the limits of the Companies Act 2006, to match as closely as possible the 'liquidity format' in order to present a true and fair view of the state of affairs of the Company.

Cash flow statement

The cash flows of the Company are included in the Group cash flow statement on page 8. Consequently, the Company is exempt under the terms of FRS 1 (Revised) from publishing a cash flow statement.

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

As a financing vehicle, the Company's primary sources of income comprise interest on loans to fellow subsidiaries and net fee income. These are recognised on a time proportion basis, and all income is only recognised to the extent that it is considered to be collectable.

Net fee income comprises commitment fees received in respect of undrawn revolving credit facilities provided to fellow subsidiaries, and commitment fees paid in respect of revolving credit facilities provided by external banks.

Taxation

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost, together with subsequent capital contributions, less provision for any impairment in value.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. Financial assets measured at amortised cost are reviewed for impairment at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. An impairment or irrecoverable amounts is recognised when there is objective evidence that the full amount receivable will not be collected according to the original terms of the asset. Such evidence might include financial difficulties of the counterparty, defaults of payment or significant overdue balances. For interest-bearing assets, their carrying value includes accrued interest receivable.

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

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 stated 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 equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement. The accumulated gains and losses are recognised in the income statement in the same period as the hedged item; and

1. Accounting policies continued

Financial instruments continued

- 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 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 Company is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is 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 (for example through expiry or disposal), or no longer qualifies for hedge accounting.

Segmental analysis
The Company's internal reporting systems are not arranged on a geographical basis. As SSAP25 requires a segmental analysis, geographical segmentation based on location of counterparty has been provided in note 15. The Company is a single product business providing finance services.

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 the British American Tobacco p.l.c. Group.

Dividends
Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are paid.

2. Investments in subsidiaries

The Company holds the entire issued share capital of BATIF Dollar Limited and of B.A.T Finance B.V. - finance companies incorporated in England and Wales and the Netherlands respectively. The cost of these investments as at 31 December 2010 was **£1,160 million** (2009: £1,160 million).

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

3a. Loans due from parent undertaking

Loans due from parent undertaking of **£3,628 million** (2009: £3,628 million) comprise exactly the same balances and disclosures as Loans due from parent undertaking, detailed in Group note 14a.

3b. Loans due from fellow subsidiaries

The difference between the current and prior year balances is analysed as follows:

	£m
1 January 2010	**9,739**
Differences on exchange	**81**
Movement in interest accruals	**(11)**
Advances	**9,239**
Repayments	**(8,381)**
31 December 2010	**10,667**

3b) Loans due from fellow subsidiaries continued

Loans due from fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates:

	31 December 2010 £m	31 December 2009 £m	**31 December 2010 %**	31 December 2009 %
UK sterling	**4,299**	2,423	**2.6**	2.5
Euro	**3,762**	3,930	**3.1**	4.7
Singapore dollar	**1,018**	907	**5.3**	4.8
Danish krone	**408**	602	**7.5**	6.2
Canadian dollar	**335**	964	**5.3**	6.0
Swiss franc	**195**	165	**1.3**	1.4
Norwegian krone	**168**	162	**4.3**	3.7
Hong Kong dollar	**162**	199	**2.3**	2.1
Swedish krona	**133**	178	**2.6**	2.1
Polish zloty	**66**	93	**6.2**	5.9
Hungarian forint	**59**	74	**6.7**	7.7
US dollar	**41**		**1.5**	
Mexican peso	**21**	19	**11.0**	11.1
New Zealand dollar		23		6.7
	10,667	9,739		

There is no material difference between the book value and fair value for loans due from fellow subsidiaries.

The maturity dates of loans due from fellow subsidiaries as recognised in the balance sheet are as follows:

	31 December 2010 £m	31 December 2009 £m
Within one year	**5,526**	3,395
Between one and two years	**1,728**	3,761
Between two and three years	**2,290**	2,110
Between three and four years	**152**	473
Between four and five years	**971**	
Total	**10,667**	9,739

The exposure to interest rate changes when loans reprice is as follows:

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2010	**10,667**	**10,667**				
	£m	£m	£m	£m	£m	£m
As at 31 December 2009	9,739	7,892	1,732	25	90	

Interest rate risk of loans to fellow subsidiaries is not hedged.

Loans to fellow subsidiaries include **£91 million** of interest receivable at 31 December 2010 (2009: £102 million).

Loans totalling **€1.6 billion** (2009: €1.4 billion) due from a fellow subsidiary will be settled by delivery of German government securities. Forward sale contracts are in place to hedge the value of these securities (Group note 11).

4. Amounts due on demand from subsidiaries

Amounts due on demand from subsidiaries of **£1,330 million** (2009: £1,277 million) comprise current accounts held with the Company. These are denominated in US dollars and the effective interest rate is **1.2 per cent** (2009: 1.1 per cent).

There is no material difference between the book value and fair value for amounts due on demand from subsidiaries.

5. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries of **£597 million** (2009: £1,146 million) for the Company comprise the same balances and disclosures as Amounts due on demand from fellow subsidiaries for the Group, detailed in Group note 10. Consequently no additional information is presented here.

6. Prepayments and accrued income

Prepayments and accrued income of **£14 million** (2009: £6 million) for the Company comprise exactly the same balances and disclosures as other receivables, detailed in Group note 13. Consequently no additional information is presented here.

7. Derivative financial instruments

Derivative financial instruments comprise the same balances as derivative financial instruments, detailed in Group note 11.

In February 2009, cross-currency swaps designated as cash flow hedges and net investment hedges in the Group financial statements matured. These were not designated as hedges by the Company and were classified as derivatives held-for-trading.

Under FRS 29, the disclosures required are the same as under IFRS 7. Consequently no additional information is presented in this note.

8. Management of financial risks

The disclosures provided by Group note 12 under IFRS 7 are the same as the disclosures required by FRS 29. Consequently no additional information is presented here except for interest rate risk and credit risk.

Interest rate risk

FRS 29 requires a sensitivity analyses that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of interest rates in respect of interest-bearing financial instruments recognised in the balance sheet at 31 December 2010. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of the sensitivity analyses, financial assets and liabilities with fixed interest rates are not included. Interest sensitivity in respect of foreign exchange forward contracts is not included in the analysis for 2010 as it is considered as fixed rate interest. The Company considers a 100 basis point change in interest rates as a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 100 basis point change in currency interest rates (where appropriate) would have the following impact on pre-tax profit:

	31 December 2010		31 December 2009	
	100 bps Increase £m	**100 bps Decrease £m**	100 bps Increase £m	100 bps Decrease £m
US dollar	**10**	**(2)**	12	(1)
UK Sterling*	**(25)**	**(18)**	(41)	3
Euro	**11**	**(13)**		2
Canadian dollar			3	
Australian dollar	**6**	**(6)**	6	(6)
Other	**6**	**(7)**	11	(10)
	8	**(46)**	(9)	(12)

* The Company lends at fixed rates or on 3 month, 6 month or 1 year floating interest rates but borrows substantial sums at short-term floating rates. Sterling interest rates are lower than 1 per cent across most of the yield curve, particularly on short-term interest rates. This means that a 1 per cent reduction in interest rates would have a larger impact on income from floating rate loans than on the expense on floating rate borrowings.

A 100 basis point change in interest rates would have no impact on items recognised directly in equity for the current and prior year.

8. Management of financial risks continued

Credit risk

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Company balance sheet. In addition, the Company provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2010 is **£354 million** (2009: £904 million). Guarantees provided to third parties are shown in note 17 page 41.

9. Short-term deposits and cash

Short-term deposits and cash for the Company comprise the same balances and disclosures as Cash and cash equivalents, detailed in Group note 9. Consequently no additional information is presented here.

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section above. At 31 December 2010, cash and cash equivalents include **£642 million** invested in money market funds (2009: £669 million).

10. Borrowings - bank overdrafts and issued debt

Bank overdrafts and issued debt for the Company comprise the same balances and disclosures as Bank overdrafts and Issued debt, detailed in Group note 15. Consequently no additional information is presented here.

11a. Amounts payable on demand to parent undertaking

Amounts payable on demand to parent undertaking of **£2,967 million** (2009: £2,285 million) comprise the same balances and disclosures as Amounts repayable on demand to parent undertaking, detailed in Group note 16a. Consequently no additional information is presented here.

11b. Amounts payable on demand to fellow subsidiaries

Amounts payable on demand to fellow subsidiaries of **£5,455 million** (2009: £4,504 million) comprise the same balances and disclosures as Amounts repayable on demand to fellow subsidiaries, detailed in Group note 16b. Consequently no additional information is presented here.

12. Borrowings from fellow subsidiaries

Borrowings from fellow subsidiaries of **£3,195 million** (2009: £3,609 million) for the Company comprise the same balances and disclosures as Term deposits repayable to fellow subsidiaries, detailed in Group note 18. Consequently no additional information is presented here.

13. Accruals and deferred income

Accruals and deferred income of **£24 million** (2009: £20 million) for the Company comprise the same balances and disclosures as Other payables, detailed in Group note 17. Consequently no additional information is presented here.

14. Total shareholders' equity

	Called up share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
1 January 2010	231	(3)	352	580
Profit for the financial year			17	17
Cash flow hedges				
net fair value gains		1		1
31 December 2010	**231**	**(2)**	**369**	**598**

As permitted by Section 408(3) of the Companies Act 2006, the profit and loss account of the Company has not been presented in these Parent Company financial statements. The profit for the financial year ended 31 December 2010 was £17 million (2009: £419 million).

As at 1 January 2009, share capital consisted of 1 million ordinary shares of £1 each, allotted, issued and fully paid. On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to 231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 (the '1985 Act') and to disapply pre-emption rights under section 89(1) of the 1985 Act. Following the conclusion of the EGM, 230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c. at par. Therefore, as at 31 December 2009 and at 31 December 2010 share capital consisted of 231 million ordinary shares of £1 each, allotted, issued and fully paid.

The hedging reserve is explained in the accounting policy on financial instruments on pages 36-37.

Details of the audit fee in respect of the company are included in Group note 7 on page 13.

15. Segmental reporting

	Total		West Europe		East Europe		Americas		Asia Pacific	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Net assets/ (liabilities)	**598**	580	**(889)**	(1,291)	**101**	92	**211**	834	**1,175**	945

16. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2009: £nil).

17. Contingent liabilities

Contingent liabilities of **£3,106 million** (2009: £3,287 million) for the Company comprise the same balances and disclosures as Contingent liabilities, detailed in Group note 20. Consequently no additional information is presented here.

18. Related parties

As explained in the accounting policies on note 1, 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 the BAT Group. Details of balances and transactions with related parties that are not wholly owned are disclosed below.

As at 31 December 2010, total assets on the balance sheet included **£99 million** (2009: £nil) of loans due from related parties that are not wholly owned by the BAT Group (2009: £nil). Total liabilities included amounts repayable on demand of **£9 million** (2009: £2 million) and borrowings of **£nil** (2009: £4 million).

The Company did not earn any material income or incur any material expenses in transactions with related parties that are not wholly owned by the BAT Group.

18. Related parties continued

Cash flows for the year ended 31 December 2010, included net outflows of **£99 million** (2009: £nil) in respect of loans advanced to fellow subsidiaries that are not wholly owned by the BAT Group and net inflows of **£6 million** (2009: £2 million) in respect of net borrowings obtained.

19. Parent undertaking

The Company's immediate and ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c., being incorporated in the United Kingdom and registered in England and Wales and registered as an external Company in the Republic of South Africa. Consolidated Group financial statements are prepared by British American Tobacco p.l.c. and are publicly available.

20. Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Report of the Independent Auditors – Parent Company Financial Statements

We have audited the Parent Company financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2010 which comprise the Balance Sheet and the Notes on the accounts. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement in relation to the financial statements as set out on pages 3-4, the Directors are responsible for the preparation of the Parent Company 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 Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

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.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2010.

Nick Campbell Lambert

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place, London
31 March 2011