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

2011
Annual Report

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

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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 27 March 2012 at 11am for the transaction of the following business:

1. To receive the financial statements for the year ended 31 December 2011 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
27 March 2012

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 2011

Introduction
The Directors present their Annual Report and the audited Financial Statements for B.A.T. International Finance p.l.c. ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2011.

Board of Directors
The names of the persons who served as Directors of the Company during the period 1 January 2011 to the date of this report are as follows:

John Benedict Stevens
Kenneth John Hardman
Robert Lee Allen (resigned 29 February 2012)
Michael Scott Hayes (resigned 21 March 2012)
Robert James Casey
Christopher John McAllister (appointed 10 February 2012)
Tadeu Luiz Marroco (appointed 10 February 2012)

In accordance with the Articles of Association, Mr C.J. McAllister and Mr T. L. Marroco, having been appointed since the date of the last Annual General Meeting, resign from the Board at the forthcoming Annual General Meeting and together with Mr J.B. Stevens, who is subject to retirement by rotation, and, being eligible, offer themselves for reappointment.

Business Review for the year ended 31 December 2011
The Group's profit for the financial year amounted to **£83 million** (2010: £82 million). Total equity has increased by **£97 million** (2010: increased by £131 million). The Directors do not recommend payment of a dividend for the year (2010: £nil).

On 1 June 2011, the Company novated its €650 million bond maturing in 2021 to a fellow subsidiary. The novation was concluded at fair value and resulted in a charge to the income statement of £50 million. In addition, in June 2011, the Company established a US$2 billion commercial paper programme. At 31 December 2011, £85 million of commercial paper was outstanding (2010: £nil).

In November 2011, the Company issued a new €600 million bond with a maturity of November 2021.

In December 2010, the Company negotiated a new central banking facility of £2 billion with a final maturity date of December 2015. This facility is provided by 22 banks. The existing central banking facility of £1.75 billion, with a final maturity date of March 2012 was cancelled at the same time. The facility was undrawn at both 31 December 2011 and 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 Directors expect the Company's activities to continue on a similar basis in the foreseeable future.

Principal activities, risks and uncertainties
The principal activities of the Group comprise the raising of finance for British American Tobacco p.l.c. and its subsidiaries ('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 23-27. 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.

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 BAT Group Corporate Finance Committee ('CFC'), 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 from 1 January 2011 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.

In August 2011, the Company entered into indemnities with each of the remaining Directors under which they, as Directors of the Company, are, to the extent permitted by law, indemnified in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of his duties to the Company or as a result of things done by them as Directors on behalf of the Company since their appointment.

Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' responsibilities 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.

By order of the Board

N. Snook.

Nicola Snook, Secretary
27 March 2012

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

Group Income Statement

For the year ended 31 December

	2011	2010
	£m	£m
Interest income (note 3)	504	535
Interest expense (note 4)	(499)	(489)
Net fee income (note 5)	3	8
Net fair value gains on derivatives and exchange differences (note 6)	84	37
Net finance income	92	91
Other operating expenses (note 7)	(1)	(1)
Profit before taxation	91	90
Taxation on ordinary activities (note 8)	(8)	(8)
Profit for the year	83	82

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

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

Group Statement of Comprehensive Income

For the year ended 31 December

	2011	2010
	£m	£m
Profit for the year	83	82
Other comprehensive income		
Differences on exchange	18	59
Cash flow hedges		
- net fair value (losses)/ gains	(2)	1
- reclassified and reported in profit for the year	1	
Net investment hedges		
- differences on exchange on borrowings	(3)	(11)
Total other comprehensive income for the year	14	49
Total comprehensive income for the year	97	131

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

Group Statement of Changes in Equity

For the year ended 31 December

					2011
	Share capital	**Hedging reserve**	**Translation reserve**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**
Balance at 1 January 2011	**231**	**(1)**	**205**	**682**	**1,117**
Total comprehensive (expense)/ income for the year (page 5)		**(1)**	**15**	**83**	**97**
Balance at 31 December 2011	**231**	**(2)**	**220**	**765**	**1,214**

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

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

Group Balance Sheet

31 December

	2011 £m	2010 £m
Assets		
Cash and cash equivalents (note 9)	**641**	690
Amounts due on demand from fellow subsidiaries (note 10)	**433**	597
Derivative financial instruments (note 11)	**513**	620
Other receivables (note 13)	**13**	14
Loans due from parent undertaking (note 14a)	**3,630**	3,628
Loans due from fellow subsidiaries (note 14b)	**17,692**	13,676
Total assets	**22,922**	19,225
Liabilities		
Bank overdrafts (note 15)	**94**	49
Amounts repayable on demand to parent undertaking (note 16a)	**6,348**	2,967
Amounts repayable on demand to fellow subsidiaries (note 16b)	**6,354**	5,455
Derivative financial instruments (note 11)	**389**	404
Other payables (note 17)	**15**	24
Term deposits repayable to fellow subsidiaries (note 18)	**2,505**	3,195
Issued debt (note 15)	**6,003**	6,014
Total liabilities	**21,708**	18,108
Equity		
Share capital (note 19)	**231**	231
Hedging reserve (note 19)	**(2)**	(1)
Translation reserve (note 19)	**220**	205
Retained earnings (note 19)	**765**	682
Total equity	**1,214**	1,117
Total equity and liabilities	**22,922**	19,225

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

On behalf of the Board

J. B. Stevens
27 March 2012

Group Cash Flow Statement

For the year ended 31 December

	2011 £m	2010 £m
Cash flows from operating activities		
Interest receipts	**248**	323
Interest payments	**(375)**	(426)
Net inflow on fees	**6**	11
Other receipts/ (payments)	**1**	(10)
	(120)	(102)
Increase/ (decrease) in operating assets and liabilities:		
Net short-term funds (outflow)/ inflow from fellow subsidiaries and parent undertaking	**(506)**	164
Proceeds from external debt	**594**	271
Repayment of external debt	**(567)**	(966)
Movements relating to derivative financial instruments	**162**	(231)
Net cash inflow on loans to fellow subsidiaries	**48**	867
Net cash inflow/ (outflow) on borrowings from fellow subsidiaries	**251**	(4)
Net cash outflow from operating activities	**(138)**	(1)
Differences on exchange	**44**	(33)
Net decrease in cash and cash equivalents	**(94)**	(34)
Net cash and cash equivalents at1 January	**641**	675
Net cash and cash equivalents at31 December (note 9)	**547**	641

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

Notes are shown on pages 9 to 34.

Group Notes on the Accounts

1. Accounting policies

Basis of accounting
The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union 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 2011 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 **£25 million** (2010: £17 million).

Foreign currencies
The functional currency of the Company is sterling and this is also the presentation currency of the Group.

The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling at average rates of exchange in each year provided that the average rate approximates the exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at rates of exchange at the end of each year.

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

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

Accounting for income
As a financing vehicle, the Group's primary sources of income comprise interest on loans to fellow subsidiaries and net fee income. These are recognised on 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.

The current income tax charge is calculated on the basis of tax laws enacted or substantially enacted at the balance sheet date in the countries where the Group operates and generates taxable income.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on an undiscounted basis.

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

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

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

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

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

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

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

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

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

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

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 at each reporting date to ensure that the hedge has remained, and is expected to remain, highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal) or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the income statement in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately reclassified to the income statement.

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

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

Dividends
Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are 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 2015. In its current form, it sets out the classification and measurement criteria for financial assets and financial liabilities. It requires all financial assets, including assets currently classified under IAS 39 as available-for-sale, to be measured at fair value through profit and loss unless the assets can be classified as held at amortised cost. Qualifying equity investments held at fair value may have their fair value changes taken through other comprehensive income by election. Where the fair value option for certain financial liabilities is applied, the portion of fair value changes representing own credit risk would be recognised through other comprehensive income rather than the income statement. The Group does not use the fair value option for financial liabilities. The 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.

1. Accounting policies continued

Future changes to Group accounting policies continued

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities have been issued along with revised versions of IAS 27 Separate Financial Statements and IAS 28 Associates; additionally IAS 31 Joint Ventures has been withdrawn. These standards form a single package of proposals with mandatory application from 1 January 2013 (subject to EU endorsement). The aim of these standards is to improve the quality of reporting in relation to the consolidation of subsidiaries, special purpose vehicles and accounting for joint arrangements. While the requirements of IFRS 12 will potentially lengthen certain disclosures in respect of Group entities, the requirements of these standards are not expected to materially affect the Group.

An amendment to IAS 1 Presentation of Financial Statements has been issued. This amendment changes the disclosure of items presented in other comprehensive income grouping them into items which recycle to profit and loss and items which will not. Apart from the change in disclosure, this amendment will have little impact on the Group Accounts. Mandatory application (subject to EU endorsement) is for accounting periods beginning on or after 1 July 2012.

IFRS 13 Fair Value Measurement has been issued. This standard aims to provide a single source of fair value measurement and disclosure requirements for use across IFRS. The implementation of IFRS 13 does not change where fair value is or is not applied under IFRS and will not require a restatement of historical transactions. Mandatory application (subject to EU endorsement) is from 1 January 2013.

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

2. Segmental reporting

As the Company is the central financing vehicle for the BAT Group and is domiciled in the UK, all income other than interest on cash and cash equivalents is earned from counterparties within the BAT Group. Interest on cash and cash equivalents of **£4 million** (2010: £4 million) comprises **£3 million** (2010: £3 million) from money market funds and **£1 million** (2010: £1 million) from bank current accounts.

Interest income from cash and cash equivalents attributable to the UK is **£4 million** (2010: £4 million) and **£nil** (2010: £nil) attributable to foreign countries.

IFRS 8 considers a group of entities under common control as a single customer. **£65 million** (2010: £58 million) of interest income is generated from the parent undertaking and **£435 million** (2010: £473 million) from fellow subsidiaries controlled directly or indirectly by the parent undertaking, British American Tobacco p.l.c.

3. Interest income

	2011 £m	2010 £m
Interest income		
From the parent undertaking	**65**	58
From fellow subsidiaries	**435**	473
Cash and cash equivalents	**4**	4
	504	535

4. Interest expense

	2011 £m	2010 £m
Interest expense		
Euro commercial paper	**4**	2
Bank borrowings	**3**	2
Issued debt	**347**	385
	354	389
To the parent undertaking	**9**	6
To fellow subsidiaries	**136**	94
	499	489

5. Net fee income

	2011 £m	2010 £m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**8**	10
Fee expense		
Fees charged on committed borrowing facilities	**(5)**	(2)
	3	8

Two-thirds of the fees charged on the committed borrowing facility in 2011 and 2010 are borne by the Group, with one-third being borne by fellow subsidiaries.

6. Net fair value gains on derivatives and exchange differences

	2011 £m	2010 £m
Fair value changes on derivatives comprise:		
Cash flow hedges transferred from equity	**(1)**	
Fair value hedging instruments – exchange related movements	**(15)**	(1)
Fair value hedging instruments – net interest income	**41**	53
Fair value hedging instruments – interest related movements	**33**	71
Fair value changes on hedged items		(30)
Instruments held-for-trading	**5**	(312)
Net fair value gains/ (losses) on derivatives	**63**	(219)
Exchange differences	**21**	256
	84	37

6. Net fair value gains on derivatives and exchange differences continued

Included within exchange differences above is a gain of **£15 million** (2010: £1 million) in respect of items subject to fair value hedges and **£1 million** gain (2010: £nil) in respect of items subject to cash flow hedges.

The interest expense on issued debt of **£347 million** (2010: £385 million) in note 4 includes **£84 million** (2010: £100 million) subject to fair value hedges.

The net gains on fair value of derivatives and exchange differences of **£84 million** (2010: £37 million) include a gain of **£12 million** (2010: £9 million gain) due to the ineffective portion of fair value hedges and a gain of **£21 million** (2010: £32 million gain) from the release of fair value basis adjustments to debt.

Most foreign currency assets and liabilities are maintained in US dollars and euros, which have been translated to sterling at the closing rates on 31 December 2011 of **US$1.55410** and **€1.19720** (2010: US$1.56565 and €1.16705).

7. Other operating charges and employee information

	2011 **£m**	2010 £m
Other operating charges	**1**	1

Other operating charges include remuneration of **£136,000** (2010: £132,000) payable to the Company's auditors for the audit of the Group and Company annual financial statements and **£25,000** (2010: £40,000) for the supply of other services to the Company.

The Group has no directly employed employees (2010: nil) and consequently utilises the services of a number of employees whose contracts of service are with fellow subsidiaries, and their remuneration is included in the financial statements of these subsidiaries. An annual management charge is levied from two of these fellow subsidiaries in respect of the cost of employees in the Asia Pacific Treasury Service Centre (Singapore), and in the British American Shared Service Centre (Romania). These charges are included in 'other operating charges' above.

8. Taxation on ordinary activities

a) Summary of tax

	2011 **£m**	2010 £m
UK corporation tax		
Comprising:		
- current tax at **26.5%** (2010: 28%)	**8**	6
- double tax relief	**(8)**	(6)
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** (2010: £nil). The Group has not recognised deferred tax assets in respect of deductible temporary differences of **£4 million** (2010: £5 million).

8. Taxation on ordinary activities continued

b) Factors affecting the tax charge

The standard rate of corporation taxation in the UK changes from 28.0 per cent to 26.0 per cent with effect from 1 April 2011. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 26.5 per cent. The taxation charge differs from the standard 26.5 per cent rate of corporation tax in the UK. The major causes of this difference are listed below:

	2011 **£m**	2010 £m
Profit before taxation	**91**	90
UK corporation tax at **26.5%** (2010: 28%)	**24**	25
Factors affecting the tax rate:		
Temporary timing differences	**(1)**	(1)
Overseas taxation	**8**	8
Double tax relief	**(8)**	(6)
BAT Group loss relief claimed for no consideration	**(15)**	(18)
Total current tax expense (*note 8a)*	**8**	8

9. Cash and cash equivalents

	2011 **£m**	2010 £m
Cash and bank balances	**62**	21
Cash equivalents	**579**	669
	641	690

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 2011, cash and cash equivalents include **£558 million** invested in money market funds (2010: £642 million).

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

	2011 **£m**	2010 £m
US dollar	**549**	
UK sterling	**30**	643
Euro	**9**	
Australian dollar	**21**	8
Other	**32**	39
	641	690

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:

	2011	2010
	£m	£m
Cash and cash equivalents as above	**641**	690
Less: bank overdrafts	**(94)**	(49)
Net cash and cash equivalents	**547**	641

10. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise unsecured 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:

	2011	2010	**2011**	2010
	£m	£m	**%**	%
UK sterling	**182**	419	**0.7**	0.7
US dollar	**25**	24	**0.2**	0.3
Euro	**180**	143	**0.8**	1.1
Swiss franc	**24**		**0.1**	
Other	**22**	11	**5.7**	3.3
	433	597		

Amounts due on demand from fellow subsidiaries include amounts of **£0.3 million** (2010: £0.2 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.

	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Fair value hedges				
Interest rate swaps	**133**		105	
Cross-currency swaps	**6**	**12**	5	
Cash flow hedges				
Cross-currency swaps			11	
Held-for-trading*				
Cross-currency swaps	**30**	**30**	242	51
Interest rate swaps	**76**	**76**	42	42
Forward foreign currency contracts	**259**	**268**	210	306
Others	**9**	**3**	5	5
	513	**389**	620	404

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 so, are required to be classified as held-for-trading.

11. Derivative financial instruments continued

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

	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Within one year	**265**	**248**	407	279
Between one and two years	**53**	**45**	26	20
Between two and three years	**43**	**1**	37	29
Between three and four years			31	
Between four and five years	**35**	**30**		
Beyond five years	**117**	**65**	119	76
	513	**389**	620	404

Derivative liabilities above include certain cross-currency swaps maturing in 2016 with a combined fair value of **£12 million**, where the contracting parties hold the right to exercise mutual break-up clauses on 15 March 2016. Derivative liabilities above also include interest rate swaps and cross-currency swaps maturing in 2017 and 2021 with a combined fair value of **£34 million**, where the contracting parties hold the right to exercise mutual break-up clauses on 29 June 2015, 7 July 2015 and 9 November 2016.

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

	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Within one year			11	

The Group's cash flow hedges are in respect of external 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:

	2011			
	Assets		**Liabilities**	
	Inflow	**Outflow**	**Inflow**	**Outflow**
	£m	**£m**	**£m**	**£m**
Within one year				
- Cross-currency swaps	**8**	**(18)**	**36**	**(20)**
- Forward foreign exchange contracts	**7,805**	**(7,573)**	**8,663**	**(8,900)**
- Other	**1,188**	**(1,175)**		
Between one and two years				
- Cross-currency swaps	**7**	**(18)**	**36**	**(19)**
- Forward foreign exchange contracts	**657**	**(630)**	**630**	**(657)**
Between two and three years				
- Cross-currency swaps	**11**	**(18)**	**36**	**(26)**
- Forward foreign exchange contracts	**60**	**(61)**	**61**	**(60)**
Between three and four years				
- Cross-currency swaps	**12**	**(18)**	**36**	**(27)**
Between four and five years				
- Cross-currency swaps	**406**	**(343)**	**361**	**(422)**
Beyond five years				
- Cross-currency swaps	**19**	**(15)**	**592**	**(634)**
	10,173	**(9,869)**	**10,451**	**(10,765)**

11. Derivative financial instruments continued

	2010			
	Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £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)

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

	2011		2010	
	Assets Inflow/ (Outflow) £m	**Liabilities Inflow/ (Outflow) £m**	Assets Inflow/ (Outflow) £m	Liabilities Inflow/ (Outflow) £m
Within one year	**65**	**(27)**	40	(3)
Between one and two years	**66**	**(33)**	32	2
Between two and three years	**41**	**(14)**	14	(5)
Between three and four years	**17**	**(7)**	15	(3)
Between four and five years	**13**	**(5)**	11	(7)
Beyond five years	**17**	**2**	54	(45)
	219	**(84)**	166	(61)

The above maturity analysis primarily comprises the Group's interest rate swaps.

11. Derivative financial instruments continued

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

	2011 Assets £m	2011 Liabilities £m	2010 Assets £m	2010 Liabilities £m
Interest rate swaps	**209**	**76**	147	42
Cross-currency swaps	**36**	**42**	258	51
Forward foreign currency contracts	**259**	**268**	210	306
Other	**9**	**3**	5	5
	513	**389**	620	404

(a) Interest rate swaps

	Maturity date	Principal Currency	m	£m	Interest rate Original	Interest rate Swapped	2011 Assets £m	2011 Liabilities £m
Fixed – floating								
1	2012	EUR	337	281	3.6	*Note (a)*	**7**	
2	2013	EUR	400	334	5.1	*Note (a)*	**24**	
3	2013	GBP	150	150	5.8	*Note (a)*	**11**	
4	2014	GBP	500	500	6.0	*Note (a)*	**29**	
5	2014	GBP	250	250	6.0	*Note (a)*	**22**	
6	2017	EUR	600	501	3.7	*Note (a)*	**22**	
7	2019	GBP	250	250	6.4	*Note (a)*	**64**	
8	2020	EUR	600	501	4.0	*Note (a)*	**30**	
Floating - fixed								
9	2013	EUR	400	334	*Note (a)*	5.1		**24**
10	2017	EUR	600	501	*Note (a)*	3.7		**22**
11	2020	EUR	600	501	*Note (a)*	4.0		**30**
							209	**76**

	Maturity date	Principal Currency	m	£m	Interest rate Original	Interest rate Swapped	2010 Assets £m	2010 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

Note (a): The floating rate interest rates in 2011 and 2010 are based on LIBOR or EURIBOR plus a margin ranging between 35 and 268 basis points.

In both years, 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 30.

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	2011 Assets £m	2011 Liabilities £m
Fixed – floating									
3	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	395		**30**
4	2019	4.6	EUR 20	17	*Note (b)*	USD 22	14	**6**	
Floating – fixed									
5	2016	*Note (b)*	EUR 473	395	5.5	GBP 325	325	**30**	
Floating-floating									
8	2021	3.6	EUR 600	501	*Note (b)*	GBP 518	518		**12**
								36	**42**

	Maturity date	Interest rate (%)	Principal Original Currency (m)	Principal £m	Interest rate (%)	Principal Swapped Currency m	Principal £m	2010 Assets £m	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

Note (b): The floating interest rates in 2011 and 2010 are based on LIBOR, EURIBOR, SOR or BBSW plus a margin ranging between 82 and 154 basis points (2010: 82 and 508 basis points).

Swaps 4 and 8 have been used to manage the interest rate profile of external borrowings and is reflected in the repricing table in note 15 on page 30.

All other swaps have been entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 on page 30.

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 2011 Currencies purchased forward									
Currencies sold forward	AUD £m	CAD £m	CHF £m	EUR £m	GBP £m	JPY £m	USD £m	ZAR £m	Other £m	Total £m
CAD					1		1			**2**
CHF				1	12		1			**14**
DKK					2					**2**
EUR	1		4		46		28		1	**80**
GBP	1	1					40	4	4	**50**
HUF				5	4					**9**
PLN				9	1					**10**
SGD	18						2			**20**
USD	1				2	41				**44**
ZAR					19					**19**
Other		2	1	2	3		1			**9**
	21	**3**	**5**	**17**	**90**	**41**	**73**	**4**	**5**	**259**

Fair value of liabilities

	31 December 2011 Currencies purchased forward								
Currencies sold forward	CAD £m	CHF £m	EUR £m	GBP £m	JPY £m	USD £m	ZAR £m	Other £m	Total £m
CAD				5				2	**7**
CHF			4	2					**6**
EUR		1		2				15	**18**
GBP	1	10	30			2	19	6	**68**
HKD				1					**1**
NZD								1	**1**
SGD				1					**1**
USD	1	1	27	49	1			3	**82**
ZAR				4					**4**
Other		1	8	30		41			**80**
	2	**13**	**69**	**94**	**1**	**43**	**19**	**27**	**268**

11. Derivative financial instruments continued

(c) Forward foreign currency contracts continued

Fair value of assets

Currencies sold forward	AUD £m	CAD £m	CHF £m	EUR £m	GBP £m	JPY £m	USD £m	ZAR £m	Other £m	Total £m
				31 December 2010 Currencies purchased 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

Currencies sold forward	AUD £m	CAD £m	CHF £m	EUR £m	GBP £m	JPY £m	USD £m	ZAR £m	Other £m	Total £m
				31 December 2010 Currencies purchased 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

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 30, and their nominal values are as follows:

	2011		2010	
	Sell £m	**Purchase £m**	Sell £m	Purchase £m
Forward contracts to purchase GBP, sell CHF	**86**	**(89)**	189	(181)
Forward contracts to purchase GBP, sell AUD	**1,121**	**(1,092)**	1,048	(1,074)
Forward contracts to purchase GBP, sell CAD	**294**	**(290)**	299	(292)
Forward contracts to purchase GBP, sell USD	**272**	**(268)**		
Forward contracts to purchase EUR, sell DKK	**390**	**(390)**		
Forward contracts to purchase EUR, sell NOK	**162**	**(160)**	164	(160)
Forward contracts to purchase EUR, sell SEK	**130**	**(126)**	132	(130)
Forward contracts to purchase EUR, sell GBP	**77**	**(75)**	367	(372)

11. Derivative financial instruments continued

(d) Others

	2011		2010	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Bund forwards (note i)	**9**		5	
Interest derivative (note ii)		**3**		5
	9	**3**	5	5

Notes:
i) Forward contracts to purchase and sell German government securities with a nominal value of **€1.4 billion** (2010: €1.6 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 BATIF Group treasury position is monitored by the CODM 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:

	2011 £m	2010 £m
Borrowings - bank overdrafts and issued debt (note 15)	**6,097**	6,063
Derivatives in respect of debt:		
- Assets	**(170)**	(126)
- Liabilities	**70**	84
Cash and cash equivalents (note 9)	**(641)**	(690)
	5,356	5,331

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

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

Liquidity risk
It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the BAT Group, and to obtain this financing from a wide range of providers. The BAT Group has a target average centrally managed debt maturity of at least 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 2011, the average debt to maturity of the Group was **8.8 years** (2010: 9.7 years) and the highest proportion of total issued debt maturing in a single rolling year was **18.3 per cent** (2010: 18.4 per cent). In June 2011, the Group established an US$2 billion commercial paper programme. It is Group policy that short-term sources of funds (including drawings under both the US$ programme and the existing Euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. At 31 December 2011 £85 million of commercial paper was outstanding. (2010: £nil).

The Group ensures that there is flexibility in funding arrangements with fellow subsidiaries by providing short-term facilities or early prepayment rights. To ensure that the Group can maintain its liquidity at all times, the Group is a borrower under the BAT Group's central banking facility of £2 billion. The new central banking facility of £2 billion has a final maturity date of December 2015 and was undrawn at both 31 December 2011 and 31 December 2010.

12. Management of financial risks continued

In November 2011, the Group issued a new €600 million bond with a maturity of November 2021.

On 1 June 2011, the Group novated its €650 million bond maturing in 2021 to a fellow subsidiary.

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.

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 2011, cash and cash equivalents include **£558 million** (2010: £642 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 2011, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **16 per cent** (2010:11 per cent) US dollar, **29 per cent** (2010: 34 per cent) euro, **19 per cent** (2010: 18 per cent) sterling, **5 per cent** (2010: 5 per cent) Canadian dollar, **19 per cent** Australian dollar (2010: 17 per cent), **6 per cent** Danish krone (2010: 7 per cent), **3 per cent** Norwegian krone (2010: 3 per cent), **2 per cent** Swedish krona (2010: 2 per cent), and **1 per cent** (2010: 3 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 of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2010: £12 million higher). A 10 per cent weakening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2010: £14 million lower).

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 of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2010: £3 million lower). A 10 per cent weakening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2010: £4 million higher).

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

Interest rate risk

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

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 2011, the relevant ratios of floating to fixed rate external borrowings were **31:69** (2010: 26:74) on a gross basis and **21:79** (2010: 14:86) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets istaken into account in determining the net interest rate exposure.

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

A 100 basis point increase in interest rates would result in pre-tax profit being **£36 million** higher (2010: £24 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£57 million** lower (2010: £58 million lower).

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

Credit risk

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

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

All 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 2011 is **£508 million** (2010: £413 million). Guarantees provided to third parties are shown in note 20 on page 33.

Price risk

At 31 December 2011 and 31 December 2010, 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 Group at 31 December 2011 and 31 December 2010, 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

	2011 **£m**	2010 £m
Prepayments and accrued income:		
Due from fellow subsidiaries	**4**	3
Other	**9**	11
	13	14

Within the 'other' category of other receivables are prepaid facility fees of **£7 million** (2010: £9 million) which relate to periods which fall beyond 1 year.

The currency profile of other receivables is **£10 million** (2010: £12 million) UK sterling, **£1 million** (2010: £nil) euros, **£nil** (2010: £1 million) Canadian dollar, **£1 million** Australian dollar (2010: £nil) and **£1 million** (2010: £1 million) in other currencies.

All amounts are unsecured and interest free. Due to their short-term nature, there is no material difference between the book values and fair values of all amounts due from fellow subsidiaries included above.

14a. Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2011 of **£3,630 million** fall due within one year (2010: £3,628 million within two years) are unsecured and reprice within one year (2010: £3,628 million within one year). The effective interest rate is **1.9 per cent** (2010: 1.7 per cent).

Loans due from parent undertaking include £13 million of interest receivable at 31 December 2011 (2010: £11 million). There is no material difference between the book value and fair value for loan due from parent undertaking

14b. Loans due from fellow subsidiaries

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

	2011	2010	**2011**	2010
	£m	£m	**%**	%
UK sterling	**8,424**	4,299	**2.6**	2.6
Euro	**3,462**	3,762	**3.2**	3.1
US dollar	**3,195**	3,050	**2.7**	2.5
Singapore dollar	**1,191**	1,018	**1.6**	5.3
Danish krone	**396**	408	**3.3**	7.5
Canadian dollar	**357**	335	**4.0**	5.3
Swiss franc	**86**	195	**1.5**	1.3
Norwegian krone	**168**	168	**7.2**	4.3
Hong Kong dollar	**142**	162	**1.4**	2.3
Swedish krona	**135**	133	**7.3**	2.6
Polish zloty	**41**	66	**7.6**	6.2
Hungarian forint	**51**	59	**8.9**	6.7
New Zealand dollar	**25**		**6.7**	
Mexican peso	**19**	21	**10.8**	11.0
	17,692	13,676		

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:

	2011	2010
	£m	£m
Within one year	**5,258**	8,179
Between one and two years	**7,353**	1,736
Between two and three years	**1,204**	2,430
Between three and four years	**958**	271
Between four and five years	**370**	971
Beyond five years	**2,549**	89
Total	**17,692**	13,676

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	Greater than 5 years
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2011	**17,692**	**17,308**	**294**				**90**
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2010	13,676	13,587					89

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

Loans due from fellow subsidiaries include **£68 million** of interest receivable (2010: £96 million).

Loans totalling **€1.4 billion** (2010: €1.6 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	2011 £m	2010 £m
Issued debt					
Eurobonds	Euro	2012-2021	3.6 to 5.9%	**2,973**	3,109
	UK sterling	2013-2040	5.8 to 7.3%	**2,302**	2,268
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act	US dollar	2013-2018	8.1 to 9.5%	**643**	637
Commercial paper				**85**	
				6,003	6,014
Bank overdrafts				**94**	49
				6,097	6,063

In November 2011, the Company issued a new €600 million bond with a maturity of November 2021.

On 1 June 2011, the Company novated its €650 million bond maturing in 2021 to a fellow subsidiary.

On 10 March 2010, the Company novated its €519 million bond maturing in 2013 to a fellow subsidiary. 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.

Included within borrowings of **£6,003 million** (2010: £6,014 million) above are **£1,923 million** (2010: £1,434 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 2011 (2010: increased by £109 million) shown in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Czech krona, Euro, Hong Kong dollar, Singapore dollar, Turkish lira, Romanian Leu and US dollar (2010: Czech krona, Euro, Swedish krona, Singapore dollar, Turkish lira, UK sterling, US dollar and South African rand).

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Within one year	**625**	235	**803**	404
Between one and two years	**353**	297	**678**	643
Between two and three years		361	**308**	688
Between three and four years	**1,041**		**1,352**	320
Between four and five years		1,067	**247**	1,391
Beyond five years	**4,078**	4,103	**5,686**	6,070
Total	**6,097**	6,063	**9,074**	9,516

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 **£162 million** (2010: £186 million).

15. Borrowings - bank overdrafts and issued debt continued

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 2011										
Total issued debt	6,003	2,302	694	3,007						
Effect of derivative financial instruments										
Cross-currency swaps	14	518	14	(518)						
Forward foreign exchange contracts	42	(1,662)	272	(751)	86	1,121	294	390	130	162
	6,059	**1,158**	**980**	**1,738**	**86**	**1,121**	**294**	**390**	**130**	**162**
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

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-23.

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 2011	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total issued debt	6,003	531	353		1,041		4,078
Effect of derivative financial instruments							
Interest rate swaps		1,150	(150)	(750)			(250)
Cross-currency swaps	14	532					(518)
	6,017	**2,213**	**203**	**(750)**	**1,041**		**3,310**
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

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-23.

British American Tobacco p.l.c. has provided guarantees for all of the Group's public indebtedness. As at 31 December 2011, the amount of these guarantees was **£5,708 million** (2010: £5,821 million).

The fair value of issued debt is **£6,843 million** (2010: £6,655 million) and has been determined using quoted market prices.

16a Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking of **£6,348 million** (2010: £2,967 million) are unsecured and comprise current account borrowings from the parent. These are denominated in sterling and have an effective interest rate of **0.7 per cent** (2010: 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 unsecured, are denominated in the following currencies and have the following effective interest rates:

	2011	2010	**2011**	2010
	£m	£m	**%**	%
UK sterling	**5,420**	4,539	**0.7**	0.5
Euro	**552**	534	**0.5**	0.7
US dollar	**176**	130	**0**	0.0
Swiss franc	**36**	134	**0**	0.0
New Zealand dollar	**6**	38	**2.3**	2.8
Australian dollar	**26**	37	**4.0**	4.5
Hong Kong dollar	**20**	16	**0.0**	0.0
Other	**118**	27	**1.1**	2.4
	6,354	5,455		

Amounts repayable on demand to fellow subsidiaries include **£0.5 million** of interest repayable at 31 December 2011 (2010: £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

	2011	2010
	£m	£m
Accrued charges		
Due to fellow subsidiaries	**13**	15
Other	**2**	9
	15	24

The currency profile of other payables is **£15 million** (2010: £23 million) UK sterling and **£nil** (2010: £1 million) Australian dollar.

All amounts are unsecured and interest free. 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 unsecured, are denominated in the following currencies and have the following effective interest rates:

	2011	2010	**2011**	2010
	£m	£m	**%**	%
UK sterling	**1,972**	2,828	**1.0**	0.7
Euro	**115**	93	**1.4**	0.9
US dollar	**267**	143	**0.5**	0.2
Norwegian krone	**51**	31	**1.8**	1.8
Swiss franc	**19**		**0.5**	
Hong Kong dollar	**12**	11	**0.1**	0.2
Swedish krona		8		1.4
Danish krone	**30**	26	**0.4**	0.7
Bulgarian lev	**6**		**0.5**	
Singapore dollar	**33**		**0.2**	
Romanian leu		55		3.9
	2,505	3,195		

Term deposits repayable to fellow subsidiaries include **£0.7 million** of interest payable at 31 December 2011 (2010: £0.6 million) and reprice within one year (2010: £3,195 million within one year).

In 2011 and 2010, term deposits repayable to fellow subsidiaries fall due within one year.

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

19. Total shareholders' equity

	Share capital £m	**Hedging reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2011	**231**	**(1)**	**205**	**682**	**1,117**
Comprehensive income and expense					
Profit for the year				83	83
Differences on exchange			18		18
Cash flow hedges					
net fair value losses		(2)			(2)
reclassified and reported in profit and loss		1			1
Net investment hedges					
net fair value gains					
differences on exchange on borrowings			(3)		(3)
31 December 2011	**231**	**(2)**	**220**	**765**	**1,214**

	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 year				82	82
Differences on exchange			59		59
Cash flow hedges					
net fair value losses		1			1
reclassified and reported in profit and loss					
Net investment hedges					
net fair value gains					
differences on exchange on borrowings			(11)		(11)
31 December 2010	231	(1)	205	682	1,117

19. Total shareholders' equity continued

Details relating to the allotted and issued share capital, and movements therein, are included on page 42, note 14 to the company financial statements.

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

20. Contingent liabilities

The Group is one of the three entities in the BAT Group which have jointly guaranteed borrowing facilities available to British American Tobacco Mexico, S.A. de C.V. of **£444 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 **£2,304 million** (€2,369 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 **£376 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:

	2011	2010
	£m	£m
Within one year	**444**	455
Between one and two years	**810**	441
Between two and three years	**501**	831
Between three and four years		514
Between four and five years	**325**	
Beyond five years	**1,070**	865
Total	**3,150**	3,106

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:

	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Derivative financial instruments				
Cross-currency swaps	**30**		242	
Interest rate swaps	**22**	**53**	8	34
Forward foreign currency contracts	**130**	**98**	103	63
	182	**151**	353	97

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:

	2011	**2010**
	Income/(Expense)	**Income/(Expense)**
	£m	**£m**
Derivative financial instruments		
Cross-currency swaps	**(3)**	69
Interest rate swaps	**(18)**	1
Forward foreign currency contracts	**11**	11
	(10)	81

21. Related party disclosures continued

On 1 June 2011, the Company novated its €650 million bond maturing in 2021 to a fellow subsidiary. The novation was concluded at fair value and resulted in a charge to the income statement of £50 million.

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.

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

22. Principal subsidiary undertakings

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

23. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2010: £nil).

24. Parent undertaking

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

25. Copies of the report and accounts

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

Report of the Independent Auditors to the members of B.A.T. International Finance p.l.c. - 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 2011, 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 in relation to the financial statements 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 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 Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 prepared in accordance with the requirements of 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 matters

We have reported separately on the Company financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2011.

NAV Campbell Lambert

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place, London
27 March 2012

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

31 December

	2011 £m	2010 £m
Assets		
Fixed assets		
Investments in subsidiaries (note 2)	**1,160**	1,160
Loans due from parent undertaking (note 3a)	**3,630**	3,628
Loans due from fellow subsidiaries (note 3b)	**14,497**	10,667
	19,287	15,455
Current assets		
Amounts due on demand from subsidiaries (note 4)	**1,443**	1,330
Amounts due on demand from fellow subsidiaries (note 5)	**433**	597
Prepayments and accrued income (note 6)	**13**	14
Derivative financial instruments (note 7)	**513**	620
Short-term deposits and cash (note 9)	**641**	690
	3,043	3,251
Total assets	**22,330**	18,706
Liabilities		
Creditors		
Issued debt (note 10)	**6,003**	6,014
Bank overdrafts (note 10)	**94**	49
Amounts payable on demand to parent undertaking (note 11a)	**6,348**	2,967
Amounts payable on demand to fellow subsidiaries (note 11b)	**6,354**	5,455
Borrowings from fellow subsidiaries (note 12)	**2,505**	3,195
Derivative financial instruments (note 7)	**389**	404
Accruals and deferred income (note 13)	**15**	24
	21,708	18,108
Capital and reserves		
Called up share capital (note 14)	**231**	231
Hedging reserve (note 14)	**(3)**	(2)
Retained earnings (note 14)	**394**	369
Total shareholders' equity	**622**	598
Total equity and liabilities	**22,330**	18,706

On behalf of the Board

J. B. Stevens
27 March 2012

The accompanying notes are an integral part of the Company financial statements. Notes are shown on pages 37-43.

1. Accounting policies

Basis of accounting
The 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.

Accounting policies of the Company are consistent with the respective policies of the Group's financial statements unless otherwise stated and thus the disclosures in the Company financial statements are referenced to the Group's financial statements where appropriate.

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 year, together with deferred taxation.

The current income taxation charge is calculated on the basis of taxation laws enacted or substantially enacted at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on an undiscounted basis.

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.

1. **Accounting policies** continued

Financial instruments continued

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 for 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
- 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 at each reporting date to ensure that the hedge has remained, and is expected to remain, highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (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 BAT 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 2011 was **£1,160 million** (2010: £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 **£3,630 million** (2010: £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

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

	2011	2010	**2011**	2010
	£m	£m	**%**	%
UK sterling	**8,424**	4,299	**2.6**	2.6
Euro	**3,462**	3,762	**3.2**	3.1
Singapore dollar	**1,191**	1,018	**1.6**	5.3
Danish krone	**396**	408	**3.3**	7.5
Canadian dollar	**357**	335	**4.0**	5.3
Swiss franc	**86**	195	**1.5**	1.3
Norwegian krone	**168**	168	**7.2**	4.3
Hong Kong dollar	**142**	162	**1.4**	2.3
Swedish krona	**135**	133	**7.3**	2.6
Polish zloty	**41**	66	**7.6**	6.2
Hungarian forint	**51**	59	**8.9**	6.7
US dollar		41		1.5
Mexican peso	**19**	21	**10.8**	11.0
New Zealand dollar	**25**		**6.7**	
	14,497	10,667		

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:

	2011	2010
	£m	£m
Within one year	**5,072**	5,526
Between one and two years	**7,191**	1,728
Between two and three years	**906**	2,290
Between three and four years	**958**	152
Between four and five years	**370**	971
Total	**14,497**	10,667

Loans due from fellow subsidiaries repayable within one year are expected to be renewed upon maturity and accordingly are classified as fixed assets in the Company balance sheet.

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 2011	**14,497**	**14,203**	**294**			
	£m	£m	£m	£m	£m	£m
As at 31 December 2010	10,667	10,667				

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

Loans to fellow subsidiaries include **£65 million** of interest receivable at 31 December 2011 (2010: £91 million).

Loans totalling **€1.4 billion** (2010: €1.6 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 **£1,443 million** (2010: £1,330 million) comprise current accounts held with the Company. These are denominated in US dollars and the effective interest rate is **1.1 per cent** (2010: 1.2 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 **£433 million** (2010: £597 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 **£13 million** (2010: £14 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.

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 2011. 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 2011 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 increase in interest rates would result in pre-tax profit being **£19 million** higher (2010: £8 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£41 million** lower (2010: £46 million lower).

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

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 2011 is **£399 million** (2010: £354 million). Guarantees provided to third parties are shown in note 17 page 42.

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 moneymarket 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 2011, cash and cash equivalents include **£558 million** invested in money market funds (2010: £642 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 parentundertaking

Amounts payable on demand to parent undertaking of **£6,348 million** (2010: £2,967 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 **£6,354 million** (2010: £5,455 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 **£2,505 million** (2010: £3,195 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 **£15 million** (2010: £24 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 2011	231	(2)	369	598
Profit for the financial year			25	25
Cash flow hedges				
net fair value gains		(1)		(1)
31 December 2011	**231**	**(3)**	**394**	**622**

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 Company financial statements. The profit for the financial year ended 31 December 2011 was **£25 million** (2010: £17 million).

Share capital consists 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 37-38.

Details of the audit fee in respect of the company are included in Group note 7 on page 14.

15. Segmental reporting

	Total		West Europe		East Europe		Americas		Asia Pacific	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Net assets/ (liabilities)	**622**	598	**(650)**	(889)	**81**	101	**95**	211	**1,096**	1,175

16. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2010: £nil).

17. Contingent liabilities

Contingent liabilities of **£3,150 million** (2010: £3,106 million) for the Company in relation to guarantees provided to fellow subsidiaries 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 by the BAT Group are disclosed below.

As at 31 December 2011, total assets on the balance sheet included **£nil** (2010: £99 million) of loans due from related parties that are not wholly owned by the BAT Group (2010: £nil). Total liabilities included amounts repayable on demand of **£8 million** (2010: £9 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 2011, included net cash flows of **£nil** (2010: £99 million outflows) in respect of loans advanced to fellow subsidiaries that are not wholly owned by the BAT Group and net outflows of **£1 million** (2010: £6 million inflows) 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 to the members of B.A.T. International Finance p.l.c. – Company Financial Statements

We have audited the Company financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2011 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 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 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 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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Company financial statements are prepared is consistent with the 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 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 2011.

NAV Campbell Lambert

Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place, London
27 March 2012