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

2020
Annual Report

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

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Contents

Notice of Meeting

Notice is hereby given that the Annual General Meeting of B.A.T. International Finance p.l.c. will be held at Globe House, 4 Temple Place, London, WC2R 2PG on 18 February 2021 at 12.00pm for the transaction of the following business:

1. To receive the financial statements for the year ended 31 December 2020 and the reports of the Directors and the Auditor thereon.

2. To re-elect Directors.

3. To reappoint the Auditor.

4. To authorise the Directors to determine the Auditor's remuneration.

By Order of the Board

Ruth Wilson, Secretary
16 February 2021

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

Secretary and Registered Office
Ruth Wilson Globe House
4 Temple Place
London WC2R 2PG

Registered Number 01060930

Independent Auditor
KPMG LLP
Chartered Accountants and Statutory Auditor
15 Canada Square, London, E14 5GL

Strategic Report

The Directors present their Strategic Report on B.A.T. International Finance p.l.c. (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2020.

Principal activities

The principal activities of the Group and the Company comprise the raising of finance for British American Tobacco p.l.c. and its subsidiaries (the “BAT Group”), the management of financial risks arising from BAT Group's underlying operations and the management of BAT Group's cash resources. The Group’s treasury operations and management of financial risks are described fully in note 12 on pages 20-25. 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.

Review of the year ended 31 December 2020

The Group’s profit for the financial year amounted to **£259 million** (2019: £186 million). Total equity has increased by **£201 million** (2019: increased by £141 million).

In March 2020, the Group refinanced its £6 billion revolving credit facility consisting of a £3 billion 364-day tranche (with two one-year extension options and a one-year term-out option), and a £3 billion five-year tranche (with two one-year extension options). This facility no longer contains a financial covenant.

In March and April 2020, the Group arranged short term bilateral facilities with core relationship banks for a total amount of approximately £4.8 billion. The bilateral facilities have since been reduced to a total amount of approximately £3.4 billion. At 31 December 2020, these facilities were undrawn.

In April 2020, the Group accessed the European market under its EMTN Programme, raising a total of €1.7 billion across two tranches.

In June 2020, the Group raised £500 million in the Sterling market under its EMTN Programme.

In July 2020, the Group repaid a €600 million bond and a £1.9 billion term loan at maturity.

In September 2020, the Group raised US$ 1.5 billion in US dollar market under its SEC Shelf programme. The Group also made a tender offer to repurchase portions of four series of bonds prior to their maturities. The tender offer was completed in October 2020, totalling US$ 750 million under two series of bonds, £70 million and €100 million under two separate series of bonds, all of which would have otherwise matured in 2021 and 2022.

Following the tender offer, in October 2020, the Group exercised the make whole redemption provision to fully redeem the remaining amount of US$ 230 million on one bond that would have otherwise matured in 2022.

The Directors expect the Group’s activities to continue on a similar basis in the foreseeable future.

Key performance indicators

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, are disclosed in the Strategic Report of British American Tobacco p.l.c. and do not form part of this report.

Principal risks and uncertainties

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 BAT Group Finance Director is a member of the Board of the Company and any significant change to agreed policies is subject to prior approval by the Board of British American Tobacco p.l.c..

Clear parameters have been established, including levels of authority, on the type and use of financial instruments the Group can use to manage the financial risks facing the BAT Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the BAT Group's treasury policy. The Group's treasury position is monitored by the BAT Group Corporate Finance Committee (“CFC”), which meets regularly and is chaired by the BAT Group Finance Director. Regular reports are provided to senior management and the treasury operations are subject to periodic independent reviews and audits, both internal and external. Details of the risks mitigated are detailed in note 12 of the Group’s financial statements.

Principal risks and uncertainties (continued)
The United Kingdom ("U.K.") has left the European Union ("EU") on 31 January 2020 and entered into the transition period which ended on 31 December 2020. The Group has assessed the potential impact and has concluded that it is well positioned, and the exit from EU will not limit the Group's access to funding. The Group has access to the United Kingdom, United States and European debt capital markets for both long-term funding via the issuance of bonds and short-term funding via issuance of commercial paper from the United States and European commercial paper programmes. The Group also has access to the revolving credit facility with a syndicate of global banks as well as bilateral facilities with certain banks.

UK Companies Act: Section 172(1) Statement

The Company is part of the BAT Group and is ultimately owned by British American Tobacco p.l.c. As set out above in the Company's Strategic Report, the Company's principal activities comprise the raising of finance for the BAT Group, the management of financial risks arising from BAT Group operations and the management of the BAT Group's cash resources.

Under section 172(1) of the UK Companies Act 2006 and as part of the Directors' duty to the Company's shareholders to act as they consider most likely to promote the success of the Company, the Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. The Directors must also have regard for business relationships with the Company's wider stakeholders, and the impact of the Company's operations on the environment and communities in which it operates. Consideration of these factors and other relevant matters is embedded into all Board decision-making and risk assessments throughout the year.

The Company's key stakeholders are the financial institutions it engages with in relation to the Company's financial activities and those members of the BAT Group to which it provides finance-related services. The Company does not have any employees. Primary ways in which the Company engages with financial institutions are through regular meetings, ongoing dialogue and relationship management conducted by the BAT Group's Treasury and Finance teams. There is regular engagement within the BAT Group on finance-related matters, which is taken into account in the Company's decision-making. Primary ways in which the Company engages directly or indirectly, as part of the BAT Group, with its key stakeholders are summarised at pages 82 to 83 of the British American Tobacco p.l.c Annual Report ("BAT Annual Report").

Where the Directors do not engage directly with the Company's stakeholders, they are kept updated on stakeholder perspectives, including through the use of management reporting, and board notes relating to matters presented to the Board during the year which set out stakeholder considerations as applicable to matters under consideration. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making.

During the decision-making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

In accordance with the BAT Group's overall governance and internal controls framework and in support of the Company's purpose as part of the BAT Group, the Company applies and the Directors have due regard to all applicable BAT Group policies and procedures, including the BAT Group Statement of Delegated Authorities ("BAT Group SoDA"), and the BAT Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out at page 48 of the BAT Annual Report. As a BAT Group company, the Company acts in accordance with the BAT Group's policies in relation the safeguarding of human rights and community relationships, which are set out at page 48 of the BAT Annual Report.

Where authority for decision-making is delegated to management under the BAT Group SoDA, the BAT Group SoDA mandates regard for the likely long-term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with wider stakeholders, the impact of business operations on the environment and communities, and other relevant factors. The BAT Group SoDA is part of the BAT Group's governance and internal controls framework through which good corporate governance, risk management and internal control is promoted within the BAT Group and does not derogate from any requirement for Board review, oversight or approval in relation to the Company's activities.

The Directors receive training in relation to their role and duties as a director on a periodic basis and all newly appointed Directors receive training in respect of their role and duties on appointment, including on directors' duties under Section 172 of the Companies Act. Director training is provided through the Company Secretary.

On behalf of the Board

Neil Arthur Wadey, Director
16 February 2021

Directors' Report

Introduction
The Directors present their Annual Report and the audited financial statements for the Company and the Group for the year ended 31 December 2020.

Board of Directors
The names of the persons who served as Directors of the Company and the Group during the period 1 January 2020 to the date of this report are as follows:

Andrew James Barrett
Paul McCrory
Neil Arthur Wadey
Steven Glyn Dale
Tadeu Luiz Marroco

All of the Directors will seek re-election at the forthcoming Annual General Meeting.

Dividends
The Directors do not recommend payment of a dividend for the year (2019: £nil).

Directors' indemnities
Throughout the period from 1 January 2020 to the date of this report, an indemnity has been in force under which Mr. Tadeu Luiz Marroco, as a Director of the Company and the Group, 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 and the Group or as a result of things done by him as a Director on behalf of the Company and the Group.

Throughout the period from 1 January 2020 to the date of this report, indemnities have been in force for each of the remaining Directors under which they, as Directors of the Company and the Group, are, to the extent permitted by law, indemnified in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company and the Group or as a result of things done by them as Directors on behalf of the Company and the Group since their appointment.

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements
The Directors' are responsible for preparing the Annual Report, the Strategic Report, the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with the International Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 *Reduced Disclosure Framework*. In addition the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to

Statement of Directors' responsibilities in relation to the financial statements continued

fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing Strategic Report and Directors' Report that comply with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The names of the Directors are listed in this Directors' Report on page 4. Neither the Company, the Group nor the Directors accept any liability to any person in relation to this Annual Report, except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

Corporate Governance Statement
The Company and the Group are wholly-owned subsidiaries of British American Tobacco p.l.c.. Therefore, there is no requirement for any further disclosure under paragraph 13(2)(c) and (d) of Schedule 7 to the Large and Medium-sized and Group's (Accounts and Reports) Regulations 2008 ("Schedule 7"), nor are there any restrictions on the voting rights of the shares held (Schedule 7, 13(2)(f)).

There are no specific rules regarding the appointment and replacement of Directors other than the provisions set out in the Company's and the Group's Articles of Association, nor are there any pertaining to the amendment of those Articles.

Subject to the provisions of the Companies Acts 1985 and 2006 and the Articles of Association, the Directors may issue, offer, allot or grant rights to subscribe for, or convert any security into shares in the Company and the Group and the Company and the Group may also purchase, or may enter into a contract under which it will or may purchase, its own shares.

The Company and the Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- the risk assurance function and management of the BAT Group conduct periodic review of the Group's risks and mitigation;
- management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting;
- the Group's consolidation is subject to various levels of review by the Group Finance function;
- the draft financial statements are reviewed by an individual independent from those individuals responsible for preparing the financial statements. The review includes checking internal consistency, consistency with other statements, consistency with internal accounting records and arithmetical accuracy; and
- the BAT Group receives reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated BAT Group financial statements. These are then assessed and applied consistently to the Group.

The above disclosure is made in accordance with Disclosure and Transparency Rules 7.2.

Directors' declaration in relation to relevant audit information
Having made appropriate enquiries, each of the Directors who held office at the date of approval of this Annual Report confirms that:

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

Going concern

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

Auditor

A resolution to reappoint KPMG LLP as auditor to the Company will be proposed at the Annual General Meeting.

On behalf of the Board

Neil Arthur Wadey, Director
16 February 2021
B.A.T. International Finance p.l.c.
Registered Number 01060930

Group Income Statement
for the year ended 31 December 2020

	2020	2019
	£m	£m
Interest income (note 3)	**833**	**856**
Interest expense (note 4)	**(677)**	**(711)**
Net commitment fee expense (note 5)	**(3)**	**(4)**
Net fair value gains on derivatives and exchange differences (note 6)	**103**	**64**
Net finance income	**256**	**205**
Other operating income/(expenses) (note 7)	**5**	**(4)**
Profit before taxation	**261**	**201**
Taxation on profit (note 8)	**(2)**	**(15)**
Profit for the year	**259**	**186**

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

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

Group Statement of Comprehensive Income
for the year ended 31 December 2020

	2020	2019
	£m	£m
Profit for the year	**259**	**186**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Losses on exchange	**(44)**	**(54)**
Cash flow hedges		
- net fair value gains/(losses)	**25**	**(31)**
- reclassified and reported in profit for the year	**(39)**	**40**
Total other comprehensive loss for the year	**(58)**	**(45)**
Total comprehensive income for the year	**201**	**141**

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

Group Statement of Changes in Equity
for the year ended 31 December 2020

					2020
	Share capital £m	**Hedging reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 January 2020	**231**	**9**	**389**	**1,886**	**2,515**
Total comprehensive (expense)/income for the year (page 7)	-	(14)	(44)	259	201
Balance at 31 December 2020	**231**	**(5)**	**345**	**2,145**	**2,716**

					2019
	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	231	-	443	1,700	2,374
Total comprehensive income/(expense) for the year (page 7)	-	9	(54)	186	141
Balance at 31 December 2019	231	9	389	1,886	2,515

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

Group Balance Sheet
at 31 December 2020

	2020 £m	2019 £m
Assets		
Cash and cash equivalents (note 9)	**52**	138
Amounts due on demand from fellow subsidiaries (note 10)	**11,407**	4,529
Derivative financial instruments (note 11)	**937**	1,111
Other receivables	**9**	-
Loans due from parent undertaking (note 13a)	**1,571**	1,575
Loans due from fellow subsidiaries (note 13b)	**39,425**	39,855
Total assets	**53,401**	47,208
Liabilities		
Bank overdrafts (note 14)	**89**	270
Borrowings (note 14)	**17,456**	19,215
Amounts repayable on demand to fellow subsidiaries (note 15)	**31,107**	23,617
Derivative financial instruments (note 11)	**609**	756
Other payables	**8**	7
Term deposits repayable to fellow subsidiaries (note 16)	**1,416**	828
Total liabilities	**50,685**	44,693
Equity		
Share capital	**231**	231
Hedging reserve	**(5)**	9
Translation reserve	**345**	389
Retained earnings	**2,145**	1,886
Total equity (note 17)	**2,716**	2,515
Total equity and liabilities	**53,401**	47,208

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

The financial statements on pages 7 to 32 were approved by the Board and signed on its behalf by

Neil Arthur Wadey, Director
16 February 2021

Group Cash Flow Statement
for the year ended 31 December 2020

	2020 £m	2019 £m
Cash flows from operating activities		
Interest receipts	**596**	894
Interest payments	**(669)**	(618)
Net outflow on fees	**(5)**	(7)
Other receipts/(payments)	**26**	(57)
	(52)	212
Increase/(decrease) in operating assets and liabilities:		
Net short-term funds outflow to parent undertaking	**-**	(7,277)
Net short-term funds inflow/(outflow) to fellow subsidiaries	**886**	(12,802)
Proceeds from external debt	**3,792**	1,239
Repayment of external debt	**(6,028)**	(2,713)
Inflows/(outflow) relating to derivative financial instruments	**129**	(311)
Net cash inflow on loans from parent undertaking	**-**	2,046
Net cash inflow on loans from fellow subsidiaries	**796**	19,461
Net cash inflow on borrowings from fellow subsidiaries	**642**	55
Net cash inflow/(outflow) from operating activities	**165**	(90)
Losses on exchange	**(70)**	(8)
Net increase/(decrease) in cash and cash equivalents	**95**	(98)
Net cash and cash equivalents at 1 January	**(132)**	(34)
Net cash and cash equivalents at 31 December (note 9)	**(37)**	(132)

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

Notes are shown on pages 11 to 32.

Group Notes on the Accounts

1. Accounting policies

Basis of accounting
The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("EU").

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention except as described in the accounting policy below on financial instruments. In performing its going concern assessment, management considered forecasts and liquidity requirements within the going concern period.

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 on the accounts.

Due to the nature of the entity, investing and financing activities are captured as part of operating activities within the Group cash flow statement.

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

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

The differences between retained profits translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year, and are presented as a separate component of equity. They are recognised in the income statement when the gain or loss on disposal of a Group undertaking is recognised.

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

Accounting for income
As a financing vehicle, the Group's primary sources of income comprise interest on loans to its parent, British American Tobacco p.l.c. and its subsidiaries ("BAT Group") and net fee income. These are recognised on an effective interest rate method, and income is only recognised to the extent that it is considered to be collectable.

Net fee income comprises commitment fees received in respect of undrawn revolving credit facilities provided to its parent, British American Tobacco p.l.c. and its subsidiaries ("BAT Group"), and commitment fees paid in respect of borrowing facilities provided by external banks.

1. Accounting policies continued

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

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

Deferred taxation is 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. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12 Income Taxes, deferred tax assets and liabilities are not discounted.

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

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

As a UK-resident wholly-owned subsidiary within the British American Tobacco group of companies (the "BAT Group"), the Company is eligible to surrender tax losses to, or claim tax losses from, fellow members of the same UK group for the purposes of calculating corporation tax due in the UK ("group relief"). It is BAT Group policy that tax losses are surrendered unless the Company generating the losses has a particular need to carry the loss forward and it is also Group policy not to reimburse companies for group relief surrendered unless, on a stand-alone basis and assuming the Company were not in the BAT Group, these losses would be recognised as a deferred tax asset in the Company generating the loss.

Financial instruments

The Group's business model for managing financial assets is set out in the Group Treasury Manual of the BAT Group ("BAT Group" referred as British American Tobacco p.l.c. and its subsidiaries) which notes that the primary objective with regard to the management of cash and investments is to protect against the loss of principal. Additionally, the Group aims to maximise BAT Group liquidity by concentrating cash at the Group, to align the maturity profile of external investments with that of the forecast liquidity profile, wherever practicable, match the interest rate profile of external investments to that of debt maturities or fixings, and to optimise the investment yield within the Group's investment parameters. The majority of financial assets are held in order to collect contractual cash flows (typically cash and cash equivalents and loans and other receivables).

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current.

Non-derivative financial assets are classified on initial recognition in accordance with the Group's business model as loans and receivables, or cash and cash equivalents and accounted for as follows:

- Loans and other receivables: These are non-derivative financial assets with fixed or determinable payments that are solely payments of principal and interest on the principal amount outstanding that are primarily held in order to collect contractual cash flows. These balances include other receivables, loans due from parent undertaking and from fellow subsidiaries and are measured at amortised cost, using the effective interest rate method, and stated net of allowances for expected credit losses.

  The Group has measured the loss allowance for financial instruments at an amount equal to the 12-month expected credit loss, whether or not any actual losses have been recognised, and whether or not the counterparty has insurance cover or guarantees in place to cover the potential economic loss. The effective interest rate is based on gross (pre-impairment) assets.

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

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances measured under the expected credit loss method.

Non-derivative financial liabilities, including borrowings and trade payables, 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. As shown in note 14, certain borrowings are subject to fair value hedges, as defined below.

1. Accounting policies continued

Financial instruments continued

Derivative financial assets and liabilities are initially recognised, and subsequently measured at fair value, which includes accrued interest receivable and payable, where relevant. The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. Changes in their fair values are recognised as follows:

- for derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the income statement in the same periods as the hedged item;
- where the intrinsic value and time value of an option contract are separated, the change in fair value of the time value of an option is recognised in other comprehensive income to the extent it relates to the hedged item, and is subsequently amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss. Where material, these amounts are disclosed as a separate component of equity. The same accounting is applied where the forward element of a forward contract, or a foreign currency basis spread, are separated from the relevant hedging instrument;
- 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 these derivatives are also recognised in the income statement; 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. These are referred to as "held-for-trading".

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document prospectively the economic relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the economic 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 re-performed periodically to ensure that the hedge has remained, and is expected to remain, highly effective.

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

Derivative fair value changes recognised in the income statement are in net fair value gains on derivatives.

Segmental analysis

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

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

Dividends

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

Future changes to accounting policies

A number of interpretations and revisions to existing standards have been issued which will be applicable to the Group's financial statements in future years, but will not have a material effect on reported profit or equity or on the disclosures in the financial statements.

2. Segmental reporting

As the Company, which is domiciled in the UK, is the central financing vehicle for the BAT Group, 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 **£2 million** (2019: £4 million) includes **£1 million** (2019: £1 million) from money market funds.

Interest income from cash and cash equivalents attributable to the UK is **£2 million** (2019: £4 million) and **£nil** (2019: £nil) attributable to foreign countries.

IFRS 8 considers a group of entities under common control as a single customer. **£31 million** (2019: £49 million) of interest income is generated from the loans to parent undertaking and **£800 million** (2019: £803million) from loans to fellow subsidiaries controlled directly or indirectly by the parent undertaking, British American Tobacco p.l.c..

3. Interest income

	2020	2019
	£m	£m
Interest income		
From the parent undertaking	**31**	49
From fellow subsidiaries	**800**	803
Cash and cash equivalents	**2**	4
	833	856

4. Interest expense

	2020	2019
	£m	£m
Interest expense		
Issued debt	**514**	493
Other borrowings	**47**	65
Commercial paper	**8**	28
	569	586
To the parent undertaking	**-**	11
To fellow subsidiaries	**108**	114
	677	711

5. Net commitment fee expense

	2020	2019
	£m	£m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**20**	6
Fee expense		
Fees charged on committed borrowing facilities	**(23)**	(10)
	(3)	(4)

100% of the above fees charged on the committed borrowing facility in 2020 are borne by the Group (2019: 100%).

6. Net fair value gains on derivatives and exchange differences

	2020	2019
	£m	£m
Fair value changes on derivatives and hedged items comprise:		
Fair value hedging instruments – exchange related movements	**87**	(76)
Fair value hedging instruments – net interest income	**24**	30
Fair value hedging instruments – interest related movements	**2**	72
Fair value changes on hedged items	**80**	6
Cash flow hedging instruments – exchange related movements	**39**	(40)
Cash flow hedging instruments – net interest expense	**(7)**	(9)
Instruments held-for-trading	**(30)**	(470)
Net fair value gains/(losses)on derivatives	**195**	(487)
Exchange differences	**(92)**	551
	103	64

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

The Group's borrowings are arranged on both a fixed rate and a floating rate basis and in different currencies. The Group uses a combination of currency and interest rate derivatives to achieve the desired debt profile on a post-hedged basis. The impact from these derivatives, together with the fair value adjustment and exchange differences on the debt are shown within "Net fair value gains on derivatives and exchange differences" whereas the interest expense on the debt is shown within note 4 "Interest expense".

The "Net fair value gains on derivatives and exchange differences" represents the net impact of the debt and related derivatives, this includes:

- net interest income on swaps for the year of **£16 million** (2019: £18 million) to offset the interest expense on issued debt reported within note 4 "Interest expense". This comprises of net interest income from swaps used as fair value hedge instruments of **£24 million** (2019: £30 million) and net interest expense on swaps used as cash flow hedge instruments and held for trading of **£7 million** and **£1 million** respectively (2019: £9 million and £3 million respectively).
- a gain of **£4 million** (2019: £8 million loss) due to the ineffective portion of fair value hedges.
- A gain of **£41 million** (2019: £44 million) relating to the amortisation of the fair value gain on novated bonds from fellow subsidiary.
- A gain of **£39 million** (2019: £30 million) in respect of amortisation of cancelled hedges which are included in the carrying value of existing hedged items.
- Exchange differences include most foreign currency assets and liabilities that are maintained in US dollars and euro, which have been translated to sterling at the closing rates on 31 December 2020 of **US$1.36695** and **€1.1172** (2019: US$1.32475 and €1.180178).

7. Other operating income/(expense)

	2020	2019
	£m	£m
Other operating income/(expense)	**5**	(4)

Other operating charges include remuneration of **£291,928** payable to KPMG LLP for the audit of the Group and Company's annual financial statements (2019: £237,000). Costs relating to non-audit fees payable to KPMG LLP is **£nil** (2019: £nil)

A gain of **£8 million** (2019: loss of £2 million) relating to the movement in the expected credit loss provision on loans and receivables is included in other operating expenses.

The Group has no directly employed employees (2019: nil) and consequently utilises the services of a number of employees whose contracts of service are with fellow subsidiaries, and their remuneration is included in the financial statements of those subsidiaries. An annual management charge is levied from a fellow subsidiary in respect of the cost of employees in the British American Shared Service Centre (Romania). These charges are included in 'Other operating expenses' above.

8. Taxation on ordinary activities

a) Summary of tax

	2020	2019
	£m	£m
UK corporation tax		
Comprising:		
- current tax at **19%** (2019: 19%)	**2**	2
- double tax relief	**(2)**	(2)
Overseas tax comprising:		
- tax on current income	**2**	2
Total taxation charge for the year	**2**	2
Deferred tax		
Comprising:		
- current year	**-**	-
- prior year adjustment	**-**	13
Total current and deferred tax expense (*note 8b)*	**2**	15

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8. Taxation on ordinary activities continued

b) Factors affecting the tax charge

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2019: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2020 **£m**	2019 £m
Profit before taxation	**261**	201
UK corporation tax at **19%** (2019: 19%)	**50**	38
Factors affecting the tax rate:		
Income not taxable	**(1)**	-
Overseas taxation	**2**	2
Double tax relief	**(2)**	(2)
BAT Group relief claimed for no consideration	**(47)**	(36)
Prior year adjustment in respect of IFRS 9 expected credit loss	**-**	13
Total tax expense (*note 8a)*	**2**	15

9. Cash and cash equivalents

	2020 **£m**	2019 £m
Cash and bank balances	**52**	138
Cash equivalents	**-**	-
	52	138

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. As at 31 December 2020 the Group does not have any money market funds invested (2019: nil).

The currency in which cash and cash equivalents are held, are as follows:

	2020 **£m**	2019 £m
UK sterling	**-**	38
Other	**52**	100
	52	138

9. Cash and cash equivalents continued

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts (note 14):

	2020	2019
	£m	£m
Cash and cash equivalents as above	**52**	138
Less: bank overdrafts (note 14)	**(89)**	(270)
Net cash and cash equivalents	**(37)**	(132)

10. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise unsecured current accounts and cash pooling accounts referred to as In-House Cash ("IHC") accounts between fellow subsidiaries and the BAT Group. These are denominated in the following currencies:

	2020	2019
	£m	£m
UK sterling	**-**	6
US dollar	**4,793**	2,118
Swiss franc	**204**	26
Euro	**1,620**	633
New Zealand dollar	**207**	141
Japanese yen	**1,246**	444
South African rand	**659**	114
Romanian leu	**698**	263
Australia dollar	**644**	274
Czech Krona	**124**	63
Danish Krone	**165**	20
Mexican Peso	**121**	41
Norwegian Krone	**155**	37
Russian Rouble	**175**	22
Other	**596**	327
	11,407	4,529

The balance above is measured at amortised cost, with an immaterial impact of expected credit losses (as explained in accounting policies in note 1).

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

11. Derivative financial instruments

The fair values of derivatives are determined based on market data (primarily yield curves and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these assets and liabilities under the IFRS 13 fair value hierarchy is given in note 12.

	2020		2019	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Fair value hedges				
Interest rate swaps	**20**	**-**	177	62
Cross-currency swaps	**255**	**-**	191	-
Cash flow hedges				
Interest rate swaps	**-**	**-**	-	3
Cross-currency swaps	**143**	**-**	114	-
Held-for-trading*				
Interest rate swaps	**45**	**53**	188	191
Cross-currency swaps	**46**	**46**	84	84
Forward foreign currency contracts	**428**	**510**	357	416
	937	**609**	1,111	756

All balances above relate to derivatives with external parties other than those disclosed in note 19.

* Derivative financial instruments which are not designated as hedges are classified as held-for-trading as explained in note 1.

11. Derivative financial instruments continued

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

	2020		2019	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Within one year	**552**	**534**	366	431
Between one and two years	**20**	**14**	149	68
Between two and three years	**219**	**57**	2	-
Between three and four years	**-**	**-**	214	94
Between four and five years	**4**	**4**	-	-
Beyond five years	**142**	**-**	380	163
	937	**609**	1,111	756

There were no derivative liabilities which included interest rate swaps where the contracting parties hold the right to exercise mutual break clauses.

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

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

	2020			
	Assets		**Liabilities**	
	Inflow	**Outflow**	**Inflow**	**Outflow**
	£m	**£m**	**£m**	**£m**
Within one year				
- Cross-currency swaps	**1,756**	**(1,655)**	**987**	**(1,006)**
- Forward foreign exchange contracts	**11,356**	**(10,949)**	**15,667**	**(16,154)**
Between one and two years				
- Cross-currency swaps	**33**	**(54)**	**36**	**(17)**
- Forward foreign exchange contracts	**792**	**(779)**	**779**	**(792)**
Between two and three years				
- Cross-currency swaps	**1,446**	**(1,261)**	**676**	**(701)**
Between three and four years				
- Cross-currency swaps	**19**	**(29)**	**15**	**(10)**
Between four and five years				
- Cross-currency swaps	**469**	**(451)**	**436**	**(460)**
Beyond five years				
- Cross-currency swaps	**767**	**(594)**	**-**	**-**
	16,638	**(15,772)**	**18,596**	**(19,140)**

11. Derivative financial instruments continued

	2019			
	Assets		Liabilities	
	Inflow	Outflow	Inflow	Outflow
	£m	£m	£m	£m
Within one year				
- Cross-currency swaps	97	(56)	18	(62)
- Forward foreign exchange contracts	13,157	(12,806)	15,507	(15,918)
Between one and two years				
- Cross-currency swaps	1,823	(1,733)	969	(1,012)
- Forward foreign exchange contracts	815	(798)	798	(815)
Between two and three years				
- Cross-currency swaps	51	(40)	17	(36)
Between three and four years				
- Cross-currency swaps	1,403	(1,273)	683	(679)
Between four and five years				
- Cross-currency swaps	24	(24)	10	(15)
Beyond five years				
- Cross-currency swaps	1,197	(1,068)	460	(435)
	18,567	(17,798)	18,462	(18,972)

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

	2020		2019	
	Assets	**Liabilities**	Assets	Liabilities
	Inflow	**Outflow**	Inflow	Outflow
	£m	**£m**	£m	£m
Within one year	**41**	**(26)**	57	(55)
Between one and two years	**17**	**(18)**	65	(16)
Between two and three years	**16**	**(18)**	49	(15)
Between three and four years	**-**	**-**	47	(16)
Between four and five years	**-**	**-**	31	-
Beyond five years	**-**	**-**	106	-
	74	**(62)**	355	(102)

The above maturity analysis comprises the Group’s interest rate swaps and non-deliverable forwards.

12. Management of financial risks

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

Given the nature of the Group's activities, the Group is managed in accordance with BAT Group Treasury policies and procedures. BAT Group policies include a set of financing principles that provide a framework within which the BAT Group's capital base is managed. The Group defines capital as equity (see note 17) and net debt, which is defined as external borrowings, including derivatives in respect of debt, less cash and cash equivalents. The Group's net debt balances, which are managed as part of the BAT Group's net debt, are as follows:

	2020	2019
	£m	£m
Bank overdrafts and borrowings (note 14)	**17,545**	19,485
Derivatives in respect of debt:		
- Assets	**(496)**	(564)
- Liabilities	**167**	210
Cash and cash equivalents (note 9)	**(52)**	(138)
	17,164	18,993

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

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

Liquidity risk

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the BAT Group, and to obtain this financing from a wide range of providers. The BAT Group has a target average centrally managed debt maturity of at least five years with no more than twenty per cent of centrally managed debt maturing in a single rolling year. The debt held by the Group is part of the BAT Group's centrally managed debt and is therefore managed within the Group's target.

In March 2020, the Group refinanced its £6 billion revolving credit facility consisting of a £3 billion 364-day tranche (with two one-year extension options and a one-year term-out option), and a £3 billion five-year tranche (with two one-year extension options). This facility no longer contains a financial covenant. Subsequent to the year-end, in February 2021, the Group extended £2.85 billion of the 364-day tranche from March 2021 to March 2022 and £2.85 billion of the five-year tranche from March 2025 to March 2026 (£3 billion of this tranche remains available until March 2025). As at 31 December 2020, the facility remains undrawn.

In March and April 2020, the Group arranged short term bilateral facilities with core relationship banks for a total amount of approximately £4.8 billion. The bilateral facilities have since been reduced to a total amount of approximately £3.4 billion. At 31 December 2020, these facilities were undrawn.

In April 2020, the Group accessed the European market under its EMTN Programme, raising a total of €1.7 billion across two tranches.

In June 2020, the Group raised £500 million in the Sterling market under its EMTN Programme.

In July 2020, the Group repaid a €600 million bond and a £1.9 billion term loan at maturity.

In September 2020, the Group raised US$ 1.5 billion in US dollar market under its SEC Shelf programme. The Group also made a tender offer to repurchase portions of four series of bonds prior to their maturities. The tender offer was completed in October 2020, totalling US$ 750 million under two series of bonds, £70 million and €100 million under two separate series of bonds, all of which would have otherwise matured in 2021 and 2022.

Following the tender offer, in October 2020, the Group exercised the make whole redemption provision to fully redeem the remaining amount of US$ 230 million on one bond that would have otherwise matured in 2022.

In March 2019, the Group repaid €820 million at maturity.

12. Management of financial risks continued

Liquidity risk continued

In July 2019, the Group extended the £3 billion tranche of its £6 billion revolving credit facility for a further 364 days with a one-year term-out option. At 31 December 2019, the facility was undrawn.

In July 2019, the Group also arranged short term bilateral facilities with some of its core banks for a total amount of £745 million. In December 2019, the Group repaid a £500 million bond at maturity.

The Group ensures that there is flexibility in funding arrangements with fellow subsidiaries by providing short-term facilities or early repayment rights.

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.

It is BAT Group policy that short-term sources of funds (including drawings under both the Group US$4 billion US commercial paper (US CP) programme and the Group £3 billion euro commercial paper (ECP) programme are backed by undrawn committed lines of credit and cash. Commercial paper is issued by B.A.T. International Finance p.l.c., B.A.T and Netherlands Finance B.V. and guaranteed by British American Tobacco p.l.c.. At 31 December 2020, commercial paper of **£nil** was outstanding (2019: £1,056 million).

As part of its short-term cash management, the Group invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2020, cash and cash equivalents include **£nil** (2019: £nil) invested in money market funds.

Although term deposits repayable to fellow subsidiaries (as shown in note 16) fall due within one year, they are typically renewed subject to the funding requirements of the counterparty. Loans to fellow subsidiaries, subsidiary companies and the parent undertaking are made on commercial terms. All contractual borrowing covenants have been met and none of them are expected to inhibit the Group's operations or funding plans.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, sterling. Lending and borrowing activities with fellow subsidiaries are usually in the currency of the counterparty resulting in primary balance sheet translation exposures to the US dollar, euro, and Danish krone. These exposures are kept under continuous review and the Group's policy is to minimise all balance sheet translation exposure where it is practical and cost effective to do so through matching of currency assets with currency borrowings. At 31 December 2020, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **50 per cent** (2019: 52 per cent) sterling, **33 per cent** (2019: 32 per cent) euro, **12 per cent** (2019: 13 per cent) US dollar, **3 per cent** (2019: 2 per cent) Danish krone and **2 per cent** (2019: 1 per cent) other currencies.

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

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held by the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. All financial assets and liabilities held in the functional currency of the Company and subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10 per cent strengthening or weakening of the functional currency against the non-functional currency of its Company and subsidiaries as a reasonable 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.

The Group hedges substantially all of its financial currency exposures not denominated in the functional currency either economically or through use of derivative contracts. This mitigates the sensitivity of fluctuations in the underlying exchange rates. As a result, a 10 per cent strengthening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2019: no material change to pre-tax profit). A 10 per cent weakening of functional currencies against non-functional currencies would result in no material change to pre-tax profit (2019: no material change to pre-tax profit).

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

12. Management of financial risks continued

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.

During 2020, the Group financial covenant being gross interest cover was removed from the centrally managed banking facilities.

In order to manage its interest rate risk, the Group maintains both floating and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on a net basis (at least 50 per cent fixed on a net basis in the short to the medium-term); market conditions and strategy are reviewed by the CFC on regular basis. The debt and associated derivatives held by the Group are part of the BAT Group's centrally managed debt and derivatives and are therefore managed within Group's targets. Underlying borrowings are arranged on both a fixed 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.

The Group has early adopted the Phase 2 Amendments to IFRS 9 Financial Instruments in respect of disclosures and other accounting matters relating to Interest Rate Benchmark Reform, which arises as a result of the UK Financial Conduct Authority's announcement on 27 July 2017

As at 31 December 2020, the Group has floating rate term loan borrowing with nominal value of £1,929 million that is due to mature in January 2022. The Group assessed the impact on the borrowing consequent to Interest Rate Benchmark Reform and concluded that they are not significant.

Additionally, the Group has total of nine derivatives (five interest rate swaps and four cross-currency interest rate swaps) that may be impacted by Interest rate Benchmark Reform of which two are free standing derivatives maturing in January 2023 and seven derivatives which are in a fair value hedge relationship that are maturing in June 2022 and October 2023. The Group believes that the hedge relationships on these derivatives will continue with the resulting ineffectiveness likely to be immaterial.

As at 31 December 2020, the Group has **£10,923 million** due from fellow BAT Group subsidiaries and **£1,562 million** due from parent undertaking that mature after 1 January 2022 where the variable interest rate is based on a recognised benchmark rate which is due to be reformed and replaced in the near future and are subject to standard lending agreements within the Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The Group assessed the impact on Intercompany loans and borrowing consequent to Interest Rate Benchmark Reform and concluded that they are not significant.

The interest rate to be applied in future will be in accordance with the changes to the BAT Group's intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 Financial Instruments at that time. The Company does not believe that it would be materially adversely affected by these changes.

The Group's syndicated revolving credit facility (undrawn at 31 December 2020) has references to USD LIBOR, EURIBOR and GBP LIBOR. This facility includes market standard LIBOR replacement language. Following 1 June 2021, the agreement will adopt SOFR and SONIA as the alternative benchmark rates in respect of USD LIBOR and GBP LIBOR, respectively.

In January 2021, the BAT Group confirmed adherence to the ISDA 2020 IBOR Fallbacks Protocol as published by the International Swaps and Derivatives Association, Inc. (ISDA) on 23 October 2020 (the Protocol), ensuring that appropriate fallback rates can apply to derivatives in the event of LIBOR discontinuation.

The Group believes that any outstanding contracts on 1 January 2022 with interest rates based on LIBOR benchmarks will adequately provide for alternate calculations of interest in the event that they are unavailable.

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 analysis, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates as a reasonably possible change except where rates are less than 100 basis points. In these instances, it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being **£249 million** higher (2019: £137 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£401 million** lower (2019: £138 million lower.

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

12. Management of financial risks continued

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. The Group recognises that the sovereign risk of a fellow subsidiary can be the determining factor of default.

Intra-BAT Group counterparties have appropriate capital structures to meet their obligations as they fall due. All loans to fellow subsidiaries 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.

All external derivatives are subject to ISDA (International Swaps and Derivatives Association) documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group aims to transact with counterparties with strong investment grade credit ratings. Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

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 2020 is **£8,680 million** (2019: £10,776 million). Guarantees provided to third parties are shown in note 18 on page 31.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document prospectively the economic relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the economic 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 re-performed periodically to ensure that the hedge has remained and is expected to remain highly effective. The prospective effectiveness testing determines that an economic relationship between the hedged item and the hedging instrument exists.

In accordance with the Group Treasury Manual of BAT Group, the exact hedge ratios and profile of a hedge relationship will depend on several factors, including the desired degree of certainty and reduced volatility of net interest costs and market conditions, trends and expectations in the relevant markets. The sources of ineffectiveness include spot and forward differences, impact of time value and timing differences between periods in the hedged item and hedging instrument.

The Group's risk management strategy has been explained in further detail under interest rate risk and currency risk sections of this note.

12. Management of financial risks continued

Fair value estimation

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

Fair value hierarchy

In accordance with the IFRS 13 classification hierarchy, all derivatives held by the Group at 31 December 2020 and 31 December 2019, 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 Over The Counter ("OTC") derivatives.

Netting arrangement of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group balance sheet, together with the Group's right of offset associated with recognised financial assets and recognised financial liabilities, subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	2020			2019		
	Amount presented in the Group balance sheet	**Related to amounts not offset in the Group balance sheet**	**Net amount**	Amount presented in the Group balance sheet	Related to amounts not offset in the Group balance sheet	Net amount
	£m	**£m**	**£m**	£m	£m	£m
Financial assets						
-Derivative financial instruments (note 11)	**937**	**(299)**	**638**	1,111	(357)	754
Financial liabilities						
-Derivative financial instruments (note 11)	**(609)**	**299**	**(310)**	(756)	357	(399)

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trade derivatives.

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transaction and amounts owed to it by the defaulting party. If that sum exceeds the amount owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

12. Management of financial risks continued

Hedging instrument

The items designated as hedging instruments are as follows:

	2020 Nominal amount of hedging instrument	**2020** Changes in fair value used for calculating hedge ineffectiveness for the year	2019 Nominal amount of hedging instrument	2019 Changes in fair value used for calculating hedge ineffectiveness for the year
	£m	**£m**	£m	£m
Interest rate risk				
Fair value hedges				
- interest rate swaps	**757**	**(14)**	3,065	66
- cross-currency swaps	**1,428**	**66**	1,436	(73)
Cash flow hedges				
- interest rate swaps	**-**	**-**	226	-
- cross currency swaps	**716**	**30**	678	(31)

Hedging item

The hedged items by risk category are presented below:

2020	**Carrying value of the hedged item**	**Accumulated amount of fair value hedge adjustments on hedged item included in the carrying amount of the hedged item**	**Line item in the statement of financial position where the hedged item is included**	**Changes in fair value used for calculating hedge ineffectiveness for 2019**	**Cash flow hedge reserve**
	£m	**£m**		**£m**	**£m**
Fair value hedges					
Interest rate risk					
- borrowings	**4,647**	**135**	**Borrowings**	**(48)**	
Cash flow hedges					
Interest rate risk					
- borrowings	**710**		**Borrowings**	**30**	**(11)**

2019	Carrying value of the hedged item	Accumulated amount of fair value hedge adjustments on hedged item included in the carrying amount of the hedged item	Line item in the statement of financial position where the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness for 2019	Cash flow hedge reserve
	£m	£m		£m	£m
Fair value hedges					
Interest rate risk					
- borrowings	5,123	172	Borrowings	15	
Cash flow hedges					
Interest rate risk					
- borrowings	671		Borrowings	(31)	(2)
- derivative*	2		Derivative-asset	-	-

*The carrying value reported for derivative financial instruments represents aggregated exposure as at 31 December 2019 with a gross nominal value amounting to £226 million.

13a. Loans due from parent undertaking

Loans due from the parent undertaking at 31 December 2020 of **£9 million** fall due within one year (2019: £13 million within one year) and **£1,562 million** fall due beyond one year (2019: £1,562 million beyond year). These loans are unsecured and reprice within one year as they bear interest at floating rates based on a recognised benchmark rate which is due to be reformed and replaced in the near future. The London InterBank Interest Rate ("LIBOR") is unlikely to be offered after the end of 2021. The is subject to standard lending agreements within the BAT Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The interest rate to be applied in future will be in accordance with the changes to the BAT Group's intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 *Financial Instruments* at that time. The Company does not believe that it would be materially adversely affected by these changes. These loans are in sterling.

Loans due from Parent undertaking are measured at amortised cost and net of expected credit losses of **£8 million** (2019: £9 million) as explained in accounting policies in note 1.

Loans due from the parent undertaking include **£9 million** of interest receivable at 31 December 2020 (2019: £13 million). There is no material difference between the book value and fair value for loans due from the parent undertaking as determined using discounted cash flow analysis.

13b. Loans due from fellow subsidiaries

Unsecured loans due from fellow subsidiaries are denominated in the following currencies:

	2020	2019
	£m	£m
UK sterling	**31,327**	31,895
Euro	**4,335**	3,943
US dollar	**3,105**	3,378
Danish krone	**431**	406
Swiss franc	**211**	198
Singapore dollar	**6**	17
Polish zloty	**10**	9
Other	**-**	9
	39,425	39,855

Loans due from fellow subsidiaries are measured at amortised cost and net of expected credit losses of **£62 million** (2019: £69 million) as explained in accounting policies in note 1.

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

The balance includes **£10,923 million** maturing after 1 January 2022 bear interest at floating rates based on a recognised benchmark rate which is due to be reformed and replaced in the near future. The London InterBank Interest Rate ("LIBOR") is unlikely to be offered after the end of 2021. The payable is subject to standard lending agreements within the BAT Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The interest rate to be applied in future will be in accordance with the changes to the BAT Group's intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 *Financial Instruments* at that time. The Company does not believe that it would be materially adversely affected by these changes.

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

	2020	2019
	£m	£m
Within one year	**28,052**	22,812
Between one and two years	**6,693**	6,656
Between two and three years	**1,066**	9,481
Between three and four years	**3**	891
Between four and five years	**395**	4
Beyond five years	**3,216**	11
Total	**39,425**	39,855

13b. Loans due from fellow subsidiaries continued

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

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Greater than 5 years
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2020	**39,425**	**39,425**	**-**	**-**	**-**	**-**	**-**
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2019	39,855	39,472	372	-	-	-	11

Loans due from fellow subsidiaries include **£364 million** of interest receivable (2019: £120 million).

14. Bank overdrafts and borrowings

	Currency	Maturity dates	Interest rates	2020 £m	2019 £m
Issued debt					
Eurobonds	Euro	2021-2045	0.9 to 4.9%	**8,341**	7,135
	Swiss franc	2021-2026	0.6 to 1.4%	**540**	510
	UK sterling	2021-2055	1.8 to 7.3%	**4,139**	3,710
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act of 1933	US dollar	2022-2026	1.7 to 4.0%	**2,507**	2,180
Commercial paper				**-**	1,056
				15,527	14,591
Other borrowings				**1,929**	4,624
Bank overdrafts				**89**	270
				17,545	19,485

Included within issued debt of **£15,527 million** (2019: £14,591 million) above are **£4,647 million** (2019: £5,123 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 **£135 million** at 31 December 2020 (2019: increased by £172 million) included in the table above.

Other borrowings primarily comprise of **£nil** (2019: £745 million) bilateral loans and **£1,929 million** (2019: £3,859 million) relating to term loan that is maturing in 2022.

Bank overdrafts are all repayable within one year, and are denominated in **sterling, US dollar, New Zealand dollar, Singapore dollar** (2019: sterling, euro, Polish zloty, Canadian dollar, Qatari riyal, Turkish lira, Romanian leu, Bulgarian lev, US dollar, Hong Kong dollar, Croatian kuna, Hungarian forint, New Zealand dollar, Kazakhstani tenge, Israeli scheckel, Czech krona, Singapore dollar, Mexican peso and Kuwaiti dinar).

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Within one year	**2,211**	4,750	**2,377**	4,925
Between one and two years	**2,996**	1,934	**3,326**	2,276
Between two and three years	**1,439**	3,789	**1,733**	4,086
Between three and four years	**1,293**	1,364	**1,593**	1,602
Between four and five years	**1,738**	536	**1,939**	759
Beyond five years	**7,868**	7,112	**9,777**	9,059
Total	**17,545**	19,485	**20,745**	22,707

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 **£216 million** (2019: £209 million).

14. Bank overdrafts and borrowings continued

Borrowings are denominated in the following currencies. The Group often uses derivatives to manage the profile of the debt.

	Total	Functional currency	USD	EUR	CHF	CAD	DKK	Other
	£m	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2020								
Total borrowings	**17,545**	**7,754**	**2,522**	**6,696**	**540**	**-**	**-**	**33**
Effect of derivative financial instruments								
Cross-currency swaps	**(365)**	**1,780**	**-**	**(1,880)**	**(265)**	**-**	**-**	**-**
Forward foreign exchange contracts	**8**	**593**	**(460)**	**(520)**	**(36)**	**-**	**431**	**-**
	17,188	**10,127**	**2,062**	**4,296**	**239**	**-**	**431**	**33**
As at 31 December 2019								
Total borrowings	19,485	8,484	2,769	7,568	510	10	-	144
Effect of derivative financial instruments								
Cross-currency swaps	(247)	1,866	-	(1,864)	(249)	-	-	-
Forward foreign exchange contracts	(11)	(610)	(213)	440	(34)	-	406	-
	19,227	9,740	2,556	6,144	227	10	406	144

Details of the derivative financial instruments included in these tables are given in note 11.

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

At 31 December 2020	**Total** £m	**Within 1 year** £m	**Between 1 and 2 years** £m	**Between 2 and 3 years** £m	**Between 3 and 4 years** £m	**Between 4 and 5 years** £m	**Beyond 5 years** £m
Total borrowings	**17,545**	**4,140**	**1,067**	**1,434**	**1,293**	**1,738**	**7,873**
Effect of derivative financial instruments							
Interest rate swaps	**-**	**219**	**(219)**	**-**	**-**	**-**	**-**
Cross-currency swaps	**(365)**	**495**	**-**	**(716)**	**-**	**-**	**(144)**
	17,180	**4,854**	**848**	**718**	**1,293**	**1,738**	**7,729**
At 31 December 2019	£m	£m	£m	£m	£m	£m	£m
Total issued debt	19,485	6,679	1,934	1,860	1,364	536	7,112
Effect of derivative financial instruments							
Interest rate swaps	-	1,794	(508)	(226)	-	-	(1,060)
Cross-currency swaps	(151)	1,294	(758)	-	(678)	-	(9)
	19,334	9,767	668	1,634	686	536	6,043

Details of the derivative financial instruments included in these tables are given in note 11.

British American Tobacco p.l.c. has provided guarantees for all of the Group's public indebtedness. As at 31 December 2020, the amount of these guarantees was **£18,443 million** (2019: £20,934million).

The fair value of total borrowings are **£18,418 million** (2019: £19,669 million) and has been determined using quoted market prices. **£16,400 million** (2019: £13,719 million) has been calculated using quoted market prices and are within Level 1 of the fair value hierarchy. **£2,018 million** (2019: £5,950 million) has been calculated based on discounted cash flow analysis and are within Level 3 of the fair value hierarchy.

15 Amounts repayable on demand to fellow subsidiaries

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

	2020 £m	2019 £m
UK sterling	**15,560**	15,866
Euro	**2,937**	1,738
US dollar	**7,480**	4,079
Swiss franc	**181**	19
Norwegian krona	**243**	118
Australian dollar	**567**	385
Romanian leu	**732**	262
Danish krone	**244**	101
Japanese Yen	**1,254**	445
South African rand	**664**	116
Canadian dollar	**61**	50
Polish zloty	**138**	75
Czech Koruna	**78**	71
Swedish krona	**111**	53
Singapore dollar	**54**	55
Other	**803**	184
	31,107	23,617

Amounts payable on demand to fellow subsidiaries include **£12 million** of interest repayable at 31 December 2020 (2019: £35 million). There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries as determined using discounted cash flow analysis.

16. Term deposits repayable to fellow subsidiaries

Term deposits repayable to fellow subsidiaries are unsecured, and are denominated in the following currencies:

	2020 £m	2019 £m
UK sterling	**86**	73
US dollar	**858**	-
Mexican pesos	**84**	88
Japanese yen	**53**	87
Russian rouble	**326**	571
Other	**9**	9
	1,416	828

Term deposits repayable to fellow subsidiaries include **£1.5 million** of interest payable at 31 December 2020 and reprice within one year (2019: £1.5 million within one year).

In 2020 and 2019, term deposits repayable to fellow subsidiaries fall due within one year.

There is no material difference between the above amounts for term deposits repayable to fellow subsidiaries and their fair values as determined using discounted cash flow analysis.

17. Total equity

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2020	**231**	**9**	**389**	**1,886**	**2,515**
Comprehensive income					
Profit for the year	**-**	**-**	**-**	**259**	**259**
Differences on exchange	**-**	**-**	**(44)**	**-**	**(44)**
Cash flow hedges					
net fair value gains	**-**	**25**	**-**	**-**	**25**
reclassified and reported in profit for the year	**-**	**(39)**	**-**	**-**	**(39)**
31 December 2020	**231**	**(5)**	**345**	**2,145**	**2,716**

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2019	231	-	443	1,700	2,374
Comprehensive income					
Profit for the year	-	-	-	186	186
Differences on exchange	-	-	(54)	-	(54)
Cash flow hedges					
net fair value gains	-	(31)	-	-	(31)
reclassified and reported in profit for the year	-	40	-	-	40
31 December 2019	231	9	389	1,886	2,515

Details relating to the allotted and issued share capital, and movements therein, are included in note 11 to the Company financial statements.

The share capital is the amount subscribed at nominal value. Retained earnings are the cumulative net gains recorded in the Group income statement.

The translation reserve is as explained in the accounting policy on foreign currencies in note 1.

The hedging reserve is as explained in the accounting policies in note 1. The Group hedges certain foreign currency denominated borrowings with cross-currency interest rate swaps. As permitted by IFRS 9 the foreign currency basis spreads have been separated from the hedging instruments and are recognised in reserves as “cost of hedging” are re-classified to the income statement in the same period in which profit and loss is affected by the hedged expected cash flows, as a component of the associated interest expense. The basis spreads are disclosed within hedging reserves as they are not material. Included within the balance of hedging reserves at 31 December 2020 is **£6 million** (2019: £11 million) in respect of the cost of hedging.

18. Contingent liabilities

The Group is one of the five entities in the BAT Group which have jointly guaranteed borrowings in B.A.T Capital Corporation. At 31 December 2020 the Group has guaranteed **£20,659 million** of this debt (2019: £16,195 million).

The guaranteed debts mature as follows:

	2020 £m	2019 £m
Within one year	**986**	755
Between one and two years	**1,008**	933
Between two and three years	**690**	2,289
Between three and four years	**2,758**	654
Between four and five years	**474**	2,685
Beyond five years	**14,743**	8,879
Total	**20,659**	16,195

In addition to the above, the ultimate parent company has recognised a provision of **£1,238 million** (2019: £925 million) in respect of B.A.T Capital Corporation's borrowings guaranteed. This can be referred to the ultimate parent company's accounts which are publicly available.

19. Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 *Related Party Disclosures*, all of which are undertaken in the normal course of 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, 15, and 16. In addition, fair value of derivatives with fellow subsidiaries included within the balance disclosed in note 11 is as follows:

	2020		2019	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivative financial instruments				
Cross-currency swaps	**-**	**46**	84	-
Interest rate swaps	**-**	**-**	185	-
Forward foreign currency contracts	**159**	**260**	89	299
	159	**306**	358	299

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 the balance disclosed in note 6 as follows:

	2020 Income £m	2019 Income £m
Derivative financial instruments		
Cross-currency swaps	**(90)**	75
Interest rate swaps	**207**	206
Forward foreign currency contracts	**158**	(170)
	275	111

The key management of the Company consists 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.

20. Principal subsidiary undertakings

The Company holds the entire issued share capital of BATIF Dollar Limited (registered office is Globe House, 1 Water Street, London, WC2R 3LA), B.A.T. Netherlands Finance B.V. (registered office is Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands) and of B.A.T Finance B.V. (registered office is Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands).

21. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2019: £nil). The Group considers that there is no practicable method to allocate a portion of the emoluments the Directors receive from their respective Group company employer for any qualifying services in respect of the Group, as these are considered to be incidental and part of the Directors overall management responsibilities within the Group.

22. 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.

23. 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.

1 Our opinion is unmodified

We have audited the financial statements of B.A.T. International Finance p.l.c. ("the Company") for the year ended 31 December 2020 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and parent Company Statement of Changes in Equity, the Group and parent Company Balance Sheet, Group Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Directors.

We were first appointed as auditor by the directors on 23 March 2015. The period of total uninterrupted engagement is for the 6 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2019), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of loans due from other British American Tobacco p.l.c. subsidiaries - Group balance of £40,996 million, comprising of Loans due from fellow subsidiaries of £39,425 million and Loans due from parent undertaking of £1,571 million (2019: Group balance of £41,430 million, comprising of Loans due from fellow subsidiaries of £39,855 million and Loans due from parent
undertaking of £1,575 million). Parent company balance of £39,948 million, comprising of Loans due from fellow subsidiaries of £38,377 million and Loans due from parent undertaking of £1,571 million (2019: Parent Company balance of £40,179 million, comprising of Loans due from fellow subsidiaries of £38,604 million and Loans due from parent undertaking of £1,575 million).

Refer to page 11 ("accounting policies") and page 26 (the Group's financial disclosures) and page 42 (the Parent's financial disclosures).

Low risk, high value
The carrying amount of loans due from group entities represents 76.8% of the Group's total assets and 75.7% of the Parent company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the financial statements, this is considered to be the area that had the greatest effect on our overall Group and Parent company audit.

Our procedures included:

- **Tests of detail:** Assessing a sample of the highest value group debtors representing 98.2% of the total Group debtors balance and 98.6% of the Parent company balance to identify, with reference to the relevant subsidiaries' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those subsidiaries' have historically been profit-making.

- **Assessing subsidiary audits:** Assessing the audit work performed over the subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets, including assessing the liquidity of the assets or ability of the subsidiary to obtain liquid funds and therefore the ability of the subsidiary to fund the repayment of the receivable.

Our results:

We found the Director's assessment of the recoverability of loans due from group entities to be acceptable for both the Group and the Parent company receivables balance.

3 Our application of materiality and an overview of the scope of our audit

The Group is part of a group headed by British American Tobacco p.l.c. Materiality of £70 million (2019: £70 million), as communicated by the group audit team, has been applied to the audit of the Group. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.13% of the Group's total assets (2019: 0.15%). Materiality for the parent company financial statements as a whole was set at £69 million (2019: £69 million), determined with reference to a benchmark of total assets (of which it represents 0.13% (2019: 0.15%)).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Group was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £52 million (2019: £52 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk. Performance materiality for the parent company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £51 million (2019: £51 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £3 million (2019: £3 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group, as if it was a single aggregated set of financial information. The audit, including the audit of the parent company, was performed using the materiality level set out above.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was the ability of the ultimate parent BAT plc and its subsidiaries (BAT Group) to present future cash inflows when debts to the Company and Group fall due.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Corporate Finance Committee and Treasury Risk Committee minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition as interest income is not complex or subjective, and calculations and recognition are automated..

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue accounts which are not expected to be posted manually, that contained key words in the description, users who only posted one entry for the fiscal year, and those posted with an unusual combination.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the group is subject to many other laws and regulations, we did not identify any others where the consequences of noncompliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on pages 4 to 6, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable,

matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Williams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

16 February 2021

Parent Company Balance Sheet – B.A.T. International Finance p.l.c.
at 31 December 2020
Registered Number 01060930

	2020	2019
	£m	£m
Assets		
Investments in subsidiaries (note 2)	**718**	718
Deferred tax asset	**-**	-
Loans due from parent undertaking (note 3a)	**1,571**	1,575
Loans due from subsidiary and fellow subsidiaries (note 3b)	**38,377**	38,604
Amounts due on demand from fellow subsidiaries (note 4)	**11,122**	4,449
Other receivables	**9**	-
Derivative financial instruments (note 5)	**937**	1,111
Cash and cash equivalents (note 7)	**52**	138
	52,786	46,595
Liabilities		
Borrowings (note 8)	**15,926**	19,215
Bank overdrafts (note 8)	**89**	270
Amounts repayable on demand to fellow subsidiaries (note 9)	**31,129**	23,622
Term deposit repayable to fellow subsidiaries (note 10)	**2,925**	828
Derivative financial instruments (note 5)	**609**	756
Other payables	**8**	7
	50,686	44,698
Equity		
Called up share capital (note 11)	**231**	231
Hedging reserve (note 11)	**(5)**	9
Retained earnings (note 11)	**1,874**	1,657
Total shareholders' funds	**2,100**	1,897
Total equity and liabilities	**52,786**	46,595

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

The financial statements on pages 38 to 47 were approved by the Board and signed on its behalf by

Neil Arthur Wadey, Director
16 February 2021

Parent Company Statement of Changes in Equity – B.A.T. International Finance p.l.c. for the year ended 31 December 2020

	Share capital £m	**Hedging reserve £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 January 2020	**231**	**9**	**1,657**	**1,897**
Total comprehensive (expense)/income for the year	-	(14)	217	203
Balance at 31 December 2020	**231**	**(5)**	**1,874**	**2,100**

	Share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	231	-	1,501	1,732
Total comprehensive income for the year	-	9	156	165
Balance at 31 December 2019	231	9	1,657	1,897

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

1. Accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention except as described in the accounting policy below on financial instruments. In performing its going concern assessment, management considered forecasts and liquidity requirements within the going concern period."

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 ('the Act') and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The preparation of the Company financial statements has led to the use of the 'liquidity format' for the balance sheet in those financial statements. In order to aid comparability between the Group and Company, the format of the Company balance sheet has been presented within the limits of the Companies Act 2006, to match as closely as possible the 'liquidity format' in order to present a true and fair view of the state of affairs of the Company.

As permitted by Section 408 of the Companies Act 2006, the profit and loss of the Company has not been presented in these financial statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Act, but makes amendments where necessary in order to comply with the Act, and where advantage of certain disclosure exemptions available under FRS 101 have been taken, including those relating to:

- a cash flow statement and related notes;
- comparative period reconciliations for investments in subsidiaries;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

The preparation of the financial statements requires the directors 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 are set out in the accounting policies below, together with the related notes to the accounts.

Foreign currencies

The functional currency of the Company is sterling. 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 is that chargeable on the profits for the period, together with deferred taxation. Income tax charges, where applicable, are calculated on the basis of tax laws enacted or substantially enacted at the balance sheet date.

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. As required under IAS 12 Income Taxes, deferred tax assets and liabilities are not discounted.

Investments in Group companies

Investments in Group companies are stated at cost, together with subsequent capital contributions, less provision for any impairment in value, where appropriate.

Cash flow

The Company is a wholly-owned subsidiary of British American Tobacco p.l.c.. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c., which is publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 101.

Financial instruments

The financial instrument disclosures of the Company are included in the Group financial statements, which are included in this Annual Report. Consequently, the Company is exempt under FRS 101 from publishing these financial instruments disclosures.

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

Related parties

The Company has taken advantage of the exemption under FRS 101 from disclosing transactions with related parties that are wholly-owned subsidiaries of BAT Group.

2. Investments in subsidiaries

The Company holds the entire issued share capital of BATIF Dollar Limited (registered office is Globe House, 1 Water Street, London, WC2R 3LA), B.A.T. Netherlands Finance B.V. (registered office is Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands) and of B.A.T Finance B.V. (registered office is Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands. The cost of these investments as at 31 December 2020 was **£718 million** (2019: £718 million).

B.A.T. Netherlands Finance B.V. was acquired on 28 February 2019 for cash consideration of **€18,000.**

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 **£1,571 million** (2019: £1,575 million) comprise exactly the same balances and disclosures as loans due from parent undertaking detailed in Group note 13a. Consequently, no additional information is presented here.

The above balance is measured at amortised cost and is net of expected credit losses of **£8 million** (2019: £9 million) as explained in Group note 1.

3b. Loans due from subsidiary and fellow subsidiaries

Unsecured loans due from subsidiary and fellow BAT Group subsidiaries are denominated in the following currencies:

	2020 £m	2019 £m
UK sterling	**31,333**	31,902
Euro	**4,335**	3,943
Danish krone	**431**	406
Canadian dollar	**6**	17
Swiss franc	**211**	198
Polish zloty	**10**	9
US dollar	**2,051**	2,129
	38,377	38,604

The above balance is measured at amortised cost and net of expected credit losses **of £64 million** (2019: £61 million) as explained in Group note 1.

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

The balance includes **£7,992 million** maturing after 1 January 2022 bear interest at floating rates based on a recognised benchmark rate which is due to be reformed and replaced in the near future. The London InterBank Interest Rate ("LIBOR") is unlikely to be offered after the end of 2021. The payable is subject to standard lending agreements within the BAT Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The interest rate to be applied in future will be in accordance with the changes to the BAT Group's intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 *Financial Instruments* at that time. The Company does not believe that it would be materially adversely affected by these changes.

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

	2020 £m	2019 £m
Within one year	**29,993**	24,680
Between one and two years	**6,532**	6,554
Between two and three years	**1,066**	6,475
Between three and four years	**3**	891
Between four and five years	**391**	4
Beyond 5 years	**392**	
Total	**38,377**	38,604

3b. Loans due from subsidiary and fellow subsidiaries (continued)

Loans due from subsidiary and fellow BAT Group subsidiaries repayable within one year are expected to be renewed upon maturity and, accordingly, are classified as loans due from fellow subsidiaries in the Company balance sheet.

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

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2020	**38,377**	**38,377**	**-**	**-**	**-**	**-**
	£m	£m	£m	£m	£m	£m
As at 31 December 2019	38,604	38,228	372	-	-	**4**

Interest rate risk of loans to subsidiary and fellow BAT Group subsidiaries is not hedged. Loans to subsidiary and fellow BAT Group subsidiaries include **£350 million** of interest receivable at 31 December 2020 (2019: £99 million).

4. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries comprise unsecured current accounts and cash pooling accounts referred to as In-House Cash ("IHC") accounts between fellow subsidiaries and BAT Group. These are denominated in the following currencies:

	2020	2019
	£m	£m
US dollar	**4,507**	2,038
Swiss franc	**204**	26
Euro	**1,620**	633
Croatian Kuna	**57**	53
New Zealand dollar	**207**	141
Japanese yen	**1,246**	444
South African rand	**659**	114
Romanian leu	**698**	263
Australian dollar	**644**	274
Danish Krone	**165**	20
Norwegian Krone	**155**	37
Swedish Krona	**71**	18
Hungarian forint	**74**	29
Czech koruna	**124**	63
Russian rubble	**175**	22
Other	**516**	274
	11,122	4,449

The balance above is measured at amortised cost, with an immaterial impact of expected credit losses (as explained in accounting policies in note 1).

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

5. Derivative financial instruments

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

6. Management of financial risks

Additional disclosure that is required under FRS101 in respect of interest rate risk and credit risk is per below.

Interest rate risk

IFRS 7 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 2020. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of the sensitivity analyses, financial assets and liabilities with fixed interest rates are not included. Interest sensitivity in respect of foreign exchange forward contracts is not included in the analysis for 2020 as it is considered as fixed rate interest. The Company considers a 100 basis point change in interest rates as a reasonably possible change, except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being **£236 million** higher (2019: £125 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£392 million** lower (2019: £127 million lower).

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

The qualitative assessment of Interest Rate Benchmark Reform has been explained in Group note 12.

The Company has total of nine derivatives (five interest rate swaps and four cross-currency interest rate swaps) that may be impacted by Interest rate Benchmark Reform of which two are free standing derivatives maturing in January 2023 and seven derivatives which are in a fair value hedge relationship that are maturing in June 2022 and October 2023. The Company believes that the hedge relationships on these derivatives will continue with the resulting ineffectiveness likely to be immaterial.

The Company has **£7,992 million** due from fellow BAT Group subsidiaries and **£1,562 million** due from parent undertaking that mature after 1 January 2022 where the variable interest rate is based on a recognised benchmark rate which is due to be reformed and replaced in the near future and are subject to standard lending agreements within the Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The Group assessed the impact on Intercompany loans and borrowing consequent to Interest Rate Benchmark Reform and concluded that they are not significant.

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 2020 is **£8,597 million** (2019: £10,692 million).

The impact of the IFRS 9 “Expected Credit loss” model is explained in Group note 1.

7. Cash and cash equivalents

Short-term deposits and cash of **£52 million** (2019: £138 million) comprise the same balances and disclosures as cash and cash equivalents detailed in Group note 9. Consequently, no additional information is presented here.

8. Bank overdrafts and issued debt

	Currency	Maturity dates	Interest rates	2020 £m	2019 £m
Issued debt					
Eurobonds	Euro	2021-2045	0.9 to 4.9%	**6,811**	7,135
	Swiss franc	2021-2026	0.6 to 1.4%	**540**	510
	UK sterling	2021-2055	1.8 to 7.3%	**4,139**	3,710
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act of 1933	US dollar	2022-2026	1.7 to 4.0%	**2,507**	2,180
Commercial paper				**-**	1,056
				13,997	14,591
Other borrowings				**1,929**	4,624
Bank overdrafts				**89**	270
				16,015	19,485

Included within issued debt of **£13,997 million** (2019: £14,591 million) above are **£4,647 million** (2019: £5,123 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 **£135 million** at 31 December 2020 (2019: increased by £172 million) included in the table above.

The fair value of total borrowings are **£16,705 million** (2019: £19,669 million) and has been determined using quoted market prices. **£14,687 million** (2019: £13,719 million) has been calculated using quoted market prices and are within Level 1 of the fair value hierarchy. **£2,018million** (2019: £5,950 million) has been calculated based on discounted cash flow analysis and are within Level 3 of the fair value hierarchy.

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Within one year	**2,189**	4,750	**2,336**	4,925
Between one and two years	**2,996**	1,934	**3,284**	2,276
Between two and three years	**1,439**	3,789	**1,691**	4,086
Between three and four years	**537**	1,364	**790**	1,602
Between four and five years	**1,738**	536	**1,915**	759
Beyond five years	**7,116**	7,112	**8,944**	9,059
Total	**16,015**	19,485	**18,960**	22,707

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 **£195 million** (2019: £209 million).

9 Amounts repayable on demand to fellow subsidiaries

Amounts payable on demand to fellow BAT Group subsidiaries comprise fellow subsidiary current accounts and cash pooling accounts held with the Company. These are unsecured, and are denominated in the following currencies:

	2020	2019
	£m	£m
UK sterling	**15,560**	15,866
Euro	**2,959**	1,738
US dollar	**7,480**	4,083
Swiss franc	**181**	19
Norwegian krona	**243**	118
Australian dollar	**567**	385
Hong Kong dollar	**46**	14
Romanian leu	**732**	263
Danish krone	**244**	101
Other	**3,117**	1,035
	31,129	23,622

Amounts payable on demand to fellow subsidiaries include **£34 million** of interest repayable at 31 December 2020 (2019: £35 million). There is no material difference between the book value and fair value for amounts payable on demand to fellow subsidiaries.

As at 31 December 2020, there were no outstanding amounts payable on demand to the parent undertaking (2019: £nil).

10. Term deposits repayable to fellow subsidiaries

Term deposits repayable to fellow subsidiaries are unsecured, and are denominated in the following currencies:

	2020	2019
	£m	£m
UK sterling	**86**	73
Euro	**1,509**	-
US dollar	**858**	-
Mexican pesos	**84**	88
Hong Kong dollar	**6**	6
Singapore dollar	**3**	3
Japanese yen	**53**	87
Russian rouble	**326**	571
	2,925	828

Term deposits repayable to fellow subsidiaries include **£26 million** of interest payable at 31 December 2020 and reprice within one year (2019: £1.5 million within one year).

Term Deposit are repayable as follows:

	Per balance sheet	
	2020	2019
	£m	£m
Within one year	**1,416**	828
Between one and two years	**-**	-
Between two and three years	**-**	-
Between three and four years	**756**	-
Between four and five years	**-**	-
Beyond five years	**753**	-
Total	**2,925**	828

The fair value of total borrowings are **£3,129 million** (2019: £828 million) and has been determined using quoted market prices. **£1,713 million** (2019: £nil) has been calculated using quoted market prices and are within Level 1 of the fair value hierarchy. **£1,416 million** (2019: £828 million) has been calculated based on discounted cash flow analysis and are within Level 3 of the fair value hierarchy.

11. Total shareholders' funds

	Called up share capital	**Hedging reserve**	**Retained earnings**	**Total Shareholders' funds**
	£m	**£m**	**£m**	**£m**
1 January 2020	**231**	**9**	**1,657**	**1,897**
Profit for the financial year	**-**	**(14)**	**217**	**203**
31 December 2020	**231**	**(5)**	**1,874**	**2,100**

	Called up share capital	Hedging reserve	Retained earnings	Total Shareholders' funds
	£m	£m	£m	£m
1 January 2019	231	-	1,501	1,732
Profit for the financial year	-	9	156	165
31 December 2019	231	9	1,657	1,897

As permitted by Section 408(3) of the Companies Act 2006, the profit and loss account of the Company has not been presented in these Company financial statements. The profit for the financial year ended 31 December 2020 was **£217 million** (2019: £156 million). No tax is payable on the profit or loss in either period due to BAT Group tax relief.

Share capital consists of **£231 million** (2019: £231 million) ordinary shares of £1 each, allotted, issued and fully paid.

The hedging reserve is as explained in the accounting policies in note 1. The Group hedges certain foreign currency denominated borrowings with cross-currency interest rate swaps. As permitted by IFRS 9 the foreign currency basis spreads have been separated from the hedging instruments and are recognised in reserves as "cost of hedging" are re-classified to the income statement in the same period in which profit and loss is affected by the hedged expected cash flows, as a component of the associated interest expense. The basis spreads are disclosed within hedging reserves as they are not material. Included within the balance of hedging reserves at 31 December 2020 is **£6 million** (2019: £11 million) in respect of the cost of hedging

Audit fees of **£259,264** were payable to KPMG LLP for the audit of the Company's annual financial statements (2019: £234,500).

12. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2019: £nil). The Company considers that there is no practicable method to allocate a portion of the emoluments the Directors receive from their respective Group company employer for any qualifying services in respect of the Company, as these are considered to be incidental and part of the Directors overall management responsibilities within the Group.

13. Contingent liabilities

The Group is one of the five entities in the BAT Group which have jointly guaranteed borrowings in B.A.T Capital Corporation and B.A.T. Netherlands Finance B.V. At 31 December 2020 the Group has guaranteed **£22,372 million** of this debt (2019: £16,195 million).

The guaranteed debts mature as follows:

	2020	2019
	£m	£m
Within one year	**986**	755
Between one and two years	**1,008**	933
Between two and three years	**690**	2,289
Between three and four years	**3,582**	654
Between four and five years	**474**	2,685
Beyond five years	**15,632**	8,879
Total	**22,372**	16,195

In addition to the above, the ultimate parent company has recognised a provision of **£1,245 million** (2019: £925 million) in respect of B.A.T Capital Corporation's borrowings guaranteed. This can be referred to the ultimate parent company's accounts which are publicly available.

14. Related parties

As explained in the accounting policies in note 1, the Company has taken advantage of the exemption under FRS 101 from disclosing transactions with related parties that are wholly-owned subsidiaries of the BAT Group. Balances and transactions with related parties that are not wholly-owned by the BAT Group are **£ nil** (2019: £ nil).

15. 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.

16. 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.