

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

**2009  
Annual Report**

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

## **ANNUAL REPORT 31 DECEMBER 2009**

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### **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 20 May 2010 at 11am for the transaction of the following business:

1. To receive the financial statements for the year ended 31 December 2009 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  
19 April 2010

#### **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.

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### **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 2009

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### Introduction

The Directors present their Annual Report and the audited Financial Statements for B.A.T. International Finance p.l.c. ('Company') and its subsidiaries ('Group') for the year ended 31 December 2009.

### Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2009 to the date of this report are as follows:

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

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

### Business Review for the year to 31 December 2009

The Group's profit for the financial year amounted to **£500 million** (2008: £288 million loss). Total equity has increased by **£554 million** (2008: increased by £169 million). The Directors do not recommend payment of a dividend for the year (2008: £nil).

The Company is a borrower under the British American Tobacco p.l.c. Group (the 'BAT Group') central banking facility. This central banking facility of £1.75 billion has final maturity dates between March 2011 and March 2012, and was undrawn as at 31 December 2009.

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

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

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

In 2008, the Company and its subsidiary BATIF Dollar Limited (as borrowers) entered into a revolving credit facility agreement under which the lenders agreed to make available to the borrowers €420 million to finance certain acquisition activities of the BAT Group and other associated costs. As at 31 December 2008, €395 million had been drawn under the facility and the period of availability for draw down on this facility lapsed in August 2008. This was repaid in September 2009.

### Principal activities, risks and uncertainties

The role of the Group is to raise finance for the BAT Group, managing the financial risks arising from underlying operations and managing the BAT Group's cash resources. The Group's treasury operations and management of financial risks are more fully described in note 12 on pages 21-25. All these activities are carried out under defined policies, procedures and limits. It is intended that the Group will continue to undertake business relating to these activities.

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

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

## Directors' Report continued

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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 transacted if they relate to an underlying exposure; speculative transactions are expressly forbidden under the Group's treasury policy. The Group's treasury position is monitored by the BAT Group Corporate Finance Committee, which meets regularly and is chaired by the British American Tobacco p.l.c. Finance Director. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and audits, both internal and external.

### Post balance sheet event

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

### Directors' indemnities

Throughout the period 1 January 2009 to the date of this report, an indemnity has been in force under which Mr J. B. Stevens, as a Director of the Company, is, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which he may incur in or about the execution of his duties to the Company or as a result of things done by him as a Director on behalf of the Company.

### Directors' responsibilities in relation to the Financial Statements

The following statement sets out the responsibilities of the Directors in relation to the financial statements of both the Group and the Company. The reports of the independent auditors for the Group and the Company shown on pages 32 and 41 set out their responsibilities in relation to those financial statements.

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

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

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

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

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

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

### Directors' declaration in relation to relevant audit information

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

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

## Directors' Report continued

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### **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 Parent Company has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board



Nicola Snook, Secretary  
19 April 2010

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

## Group Income Statement

for the year ended 31 December

|   | 2009              | 2008                |
|---|-------------------|---------------------|
|   | £m                | £m                  |
| Interest income (note 3)  | 754               | 995                 |
| Interest expense (note 4)   | (483)             | (878)               |
| Net fee income (note 5)   | 5                 | 1                   |
| Net gains/(losses) on fair value of derivatives and exchange differences (note 6) | <u>233</u>        | <u>(394)</u>        |
| <b>Net finance income/(expense)</b>   | <b>509</b>        | <b>(276)</b>        |
| Other operating charges (note 7)  | <u>(1)</u>        | <u>(2)</u>          |
| <b>Profit/(loss) before taxation</b>  | <b>508</b>        | <b>(278)</b>        |
| Tax expense (note 8)  | <u>(8)</u>        | <u>(10)</u>         |
| <b>Profit/(loss) for the financial year</b>                                       | <b><u>500</u></b> | <b><u>(288)</u></b> |

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

## Group Statement of Comprehensive Income

for the year ended 31 December

|   | 2009              | 2008              |
|---|-------------------|-------------------|
|   | £m                | £m                |
| <b>Profit/(loss) for the financial year</b>             | <b>500</b>        | <b>(288)</b>      |
| <b>Other comprehensive income</b>                       |                   |                   |
| Differences on exchange                                 | (228)             | 565               |
| Cash flow hedges  |                   |                   |
| - net fair value (losses)/gains                         | (41)              | 114               |
| - reclassified and reported in profit and loss          | 52                | (116)             |
| Net investment hedges                                   |                   |                   |
| - net fair value gains/(losses)                         | 49                | (106)             |
| - differences on exchange on borrowings                 | <u>(8)</u>        | <u>          </u> |
| Total other comprehensive (expense)/income for the year | <u>(176)</u>      | <u>457</u>        |
| <b>Total comprehensive income for the year</b>          | <b><u>324</u></b> | <b><u>169</u></b> |

Notes are shown on pages 9 to 31.

## Group Statement of Changes in Equity

for the year ended 31 December

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

|   |               |                 |                     |                   | 2008         |
|---|---------------|-----------------|---------------------|-------------------|--------------|
|   | Share capital | Hedging reserve | Translation reserve | Retained earnings | Total equity |
|   | £m            | £m              | £m                  | £m                | £m           |
| Total comprehensive income/(expense) for the year |               | (2)             | 459                 | (288)             | 169          |
| Total changes in equity for the year              |               | (2)             | 459                 | (288)             | 169          |
| Balance at 1 January                              | 1             | (11)            | (115)               | 388               | 263          |
| Balance at 31 December                            | 1             | (13)            | 344                 | 100               | 432          |

Notes are shown on pages 9 to 31.

# Group Balance Sheet

31 December

|   | 2009<br>£m    | 2008<br>£m    |
|---|---------------|---------------|
| <b>Assets</b>   |               |               |
| Cash and cash equivalents (note 9)                            | 719           | 495           |
| Amounts due on demand from fellow subsidiaries (note 10)      | 1,146         | 1,053         |
| Derivative financial instruments (note 11)                    | 485           | 744           |
| Other receivables (note 13)                                   | 6             | 6             |
| Loans due from parent undertaking (note 14a)                  | 3,628         | 3,661         |
| Loans due from fellow subsidiaries (note 14b)                 | 12,582        | 14,490        |
| <b>Total assets</b>   | <b>18,566</b> | <b>20,449</b> |
| <b>Liabilities</b>  |               |               |
| Bank overdrafts (note 15)                                     | 44            | 15            |
| Amounts repayable on demand to parent undertaking (note 16a)  | 2,285         | 2,413         |
| Amounts repayable on demand to fellow subsidiaries (note 16b) | 4,504         | 5,112         |
| Derivative financial instruments (note 11)                    | 310           | 1,139         |
| Other payables (note 17)                                      | 20            | 7             |
| Term deposits repayable to fellow subsidiaries (note 18)      | 3,609         | 3,653         |
| Issued debt (note 15)   | 6,808         | 7,678         |
| <b>Total liabilities</b>                                      | <b>17,580</b> | <b>20,017</b> |
| <b>Shareholders' equity</b>                                   |               |               |
| Share capital (note 19)                                       | 231           | 1             |
| Hedging reserve (note 19)                                     | (2)           | (13)          |
| Translation reserve (note 19)                                 | 157           | 344           |
| Retained earnings (note 19)                                   | 600           | 100           |
| <b>Total shareholders' equity</b>                             | <b>986</b>    | <b>432</b>    |
| <b>Total funds employed</b>                                   | <b>18,566</b> | <b>20,449</b> |

On behalf of the Board



R. L. Allen  
19 April 2010

Notes are shown on pages 9 to 31.



## Group Cash Flow Statement

for the year ended 31 December

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| <i>Cash flows from operating activities</i>                                 |            |            |
| Interest receipts   | 430        | 336        |
| Interest payments   | (418)      | (231)      |
| Net inflow on fees  | 6          | 1          |
| Other receipts  | 10         |            |
|   | <u>28</u>  | <u>106</u> |
| <i>Increase / (decrease) in operating assets and liabilities:</i>           |            |            |
| Net short term funds inflow from fellow subsidiaries and parent undertaking | 395        | 268        |
| Proceeds from external debt   | 1,005      | 2,611      |
| Repayment of external debt  | (1,362)    | (217)      |
| Movements relating to derivative financial instruments                      | (191)      | (479)      |
| Net cash inflow/(outflow) on loans to fellow subsidiaries                   | 328        | (1,700)    |
| Net cash inflow/(outflow) on borrowings from fellow subsidiaries            | 3          | (494)      |
| Net cash inflow from operating activities                                   | <u>206</u> | <u>95</u>  |
| Effects of exchange rate changes on cash and cash equivalents               | (10)       | 130        |
| <b>Net increase in cash and cash equivalents</b>                            | <b>196</b> | <b>225</b> |
| <b>Net cash and cash equivalents at beginning of year</b>                   | <b>479</b> | <b>254</b> |
| <b>Net cash and cash equivalents at end of year (note 9)</b>                | <b>675</b> | <b>479</b> |

Notes are shown on pages 9 to 31.

## Group Notes on the Accounts

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### 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.

The Group has adopted the following new and amended IFRSs and IFRIC interpretations with effect from 1 January 2009.

- IFRS 8 (Operating Segments). This standard requires segmental reporting in the financial statements to be on the same basis as is used for internal management reporting to the chief operating decision maker. The Group does not provide segment information for internal management reporting and accordingly only the entity-wide disclosure requirements of IFRS8 are now provided;
- IAS 1 Revised (Presentation of financial statements). This standard requires certain changes in the format of the financial statements including the separate disclosure of owner and non-owner changes in equity as primary statements, and permits some changes in terminology, but does not affect the measurement of reported profit or equity. The Group has chosen to show other comprehensive income in a separate statement from the Group income statement and hence all owner changes in equity are presented in the Group consolidated statement of changes in equity, whereas non-owner changes in equity are shown in the consolidated Group statement of comprehensive income;
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation). This interpretation clarifies the specific hedge accounting requirements for net investment hedges. This change has not materially affected the Group's reported profit or equity;
- Amendment to IFRS 7 (Financial Instruments – Disclosures). The amendment requires additional disclosures regarding fair value measurements and liquidity risk, including disclosures of fair value measurements by level of a fair value measurement hierarchy, and has had no effect on reported profit or equity.
- In addition, a number of other interpretations and revisions to existing standards have been issued and endorsed which had no effect on reported profit or equity or on the disclosures of 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 Parent Company individual Profit and loss account has not been included in these financial statements. The Parent Company profit was **£419 million** (2008: £374 million loss).

#### 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 these 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.

## Group Notes on the Accounts

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### 1. Accounting policies continued

#### Foreign currencies continued

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

#### Accounting for income

As a financing vehicle, the Group's primary source of income is in respect of interest on loans to fellow subsidiaries. Interest income is recognised on a time proportion basis. Interest income is only recognised to the extent that it is considered to be collectable.

#### Taxation

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

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is provided on temporary differences arising on investments in Group undertakings, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that it will not reverse in the foreseeable future. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12, deferred tax assets and liabilities are not discounted.

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

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

#### Financial instruments

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

Financial assets and financial liabilities are initially recognised at fair value, plus directly attributable transactions 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.
- 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. 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.

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 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.

## Group Notes on the Accounts

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### 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 operations, 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. 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 on-going basis. This effectiveness testing is reperformed periodically to ensure that the hedge has remained and is expected to remain highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (for example through expiry or disposal), or no longer qualifies for hedge accounting. 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 removed from equity 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 equity, are immediately recognised in the income statement.

#### Segmental analysis

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

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

#### Dividends

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

#### Future changes to Group accounting policies

Certain changes to IFRS will be applicable for the Group financial statements in future years and set out below are those which are considered to affect the Group:

IFRS 9 Financial Instruments has been issued. This standard represents the first phase of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement, and has mandatory application for accounting periods beginning on or after 1 January 2013. In its current form, it requires all financial assets, to be measured at fair value through profit and loss unless the assets can be classified as held at amortised cost. This standard has not been endorsed by the EU and will only become applicable once that endorsement has occurred. 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.

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. The amendments will have no material effect on reported profit or equity or on the disclosures in the financial statements.

## Group Notes on the Accounts

### 2. Segmental reporting

As the central financing vehicle for the BAT Group and 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 **£5 million** (2008: £34 million) comprises **£5 million** (2008: £19 million) from money market funds, **£nil** (2008: £14 million) from money market deposits and **£nil** (2008: £1 million) from bank current accounts.

Interest income from cash and cash equivalents attributable to the UK is **£5 million** (2008: £34 million) and **£nil** (2008: £nil) attributable to foreign countries.

IFRS8 considers a group of entities under common control as a single customer. £114 million of interest income is generated from the parent undertaking and £635 million from fellow subsidiary subsidiaries controlled directly or indirect by the parent undertaking, British American Tobacco p.l.c..

### 3. Interest income

|                             | 2009<br>£m | 2008<br>£m |
|-----------------------------|------------|------------|
| Interest income             |            |            |
| From the parent undertaking | 114        | 239        |
| From fellow subsidiaries    | 635        | 722        |
| Cash and cash equivalents   | 5          | 34         |
|                             | <u>754</u> | <u>995</u> |

### 4. Interest expense

|                           | 2009<br>£m | 2008<br>£m |
|---------------------------|------------|------------|
| Interest expense          |            |            |
| Euro commercial paper     | 3          |            |
| Bank borrowings           | 10         | 10         |
| Issued debt               | 370        | 335        |
|                           | <u>383</u> | <u>345</u> |
| To the parent undertaking | 10         | 62         |
| To fellow subsidiaries    | 90         | 471        |
|                           | <u>483</u> | <u>878</u> |

### 5. Net fee income

|   | 2009<br>£m | 2008<br>£m |
|---|------------|------------|
| Fee income  |            |            |
| Commitment fees on undrawn revolving credit facilities to fellow subsidiaries | 7          | 4          |
| Fee expense   |            |            |
| Fees charged on committed borrowing facilities                                | (2)        | (3)        |
|   | <u>5</u>   | <u>1</u>   |

Two thirds of the fees charged on the committed borrowing facility in 2009 and 2008 are borne by the Company.

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

|   | 2009<br>£m | 2008<br>£m   |
|---|------------|--------------|
| Fair value changes on derivatives comprise:                     |            |              |
| Cash flow hedges transferred from equity                        | (52)       | 116          |
| Fair value changes on hedged items                              | 10         | (129)        |
| Fair value hedges   |            |              |
| - interest on interest rate and cross currency swaps            | 39         | (7)          |
| - fair value movement on interest rate and cross currency swaps | (10)       | 111          |
| Instruments not designated as hedges                            | 343        | (1,006)      |
| Net fair value gains/(losses) on derivatives                    | <u>330</u> | <u>(915)</u> |
| Exchange differences  | (97)       | 521          |
|   | <u>233</u> | <u>(394)</u> |

## Group Notes on the Accounts

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

The £627 million movement year on year in 2009 from prior year is mainly due to significant changes in exchange rates impacting the fair value of foreign exchange forward contracts used to manage currency risk on behalf of British American Tobacco p.l.c. where the contracts do not qualify for hedge accounting under the terms of IAS 39 in these financial statements. The movement in the year is also explained in part by the impact of interest rate movements on the fair value of derivatives recognised in the financial statements.

Included within exchange differences above is a gain of **£12 million** (2008: gain of £23 million) in respect of items subject to fair value hedges.

The interest expense on issued debt of **£370 million** (2008: £335 million) in note 4 includes **£89 million** (2008: £89 million) subject to fair value hedges.

The ineffective portion recognised within the net £233 million gain above (2008: £394 million loss) for fair value hedges amounts to a gain of **£12 million** (2008: gain of £5 million).

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 2009 of **US\$1.61485** and **€1.1255** (2008: US\$1.43775 and €1.03435).

### 7. Other operating charges and employee information

|                         | 2009<br>£m | 2008<br>£m |
|-------------------------|------------|------------|
| Other operating charges | <u>1</u>   | <u>2</u>   |

Other operating charges include remuneration of £118,000 (2008: £110,000) in respect of the Company's auditors for the audit of the annual financial statements and £82,000 (2008: £252,000) for the supply of other services to the Company.

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

### 8. Tax expense

#### a) Summary of tax

|                                     | 2009<br>£m | 2008<br>£m |
|-------------------------------------|------------|------------|
| UK corporation tax                  |            |            |
| Comprising:                         |            |            |
| - current tax at 28% (2008: 28.5%)  | 1          | 2          |
| - double tax relief                 | (1)        | (2)        |
| Overseas tax comprising:            |            |            |
| - tax on current income             | 8          | 10         |
| Total current tax expense (note 8b) | <u>8</u>   | <u>10</u>  |

At the balance sheet date the Group has unused tax losses of **£16 million** (2008: £336 million). The Group has not recognised deferred tax assets in respect of deductible temporary differences of **£6 million** (2008: £8 million).

#### b) Factors affecting the tax charge

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

|  | 2009<br>£m | 2008<br>£m   |
|--|------------|--------------|
| Profit/(loss) before taxation                      | <u>508</u> | <u>(278)</u> |
| UK corporation tax at <b>28%</b> (2008: 28.5%)     | <u>142</u> | <u>(79)</u>  |
| <b>Factors affecting the tax rate:</b>             |            |              |
| Permanent differences                              | (118)      | 81           |
| Overseas taxation                                  | 8          | 10           |
| Double tax relief                                  | (1)        | (2)          |
| BAT Group loss relief claimed for no consideration | (23)       |              |
| Total current tax expense (note 8a)                | <u>8</u>   | <u>10</u>    |

## Group Notes on the Accounts

### 8. Tax expense continued

#### b) Factors affecting the tax charge continued

Permanent differences include losses previously not recognised.

### 9. Cash and cash equivalents

|                        | <b>31 December</b> | 31 December |
|------------------------|--------------------|-------------|
|                        | <b>2009</b>        | 2008        |
|                        | <b>£m</b>          | £m          |
| Cash and bank balances | <b>50</b>          | 26          |
| Cash equivalents       | <b>669</b>         | 469         |
|                        | <u><b>719</b></u>  | <u>495</u>  |

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 to 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 2009, cash and cash equivalents include **£669 million** invested in money market funds (2008: £458 million).

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

|                                   | <b>31 December</b> | 31 December | <b>31 December</b> | 31 December |
|-----------------------------------|--------------------|-------------|--------------------|-------------|
|                                   | <b>2009</b>        | 2008        | <b>2009</b>        | 2008        |
|                                   | <b>£m</b>          | £m          | %                  | %           |
| Functional currency (UK sterling) | <b>431</b>         | 207         | <b>0.4</b>         | 2.4         |
| US dollar                         |                    | 51          |                    | 0.9         |
| Euro                              | <b>244</b>         | 224         | <b>0.3</b>         | 2.8         |
| Other                             | <b>44</b>          | 13          | <b>2.5</b>         | 0.6         |
|                                   | <u><b>719</b></u>  | <u>495</u>  |                    |             |

In the Group Cash Flow Statement, net cash and cash equivalents are shown after deducting bank overdrafts (note 15) and accrued interest as follows:

|  | <b>31 December</b> | 31 December |
|--|--------------------|-------------|
|  | <b>2009</b>        | 2008        |
|  | <b>£m</b>          | £m          |
| Cash and cash equivalents as above         | <b>719</b>         | 495         |
| Less: interest accruals                    |                    | (1)         |
| Less: bank overdrafts and accrued interest | <b>(44)</b>        | (15)        |
| Net cash and cash equivalents              | <u><b>675</b></u>  | <u>479</u>  |

### 10. Amounts due on demand from fellow subsidiaries

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

|                                   | <b>31 December</b>  | 31 December  | <b>31 December</b> | 31 December |
|-----------------------------------|---------------------|--------------|--------------------|-------------|
|                                   | <b>2009</b>         | 2008         | <b>2009</b>        | 2008        |
|                                   | <b>£m</b>           | £m           | %                  | %           |
| Functional currency (UK sterling) | <b>881</b>          | 732          | <b>0.7</b>         | 2.3         |
| US dollar                         | <b>1</b>            | 16           | <b>0.2</b>         | 0.2         |
| Euro                              | <b>244</b>          | 291          | <b>0.6</b>         | 2.6         |
| Czech Krona                       | <b>9</b>            |              | <b>0.5</b>         |             |
| Swiss franc                       | <b>8</b>            | 14           | <b>0.1</b>         | 0.3         |
| Other                             | <b>3</b>            |              | <b>9.5</b>         |             |
|                                   | <u><b>1,146</b></u> | <u>1,053</u> |                    |             |

Amounts due on demand from fellow subsidiaries include amounts of **£0.3 million** (2008: £0.3 million) of interest receivable. There is no material difference between the book value and fair value for amounts due on demand from fellow subsidiaries.

## Group Notes on the Accounts

### 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 price of similar derivatives.

|                                    | 31 December 2009 |                   | 31 December 2008 |                   |
|------------------------------------|------------------|-------------------|------------------|-------------------|
|                                    | Assets<br>£m     | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Fair value hedges                  |                  |                   |                  |                   |
| Interest rate swaps                | 108              | 1                 | 92               |                   |
| Cross currency swaps               | 5                |                   | 53               | 3                 |
| Cash flow hedges                   |                  |                   |                  |                   |
| Cross-currency swaps               | 10               |                   | 230              | 85                |
| Net investment hedges              |                  |                   |                  |                   |
| Cross currency swaps               |                  |                   |                  | 50                |
| Trading                            |                  |                   |                  |                   |
| Cross currency swaps               | 204              | 79                | 109              | 188               |
| Interest rate swaps                |                  |                   | 13               |                   |
| Forward foreign currency contracts | 154              | 223               | 216              | 805               |
| Others                             | 4                | 7                 | 31               | 8                 |
|                                    | <b>485</b>       | <b>310</b>        | <b>744</b>       | <b>1,139</b>      |

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

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

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

|                              | 31 December 2009 |                   | 31 December 2008 |                   |
|------------------------------|------------------|-------------------|------------------|-------------------|
|                              | Assets<br>£m     | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Within one year              | 189              | 209               | 448              | 824               |
| Between one and two years    | 127              | 8                 | 13               | 38                |
| Between two and three years  | 22               | 2                 | 78               | 164               |
| Between three and four years | 31               | 5                 | 5                |                   |
| Between four and five years  | 4                | 2                 | 40               | 7                 |
| Beyond five years            | 112              | 84                | 160              | 106               |
|                              | <b>485</b>       | <b>310</b>        | <b>744</b>       | <b>1,139</b>      |

Included in the liabilities column above are certain cross currency swaps maturing in 2016 with a combined fair value of **£67million** (2008: £92 million), where the contracted parties hold the right to exercise mutual break-up clauses on 15 March 2011 which falls between one and two years in the above table (2008: between two and three years).

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

|                             | 31 December 2009 |                   | 31 December 2008 |                   |
|-----------------------------|------------------|-------------------|------------------|-------------------|
|                             | Assets<br>£m     | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Within one year             | 10               |                   | 153              | 5                 |
| Between one and two years   |                  |                   | 1                | 3                 |
| Between two and three years |                  |                   | 76               | 77                |
|                             | <b>10</b>        |                   | <b>230</b>       | <b>85</b>         |

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

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



## Group Notes on the Accounts

### 11. Derivative financial instruments continued

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

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

|                                      | 31 December 2008 |                |              |                 |
|--------------------------------------|------------------|----------------|--------------|-----------------|
|                                      | Assets           |                | Liabilities  |                 |
|                                      | Inflow<br>£m     | Outflow<br>£m  | Inflow<br>£m | Outflow<br>£m   |
| Within one year                      |                  |                |              |                 |
| - Cross currency swaps               | 706              | (520)          | 457          | (495)           |
| - Forward foreign exchange contracts | 2,561            | (2,368)        | 6,875        | (7,650)         |
| - Other                              | 1,604            | (1,553)        |              |                 |
| Between one and two years            |                  |                |              |                 |
| - Cross currency swaps               | 56               | (52)           | 95           | (84)            |
| - Forward foreign exchange contracts | 293              | (282)          | 958          | (986)           |
| Between two and three years          |                  |                |              |                 |
| - Cross currency swaps               | 665              | (562)          | 1,121        | (1,275)         |
| Between three and four years         |                  |                |              |                 |
| - Cross currency swaps               | 21               | (18)           | 19           | (21)            |
| Between four and five years          |                  |                |              |                 |
| - Cross currency swaps               | 22               | (18)           | 18           | (21)            |
| Beyond five years                    |                  |                |              |                 |
| - Cross currency swaps               | 545              | (395)          | 395          | (539)           |
|                                      | <b>6,473</b>     | <b>(5,768)</b> | <b>9,938</b> | <b>(11,071)</b> |

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

|                              | 31 December 2009 |             | 31 December 2008 |             |
|------------------------------|------------------|-------------|------------------|-------------|
|                              | Assets           | Liabilities | Assets           | Liabilities |
|                              | £m               | £m          | £m               | £m          |
| Within one year              | 44               | (9)         | 34               | 7           |
| Between one and two years    | 32               | (2)         | 26               | 2           |
| Between two and three years  | 18               | 6           | 8                | 2           |
| Between three and four years | 3                | 7           | 22               | 2           |
| Between four and five years  | 3                | 7           | 13               | 1           |
| Beyond five years            | 15               |             | 21               |             |
|                              | <b>115</b>       | <b>9</b>    | <b>124</b>       | <b>14</b>   |

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

## Group Notes on the Accounts

### 11. Derivative financial instruments continued

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

|                                    | 31 December 2009 |                   | 31 December 2008 |                   |
|------------------------------------|------------------|-------------------|------------------|-------------------|
|                                    | Assets<br>£m     | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Interest rate swaps                | 108              | 1                 | 105              |                   |
| Cross-currency swaps               | 219              | 79                | 392              | 326               |
| Forward foreign currency contracts | 154              | 223               | 216              | 805               |
| Other                              | 4                | 7                 | 31               | 8                 |
|                                    | <b>485</b>       | <b>310</b>        | <b>744</b>       | <b>1,139</b>      |

#### (a) Interest rate swaps

|                  | Maturity date | Currency | Principal<br>m | £m  | Interest rate |                 | 31 December 2009 |                   |
|------------------|---------------|----------|----------------|-----|---------------|-----------------|------------------|-------------------|
|                  |               |          |                |     | Original      | Swapped         | Assets<br>£m     | Liabilities<br>£m |
| Fixed - floating |               |          |                |     |               |                 |                  |                   |
| 1                | 2012          | EUR      | 750            | 666 | 3.6           | <i>Note (a)</i> | 33               |                   |
| 2                | 2013          | EUR      | 400            | 355 | 5.1           | <i>Note (a)</i> | 31               |                   |
| 3                | 2013          | GBP      | 150            | 150 | 5.8           | <i>Note (a)</i> | 8                |                   |
| 4                | 2014          | GBP      | 500            | 500 | 6.0           | <i>Note (a)</i> |                  | 1                 |
| 5                | 2014          | GBP      | 250            | 250 | 6.0           | <i>Note (a)</i> | 11               |                   |
| 6                | 2015          | EUR      | 650            | 578 | 4.9           | <i>Note (a)</i> | 1                |                   |
| 7                | 2019          | GBP      | 250            | 250 | 6.4           | <i>Note (a)</i> | 24               |                   |
|                  |               |          |                |     |               |                 | <b>108</b>       | <b>1</b>          |

|                  | Maturity date | Currency | Principal<br>m | £m  | Interest rate |                 | 31 December 2008 |                   |
|------------------|---------------|----------|----------------|-----|---------------|-----------------|------------------|-------------------|
|                  |               |          |                |     | Original      | Swapped         | Assets<br>£m     | Liabilities<br>£m |
| Fixed - floating |               |          |                |     |               |                 |                  |                   |
| 1                | 2009          | EUR      | 550            | 532 | 4.9           | <i>Note (a)</i> | 10               |                   |
| 2                | 2009          | EUR      | 250            | 242 | 4.1           | <i>Note (a)</i> | 3                |                   |
| 3                | 2012          | EUR      | 750            | 725 | 3.6           | <i>Note (a)</i> | 8                |                   |
| 4                | 2013          | EUR      | 400            | 387 | 5.1           | <i>Note (a)</i> | 24               |                   |
| 5                | 2013          | GBP      | 350            | 350 | 5.8           | <i>Note (a)</i> | 20               |                   |
| 6                | 2019          | GBP      | 250            | 250 | 6.4           | <i>Note (a)</i> | 40               |                   |
|                  |               |          |                |     |               |                 | <b>105</b>       |                   |

*Note (a):* The floating rate interest rates are based on LIBOR or EURIBOR plus a margin ranging between 32 and 268 basis points (2008: nil and 137 basis points).

All the above fixed to floating swaps have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 28.

The Group has no floating to fixed interest rate swaps at 31 December 2009 and 31 December 2008.

## Group Notes on the Accounts

### 11. Derivative financial instruments continued

#### (b) Cross-currency swaps

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

  

|                     | Maturity date | Interest rate   | Principal           |     | Interest rate   | Principal          |     | 31 December 2008 |                |
|---------------------|---------------|-----------------|---------------------|-----|-----------------|--------------------|-----|------------------|----------------|
|                     |               |                 | Original Currency m | £m  |                 | Swapped Currency m | £m  | Assets £m        | Liabilities £m |
| Fixed - fixed       |               |                 |                     |     |                 |                    |     |                  |                |
| 1                   | 2009          | 4.9             | EUR 500             | 483 | 6.5             | USD 564            | 392 | 151              | 51             |
| 2                   | 2011          | 6.9             | AUD 800             | 388 | 4.5             | SGD 944            | 455 |                  | 72             |
| 3                   | 2011          | 5.9             | EUR 465             | 450 | 6.2             | DKK 3,468          | 450 | 79               | 85             |
| Fixed - floating    |               |                 |                     |     |                 |                    |     |                  |                |
| 4                   | 2009          | 4.9             | EUR 150             | 145 | <i>Note (b)</i> | GBP 104            | 104 | 45               |                |
| 5                   | 2016          | 5.5             | GBP 325             | 325 | <i>Note (b)</i> | EUR 473            | 457 |                  | 108            |
| 6                   | 2019          | 4.6             | EUR 20              | 19  | <i>Note (b)</i> | USD 22             | 15  | 8                | 3              |
| Floating - fixed    |               |                 |                     |     |                 |                    |     |                  |                |
| 7                   | 2016          | <i>Note (b)</i> | EUR 473             | 458 | 5.5             | GBP 325            | 325 | 108              |                |
| Floating - floating |               |                 |                     |     |                 |                    |     |                  |                |
| 8                   | 2011          | <i>Note (b)</i> | AUD 300             | 145 | <i>Note (b)</i> | SGD 301            | 145 | 1                |                |
| 9                   | 2011          | <i>Note (b)</i> | AUD 600             | 580 | <i>Note (b)</i> | SGD 619            | 299 |                  | 7              |
|                     |               |                 |                     |     |                 |                    |     | 392              | 326            |

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

Swap 4 in the current year has been used to manage the interest rate profile of external borrowings and is reflected in the repricing table in note 15 on page 28.

Swaps 4 and 6 in the prior year have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 28.

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 28.

## Group Notes on the Accounts

### 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 2009             |          |          |           |           |          |           |          |          |            |
|-------------------------|-----|------------------------------|----------|----------|-----------|-----------|----------|-----------|----------|----------|------------|
|                         |     | Currencies purchased forward |          |          |           |           |          |           |          |          |            |
|                         |     | AUD                          | CAD      | CHF      | EUR       | GBP       | JPY      | USD       | ZAR      | Other    | Total      |
|                         |     | £m                           | £m       | £m       | £m        | £m        | £m       | £m        | £m       | £m       | £m         |
| Currencies sold forward | AUD |                              |          |          |           | 3         |          |           |          |          | 3          |
|                         | CHF |                              |          |          |           | 3         |          |           |          |          | 3          |
|                         | CZK |                              |          |          | 1         |           |          |           |          |          | 1          |
|                         | DKK |                              |          |          |           |           |          |           |          | 1        | 1          |
|                         | EUR | 1                            |          | 1        |           | 34        |          | 6         |          | 4        | 46         |
|                         | GBP | 3                            | 1        | 1        | 2         |           |          | 6         | 2        |          | 15         |
|                         | HKD |                              |          |          |           | 2         |          |           |          |          | 2          |
|                         | JPY |                              |          |          |           |           |          | 11        |          |          | 11         |
|                         | SAR |                              |          |          |           | 3         |          |           |          |          | 3          |
|                         | USD | 6                            | 2        |          | 8         | 46        | 6        |           |          | 1        | 69         |
|                         |     | <b>10</b>                    | <b>3</b> | <b>2</b> | <b>11</b> | <b>91</b> | <b>6</b> | <b>23</b> | <b>2</b> | <b>6</b> | <b>154</b> |

#### Fair value of liabilities

|                         |          | 31 December 2009             |          |           |           |           |          |           |            |       |  |
|-------------------------|----------|------------------------------|----------|-----------|-----------|-----------|----------|-----------|------------|-------|--|
|                         |          | Currencies purchased forward |          |           |           |           |          |           |            |       |  |
|                         |          | AUD                          | CZK      | DKK       | EUR       | GBP       | JPY      | SAR       | USD        | Total |  |
|                         |          | £m                           | £m       | £m        | £m        | £m        | £m       | £m        | £m         | £m    |  |
| Currencies sold forward | AUD      |                              |          |           | 1         | 11        |          |           | 6          | 18    |  |
|                         | CAD      |                              |          |           | 71        | 17        |          |           | 2          | 90    |  |
|                         | CHF      |                              |          |           | 1         | 4         |          |           |            | 5     |  |
|                         | EUR      |                              | 1        |           |           | 7         |          |           | 8          | 16    |  |
|                         | GBP      | 1                            |          |           | 10        |           |          | 3         | 9          | 23    |  |
|                         | HUF      |                              |          |           | 1         | 1         |          |           |            | 2     |  |
|                         | JPY      |                              |          |           |           |           |          |           | 6          | 6     |  |
|                         | KRW      |                              |          |           | 1         |           |          |           |            | 1     |  |
|                         | MXN      |                              |          |           |           | 1         |          |           |            | 1     |  |
|                         | NOK      |                              |          | 1         | 4         |           |          |           |            | 5     |  |
|                         | PLN      |                              |          |           | 1         |           |          |           |            | 1     |  |
|                         | RON      |                              |          |           | 1         |           |          |           |            | 1     |  |
|                         | SEK      |                              |          |           | 2         |           |          |           |            | 2     |  |
|                         | SGD      |                              |          |           |           | 2         |          |           | 1          | 3     |  |
|                         | USD      |                              |          |           | 6         | 15        | 11       |           |            | 32    |  |
|                         | ZAR      |                              |          |           |           | 17        |          |           |            | 17    |  |
|                         | <b>1</b> | <b>1</b>                     | <b>1</b> | <b>99</b> | <b>75</b> | <b>11</b> | <b>3</b> | <b>32</b> | <b>223</b> |       |  |

## Group Notes on the Accounts

### 11. Derivative financial instruments continued

#### (c) Forward foreign currency contracts continued

##### Fair value of assets

|                         |     | 31 December 2008             |     |     |     |     |     |     |     |     |       |       |
|-------------------------|-----|------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-------|-------|
|                         |     | Currencies purchased forward |     |     |     |     |     |     |     |     |       |       |
|                         |     | CHF                          | DKK | EUR | GBP | JPY | MUR | SAR | USD | ZAR | Other | Total |
|                         |     | £m                           | £m  | £m  | £m  | £m  | £m  | £m  | £m  | £m  | £m    | £m    |
| Currencies sold forward | AUD |                              |     |     |     |     |     |     | 12  |     | 1     | 13    |
|                         | CAD |                              |     |     |     |     |     |     | 2   |     |       | 2     |
|                         | CZK |                              |     | 2   | 1   |     |     |     |     |     |       | 3     |
|                         | DKK |                              |     |     |     |     |     |     | 1   |     |       | 1     |
|                         | EUR | 5                            |     |     | 1   |     |     |     | 24  |     |       | 30    |
|                         | GBP | 16                           | 1   | 29  |     |     | 3   | 16  | 21  | 6   | 2     | 94    |
|                         | HUF |                              |     | 2   |     |     |     |     |     |     |       | 2     |
|                         | JPY |                              |     |     |     |     |     |     | 1   |     |       | 1     |
|                         | KRW |                              |     | 5   |     |     |     |     |     |     |       | 5     |
|                         | NOK |                              | 1   | 22  |     |     |     |     |     |     | 1     | 24    |
|                         | PLN |                              |     | 2   |     |     |     |     | 1   |     |       | 3     |
|                         | RUB |                              |     |     | 1   |     |     |     |     |     |       | 1     |
|                         | SEK |                              |     | 7   |     |     |     |     |     |     |       | 7     |
|                         | SGD |                              |     |     |     |     |     |     | 1   |     |       | 1     |
|                         | USD |                              |     | 7   |     |     | 20  |     |     |     | 1     | 29    |
|                         |     | 21                           | 3   | 76  | 3   | 20  | 3   | 16  | 63  | 6   | 5     | 216   |

##### Fair value of liabilities

|                         |     | 31 December 2008             |     |     |     |     |     |     |     |     |       |       |
|-------------------------|-----|------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-------|-------|
|                         |     | Currencies purchased forward |     |     |     |     |     |     |     |     |       |       |
|                         |     | AUD                          | CAD | CZK | EUR | GBP | KRW | NOK | PLN | USD | Other | Total |
|                         |     | £m                           | £m  | £m  | £m  | £m  | £m  | £m  | £m  | £m  | £m    | £m    |
| Currencies sold forward | AUD |                              |     |     |     | 81  |     |     |     | 1   |       | 82    |
|                         | CAD |                              |     |     | 12  | 27  |     |     |     |     |       | 39    |
|                         | CHF |                              |     |     | 5   | 97  |     |     |     |     |       | 102   |
|                         | DKK |                              |     |     | 1   | 5   |     | 1   |     | 1   |       | 8     |
|                         | EUR |                              |     | 2   |     | 186 | 5   |     | 2   | 7   | 2     | 204   |
|                         | HKD |                              |     |     |     | 13  |     |     |     |     |       | 13    |
|                         | HUF |                              |     |     |     | 7   |     |     |     |     |       | 7     |
|                         | JPY |                              |     |     |     |     |     |     |     | 21  |       | 21    |
|                         | MUR |                              |     |     |     | 3   |     |     |     |     |       | 3     |
|                         | NOK |                              |     |     |     | 1   |     |     |     |     |       | 1     |
|                         | NZD | 1                            |     |     |     |     |     |     |     |     |       | 1     |
|                         | PLN |                              |     |     |     | 2   |     | 1   |     |     |       | 3     |
|                         | SAR |                              |     |     |     | 16  |     |     |     |     |       | 16    |
|                         | SGD |                              |     |     |     | 11  |     |     |     |     |       | 11    |
|                         | USD | 12                           | 2   |     | 24  | 226 |     |     | 1   |     | 3     | 268   |
| ZAR                     |     |                              |     |     | 26  |     |     |     |     |     | 26    |       |
|                         |     | 13                           | 2   | 2   | 42  | 701 | 5   | 2   | 3   | 30  | 5     | 805   |

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 page 27, and their nominal values are as follows:

|   | 31 December 2009 |        | 31 December 2008 |        |
|---|------------------|--------|------------------|--------|
|   | Sell £m          | Buy £m | Sell £m          | Buy £m |
| Forward contracts to purchase GBP, sell CHF | 165              | (167)  | 182              | (142)  |
| Forward contracts to purchase GBP, sell AUD | 947              | (942)  | 824              | (761)  |
| Forward contracts to purchase GBP, sell CAD | 413              | (401)  | 394              | (377)  |
| Forward contracts to purchase EUR, sell DKK | 177              | (177)  | 452              | (451)  |
| Forward contracts to purchase EUR, sell NOK | 160              | (156)  | 339              | (360)  |
| Forward contracts to purchase EUR, sell SEK | 177              | (175)  | 181              | (189)  |
| Forward contracts to purchase EUR, sell GBP | 221              | (218)  |                  |        |

## Group Notes on the Accounts

### 11. Derivative financial instruments continued

#### (d) Others

|                               | 31 December 2009 |                   | 31 December 2008 |                   |
|-------------------------------|------------------|-------------------|------------------|-------------------|
|                               | Assets<br>£m     | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Bund forwards (note i)        | 4                |                   | 31               |                   |
| Interest derivative (note ii) |                  | 7                 |                  | 8                 |
|                               | <u>4</u>         | <u>7</u>          | <u>31</u>        | <u>8</u>          |

Notes:

- i) Forward contracts to purchase and sell German government securities with a nominal value of €1.4 billion (2008: €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, the Company manages, within an overall policy framework, the BAT Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks.

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 borrowings, including derivatives, less cash and cash equivalents.

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

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

#### Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the BAT Group, and obtaining this financing from a wide range of providers. The BAT Group has a target average centrally managed debt maturity of 5 years with no more than 20 per cent of centrally managed debt maturing in a single 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 2009, the average debt to maturity of the Group was **8.6 years** (2008: 6.2 years) and the highest proportion of total issued debt maturing in a single year was **16.7 per cent** (2008: 20.5 per cent). It is Group policy that short term sources of funds (including drawings under the Euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. £187 million of ECP was outstanding at 31 December 2009 (2008: 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 £1.75 billion. This facility has final maturity dates between March 2011 and March 2012, and was undrawn at 31 December 2009 and 31 December 2008.

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

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

In 2008, the Company and its subsidiary BATIF Dollar Limited (as borrowers) entered into a revolving credit facility agreement whereby the lenders agreed to make available to the borrowers €420 million to finance certain acquisition activities of the BAT Group and other associated costs. As at 31 December 2008, €395 million was outstanding and this was repaid in September 2009.

On 12 March 2008, €1.25 billion and £500 million bonds were issued maturing in 2015 and 2024 respectively. The bonds replaced the €1.8 billion revolving credit facility arranged in 2007 and cancelled in 2008. In addition, the €1 billion 5.375 per cent bond maturing in 2017 was increased by an additional €250 million, bringing the size of the bond to €1.25 billion.

## Group Notes on the Accounts

### 12. Management of financial risks continued

#### Liquidity risk continued

The funds obtained from these bond issuances were mainly used to fund the acquisition activities of the BAT Group as well as the repayment of maturing bonds in the Company and elsewhere in the BAT Group.

On 21 November 2008, US\$300 million and US\$700 million bonds were issued, maturing in 2013 and 2018 respectively, pursuant to Rule 144A and RegS under the US Securities Act.

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 2009, cash and cash equivalents include **£669 million** invested in money market funds (2008: £458 million).

Although term deposits repayable to fellow subsidiaries as shown in note 18 fall due within one year, these 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 2009, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **9 per cent** (2008: 15 per cent) US dollar, **45 per cent** (2008: 45 per cent) euro, **10 per cent** (2008: 3 per cent) sterling, **6 per cent** (2008: 5 per cent) Canadian dollar, **14 per cent** (2008: 11 per cent) Australian dollar, **9 per cent** Danish krone (2008: 12 per cent), **2 per cent** Norwegian krone (2008: 4 per cent), **3 per cent** Swedish krona (2008: 2 per cent), and **2 per cent** (2008: 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 across 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 analyses. The Group considers a 10 per cent strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

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

|                       | Impact on pre-tax profit |                       |                       |                       | Impact on OCI         |                       |                       |                       |
|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                       | 31 December 2009         |                       | 31 December 2008      |                       | 31 December 2009      |                       | 31 December 2008      |                       |
|                       | 10%<br>Increase<br>£m    | 10%<br>Decrease<br>£m | 10%<br>Increase<br>£m | 10%<br>Decrease<br>£m | 10%<br>Increase<br>£m | 10%<br>Decrease<br>£m | 10%<br>Increase<br>£m | 10%<br>Decrease<br>£m |
| US dollar             | 47                       | (58)                  | 99                    | (122)                 |                       |                       | 1                     | (1)                   |
| Euro                  | 19                       | (23)                  | 10                    | (13)                  |                       |                       |                       |                       |
| Canadian dollar       | 15                       | (18)                  | 15                    | (18)                  |                       |                       |                       |                       |
| Australian dollar     | (5)                      | 7                     | 12                    | (14)                  |                       |                       |                       |                       |
| Swiss franc           | 12                       | (15)                  | 30                    | (36)                  |                       |                       |                       |                       |
| Singapore dollar      | 8                        | (10)                  | 11                    | (13)                  |                       |                       |                       |                       |
| South African<br>rand | 15                       | (18)                  | 16                    | (20)                  |                       |                       |                       |                       |
| Other                 | 7                        | (9)                   | 10                    | (13)                  |                       |                       |                       |                       |
|                       | <b>118</b>               | <b>(144)</b>          | <b>203</b>            | <b>(249)</b>          |                       |                       | <b>1</b>              | <b>(1)</b>            |

## Group Notes on the Accounts

### 12. Management of financial risks continued

#### Currency risk continued

The currency sensitivity of pre-tax profit is principally due to the impact from forward foreign currency contracts hedging forecast dividend cash flows from fellow subsidiaries on behalf of British American Tobacco p.l.c.. These contracts provide cash flow certainty and are designated as net investment hedges in the Group financial statements of British American Tobacco p.l.c.. As the Group does not have the underlying investments, the contracts are not designated as hedges in these financial statements and changes in their fair value are recognised through the income statement. Excluding the impact of these contracts, a 10 per cent strengthening and a 10 per cent weakening of functional currencies against non-functional currencies would have the following impact on pre-tax profit and other comprehensive income:

|                    | Impact on pre-tax profit |          |                  |          | Impact on OCI    |          |                  |          |
|--------------------|--------------------------|----------|------------------|----------|------------------|----------|------------------|----------|
|                    | 31 December 2009         |          | 31 December 2008 |          | 31 December 2009 |          | 31 December 2008 |          |
|                    | 10%                      | 10%      | 10%              | 10%      | 10%              | 10%      | 10%              | 10%      |
|                    | Increase                 | Decrease | Increase         | Decrease | Increase         | Decrease | Increase         | Decrease |
|                    | £m                       | £m       | £m               | £m       | £m               | £m       | £m               | £m       |
| US dollar          |                          |          | 1                | (1)      |                  |          | 1                | (1)      |
| Euro               | (11)                     | 13       | (13)             | 15       |                  |          |                  |          |
| Canadian dollar    |                          |          |                  | 1        |                  |          |                  |          |
| Australian dollar  | (5)                      | 7        | (9)              | 11       |                  |          |                  |          |
| Swiss franc        |                          |          | 14               | (17)     |                  |          |                  |          |
| Singapore dollar   | 6                        | (7)      | 9                | (11)     |                  |          |                  |          |
| South African rand |                          |          |                  |          |                  |          |                  |          |
| Other              | 4                        | (5)      | 5                | (7)      |                  |          |                  |          |
|                    | (6)                      | 8        | 7                | (9)      |                  |          | 1                | (1)      |

The exchange sensitivities on items recognised directly in other comprehensive income relate to derivatives and an external borrowing designated as net investment hedges and a financial instrument designated as quasi-equity.

#### Interest rate risk

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

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

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group's ratio of fixed to floating rate debt forms part of overall BAT Group debt for which targets are set for the desired ratio of floating to fixed rate debt on both a gross basis (50:50 +/- 10) and net (at least 50 per cent fixed in the short to medium term) basis as a result of regular reviews of market conditions and strategy by Treasury and the Board of the Company. At 31 December 2009, the ratio of the Group's floating to fixed rate gross issued debt was 43:57 (2008: 38:62) and 37:63 (2008: 32:68) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

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



## Group Notes on the Accounts

### 12. Management of financial risks continued

#### Interest rate risk continued

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

|                   | 31 December 2009    |                     | 31 December 2008    |                     |
|-------------------|---------------------|---------------------|---------------------|---------------------|
|                   | 100 bps<br>Increase | 100 bps<br>Decrease | 100 bps<br>Increase | 100 bps<br>Decrease |
|                   | £m                  | £m                  | £m                  | £m                  |
| US dollar         | 26                  | (10)                | 32                  | (33)                |
| Sterling          | (41)                | 3                   | (45)                | 45                  |
| Euro              |                     | 2                   | (17)                | 18                  |
| Canadian dollar   | 3                   |                     | 8                   | (8)                 |
| Australian dollar | 6                   | (6)                 | 7                   | (7)                 |
| Other             | 11                  | (10)                | 18                  | (18)                |
|                   | <b>5</b>            | <b>(21)</b>         | <b>3</b>            | <b>(3)</b>          |

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.

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 2009 is **£965 million** (2008: £970 million). Guarantees provided to third parties are shown in note 20 on page 30.

#### Price risk

At 31 December 2009 and 31 December 2008, 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.

## Group Notes on the Accounts

### 12. Management of financial risks continued

#### Fair value hierarchy

In accordance with the IFRS 7 classification hierarchy all derivatives held by the Company at 31 December 2009, and 31 December 2008, fall within Level 2. Level 2 financial instruments are not traded in an active market but the fair values are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency. Level 2 financial instruments include certain money market securities and most OTC derivatives.

### 13. Other receivables

|                                 | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m |
|---------------------------------|---------------------------|---------------------------|
| Prepayments and accrued income: |                           |                           |
| Due from fellow subsidiaries    | 6                         | 4                         |
| Other                           |                           | 2                         |
|                                 | 6                         | 6                         |

Within the 'other' category of other receivables are amounts due in more than one year of **£nil** (2008: £2 million).

The currency profile of other receivables is **£1 million** (2008: £2 million) sterling, **£1 million** (2008: £2 million) euros, **£nil** (2008: £1 million) US dollar, **£3 million** Australian dollar (2008: £nil) and **£1 million** (2008: £1 million) in other currencies.

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

#### 14a). Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2009 of **£3,628 million** fall due within three years (2008: £3,661 million within four years) and reprice within one year (2008: £3,661 million within one year). The effective interest rate is **1.6 per cent** (2008: 5.6 per cent).

Loans due from parent undertaking include **£11 million** of interest receivable at 31 December 2009 (2008: £44 million). The fair value of loans due from the parent is **£3,630 million** (2008: £3,683 million).

#### 14b). Loans due from fellow subsidiaries

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

|                                   | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m | 31 December<br>2009<br>% | 31 December<br>2008<br>% |
|-----------------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Functional currency (UK sterling) | 2,423                     | 2,723                     | 2.5                      | 6.2                      |
| Euro                              | 3,930                     | 4,452                     | 4.7                      | 6.7                      |
| US dollar                         | 2,843                     | 3,332                     | 2.5                      | 4.0                      |
| Canadian dollar                   | 964                       | 920                       | 6.0                      | 6.0                      |
| Singapore dollar                  | 907                       | 992                       | 4.8                      | 4.9                      |
| Danish krone                      | 602                       | 935                       | 6.2                      | 7.1                      |
| Hong Kong dollar                  | 199                       | 227                       | 2.1                      | 3.1                      |
| Swedish krona                     | 178                       | 185                       | 2.1                      | 6.7                      |
| Swiss franc                       | 165                       | 181                       | 1.4                      | 4.2                      |
| Norwegian krone                   | 162                       | 343                       | 3.7                      | 8.3                      |
| Polish zloty                      | 93                        | 43                        | 5.9                      | 7.9                      |
| Hungarian forint                  | 74                        | 70                        | 7.7                      | 11.6                     |
| New Zealand dollar                | 23                        |                           | 6.7                      |                          |
| Mexican peso                      | 19                        |                           | 11.1                     |                          |
| Australian dollar                 |                           | 49                        |                          | 6.7                      |
| Czech krona                       |                           | 38                        |                          | 6.7                      |
|                                   | 12,582                    | 14,490                    |                          |                          |

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

## Group Notes on the Accounts

### 14b). Loans due from fellow subsidiaries continued

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

|                              | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m |
|------------------------------|---------------------------|---------------------------|
| Within one year              | 3,725                     | 4,240                     |
| Between one and two years    | 6,154                     | 1,286                     |
| Between two and three years  | 2,144                     | 5,977                     |
| Between three and four years | 473                       | 2,358                     |
| Between four and five years  |                           | 532                       |
| Beyond five years            | 86                        | 97                        |
| Total                        | <u>12,582</u>             | <u>14,490</u>             |

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

|                        | Total  | Within<br>1 year | Between 1<br>and 2 years | Between 2<br>and 3 years | Between 3<br>and 4 years | Between 4<br>and 5 years | Greater than<br>5 years |
|------------------------|--------|------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------|
|                        | £m     | £m               | £m                       | £m                       | £m                       | £m                       | £m                      |
| As at 31 December 2009 | 12,582 | 10,593           | 1,754                    | 59                       | 90                       |                          | 86                      |
| As at 31 December 2008 | 14,490 | 12,295           | 592                      | 1,343                    | 65                       | 98                       | 97                      |

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

Loans due from fellow subsidiaries include **£108 million** of interest receivable (2008: £183 million).

Loans totalling **€1.4 billion** (2008: €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 (note 11).

### 15. Borrowings - bank overdrafts and issued debt

|  |             |                   |                   | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m |
|--|-------------|-------------------|-------------------|---------------------------|---------------------------|
|  | Currency    | Maturity<br>dates | Interest<br>rates |                           |                           |
| <b>Issued debt</b>   |             |                   |                   |                           |                           |
| Eurobonds  | Euro        | 2009-2021         | 3.6 to 5.9%       | 4,056                     | 5,175                     |
|  | UK sterling | 2013-2034         | 5.7 to 7.3%       | 1,945                     | 1,427                     |
| Other bonds issued pursuant to Rule 144A<br>and RegS under the US Securities Act | US dollar   | 2013-2018         | 8.1 to 9.5%       | 620                       | 694                       |
| Syndicated bank loans  | Euro        | 2009              | floating rate     |                           | 382                       |
| Euro commercial paper  |             |                   |                   | 187                       |                           |
|  |             |                   |                   | <u>6,808</u>              | 7,678                     |
| <b>Bank overdrafts</b>   |             |                   |                   |                           |                           |
|  |             |                   |                   | 44                        | 15                        |
|  |             |                   |                   | <u>6,852</u>              | 7,693                     |

The floating rate interest rates are based on LIBOR and EURIBOR plus a margin of between nil and 70 basis points in 2009 and EURIBOR plus a margin of 50 basis points in 2008.

The Company has reclassified the premium paid on repurchase of debt so that it is presented as a deduction from the related bond. In prior years this had been presented separately (2008: £2 million).

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

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

In 2008, the Company and its subsidiary BATIF Dollar Limited (as borrowers) entered into a revolving credit facility agreement whereby the lenders agreed to make available to the borrowers €420 million to finance certain acquisition activities of the BAT Group and other associated costs. As at 31 December 2008, €395 million was outstanding and this was repaid in September 2009.

## Group Notes on the Accounts

### 15. Borrowings - bank overdrafts and issued debt continued

On 12 March 2008, €1.25 billion and £500 million bonds were issued maturing in 2015 and 2024 respectively. The bonds replaced the €1.8 billion revolving credit facility arranged in 2007 and cancelled in 2008. In addition, the €1 billion 5.375 per cent bond maturing in 2017 was increased by an additional €250 million, bringing the size of the bond to €1.25 billion. The funds obtained from these bond issuances were mainly used to fund the acquisition activities of the BAT Group as well as the repayment of maturing bonds in the Company and elsewhere in the BAT Group.

On 21 November 2008, US\$300 million and US\$700 million bonds were issued, maturing in 2013 and 2018 respectively, pursuant to Rule 144A and RegS under the US Securities Act.

Included within borrowings of £6,808 million (2008: £7,678 million) above are £2,698 million (2008: £2,632 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 £79 million at 31 December 2009 (2008: increased by £89 million) in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Czech Krona, Euro, Turkish Lira, US Dollar and South African Rand at 31 December 2009, and Euro at 31 December 2008.

Issued debt is repayable as follows:

|                              | Per balance sheet |                  | Contractual gross maturities |                  |
|------------------------------|-------------------|------------------|------------------------------|------------------|
|                              | 31 December 2009  | 31 December 2008 | 31 December 2009             | 31 December 2008 |
|                              | £m                | £m               | £m                           | £m               |
| Within one year              | 375               | 1,477            | 546                          | 1,662            |
| Between one and two years    |                   |                  | 380                          | 364              |
| Between two and three years  | 689               |                  | 1,046                        | 364              |
| Between three and four years | 826               | 734              | 1,155                        | 1,089            |
| Between four and five years  |                   | 1,556            | 308                          | 1,863            |
| Beyond five years            | 4,918             | 3,911            | 6,873                        | 5,173            |
| Total                        | 6,808             | 7,678            | 10,308                       | 10,515           |

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 **£188 million** (2008: £225 million).

Issued debt is denominated in the following currencies:

|  | Total<br>£m  | GBP<br>£m  | USD<br>£m    | EUR<br>£m    | CHF<br>£m  | AUD<br>£m  | CAD<br>£m  | DKK<br>£m  | SEK<br>£m  | NOK<br>£m  |
|--|--------------|------------|--------------|--------------|------------|------------|------------|------------|------------|------------|
| <b>As at 31 December 2009</b>              |              |            |              |              |            |            |            |            |            |            |
| Total issued debt                          | 6,808        | 1,949      | 629          | 4,230        |            |            |            |            |            |            |
| Effect of derivative financial instruments |              |            |              |              |            |            |            |            |            |            |
| Cross-currency swaps                       | (3)          |            | 14           | (431)        |            |            |            | 414        |            |            |
| Forward foreign exchange contracts         | 24           | (1,289)    |              | (726)        | 165        | 947        | 413        | 177        | 177        | 160        |
|  | <b>6,829</b> | <b>660</b> | <b>643</b>   | <b>3,073</b> | <b>165</b> | <b>947</b> | <b>413</b> | <b>591</b> | <b>177</b> | <b>160</b> |
| <b>As at 31 December 2008</b>              |              |            |              |              |            |            |            |            |            |            |
| Total issued debt                          | 7,678        | 1,427      | 694          | 5,557        |            |            |            |            |            |            |
| Effect of derivative financial instruments |              |            |              |              |            |            |            |            |            |            |
| Cross-currency swaps                       | (135)        | 104        | 408          | (1,097)      |            |            |            | 450        |            |            |
| Forward foreign exchange contracts         | 90           | (1,281)    |              | (1,000)      | 182        | 824        | 394        | 452        | 181        | 338        |
|  | <b>7,633</b> | <b>250</b> | <b>1,102</b> | <b>3,460</b> | <b>182</b> | <b>824</b> | <b>394</b> | <b>902</b> | <b>181</b> | <b>338</b> |

## Group Notes on the Accounts

### 15. Borrowings - bank overdrafts and issued debt continued

Details of the derivative financial instruments included in these tables is given in note 11 on pages 15-21.

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

|   | Total        | Within 1<br>year | Between 1<br>and 2 years | Between 2<br>and 3 years | Between 3<br>and 4 years | Between 4<br>and 5 years | Beyond<br>5 years |
|---|--------------|------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------|
| At 31 December 2009                           | £m           | £m               | £m                       | £m                       | £m                       | £m                       | £m                |
| Total issued debt                             | 6,808        | 375              |                          | 689                      | 826                      |                          | 4,918             |
| Effect of derivative<br>financial instruments |              |                  |                          |                          |                          |                          |                   |
| Interest rate swaps                           |              | 2,749            |                          | (666)                    | (505)                    | (750)                    | (828)             |
| Cross-currency swaps                          | (4)          | 14               |                          |                          |                          |                          | (18)              |
|   | <b>6,804</b> | <b>3,138</b>     |                          | <b>23</b>                | <b>321</b>               | <b>(750)</b>             | <b>4,072</b>      |
| At 31 December 2008                           | £m           | £m               | £m                       | £m                       | £m                       | £m                       | £m                |
| Total issued debt                             | 7,678        | 1,477            |                          |                          | 734                      | 1,556                    | 3,911             |
| Effect of derivative<br>financial instruments |              |                  |                          |                          |                          |                          |                   |
| Interest rate swaps                           |              | 1,712            |                          |                          | (725)                    | (737)                    | (250)             |
| Cross-currency swaps                          | (4)          | 15               |                          |                          |                          |                          | (19)              |
|   | <b>7,674</b> | <b>3,204</b>     |                          |                          | <b>9</b>                 | <b>819</b>               | <b>3,642</b>      |

Details of the derivative financial instruments included in these tables is given in note 11 on pages 15-21.

British American Tobacco p.l.c. has provided guarantees for all of the Company's public indebtedness. As at 31 December 2009, the amount of these guarantees was **£6,653 million** (2008: £7,772 million).

The fair value of issued debt is **£7,333 million** (2008: £7,437 million) and has been determined using quoted market prices.

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

|                                   | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                   | £m                  | £m                  | %                   | %                   |
| Functional currency (UK sterling) | 1,949               | 1,427               | 6.5                 | 6.6                 |
| US dollar                         | 659                 | 694                 | 8.8                 | 9.4                 |
| Euro                              | 4,231               | 5,572               | 4.9                 | 5.0                 |
| Other                             | 13                  |                     | 12.8                |                     |
|                                   | <b>6,852</b>        | <b>7,693</b>        |                     |                     |

The values and rates above do not reflect the effect of interest rate and cross-currency swaps detailed in note 11 on pages 15-21.

### 16a) Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking of **£2,285 million** (2008: £2,413 million) comprise current account borrowings from the parent. These are denominated in sterling and have an effective interest rate of **0.4 per cent** (2008: 2.0 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.

## Group Notes on the Accounts

### 16b) Amounts repayable on demand to fellow subsidiaries

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

|                                   | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m | 31 December<br>2009<br>% | 31 December<br>2008<br>% |
|-----------------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Functional currency (UK sterling) | 3,745                     | 4,446                     | 0.4                      | 2.0                      |
| Euro                              | 421                       | 482                       | 0.3                      | 2.3                      |
| US dollar                         | 152                       | 87                        |                          |                          |
| Swiss franc                       | 85                        | 70                        |                          |                          |
| Australian dollar                 | 44                        |                           | 3.6                      |                          |
| Hong Kong dollar                  | 16                        |                           |                          |                          |
| Romanian leu                      | 13                        | 7                         | 8.8                      | 14.3                     |
| Polish zloty                      |                           | 11                        |                          | 6.1                      |
| Other                             | 28                        | 9                         | 3.1                      | 7.7                      |
|                                   | <u>4,504</u>              | <u>5,112</u>              |                          |                          |

Amounts repayable on demand to fellow subsidiaries include **£0.4 million** of interest repayable at 31 December 2009 (2008: £1.1 million). There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries.

### 17. Other payables

|                                      | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m |
|--------------------------------------|---------------------------|---------------------------|
| Accrued charges and deferred income: |                           |                           |
| Due to fellow subsidiaries           | 3                         |                           |
| Other                                | 17                        | 7                         |
|                                      | <u>20</u>                 | <u>7</u>                  |

All other payables are denominated in sterling (2008: £7 million sterling). Other payables all fall due within one year.

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

### 18. Term deposits repayable to fellow subsidiaries

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

|                                   | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m | 31 December<br>2009<br>% | 31 December<br>2008<br>% |
|-----------------------------------|---------------------------|---------------------------|--------------------------|--------------------------|
| Functional currency (UK sterling) | 2,852                     | 2,750                     | 0.6                      | 3.1                      |
| Euro                              | 481                       | 590                       | 0.7                      | 4.5                      |
| US dollar                         | 167                       | 188                       | 0.2                      | 1.3                      |
| Norwegian krone                   | 45                        | 30                        | 1.5                      | 3.3                      |
| Swiss franc                       | 42                        | 70                        | 0.3                      | 0.7                      |
| Hong Kong dollar                  | 13                        | 25                        |                          | 1.7                      |
| Swedish krone                     | 9                         |                           | 0.3                      |                          |
|                                   | <u>3,609</u>              | <u>3,653</u>              |                          |                          |

Term deposits repayable to fellow subsidiaries include **£1.5 million** of interest payable at 31 December 2009 (2008: £7.4 million) and reprice within one year (2008: £3,653 million within one year).

Term deposits repayable to fellow subsidiaries fall due as follows:

|                 | Per balance sheet         |                           | Contractual gross maturities |                           |
|-----------------|---------------------------|---------------------------|------------------------------|---------------------------|
|                 | 31 December<br>2009<br>£m | 31 December<br>2008<br>£m | 31 December<br>2009<br>£m    | 31 December<br>2008<br>£m |
| Within one year | 3,609                     | 3,653                     | 3,613                        | 3,673                     |

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

## Group Notes on the Accounts

### 19. Total shareholders' equity

|  | Share capital<br>£m | Hedging reserve<br>£m | Translation reserve<br>£m | Retained earnings<br>£m | Total equity<br>£m |
|--|---------------------|-----------------------|---------------------------|-------------------------|--------------------|
| <b>1 January 2009</b>                        | <b>1</b>            | <b>(13)</b>           | <b>344</b>                | <b>100</b>              | <b>432</b>         |
| <b>Comprehensive income and expense</b>      |                     |                       |                           |                         |                    |
| Profit for the financial year                |                     |                       |                           | 500                     | 500                |
| Differences on exchange                      |                     |                       | (228)                     |                         | (228)              |
| Cash flow hedges                             |                     |                       |                           |                         |                    |
| net fair value losses                        |                     | (41)                  |                           |                         | (41)               |
| reclassified and reported in profit and loss |                     | 52                    |                           |                         | 52                 |
| Net investment hedges                        |                     |                       |                           |                         |                    |
| net fair value gains                         |                     |                       | 49                        |                         | 49                 |
| differences on exchange on borrowings        |                     |                       | (8)                       |                         | (8)                |
| <b>Other changes in equity</b>               |                     |                       |                           |                         |                    |
| Issue of share capital                       | 230                 |                       |                           |                         | 230                |
| <b>31 December 2009</b>                      | <b>231</b>          | <b>(2)</b>            | <b>157</b>                | <b>600</b>              | <b>986</b>         |
|  | Share capital<br>£m | Hedging reserve<br>£m | Translation reserve<br>£m | Retained earnings<br>£m | Total Equity<br>£m |
| <b>1 January 2008</b>                        | <b>1</b>            | <b>(11)</b>           | <b>(115)</b>              | <b>388</b>              | <b>263</b>         |
| <b>Comprehensive income and expense</b>      |                     |                       |                           |                         |                    |
| Loss for the financial year                  |                     |                       |                           | (288)                   | (288)              |
| Differences on exchange                      |                     |                       | 565                       |                         | 565                |
| Cash flow hedges                             |                     |                       |                           |                         |                    |
| net fair value gains                         |                     | 114                   |                           |                         | 114                |
| reclassified and reported in net profit      |                     | (116)                 |                           |                         | (116)              |
| Net investment hedges                        |                     |                       |                           |                         |                    |
| net fair value losses                        |                     |                       | (106)                     |                         | (106)              |
| <b>31 December 2008</b>                      | <b>1</b>            | <b>(13)</b>           | <b>344</b>                | <b>100</b>              | <b>432</b>         |

Details relating to the authorised and allotted share capital, and movements therein, is included on page 39, note 14 to the parent company financial statements.

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

On 10 February 2009, an Extraordinary General Meeting (EGM) was convened whereby the Company's shareholders approved an increase in the authorised share capital of the Company from 1,000,000 ordinary shares of £1.00 each to 231,000,000 ordinary shares of £1.00 each. The shareholders authorised the Directors of the Company to allot said shares under section 80 of the Companies Act 1985 (the '1985 Act') and to disapply pre-emption rights under section 89(1) of the 1985 Act. Following the conclusion of the EGM, 230,000,000 ordinary shares of £1.00 each were allocated to British American Tobacco p.l.c (BAT p.l.c.) at par. The share capital transaction was settled by intercompany account.

### 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 **£427 million** (US\$690 million), to B.A.T. Capital Corporation of **£25 million** (US\$40 million) and to B.A.T. Holdings (The Netherlands) B.V. of **£2,213 million** (€2,125 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 **£622 million** (€700 million).

Contingent liabilities mature as follows:

|                              | <b>31 December<br/>2009</b> | 31 December<br>2008 |
|------------------------------|-----------------------------|---------------------|
|                              | <b>£m</b>                   | £m                  |
| Within one year              | <b>491</b>                  | 762                 |
| Between one and two years    | <b>889</b>                  | 507                 |
| Between two and three years  | <b>1,049</b>                | 967                 |
| Between three and four years |                             | 480                 |
| Between four and five years  | <b>533</b>                  |                     |
| Beyond five years            | <b>325</b>                  | 905                 |
| <b>Total</b>                 | <b>3,287</b>                | 3,621               |

## Group Notes on the Accounts

### 21. Related party disclosures

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

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

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

|                                    | 31 December 2009 |                   | 31 December 2008 |                   |
|------------------------------------|------------------|-------------------|------------------|-------------------|
|                                    | Assets<br>£m     | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Derivative financial instruments   |                  |                   |                  |                   |
| Cross-currency swaps               | 204              |                   | 109              | 79                |
| Forward foreign currency contracts | 38               | 107               | 86               | 66                |
|                                    | <u>242</u>       | <u>107</u>        | <u>195</u>       | <u>145</u>        |

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:

|                                    | 2009                   | 2008                   |
|------------------------------------|------------------------|------------------------|
|                                    | Income/(Expense)<br>£m | Income/(Expense)<br>£m |
| Derivative financial instruments   |                        |                        |
| Cross-currency swaps               | 201                    | 34                     |
| Forward foreign currency contracts | (72)                   | 116                    |
|                                    | <u>129</u>             | <u>150</u>             |

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. Post balance sheet event

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.

### 23. Principal subsidiary undertakings

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

### 24. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2008: £nil).

### 25. Parent undertaking

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

### 26. Copies of the report and accounts

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



## Report of the Independent Auditors - Group Financial Statements

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We have audited the Group financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2009, 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 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 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 the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion;

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

### Other matter

We have reported separately on the Parent Company financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2009.



Nicholas Campbell-Lambert (Senior Statutory Auditor)

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place, London

19 April 2010

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

31 December

|   | 2009<br>£m    | 2008<br>£m    |
|---|---------------|---------------|
| <b>Assets</b>   |               |               |
| <i>Fixed assets</i>   |               |               |
| Investments in subsidiaries (note 2)                        | 1,160         | 1,160         |
| Loans due from parent undertaking (note 3a)                 | 3,628         | 3,661         |
| Loans due from fellow subsidiaries (note 3b)                | 9,739         | 11,167        |
|   | <u>14,527</u> | <u>15,988</u> |
| <i>Current assets</i>                                       |               |               |
| Amounts due on demand from subsidiaries (note 4)            | 1,277         | 1,660         |
| Amounts due on demand from fellow subsidiaries (note 5)     | 1,146         | 1,053         |
| Prepayments and accrued income (note 6)                     | 6             | 5             |
| Derivative financial instruments (note 7)                   | 485           | 744           |
| Short term deposits and cash (note 9)                       | 719           | 495           |
|   | <u>3,633</u>  | <u>3,957</u>  |
| <b>Total assets</b>   | <u>18,160</u> | <u>19,945</u> |
| <b>Liabilities</b>  |               |               |
| <i>Creditors</i>  |               |               |
| Issued debt (note 10)                                       | 6,808         | 7,678         |
| Bank overdrafts (note 10)                                   | 44            | 15            |
| Amounts payable on demand to parent undertaking (note 11a)  | 2,285         | 2,413         |
| Amounts payable on demand to fellow subsidiaries (note 11b) | 4,504         | 5,112         |
| Borrowings from fellow subsidiaries (note 12)               | 3,609         | 3,653         |
| Derivative financial instruments (note 7)                   | 310           | 1,139         |
| Accruals and deferred income (note 13)                      | 20            | 7             |
|   | <u>17,580</u> | <u>20,017</u> |
| <i>Capital and reserves</i>                                 |               |               |
| Called up share capital (note 14)                           | 231           | 1             |
| Hedging reserve (note 14)                                   | (3)           | (6)           |
| Retained earnings/(loss) (note 14)                          | 352           | (67)          |
| Total shareholder's equity/(deficit)                        | <u>580</u>    | <u>(72)</u>   |
| <b>Total funds employed</b>                                 | <u>18,160</u> | <u>19,945</u> |

On behalf of the Board



R. L. Allen  
19 April 2010

Notes are shown on pages 34-40

### 1. Accounting policies

#### **Basis of accounting**

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

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

#### **Cash flow statement**

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

#### **Foreign currencies**

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

#### **Taxation**

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

#### **Investments in subsidiaries**

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

#### **Financial instruments**

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

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. Financial assets measured at amortised cost are reviewed for impairment at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. An impairment 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 include 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.

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

### 1. Accounting policies continued

#### Financial instruments continued

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

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

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

Hedge accounting is discontinued when a hedging instrument is derecognised (for example through expiry or disposal), or no longer qualifies for hedge accounting.

#### Segmental analysis

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

#### Related parties

The Company has taken advantage of the exemption under paragraph 3(b) of FRS 8 from disclosing transactions with related parties that are part 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 2009 was **£1,160 million** (2008: £1,160 million).

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

#### 3a) Loans due from parent undertaking

Loans due from parent undertaking of **£3,628 million** (2008: £3,661 million) comprise exactly the same balances and disclosures as Loans due from parent undertaking, detailed in Group note 14a.

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

|                               | £m           |
|-------------------------------|--------------|
| 1 January 2009                | 3,661        |
| Movement in interest accruals | (33)         |
| 31 December 2009              | <u>3,628</u> |

#### 3b) Loans due from fellow subsidiaries

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

|                               | £m           |
|-------------------------------|--------------|
| 1 January 2009                | 11,167       |
| Differences on exchange       | (553)        |
| Movement in interest accruals | (72)         |
| Advances                      | 6,555        |
| Repayments                    | (7,358)      |
| 31 December 2009              | <u>9,739</u> |

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

### 3b) Loans due from fellow subsidiaries continued

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

|                                   | 31 December<br>2009 | 31 December<br>2008 | 31 December<br>2009 | 31 December<br>2008 |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                   | £m                  | £m                  | %                   | %                   |
| Functional currency (UK sterling) | 2,423               | 2,723               | 2.5                 | 6.2                 |
| Euro                              | 3,930               | 4,452               | 4.7                 | 6.7                 |
| US dollar                         |                     | 9                   |                     | 2.9                 |
| Canadian dollar                   | 964                 | 920                 | 6.0                 | 6.0                 |
| Singapore dollar                  | 907                 | 992                 | 4.8                 | 4.9                 |
| Danish krone                      | 602                 | 935                 | 6.2                 | 7.1                 |
| Hong Kong dollar                  | 199                 | 227                 | 2.1                 | 3.1                 |
| Swedish krona                     | 178                 | 185                 | 2.1                 | 6.7                 |
| Swiss franc                       | 165                 | 181                 | 1.4                 | 4.2                 |
| Norwegian krone                   | 162                 | 343                 | 3.7                 | 8.3                 |
| Polish zloty                      | 93                  | 43                  | 5.9                 | 7.9                 |
| Hungarian forint                  | 74                  | 70                  | 7.7                 | 11.6                |
| New Zealand dollar                | 23                  |                     | 6.7                 |                     |
| Mexican peso                      | 19                  |                     | 11.1                |                     |
| Australian dollar                 |                     | 49                  |                     | 6.7                 |
| Czech krona                       |                     | 38                  |                     | 6.7                 |
|                                   | <b>9,739</b>        | <b>11,167</b>       |                     |                     |

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

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

|                              | 31 December 2009 | 31 December 2008 |
|------------------------------|------------------|------------------|
|                              | £m               | £m               |
| Within one year              | 3,395            | 4,006            |
| Between one and two years    | 3,761            | 1,021            |
| Between two and three years  | 2,110            | 3,319            |
| Between three and four years | 473              | 2,320            |
| Between four and five years  |                  | 501              |
| Total                        | <b>9,739</b>     | <b>11,167</b>    |

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

|                        | Total  | Within 1<br>year | Between 1<br>and 2 years | Between 2<br>and 3 years | Between 3<br>and 4 years | Between 4<br>and 5 years |
|------------------------|--------|------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                        | £m     | £m               | £m                       | £m                       | £m                       | £m                       |
| As at 31 December 2009 | 9,739  | 7,892            | 1,732                    | 25                       | 90                       |                          |
| As at 31 December 2008 | 11,167 | 9,113            | 586                      | 1,343                    | 27                       | 98                       |

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

Loans to fellow subsidiaries include **£102 million** of interest receivable at 31 December 2009 (2008: £174 million).

Loans totalling **€1.4 billion** (2008: €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 **£1,277 million** (2008: £1,660 million) comprise current accounts held with the Company. These are denominated in US dollars and the effective interest rate is **1.1 per cent** (2008: 1.3 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 **£1,146 million** (2008: £1,053 million) 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**

|                                 | <b>31 December<br/>2009</b> | 31 December<br>2008 |
|---------------------------------|-----------------------------|---------------------|
|                                 | <b>£m</b>                   | £m                  |
| Prepayments and accrued income: |                             |                     |
| Due from fellow subsidiaries    | <b>6</b>                    | 3                   |
| Other                           |                             | 2                   |
|                                 | <b>6</b>                    | 5                   |

Within the category 'other' of prepayments and accrued income are amounts due in more than one year of **£nil** (2008: £2 million).

The currency profile of prepayments and accrued income is denominated as **£1 million** (2008: £2 million) in sterling, **£1 million** (2008: £2 million) euro, **£3 million** (2008: £nil) in Australian dollar and **£1 million** (2008: £1 million) in other currencies. There is no material difference between the book values for prepayments and accrued income and their fair values.

**7. Derivative financial instruments**

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

In February 2009, cross-currency swaps designated as cash flow hedges and net investment hedges in the Group financial statements matured. These were not designated as hedges by the Company and were classified as derivatives held-for-trading. The fair values of these cross-currency swaps at 31 December 2008 were £151 million asset, and £51 million liability respectively.

Under FRS 29, the disclosures required are the same as under IFRS7. 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 currency risk, interest rate risk and credit risk.

**Currency risk**

FRS 29 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 Company. All other variables are held constant although, in practice, market rates rarely change in isolation. The Company considers a 10 per cent strengthening or weakening of its functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

A 10 per cent increase (strengthening) and a 10 per cent decrease (weakening) of the Company's functional currency against non-functional currencies would have the following impact on pre-tax profit:

|                    | <b>31 December 2009</b> |                         | 31 December 2008 |                 |
|--------------------|-------------------------|-------------------------|------------------|-----------------|
|                    | <b>10%<br/>Increase</b> | <b>10%<br/>Decrease</b> | 10%<br>Increase  | 10%<br>Decrease |
|                    | <b>£m</b>               | <b>£m</b>               | £m               | £m              |
| US dollar          | 47                      | (58)                    | 100              | (123)           |
| Euro               | 19                      | (23)                    | 10               | (13)            |
| Canadian dollar    | 15                      | (18)                    | 15               | (18)            |
| Australian dollar  | (5)                     | 7                       | 12               | (14)            |
| Swiss franc        | 12                      | (15)                    | 30               | (36)            |
| Singapore dollar   | 8                       | (10)                    | 11               | (13)            |
| South African rand | 15                      | (18)                    | 16               | (20)            |
| Other              | 7                       | (9)                     | 10               | (13)            |
|                    | <b>118</b>              | <b>(144)</b>            | 204              | (250)           |

8. Management of financial risks continued

Currency risk continued

A 10 per cent increase (strengthening) and a 10 per cent decrease (weakening) of the Company's functional currency against non-functional currencies would have no impact on items recognised directly in equity 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 the BAT Group. 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 Company does not have the underlying investments, the contracts are not designated as hedges in these financial statements and changes in their fair value are recognised through the income statement. Excluding the impact of these contracts, a 10 per cent increase (strengthening) and a 10 per cent decrease (weakening) of functional currencies against non-functional currencies would have the following impact on pre-tax profit:

|                    | 31 December 2009 |              | 31 December 2008 |              |
|--------------------|------------------|--------------|------------------|--------------|
|                    | 10% Increase     | 10% Decrease | 10% Increase     | 10% Decrease |
|                    | £m               | £m           | £m               | £m           |
| US dollar          |                  |              | 2                | (2)          |
| Euro               | (11)             | 13           | (13)             | 15           |
| Canadian dollar    |                  |              |                  | 1            |
| Australian dollar  | (5)              | 7            | (9)              | 11           |
| Swiss franc        |                  |              | 14               | (17)         |
| Singapore dollar   | 6                | (7)          | 9                | (11)         |
| South African rand |                  |              |                  |              |
| Other              | 4                | (5)          | 5                | (7)          |
|                    | (6)              | 8            | 8                | (10)         |

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 2008. 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. The Company considers a 100 basis point change in interest rates as a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year end, unless this is unrepresentative of the position during the year.

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

|                   | 31 December 2009 |                  | 31 December 2008 |                  |
|-------------------|------------------|------------------|------------------|------------------|
|                   | 100 bps Increase | 100 bps Decrease | 100 bps Increase | 100 bps Decrease |
|                   | £m               | £m               | £m               | £m               |
| US dollar         | 12               | (1)              | 19               | (20)             |
| Sterling          | (41)             | 3                | (45)             | 45               |
| Euro              |                  | 2                | (17)             | 18               |
| Canadian dollar   | 3                |                  | 8                | (8)              |
| Australian dollar | 6                | (6)              | 7                | (7)              |
| Other             | 11               | (10)             | 18               | (18)             |
|                   | (9)              | (12)             | (10)             | 10               |

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

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 2009 is **£904 million** (2008: £807 million). Guarantees provided to third parties are shown in note 17 page 40.

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

### 9. Short term deposits and cash

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

As part of its short term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2009, cash and cash equivalents include **£669 million** invested in money market funds (2008: £458 million).

### 10. Borrowings - bank overdrafts and issued debt

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

### 11a). Amounts payable on demand to parent undertaking

Amounts payable on demand to parent undertaking of **£2,285 million** (2008: £2,413 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 **£4,504 million** (2008: £5,112 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 for the Company of **£3,609 million** (2008: £3,653 million) 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 **£20 million** (2008: £7 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<br>share capital | Hedging<br>reserve | Retained<br>earnings | Total<br>equity |
|--|----------------------------|--------------------|----------------------|-----------------|
|  | £m                         | £m                 | £m                   | £m              |
| 1 January 2009                               | 1                          | (6)                | (67)                 | (72)            |
| Profit for the financial year                |                            |                    | 419                  | 419             |
| Cash flow hedges                             |                            |                    |                      |                 |
| net fair value gains                         |                            | 1                  |                      | 1               |
| reclassified and reported in profit and loss |                            | 2                  |                      | 2               |
| Issue of share capital                       | 230                        |                    |                      | 230             |
| 31 December 2009                             | <b>231</b>                 | <b>(3)</b>         | <b>352</b>           | <b>580</b>      |

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been presented in these Parent Company financial statements. The profit for the financial year ended 31 December 2009 was **£419 million** (2008: loss of £374 million).

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

The hedging reserve is explained in the accounting policy on financial instruments on pages 34-35.

Details of the audit fee are disclosed in Group note 7 on page 13.



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

### 15. Segmental reporting

|                              | Total |      | West Europe |         | East Europe |      | Americas |      | Asia Pacific |      |
|------------------------------|-------|------|-------------|---------|-------------|------|----------|------|--------------|------|
|                              | 2009  | 2008 | 2009        | 2008    | 2009        | 2008 | 2009     | 2008 | 2009         | 2008 |
|                              | £m    | £m   | £m          | £m      | £m          | £m   | £m       | £m   | £m           | £m   |
| Net assets/<br>(liabilities) | 580   | (72) | (1,291)     | (1,692) | 92          | 61   | 834      | 761  | 945          | 798  |

The 2008 comparatives have been represented to reflect the decision by BAT Group to separate Europe into two regions, Eastern and Western from 1 January 2009. This decision by BAT Group was prompted by a review of BAT Group's regional structure following acquisitions and growth of the global business. The segmental analysis is based on location of the counterparty.

### 16. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2008: £nil).

### 17. 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 **£427 million** (US\$690 million), to B.A.T. Capital Corporation of **£25 million** (US\$40 million) and to B.A.T. Holdings (The Netherlands) B.V. of **£2,213 million** (€2,125 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 **£622 million** (€700 million).

Contingent liabilities mature as follows:

|                              | 31 December  | 31 December  |
|------------------------------|--------------|--------------|
|                              | 2009         | 2008         |
|                              | £m           | £m           |
| Within one year              | 491          | 762          |
| Between one and two years    | 889          | 507          |
| Between two and three years  | 1,049        | 967          |
| Between three and four years |              | 480          |
| Between four and five years  | 533          |              |
| Beyond five years            | 325          | 905          |
| Total                        | <u>3,287</u> | <u>3,621</u> |

### 18. Post balance sheet event

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.

### 19. Parent undertaking

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

### 20. Copies of the report and accounts

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

## Report of the Independent Auditors – Parent Company Financial Statements

---

We have audited the Parent Company financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2009 which comprise the Balance sheet and the related notes. 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 in relation to the financial statements as set out on pages 3-4, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

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

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

### Other matters

We have reported separately on the Group financial statements of B.A.T. International Finance p.l.c. for the year ended 31 December 2009.



Nicholas Campbell-Lambert (Senior Statutory Auditor)  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
1 Embankment Place, London  
19 April 2010