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

2014
Annual Report

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

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

Contents

<u>Notice of Meeting</u>

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 25 February 2015 at 2pm for the transaction of the following business:

1. To receive the financial statements for the year ended 31 December 2014 and the reports of the Directors and the Auditors thereon.

2. To re-elect Directors.

3. To elect Directors appointed since the last Annual General Meeting.

4. To reappoint the Auditors.

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

By Order of the Board

Ann Griffiths, Assistant Secretary
25 February 2015

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

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

Registered Number 01060930

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

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 2014.

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 the BAT Group's underlying operations and the management of the BAT Group's cash resources. The Group's treasury operations and management of financial risks are described fully in note 12 on pages 22-27. All these activities are carried out under defined policies, procedures and limits. It is intended that the Group will continue to undertake business relating to these activities.

Review of the year ended 31 December 2014

The Group's profit for the financial year amounted to **£241 million** (2013: £145 million). Total equity has increased by **£295 million** (2013: increased by £127 million). The Directors do not recommend payment of a dividend for the year (2013: £nil).

In September 2014, the Group signed a one year bridge facility of US$4.7 billion with an extension option of up to one year on behalf of BAT Group for their proposed investment in Reynolds American Inc. This facility was undrawn as at 31 December 2014.

In September 2014, the Group issued a new CHF 350 million bond with a maturity of 2016, a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018.

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 to manage the financial risks facing the Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the BAT Group's treasury policy. The Group's treasury position is monitored by the BAT Group Corporate Finance Committee ('CFC'), which meets regularly and is chaired by the BAT Group Finance Director. Regular reports are provided to senior management and 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.

On behalf of the Board

Neil Arthur Wadey, Director
25 February 2015

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 2014.

Board of Directors
The names of the persons who served as Directors of the Company and the Group during the period 1 January 2014 to the date of this report are as follows:

John Benedict Stevens
Richard Remon Bakker (appointed 25 July 2014)
Kenneth John Hardman (resigned 19 December 2014)
Robert James Casey
Tadeu Luiz Marroco
Neil Arthur Wadey
Steven Glyn Dale (appointed 19 December 2014)

Mr Richard Remon Bakker and Mr Steven Glyn Dale having been appointed Directors since the last Annual General Meeting ('AGM') will retire at the AGM and seek election. All of the other Directors will seek re-election at the forthcoming AGM.

Directors' indemnities
Throughout the period from 1 January 2014 to the date of this report, an indemnity has been in force under which Mr John Benedict Stevens, 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 2014 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.

Directors' responsibilities in relation to the financial statements
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

Directors' declaration in relation to relevant audit information
Having made enquiries of fellow Directors and of the Company's and the Group's auditors, each of the Directors confirms that:

- to the best of his knowledge and belief, there is no relevant audit information of which the Company's and the Group's auditors are 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 and the Group's auditors are aware of that information.

Directors' responsibilities statement

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

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

The names of the Directors are listed in this Directors' Report on page 3. 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 is a wholly owned subsidiary 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 Groups (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 Groups' 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 and the external auditors 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.

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

On behalf of the Board

Neil Arthur Wadey, Director
25 February 2015

B.A.T. International Finance p.l.c.
Registered Number 01060930

Group Income Statement
for the year ended 31 December 2014

	2014	2013
	£m	£m
Interest income (note 3)	**615**	539
Interest expense (note 4)	**(455)**	(443)
Net commitment fee income (note 5)	**8**	4
Net fair value gains on derivatives and exchange differences (note 6)	**80**	50
Net finance income	**248**	150
Other operating expenses (note 7)	**(4)**	(2)
Profit before taxation	**244**	148
Taxation on ordinary activities (note 8)	**(3)**	(3)
Profit for the year	**241**	145

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 2014

	2014	2013
	£m	£m
Profit for the year	**241**	145
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Gains / (losses) on exchange	**53**	(18)
Cash flow hedges		
- reclassified and reported in profit for the year	**1**	-
Total other comprehensive income for the year	**54**	(18)
Total comprehensive income for the year	**295**	127

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

Group Statement of Changes in Equity
for the year ended 31 December 2014

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	2014 Total equity £m
Balance at 1 January 2014	**231**	**(1)**	**172**	**1,074**	**1,476**
Total comprehensive income for the year (page 5)	**-**	**1**	**53**	**241**	**295**
Balance at 31 December 2014	231	**-**	**225**	**1,315**	**1,771**

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	2013 Total Equity £m
Balance at 1 January 2013	231	(1)	190	929	1,349
Total comprehensive income / (loss) for the year (page 5)	-	-	(18)	145	127
Balance at 31 December 2013	231	(1)	172	1,074	1,476

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

Group Balance Sheet
at 31 December 2014

	2014 £m	2013 £m
Assets		
Cash and cash equivalents (note 9)	**50**	215
Amounts due on demand from fellow subsidiaries (note 10)	**977**	869
Derivative financial instruments (note 11)	**731**	528
Other receivables (note 13)	**14**	11
Loans due from parent undertaking (note 14a)	**3,624**	3,621
Loans due from fellow subsidiaries (note 14b)	**30,049**	27,481
Total assets	**35,445**	32,725
Liabilities		
Bank overdrafts (note 15)	**152**	177
Amounts repayable on demand to parent undertaking (note 16a)	**9,036**	8,024
Amounts repayable on demand to fellow subsidiaries (note 16b)	**14,125**	13,546
Derivative financial instruments (note 11)	**714**	505
Other payables (note 17)	**8**	1
Term deposits repayable to fellow subsidiaries (note 18)	**735**	721
Issued debt (note 15)	**8,904**	8,275
Total liabilities	**33,674**	31,249
Equity		
Share capital	**231**	231
Hedging reserve	**-**	(1)
Translation reserve	**225**	172
Retained earnings	**1,315**	1,074
Total equity (note 19)	**1,771**	1,476
Total equity and liabilities	**35,445**	32,725

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

The financial statements on page 5 to 34 were approved by the Board and signed on its behalf by

NWadey

Neil Authur Wadey, Director
25 February 2015

Group Cash Flow Statement
for the year ended 31 December 2014

	2014 £m	2013 £m
Cash flows from operating activities		
Interest receipts	**319**	351
Interest payments	**(449)**	(418)
Net (outflow) on fees	**(2)**	(1)
Other payments	**-**	(1)
	(132)	(69)
(Decrease) / Increase in operating assets and liabilities:		
Net short-term funds inflow from fellow subsidiaries and parent undertaking	**1,483**	4,367
Proceeds from external debt	**981**	1,920
Repayment of external debt	**(369)**	(338)
Movements relating to derivative financial instruments	**63**	42
Net cash (outflow) on loans to fellow subsidiaries	**(2,221)**	(5,796)
Net cash inflow / (outflow) on borrowings from fellow subsidiaries	**51**	(499)
Net cash (outflow) from operating activities	**(144)**	(373)
Gains / (losses) on exchange	**4**	(12)
Net decrease in cash and cash equivalents	**(140)**	(385)
Net cash and cash equivalents at 1 January	**38**	423
Net cash and cash equivalents at 31 December (note 9)	**(102)**	38

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

Notes are shown on pages 9 to 34.

Group Notes on the Accounts

1. Accounting policies

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

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

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

A subsidiary is an entity controlled by the Group. 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 Group is sterling and this is also the presentation currency of the Group.

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

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

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

1. Accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

1. **Accounting policies** continued

Financial instruments continued

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

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

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

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

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

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

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

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

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

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

IFRS 9 *Financial Instruments*. This standard was finalised and published in July 2014 as the replacement for IAS 39 Financial Instruments: Recognition and Measurement. Further due diligence will be carried out before implementation, but the anticipated impact from restatement on the Group's reported profit and equity for 2014 and 2013 is not expected to be material.

All financial assets, including assets currently classified under IAS 39 as available-for-sale and loans and other receivables, should be measured at fair value through profit and loss unless the assets are permitted to be held at amortised cost, or at fair value through other comprehensive income. The classification of financial assets and their subsequent accounting will be determined by the application of dual tests examining the contractual cash flow characteristics of the financial instruments and the Group's business model for managing the assets. Where the fair value option for certain financial liabilities is applied, the portion of fair value changes representing own credit risk would be recognised through other comprehensive income rather than the income statement. However, the Group does not use the fair value option for financial liabilities and carries debt at amortised cost.

For financial assets carried at amortised cost (including loans and other receivables such as trade debtors), impairment losses including an estimate of initial credit risk should be recognised under the "expected loss model" rather than the "incurred loss model" of IAS 39.

1. **Accounting policies** continued

Future changes to Group accounting policies continued
The requirements for general hedge accounting seek to better align hedge accounting with the risk management activities of an entity by removing or amending some of the rules within IAS 39. While the flexibility within the new requirements might allow companies to apply hedge accounting where previously they would not have been able to, the Group does not anticipate any material changes arising from these requirements.

The Standard is largely retrospective in application. Subject to EU endorsement, the expected mandatory effective date of implementation is 1 January 2018.

In addition, a number of other 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 is the central financing vehicle for the BAT Group and is domiciled in the UK, all income other than interest on cash and cash equivalents is earned from counterparties within the BAT Group. Interest on cash and cash equivalents of **£1 million** (2013: £2 million) comprises **£1 million** (2013: £1 million) from money market funds and **£nil** (2013: £1 million) from bank current accounts.

Interest income from cash and cash equivalents attributable to the UK is **£1 million** (2013: £2 million) and **£nil** (2013: £nil) attributable to foreign countries.

IFRS 8 considers a group of entities under common control as a single customer. **£66 million** (2013: £66 million) of interest income is generated from the parent undertaking and **£548 million** (2013: £471 million) from fellow subsidiaries controlled directly or indirectly by the parent undertaking, British American Tobacco p.l.c..

3. Interest income

	2014	2013
	£m	£m
Interest income		
From the parent undertaking	**66**	66
From fellow subsidiaries	**548**	471
Cash and cash equivalents	**1**	2
	615	539

4. Interest expense

	2014	2013
	£m	£m
Interest expense		
Commercial paper	**-**	1
Bank borrowings	**7**	5
Issued debt	**388**	396
	395	402
To the parent undertaking	**17**	12
To fellow subsidiaries	**43**	29
	455	443

5. Net fee income

	2014	2013
	£m	£m
Fee income		
Commitment fees on undrawn revolving credit facilities to fellow subsidiaries	**19**	9
Fee expense		
Fees charged on committed borrowing facilities	**(11)**	(5)
	8	4

75% of the fees charged on the committed borrowing facility in 2014 are borne by the Group (2013: 67%), with 25% being borne by fellow subsidiaries (2013: 33%).

6. Net fair value gains on derivatives and exchange differences

	2014	2013
	£m	£m
Fair value changes on derivatives comprise:		
Fair value hedging instruments – exchange related movements	**(39)**	13
Fair value hedging instruments – net interest income	**56**	59
Fair value hedging instruments – interest related movements	**140**	(86)
Fair value changes on hedged items	**(131)**	109
Instruments held-for-trading	**(96)**	(13)
Net fair value gains on derivatives	**(70)**	82
Exchange differences	**150**	(32)
	80	50

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" above whereas the interest expense on the debt is shown within Note 4 "Interest expense".

As such the **£80 million** (2013: £50 million) fair value gain reported within "net fair value gains on derivatives and exchange differences" represents the net impact of the debt and related derivatives and is primarily driven by:

- Net interest income on swaps for the year of **£56 million** (2013: £59 million) to offset the interest expense on issued debt reported within Note 4 "Interest expense"; and
- A gain of **£8 million** (2013: £2 million loss) due to the ineffective portion of fair value hedges and a gain of **£1 million** (2013: £nil gain) from the release of fair value basis adjustments to debt.

Most foreign currency assets and liabilities are maintained in US dollars and euro, which have been translated to sterling at the closing rates on 31 December 2014 of **US$1.5593** and **€1.2886** (2013: US$1.6563 and €1.2020).

7. **Other operating expenses**

	2014 £m	2013 £m
Other operating expenses	**4**	2

Other operating charges include remuneration of **£164,000** (2013: £167,000) payable to the Company's auditors for the audit of the Group and Company annual financial statements.

The Group has no directly employed employees (2013: nil) and consequently utilises the services of a number of employees whose contracts of service are with fellow subsidiaries, and their remuneration is included in the financial statements of these subsidiaries. An annual management charge is levied from two of these fellow subsidiaries in respect of the cost of employees in the Asia Pacific Treasury Service Centre (Singapore), and in the British American Shared Service Centre (Romania). These charges are included in 'other operating expenses' above.

8. **Taxation on ordinary activities**

a) **Summary of tax**

	2014 £m	2013 £m
UK corporation tax		
Comprising:		
- current tax at **21.50%** (2013: 23.25%)	**3**	3
- double tax relief	**(3)**	(3)
Overseas tax comprising:		
- tax on current income	**3**	3
Total current tax expense *(note 8b)*	**3**	3

The Group has not recognised deferred tax assets as there are no deductible temporary differences (2013: £1 million).

8. Taxation on ordinary activities continued

b) Factors affecting the tax charge

The standard rate of corporation taxation in the UK changed from 23.0 per cent to 21.0 per cent with effect from 1 April 2014. Accordingly the Company's profit for this accounting period is taxed at an effective rate of 21.50 per cent. The taxation charge differs from the standard 21.50 per cent rate of corporation tax in the UK. The major causes of this difference are listed below:

	2014 £m	2013 £m
Profit before taxation	**244**	148
UK corporation tax at **21.50%** (2013: 23.25%)	**53**	34
Factors affecting the tax rate:		
Permanent differences	**(1)**	-
Temporary differences	-	(1)
Overseas taxation	**3**	3
Double tax relief	**(3)**	(3)
BAT Group loss relief claimed for no consideration	**(49)**	(30)
Total current tax expense (*note 8a*)	**3**	3

9. Cash and cash equivalents

	2014 £m	2013 £m
Cash and bank balances	**50**	59
Cash equivalents	-	156
	50	215

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

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2014, cash and cash equivalents include **£nil** invested in money market funds (2013: £156 million).

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

	2014 £m	2013 £m
US dollar	-	2
UK sterling	**27**	156
Euro	-	3
Australian dollar	**8**	-
Romanian leu	**3**	7
Other	**12**	47
	50	215

9. Cash and cash equivalents continued

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

	2014	2013
	£m	£m
Cash and cash equivalents as above	**50**	215
Less: bank overdrafts	**(152)**	(177)
Net cash and cash equivalents	**(102)**	38

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 Group. These are denominated in the following currencies:

	2014	2013
	£m	£m
UK sterling	**107**	51
US dollar	**225**	168
Swiss franc	**41**	44
Hong Kong dollar	**96**	94
Euro	**284**	377
Singapore dollar	**8**	36
Australian dollar	**127**	1
New Zealand dollar	**36**	19
Other	**53**	79
	977	869

Amounts due on demand from fellow subsidiaries include amounts of **£nil** (2013: £nil) of interest receivable. There is no material difference between the book value and fair value for amounts due on demand from fellow subsidiaries.

11. Derivative financial instruments

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

	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Fair value hedges				
Interest rate swaps	**137**	**1**	67	25
Cross-currency swaps	**6**	**1**	6	1
Held-for-trading*				
Cross-currency swaps	**18**	**17**	37	37
Interest rate swaps	**264**	**264**	92	92
Forward foreign currency contracts	**306**	**431**	326	350
	731	**714**	528	505

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

* Some derivative financial instruments are not designated as hedges and are required to be classified as held-for-trading.

11. **Derivative financial instruments** continued

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

	2014		2013	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Within one year	**282**	**268**	331	325
Between one and two years	**40**	**40**	19	(3)
Between two and three years*	**35**	**174**	37	37
Between three and four years	**-**	**-**	34	41
Between four and five years	**52**	**-**	-	-
Beyond five years	**322**	**232**	107	105
	731	**714**	528	505

* Derivative liabilities above include certain interest rate swaps maturing in 2017 with a combined fair value of **£33 million**, where the contracting parties hold the right to exercise mutual break-up clauses on 29 June 2015 and 7 July 2015.

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:

	2014			
	Assets		**Liabilities**	
	Inflow £m	**Outflow £m**	**Inflow £m**	**Outflow £m**
Within one year				
- Cross-currency swaps	**21**	**(29)**	**19**	**(6)**
- Forward foreign exchange contracts	**6,493**	**(6,243)**	**5,292**	**(5,529)**
Between one and two years				
- Cross-currency swaps	**388**	**(356)**	**344**	**(373)**
- Forward foreign exchange contracts	**512**	**(489)**	**489**	**(512)**
Between two and three years				
- Cross-currency swaps	**18**	**(16)**	**1**	**(4)**
- Forward foreign exchange contracts	**49**	**(46)**	**1,714**	**(1,885)**
Between three and four years				
- Cross-currency swaps	**18**	**(17)**	**1**	**(5)**
Between four and five years				
- Cross-currency swaps	**47**	**(45)**	**1**	**(5)**
Beyond five years				
- Cross-currency swaps	**499**	**(555)**	**209**	**(219)**
	8,045	**(7,796)**	**8,070**	**(8,538)**

11. Derivative financial instruments continued

	2013			
	Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m
Within one year				
- Cross-currency swaps	5	(18)	36	(15)
- Forward foreign exchange contracts	6,434	(6,130)	6,166	(6,485)
Between one and two years				
- Cross-currency swaps	6	(18)	36	(18)
- Forward foreign exchange contracts	341	(323)	323	(341)
Between two and three years				
- Cross-currency swaps	400	(344)	361	(418)
Between three and four years				
- Cross-currency swaps	1	(1)	18	(23)
- Forward foreign exchange contracts	-	-	1,414	(1,452)
Between four and five years				
- Cross-currency swaps	1	(1)	18	(25)
Beyond five years				
- Cross-currency swaps	31	(27)	553	(600)
	7,219	(6,862)	8,925	(9,377)

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

	2014		2013	
	Assets Inflow/ (Outflow) £m	**Liabilities Inflow/ (Outflow) £m**	Assets Inflow/ (Outflow) £m	Liabilities Inflow/ (Outflow) £m
Within one year	**71**	**(29)**	50	8
Between one and two years	**82**	**(51)**	29	(3)
Between two and three years	**71**	**(49)**	14	(4)
Between three and four years	**51**	**(34)**	14	(14)
Between four and five years	**44**	**(30)**	9	(12)
Beyond five years	**85**	**(72)**	55	(111)
	404	**(265)**	171	(136)

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

11. Derivative financial instruments continued

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

	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Interest rate swaps	**401**	**265**	159	117
Cross-currency swaps	**24**	**18**	43	38
Forward foreign currency contracts	**306**	**431**	326	350
	731	**714**	528	505

(a) Interest rate swaps

	Note	**Maturity date**	**Principal Currency**	**m**	**£m**	**Interest rate Original**	**Interest rate Swapped**	**2014 Assets £m**	**2014 Liabilities £m**
Fixed – floating									
	A	2017	USD	600	385	2.1	*Note (a)*	-	**1**
		2017	EUR	600	466	3.7	*Note (a)*	**32**	-
	A	2019	GBP	250	250	6.4	*Note (a)*	**48**	-
		2020	EUR	600	466	4.0	*Note (a)*	**70**	-
	A	2020	GBP	650	650	4.0	*Note (a)*	**27**	-
		2021	EUR	600	466	3.1	*Note (a)*	**34**	-
	A	2022	USD	900	577	3.3	*Note (a)*	**2**	-
		2023*	EUR	750	582	2.8	*Note (a)*	**68**	-
		2023	EUR	750	582	2.4	*Note (a)*	**60**	-
	A	2025	EUR	650	504	2.8	*Note (a)*	**60**	-
Floating – fixed									
		2017	EUR	600	466	*Note (a)*	3.7	-	**32**
		2020	EUR	600	466	*Note (a)*	4.0	-	**70**
		2021	EUR	600	466	*Note (a)*	3.1	-	**34**
		2023*	EUR	750	582	*Note (a)*	2.8	-	**68**
		2023	EUR	750	582	*Note (a)*	2.4	-	**60**
								401	**265**

	Note	Maturity date	Principal Currency	m	£m	Interest rate Original	Interest rate Swapped	2013 Assets £m	2013 Liabilities £m
Fixed – floating									
	A	2014	GBP	500	500	6.0	*Note (a)*	13	-
	A	2014	GBP	250	250	6.0	*Note (a)*	11	-
	A	2017	USD	600	362	2.1	*Note (a)*	-	1
		2017	EUR	600	499	3.7	*Note (a)*	34	-
	A	2019	GBP	250	250	6.4	*Note (a)*	43	-
		2020	EUR	600	499	4.0	*Note (a)*	47	-
	A	2020	GBP	650	650	4.0	*Note (a)*	-	8
		2023	EUR	750	624	2.4	*Note (a)*	-	4
		2023*	EUR	750	624	2.8	*Note (a)*	-	7
	A	2025	EUR	650	541	2.8	*Note (a)*		16
Floating – fixed									
		2017	EUR	600	499	*Note (a)*	3.7	-	34
		2020	EUR	600	499	*Note (a)*	4.0	-	47
		2023*	EUR	750	624	*Note (a)*	2.8	7	-
		2023	EUR	750	624	*Note (a)*	2.4	4	-
								159	117

Note (a): The floating rate interest rates in 2014 and 2013 are based on LIBOR or EURIBOR plus a margin ranging between 67 and 176 basis points (2013: 35 and 268 basis points).
* The €750 million interest rate swap maturing in 2023 has a start date of 2015.

11. Derivative financial instruments continued

In both **2014** and 2013, swaps denoted with **A** were used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 30. All other swaps were not designated as hedging instruments.

(b) Cross-currency swaps

	Note	**Maturity date**	**Interest rate (%)**	**Original Currency (m)**	**Principal £m**	**Interest rate (%)**	**Swapped Currency (m)**	**Principal £m**	**2014 Assets £m**	**2014 Liabilities £m**
Fixed – floating										
		2016	5.5	GBP 325	325	*Note (b)*	EUR 473	367	**-**	**17**
	B	2019	4.6	EUR 20	16	*Note (b)*	USD 22	14	**5**	**-**
	B	2021	3.6	EUR 600	466	*Note (b)*	GBP 518	518	**1**	**-**
	B	2021	0.6	CHF 320	207	*Note (b)*	GBP 210	210		**1**
Floating – fixed										
		2016	*Note (b)*	EUR 473	367	5.5	GBP 325	325	**18**	**-**
									24	**18**

	Note	Maturity date	Interest rate (%)	Original Currency (m)	Principal £m	Interest rate (%)	Swapped Currency (m)	Principal £m	2013 Assets £m	2013 Liabilities £m
Fixed – floating										
	B	2016	5.5	GBP 325	325	*Note (b)*	EUR 473	394	-	37
	B	2019	4.6	EUR 20	17	*Note (b)*	USD 22	13	6	-
	B	2021	3.6	EUR 600	499	*Note (b)*	GBP 518	518	-	1
Floating – fixed										
		2016	*Note (b)*	EUR 473	394	5.5	GBP 325	325	37	-
									43	38

Note (b): The floating interest rates in 2014 and 2013 are based on LIBOR, CHF LIBOR, EURIBOR, USD LIBOR plus a margin ranging between 64 and 154 basis points (2013: 82 and 154 basis points).

In both **2014** and 2013, swaps denoted with **B** have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 on page 30.

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

11. Derivative financial instruments continued

(c) Forward foreign currency contracts

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions, as well as the hedging of internal and external assets and liabilities.

Forward foreign currency contracts are denominated in the following currencies:

	2014 Asset £m	2014 Liability £m	2013 Asset £m	2013 Liability £m
GBP/EUR	38	-	19	1
GBP/AUD	19	-	69	-
GBP/ZAR	-	1	17	-
GBP/JPY	22	-	-	-
GBP/USD	-	63	63	-
EUR/USD	-	46	18	-
EUR/GBP	-	153	1	21
JPY/GBP	-	22	-	2
JPY/USD	-	43	-	83
USD/EUR	46	-	-	18
USD/GBP	63	-	-	64
USD/JPY	43	-	83	-
ZAR/GBP	1	-	-	17
Others	74	103	56	144
	306	431	326	350

Certain contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 15 on page 30, and their nominal values are as follows:

	2014		2013	
	Sell £m	Purchase £m	Sell £m	Purchase £m
Forward contracts to purchase CHF, sell GBP	228	(223)	-	-
Forward contracts to purchase GBP, sell CHF	-	-	225	(226)
Forward contracts to purchase GBP, sell CAD	202	(204)	207	(211)
Forward contracts to purchase GBP, sell USD	192	(192)	181	(187)
Forward contracts to purchase GBP, sell EUR	75	(76)	124	(125)
Forward contracts to purchase EUR, sell DKK	339	(339)	313	(313)
Forward contracts to purchase EUR, sell NOK	128	(137)	149	(150)
Forward contracts to purchase EUR, sell SEK	114	(116)	131	(129)
Forward contracts to purchase EUR, sell GBP	1,694	(1,540)	1,452	(1,414)
Forward contracts to purchase NOK, sell GBP	143	(128)	164	(149)

12. Management of financial risks

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

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

	2014	2013
	£m	£m
Borrowings - bank overdrafts and issued debt (note 15)	**9,056**	8,452
Derivatives in respect of debt:		
- Assets	**(450)**	(221)
- Liabilities	**432**	197
Cash and cash equivalents (note 9)	**(50)**	(215)
	8,988	8,213

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 not managed to separate targets. As at 31 December 2014, the average debt to maturity of the Group was **6.7 years** (2013: 7.9 years) and the highest proportion of total issued debt maturing in a single rolling year was **18.6 per cent** (2013: 18.4 per cent).

At 31 December 2014, commercial paper of £160 million was outstanding (2013: £521 million).

In September 2014, the Group signed a one year bridge facility of US$4.7 billion with an extension option of up to one year on behalf of BAT Group for their proposed investment in Reynolds American Inc This facility was undrawn as at 31 December 2014.

In September 2014, the Group issued a new CHF 350 million bond with a maturity of 2016; a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018.

In December 2013, the Company repaid a £152 million bond.

In November 2013, the Company repaid a $300 million bond.

In September 2013, the Company issued a new £650 million bond with a maturity of 2026.

In March 2013, the Company issued a new €650 million bond with a maturity of 2025 and a new $300 million bond with a maturity of 2016.

12. Management of financial risks continued

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

In May 2014, the Group negotiated a new central banking facility of £3 billion with a final maturity of May 2019 (with two additional one-year extensions at the option of the banks). This facility is provided by 22 banks. The new facility is on significantly improved terms compared to the previous central banking facility of £2 billion, with a maturity of December 2015, which was cancelled at the same time. The new facility was undrawn as at 31 December 2014 (2013: undrawn).

It is Group policy that short-term sources of funds (including drawings under both the US$2 billion programme and the £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash.

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

As part of its short-term cash management, the Company invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2014, cash and cash equivalents include **£nil** (2013: £156 million) invested in money market funds.

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

Currency risk
The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries into its reporting currency, sterling. Lending and borrowing activities with fellow subsidiaries are usually in the currency of the counterparty resulting in primary balance sheet translation exposures to the US dollar, euro, Canadian dollar, 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 2014, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **25 per cent** (2013: 30 per cent) US dollar, **10 per cent** (2013: 9 per cent) euro, **56 per cent** (2013: 50 per cent) sterling, **2 per cent** (2013: 3 per cent) Canadian dollar, **4 per cent** Danish krone (2013: 4 per cent), and **3 per cent** (2013: 4 per cent) other currencies.

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

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

12. Management of financial risks continued

Currency risk continued

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 (2013: 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 (2013: no material change to pre-tax profit).

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

Interest rate risk

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

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

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group's ratio of fixed to floating rate debt forms part of overall BAT Group debt for which targets are set for the desired ratio of floating to fixed rate debt on both a gross basis and net basis (at least 50 per cent fixed on a net basis in the short to the medium-term) as a result of regular reviews of market conditions and strategy by the CFC and the Board of the Company. At 31 December 2014, the relevant ratios of floating to fixed rate external borrowings were **45:55** (2013: 37:63) on a gross basis and **45:55** (2013: 34:66) on a net basis within the Group. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

12. Management of financial risks continued

Interest rate risk continued

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 **£31 million** higher (2013: £96 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£35 million** lower (2013: £48 million lower).

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

Credit risk

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

Intercompany counterparties have appropriate capital structures to meet their obligations as they fall due. All loans to fellow subsidiaries, subsidiary companies and the parent undertaking are therefore between parties which have been individually reviewed and are considered to be in a position to continue to meet their obligations.

All external derivatives are subject to ISDA documentation.

12. Management of financial risks continued

Credit risk continued

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group targets a long term counterparty credit rating of at least A-/A3. From time to time, the Group may invest in short dated corporate commercial paper. For this, the Group has identified specific counterparties with a minimum short-term rating of A1/P1.

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

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group balance sheet. In addition, the Group provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2014 is **£5,802 million** (2013: £2,376 million). Guarantees provided to third parties are shown in note 20 on page 33.

Price risk

At 31 December 2014 and 31 December 2013, the Group's financial instruments are not sensitive to price risk.

Hedge accounting

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

Fair value estimation

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

Fair value hierarchy

In accordance with the IFRS 13 classification hierarchy, all derivatives held by the Group at 31 December 2014 and 31 December 2013, 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 OTC derivatives.

12. Management of financial risks continued

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:

	2014			2013		
	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)	**731**	**(369)**	**362**	528	(205)	323
Financial Liabilities						
-Derivative Financial Instruments (note 11)	**(714)**	**369**	**(345)**	(505)	205	(300)

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.

13. Other receivables

	2014	2013
	£m	£m
Prepayments and accrued income:		
Due from fellow subsidiaries	**6**	6
Other	**8**	5
	14	11

Within the 'other' category of other receivables are prepaid facility fees of **£5 million** (2013: £2 million), which relate to periods which fall beyond one year.

The currency profile of other receivables is **£13 million** (2013: £9 million) sterling and **£1 million** (2013: £2 million) US dollar.

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

14a. Loans due from parent undertaking

Loans due from parent undertaking at 31 December 2014 of **£3,624 million** fall due within two to three years (2013: £3,621 million within three to four years) and are unsecured and reprice within one year. This loan is in sterling.

Loans due from parent undertaking include **£7 million** of interest receivable at 31 December 2014 (2013: £4 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.

Loans due from parent undertaking are unsecured with interest charged at 1.9% per annum and repayable at maturity dates between 2015 and 2017. Loans repayable within one year are expected to be renewed upon maturity and accordingly classified as Loans due from parent undertakings in the Group balance sheet.

14b. Loans due from fellow subsidiaries

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

	2014	2013
	£m	£m
UK sterling	**24,708**	22,540
Euro	**1,224**	1,270
US dollar	**2,943**	2,766
Danish krone	**343**	314
Canadian dollar	**477**	207
Swiss franc	**228**	223
Swedish krona	**117**	134
Polish zloty	**9**	27
	30,049	27,481

There is no material difference between the book value and fair value for loans due from fellow subsidiaries as determined using discounted cash flow analysis.

Loans due from fellow subsidiaries are unsecured with interest charged at between 0.6% and 9.7% per annum and repayable at maturity dates between 2015 and 2018.

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

	2014	2013
	£m	£m
Within one year	**23,946**	22,113
Between one and two years	**3,231**	1,931
Between two and three years	**460**	1,158
Between three and four years	**2,412**	8
Between four and five years	**-**	2,271
Total	**30,049**	27,481

Loans due from subsidiary and fellow subsidiaries repayable within one year are expected to be renewed upon maturity and accordingly are classified as Loans due from fellow subsidiaries in the Group 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	Greater than 5 years
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
As at 31 December 2014	**30,049**	**29,596**	**-**	**453**	**-**	**-**	**-**
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2013	27,481	27,481	-	-	-	-	-

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

Loans due from fellow subsidiaries include **£65 million** of interest receivable (2013: £57 million).

15. Bank overdrafts and issued debt

	Currency	Maturity dates	Interest rates	2014 £m	2013 £m
Issued debt					
Eurobonds	Euro	2015-2025	2.7 to 5.9%	**3,118**	3,223
	Euro	2018	3m Euribor +50bps	**309**	-
	Swiss franc	2021-2026	0.6 to 1.4%	**420**	-
	Swiss franc	2016	CHF 3m libor +16bps	**226**	-
	UK sterling	2016-2040	4.0 to 7.3%	**2,753**	2,729
	US dollar	2016	1.1 to 1.2%	**194**	182
Other bonds issued pursuant to Rule 144A and RegS under the US Securities Act	US dollar	2014-2022	1.4 to 9.5%	**1,724**	1,620
Commercial paper				**160**	521
				8,904	8,275
Bank overdrafts				**152**	177
				9,056	8,452

In September 2014 the Group issued a new CHF 350 million bond with a maturity of 2016; a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026.

In March 2014, the Group issued a new €400 million bond with a maturity of 2018.

Included within borrowings of £8,904 million (2013: £8,275 million) above are £4,004 million (2013: £3,026 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 **£166 million** at 31 December 2014 (2013: increased by £35 million) included in the table above.

Bank overdrafts are all repayable within one year, and are denominated in Czech krona, euro, Singapore dollar, Turkish lira, Norwegian krona, Kuwaiti dinar, US dollar, Danish krone, Polish zloty, Japanese yen, South African rand, Bulgarian lev and Saudi riyal (2013: Czech krona, euro, Singapore dollar, Turkish lira, Australian dollar, Norwegian krona, Kuwaiti dinar, sterling and US dollar).

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Within one year	**1,775**	876	**1,978**	1,075
Between one and two years	**418**	1,339	**734**	1,717
Between two and three years	**1,346**	180	**1,682**	493
Between three and four years	**755**	1,390	**1,011**	1,727
Between four and five years	**557**	419	**725**	669
Beyond five years	**4,205**	4,248	**5,515**	5,841
Total	**9,056**	8,452	**11,645**	11,522

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 **£173 million** (2013: £178 million).

15. Bank overdrafts and issued debt continued

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

	Total £m	**GBP £m**	**USD £m**	**EUR £m**	**CHF £m**	**CAD £m**	**DKK £m**	**SEK £m**	**NOK £m**
As at 31 December 2014									
Total issued debt	8,904	2,753	2,078	3,427	646	-	-	-	-
Effect of derivative financial instruments									
Cross-currency swaps	53	728	14	(482)	(207)	-	-	-	-
Forward foreign exchange contracts	160	1,593	192	(2,057)	(223)	202	339	114	-
	9,117	**5,074**	**2,284**	**888**	**216**	**202**	**339**	**114**	**-**
As at 31 December 2013									
Total issued debt	8,275	2,729	2,323	3,223	-	-	-	-	-
Effect of derivative financial instruments									
Cross-currency swaps	15	518	13	(516)	-	-	-	-	-
Forward foreign exchange contracts	(48)	833	187	(1,946)	226	211	319	132	(10)
	8,242	4,080	2,523	761	226	211	319	132	(10)

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-21.

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

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years
At 31 December 2014	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total issued debt	8,904	1,623	418	1,346	755	557	4,205
Effect of derivative financial instruments							
Interest rate swaps	-	2,366	-	(385)	-	(250)	(1,731)
Cross-currency swaps	53	742	-	-	-	(16)	(673)
	8,957	**4,731**	**418**	**961**	**755**	**291**	**1,801**
At 31 December 2013	£m	£m	£m	£m	£m	£m	£m
Total issued debt	8,275	699	1,339	180	1,390	419	4,248
Effect of derivative financial instruments							
Interest rate swaps	-	1,803	-	-	(362)	-	(1,441)
Cross-currency swaps	15	531	-	-	-	-	(516)
	8,290	3,033	1,339	180	1,028	419	2,291

Details of the derivative financial instruments included in these tables are given in note 11 on pages 16-21.

British American Tobacco p.l.c. has provided guarantees for all of the Group's public indebtedness. As at 31 December 2014, the amount of these guarantees was **£8,641 million** (2013: £7,882 million).

The fair value of issued debt is **£10,070 million** (2013: £9,260 million) and has been determined using quoted market prices. **£9,918 million** (2013: £9,083 million) has been calculated using quoted market prices and are within level 1 of the fair value hierarchy. **£152 million** (2013: £177 million) has been calculated based on discounted cash flow analysis and are within level 2 of the fair value hierarchy.

16a Amounts repayable on demand to parent undertaking

Amounts repayable on demand to parent undertaking at 31 December 2014 of **£9,036 million** (2013: £8,024 million) are unsecured and comprise current account borrowings from the parent. These are denominated in sterling. There is no accrued interest repayable in the current or prior year.

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

16b Amounts repayable on demand to fellow subsidiaries

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

	2014	2013
	£m	£m
UK sterling	**13,243**	12,484
Euro	**353**	412
US dollar	**248**	271
Swiss franc	**44**	97
Norwegian krona	**50**	43
Australian dollar	**4**	78
Hong Kong dollar	**21**	18
Romanian Leu	**91**	105
Other	**71**	38
	14,125	13,546

Amounts repayable on demand to fellow subsidiaries include **£nil** of interest repayable at 31 December 2014 (2013: £nil). 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.

17. Other payables

	2014	2013
	£m	£m
Accrued charges		
Due to fellow subsidiaries	**6**	-
Other	**2**	1
	8	1

The currency profile of other payables is **£8 million** (2013: £1 million) UK sterling.

All amounts are unsecured and interest free. There is no material difference between the book values of other payables and their fair values as determined using discounted cash flow analysis.

18. Term deposits repayable to fellow subsidiaries

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

	2014	2013
	£m	£m
UK sterling	484	359
Euro	58	62
US dollar	21	67
Mexican pesos	52	-
Hong Kong dollar	5	5
Bulgarian lev	13	10
Singapore dollar	32	32
Japanese yen	67	72
Romanian leu	3	-
Canadian dollar	-	68
Russian rouble	-	46
	735	721

Term deposits repayable to fellow subsidiaries include **£0.1 million** of interest payable at 31 December 2014 and reprice within one year (2013: £0.2 million within one year).

In 2014 and 2013, 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.

19. Total equity

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2014	231	(1)	172	1,074	1,476
Comprehensive income					
Profit for the year	-	-	-	241	241
Differences on exchange	-	-	53	-	53
Cash flow hedges reclassified and reported in other operating expenses	-	1	-	-	1
31 December 2014	231	-	225	1,315	1,771

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2013	231	(1)	190	929	1,349
Comprehensive income					
Profit for the year	-	-	-	145	145
Differences on exchange	-	-	(18)	-	(18)
31 December 2013	231	(1)	172	1,074	1,476

19. Total equity continued

Details relating to the allotted and issued share capital, and movements therein, are included on page 43, note 13 to the Company financial statements.

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

20. Contingent liabilities

The Group is one of the four entities in the BAT Group which have jointly guaranteed borrowing facilities available to B.A.T. Netherlands Finance B.V. of **£2,343 million** (€2,600 million and £325 million). All such facilities have been utilised at the balance sheet date.

The full fair value of the above guarantees is £91 million and recognised in the financial statements of the ultimate parent undertaking, British American Tobacco p.l.c.

Contingent liabilities mature as follows:

	2014	2013
	£m	£m
Within one year	**-**	507
Between one and two years	**325**	-
Between two and three years	**-**	325
Beyond five years	**2,018**	1,712
Total	**2,343**	2,544

The Group has guaranteed a cross-currency swap issued by British American Tobacco Colombia S.A.S., where they receive US dollars on a variable rate and pay a fixed rate of Colombian peso, at 31 December 2014. This cross currency interest rate swap had a liability fair value of **£30 million** (2013: £3 million).

21. 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, 14, 16, 17, and 18. In addition, outstanding balances with fellow subsidiaries are included within the balance disclosed in note 11 as follows:

	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
	£m	**£m**	£m	£m
Derivative financial instruments				
Cross-currency swaps	**18**	**-**	37	-
Interest rate swaps	**92**	**327**	38	54
Forward foreign currency contracts	**101**	**164**	32	295
	211	**491**	107	349

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:

	2014	2013
	Income/(Expense)	Income/(Expense)
	£m	£m
Derivative financial instruments		
Cross-currency swaps	**(33)**	11
Interest rate swaps	**(54)**	4
Forward foreign currency contracts	**(237)**	(176)
	(324)	(161)

21. Related party disclosures continued

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.

22. Principal subsidiary undertakings

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

23. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Group during the year (2013: £nil).

24. Parent undertaking

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

25. Copies of the report and accounts

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

Independent Auditors' report to the members of B.A.T. International Finance p.l.c. - Group Financial Statements

Report on the Group financial statements

Our opinion

In our opinion, B.A.T. International Finance p.l.c's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

B.A.T. International Finance p.l.c's financial statements comprise:

- the Group Balance Sheet as at 31 December 2014;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the Notes on the Accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006, we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Independent Auditors' report to the members of B.A.T. International Finance p.l.c. - Group Financial Statements

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of B.A.T. International Finance p.l.c for the year ended 31 December 2014.

Paul Cragg

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2015

Balance Sheet – B.A.T. International Finance p.l.c.
at 31 December 2014
Registered Number 01060930

	2014	2013
	£m	£m
Assets		
Fixed assets		
Investments in subsidiaries (note 2)	**718**	718
Loans due from parent undertaking (note 3a)	**3,624**	3,621
Loans due from subsidiary and fellow subsidiaries (note 3b)	**29,415**	26,888
	33,757	31,227
Current assets		
Amounts due on demand from fellow subsidiaries (note 4)	**977**	869
Prepayments and accrued income (note 5)	**14**	11
Derivative financial instruments (note 6)	**731**	528
Short-term deposits and cash (note 8)	**50**	215
	1,772	1,623
Total assets	**35,529**	32,850
Liabilities		
Creditors		
Issued debt (note 9)	**8,904**	8,275
Bank overdrafts (note 9)	**152**	177
Amounts payable on demand to parent undertaking (note 10a)	**9,036**	8,024
Amounts payable on demand to fellow subsidiaries (note 10b)	**14,397**	13,764
Borrowings from fellow subsidiaries (note 11)	**735**	721
Derivative financial instruments (note 6)	**714**	505
Accruals and deferred income (note 12)	**8**	1
	33,946	31,467
Equity		
Called up share capital (note 13)	**231**	231
Hedging reserve (note 13)	**-**	(1)
Retained earnings (note 13)	**1,352**	1,153
Total shareholders' funds	**1,583**	1,383
Total equity and liabilities	**35,529**	32,850

On behalf of the Board

Neil Arthur Wadey, Director
25 February 2015

The accompanying notes are an integral part of the Company financial statements. Notes are shown on pages 38-44.

1. Accounting policies

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

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

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

As permitted by section 408(3) of the Companies Act 2006, the Company individual profit and loss account and related notes have not been included in these financial statements.

Cash flow statement
The cash flows of the Company are included in the Group cash flow statement on page 8.

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

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

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

Financial instruments
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 paragraph 2D (b) of FRS 29 from publishing these financial instruments disclosures.

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

Segmental analysis
The Company's internal reporting systems are not arranged on a geographical basis. As SSAP 25 requires a segmental analysis, geographical segmentation based on location of counterparty has been provided in note 14. The Company is a single product business providing finance services.

Related parties
The Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries of the BAT Group.

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

1. **Accounting policies** continued

Future changes to accounting policies

On 22 November 2012, the Financial Reporting Council issued FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework. These were followed on 14 March 2013 by the publication of FRS 102 The Financial Reporting Standard applicable in the UK and Ireland. These standards will be applicable to all companies and entities in the UK and Republic of Ireland, other than listed groups, for accounting periods beginning on or after 1 January 2015. Early adoption is permissible.

FRS 100 sets out the overall financial reporting framework for companies in the UK and Ireland. FRS 101 applies to the individual financial statements of subsidiaries and ultimate parents, allowing them to apply the same accounting policies as in their listed group accounts, but with fewer disclosures. FRS 102 is a single financial reporting standard that applies to the financial statements of entities that are not applying EU-adopted IFRS, FRS 101 or the FRSSE. The primary statements of entities applying FRS 101 or FRS 102 would continue to follow the requirements of the Companies Act 2006.

The Company will adopt the accounting requirements of the reduced disclosure framework under FRS 101 in the Company's reporting for 2015. Given that the Company currently applies the fair value provisions of historic UK GAAP, the adoption of FRS 101 from 1 January 2015 will have no anticipated material impact on profit or equity.

2. Investments in subsidiaries

The Company holds the entire issued share capital of BATIF Dollar Limited and of B.A.T Finance B.V., finance companies incorporated in England and Wales and the Netherlands, respectively. The cost of these investments as at 31 December 2014 was **£718 million** (2013: £718 million).

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

3a. Loans due from parent undertaking

Loans due from parent undertaking of **£3,624 million** (2013: £3,621 million) comprise exactly the same balances and disclosures as Loans due from parent undertaking, detailed in Group note 14a.

3b. Loans due from subsidiary and fellow subsidiaries

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

	2014	2013
	£m	£m
UK sterling	**24,708**	22,539
Euro	**1,224**	1,270
Danish krone	**342**	314
Canadian dollar	**477**	207
Swiss franc	**228**	223
Swedish krona	**117**	134
Polish zloty	**9**	27
US dollar	**2,310**	2,174
	29,415	26,888

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

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

	2014	2013
	£m	£m
Within one year	**25,724**	21,820
Between one and two years	**3,231**	4,035
Between two and three years	**460**	1,025
Between three and four years	**-**	8
Total	**29,415**	26,888

Loans due from subsidiary and fellow 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 2014	**29,415**	**28,962**	**-**	**453**	**-**	**-**
	£m	£m	£m	£m	£m	£m
As at 31 December 2013	26,888	26,888	-	-	-	-

Interest rate risk of loans to subsidiary and fellow subsidiaries is not hedged. Loans to subsidiary and fellow subsidiaries include **£50 million** of interest receivable at 31 December 2014 (2013: £42 million).

4. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries of **£977 million** (2013: £869 million) for the Company comprise the same balances and disclosures as Amounts due on demand from fellow subsidiaries for the Group, detailed in Group note 10. Consequently no additional information is presented here.

5. Prepayments and accrued income

Prepayments and accrued income of **£14 million** (2013: £11 million) for the Company comprise exactly the same balances and disclosures as other receivables, detailed in Group note 13. Consequently, no additional information is presented here.

6. Derivative financial instruments

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

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

7. Management of financial risks

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

Interest rate risk

FRS 29 requires a sensitivity analyses that shows the impact on the income statement and on items recognised directly in equity of hypothetical changes of interest rates in respect of interest-bearing financial instruments recognised in the balance sheet at 31 December 2014. 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 2014 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 **£10 million** higher (2013: £94 million higher). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being **£16 million** lower (2013: £48 million lower).

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

7. Management of financial risks continued

Credit risk

The maximum exposure to credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Company balance sheet. In addition, the Company provides committed credit facilities to certain fellow subsidiaries. The undrawn portion of these committed facilities at 31 December 2014 is **£5,633 million** (2013: £2,343 million). Guarantees provided to third parties are shown in note 17 page 43.

8. Short-term deposits and cash

Short-term deposits and cash of **£50 million** (2013: £215 million) comprise the same balances and disclosures as cash and cash equivalents, detailed in Group note 9. Consequently, no additional information is presented here.

9. Bank overdrafts and issued debt

Bank overdrafts and issued debt of **£9,056 million** (2013: £8,452 million) comprise the same balances and disclosures as Bank overdrafts and issued debt, detailed in Group note 15. Consequently, no additional information is presented here.

10a. Amounts payable on demand to parent undertaking

Amounts payable on demand to parent undertaking of **£9,036 million** (2013: £8,024 million) comprise the same balances and disclosures as Amounts repayable on demand to parent undertaking, detailed in Group note 16a. Consequently, no additional information is presented here.

10b. Amounts payable on demand to fellow subsidiaries

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

	2014	2013
	£m	£m
UK sterling	**13,243**	12,484
Euro	**353**	412
US dollar	**519**	489
Swiss franc	**44**	97
Norwegian krona	**50**	43
Australian dollar	**4**	78
Hong Kong dollar	**21**	18
Romanian leu	**91**	105
Other	**72**	38
	14,397	13,764

Amounts payable on demand to fellow subsidiaries include **£nil** of interest repayable at 31 December 2014 (2013: £nil). There is no material difference between the book value and fair value for amounts payable on demand to fellow subsidiaries.

11. Borrowings from fellow subsidiaries

Borrowings from fellow subsidiaries of **£735 million** (2013: £721 million) for the Company comprise the same balances and disclosures as Term deposits repayable to fellow subsidiaries, detailed in Group note 18. Consequently, no additional information is presented here.

12. Accruals and deferred income

Accruals and deferred income of **£8 million** (2013: £1 million) for the Company comprise the same balances and disclosures as Other payables, detailed in Group note 17. Consequently, no additional information is presented here.

13. Total shareholders' funds

	Called up share capital	Hedging reserve	Retained earnings	Total Shareholders' funds
	£m	**£m**	**£m**	**£m**
1 January 2014	**231**	**(1)**	**1,153**	**1,383**
Profit for the financial year	**-**	**1**	**199**	**200**
31 December 2014	**231**	**-**	**1,352**	**1,583**

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 2014 was **£199 million** (2013: £91 million). No tax is payable on profit in either period due to BAT Group tax relief.

Share capital consists of 231 million (2013: 231 million) ordinary shares of £1 each, allotted, issued and fully paid.

The hedging reserve is explained in the accounting policy on financial instruments on pages 38-39.

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

14. Segmental reporting

	Total		Western Europe		EEMEA*		Americas		Asia Pacific	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Net assets/ (liabilities)	**1,583**	1,383	**1,976**	2,219	**(186)**	(233)	**(265)**	(421)	**58**	(182)

* Eastern Europe, Middle East and Africa

15. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2013: £nil).

16. Contingent liabilities

Contingent liabilities of **£2,373 million** (2013: £2,559 million) for the Company in relation to guarantees provided to fellow subsidiaries comprise the same balances and disclosures as contingent liabilities, detailed in Group note 20. Consequently, no additional information is presented here.

17. Related parties

As explained in the accounting policies on note 1, the Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries of the BAT Group. Details of balances and transactions with related parties that are not wholly owned by the BAT Group are disclosed below.

As at 31 December 2014, total assets on the balance sheet included **£nil** (2013: £nil) of loans due from related parties that are not wholly owned by the BAT Group. Total liabilities included amounts repayable on demand of **£4 million** (2013: £5 million).

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

17. Related parties continued

Cash flows for the year ended 31 December 2014, included net cash flows of **£nil** (2013: £nil) in respect of loans advanced to fellow subsidiaries that are not wholly owned by the BAT Group and net cash outflows of **£1 million** (2013: £1 million outflows) in respect of net borrowings obtained.

18. 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.

19. 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.

Independent Auditors' report to the members of B.A.T. International Finance p.l.c. – Parent Company Financial Statements

Report on the parent company financial statements

Our opinion

In our opinion, B.A.T. International Finance p.l.c's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

B.A.T. International Finance p.l.c's financial statements comprise:

- the Balance Sheet as at 31 December 2014; and
- the Notes on the Accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Independent Auditors' report to the members of B.A.T. International Finance p.l.c. – Parent Company Financial Statements

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of B.A.T. International Finance p.l.c for the year ended 31 December 2014.

Paul Cragg

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2015