

Independent Auditor's Report

To the Members of British American Tobacco p.l.c.

1 Our opinion is unmodified

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

In our opinion:

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

Additional opinion in relation to IFRS as issued by the IASB

As explained in the note to the Group financial statements, the Group, in addition to complying with its legal obligation to apply international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRS as issued by the IASB.

Basis for opinion

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

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

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

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

Goodwill and trademarks with indefinite lives impairment analysis – arising from the Reynolds American Inc. acquisition in 2017

Refer to pages 111 to 112 (Audit Committee report), page 158 (accounting policy) and pages 179 to 184 (financial disclosures).

Risk vs 2019: ◀▶

The risk:

Subjective assessment: As a result of the 2017 acquisition of Reynolds American Inc. ("Reynolds American"), the Group, as at 31 December 2020 has goodwill and trademarks with indefinite lives of £32,719 million and £68,839 million, respectively (2019: goodwill of £33,761 million and trademarks with indefinite lives of £71,032 million). There is significant judgement with regard to assumptions and estimates involved in the Group's forecasting of future cash flows, which form the basis of the assessment of the recoverability of the trademarks with indefinite lives and goodwill. There is significant auditor judgement involved in evaluating: (i) the budgeted revenue used in the analysis of the recoverability of trademarks with indefinite lives and goodwill allocated to the Reynolds American cash-generating unit; and (ii) any impact of the potential menthol ban on budgeted revenue or the discount rate for the Newport indefinite lived trademark and goodwill allocated to the Reynolds American cash-generating unit.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use calculations of both trademarks with indefinite lives and goodwill have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 8) disclose the sensitivity of the carrying amounts of relevant trademarks with indefinite lives and goodwill estimated by the Group.

Our procedures included:

Control design and operation: Evaluating the processes and controls within the goodwill and other intangible assets process, including controls over the development of the budgeted revenue and assessment of the impact of the potential menthol ban on the assumptions listed above;

Financial Statements

Independent Auditor's Report Continued

Benchmarking and assessing assumptions: Analysing Reynolds American's budgeted revenue to externally derived publicly and privately available data, including, broker and analyst reports, industry reports, media reports, macro-economic assumptions, academic and scientific studies, and regulatory changes other than a potential federal menthol ban. In addition, and specifically for the Newport indefinite lived trademark, using elements of this information to critically assess the Group's assertion that the potential menthol ban does not significantly impact the related cash flow forecast or the discount rate, by examining broker and analyst reports, industry reports, media reports, academic and scientific studies, and regulatory changes proposed in the U.S. Food and Drug Administration agenda and the U.S. government agendas;

Historical comparisons: Challenging the reasonableness of the assumptions, particularly budgeted revenue, by comparing the historical projections to actual results to assess the Group's ability to accurately forecast;

Sensitivity analysis: Performing sensitivity analysis on the budgeted revenue to assess its impact on the Group's determination that the fair value of the Reynolds American goodwill and trademarks with indefinite lives exceed their carrying value; and

Assessing transparency: Assessing whether the Group's disclosures detail the key estimates and judgements with regard to the impairment testing of trademarks with indefinite lives and the goodwill arising from the Reynolds American acquisition.

Our results:

We found the conclusion that there is no impairment of trademarks with indefinite lives and goodwill arising from the Reynolds American acquisition to be acceptable (2019: acceptable).

Contingent liabilities arising from litigation in Canada

Refer to page 111 (Audit Committee report), page 161 (accounting policy) and pages 234 to 236 and 245 (financial disclosures).

Risk vs 2019: ◀▶

The risk:

Dispute outcome: The Group is subject to a large number of claims including class actions, which could have a significant impact on the results if potential exposures were to materialise. For our 2020 audit we believe the most significant risk relates to ongoing litigation in Canada. Imperial Tobacco Canada Limited ("Imperial") has received an unfavourable judgement on the smoking and health class actions certified by the Quebec Superior Court. As a result of this judgement, Imperial has filed for creditor protection under the Companies' Creditors Arrangement Act (the "CCAA"). In seeking protection under the CCAA, Imperial will look to resolve not only the Quebec case but also all other tobacco litigation in Canada under an efficient and court supervised process, while continuing to trade in the normal course of business.

The amounts involved are significant, and the Group's application of accounting standards to determine the amount, if any, to be provided as a liability or disclosed as a contingent liability, is inherently subjective. Significant judgement was involved in auditing this determination, including evaluating the Group's assessment of the relevant law, historical and pending court rulings, and the Group's ability to estimate the likelihood and extent of any future economic outflow arising from the ultimate resolution of the Canadian litigation.

The effect of these matters is that, as part of our risk assessment, we determined that the potential exposure to litigation requires a high degree of judgement, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Our procedures included:

Control design and operation: Evaluating the processes and controls within the legal exposure process, including controls over the interpretation of relevant law and related court rulings and estimation of the likelihood and extent of any future economic outflow arising from the ultimate resolution of the Canadian litigation;

Enquiry of lawyers: Reading letters received directly from the Group's external and internal legal counsel that evaluated the current status of the Canadian legal proceedings. We also inquired of internal legal counsel to evaluate their basis for conclusions in their letter; and

Assess local legal precedence: Assessing relevant historical and recent judgements passed by the judicial court authorities in relation to the Canadian litigation and reading the related Canadian court rulings in order to challenge Imperial's interpretation of the Canadian legal proceedings and the related contingent liability disclosures.

Our results:

From the evidence obtained, we found the Group's treatment of the contingent liabilities and related disclosures arising from litigation in Canada to be acceptable (2019: acceptable).

Recoverability of parent Company's investment in subsidiaries

Refer to page 266 (accounting policy) and page 267 (financial disclosures). Risk vs 2019: ◀▶

The risk:

Low risk, high value: The carrying amount of the parent Company's investments in subsidiaries is £27,995 million (2019: £27,908 million) which represents 77% (2019: 80%) of the Company's total assets. Their recoverability is not a high risk of significant misstatement or subject to significant judgement.

However, due to the materiality of investments in subsidiaries in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

Our procedures included:

Tests of detail: Comparing the carrying amount of parent Company's direct investments, representing 100% (2019: 100%) of the total investment balance with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

Our results:

We found the conclusion that there is no impairment of the investment in subsidiaries to be acceptable (2019: acceptable).

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

Materiality for the Group financial statements as a whole was set at £420 million (2019: £420 million), determined with reference to a benchmark of Group profit before taxation. This represents 4.7% (2019: 4.8%) of the Group's reported profit before taxation. Materiality for the parent company financial statements as a whole was set at £50 million (2019: £50 million) by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to Company net assets and represents 0.15% of the Company's net assets (2019: 0.15%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Group was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £315 million (2019: £315 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk. Performance materiality for the parent company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £37.5 million (2019: £37.5 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £20 million (2019: £20 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope of our audit

The Group operates three shared service centres (2019: three) in Romania, Malaysia and Costa Rica, the outputs of which are included in the financial information of the reporting components they service and therefore they are not separate reporting components. Each of the service centres is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centres.

We performed full scope audits for Group reporting purposes of 23 components (2019: 23 components). Audits of these components were performed using materiality levels assigned by the group audit team, which were lower than the materiality level for the Group as a whole, ranging from £50 million to £200 million (2019: £35 million to £235 million), and determined by reference to the size and risk profile of the components.

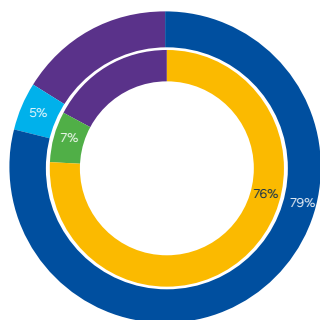
Audits of one or more account balances were performed in respect of a further 13 components (2019: 12), using a materiality ranging from £40 million to £70 million (2019: £35 to £70 million) assigned by the Group audit team. Specified audit procedures have been performed at 2 components (2019: 3) using a materiality of £40 million. These 15 components for which we performed work other than full scope audits for group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. This is consistent with the approach that was adopted in 2019.

The work on 33 of the 38 components (2019: 33 of the 38 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

The percentages of the Group's revenue, the total profits and losses that make up the Group's profit before taxation and the Group's total assets represented by the components within the scope of our work and procedures performed at corporate level are as follows:

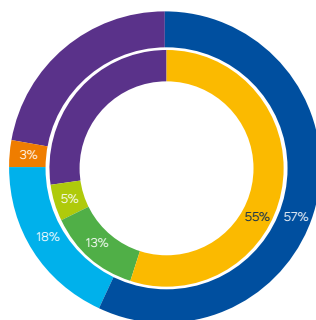
Group revenue

84%
(83% 2019)



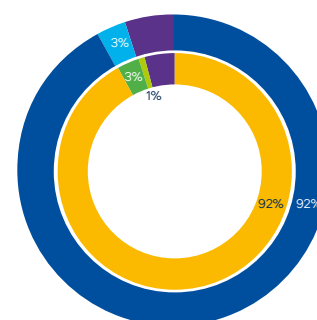
Group profit before tax

78%
(73% 2019)



Group total assets

95%
(96% 2019)



- Full scope for Group audit purposes 2020
- Audit of one or more account balances 2020
- Specified risk-focused audit procedures 2020
- Full scope for Group audit purposes 2019
- Audit of one or more account balances 2019
- Specified risk-focused audit procedures 2019
- Residual components

Financial Statements

Independent Auditor's Report Continued

The remaining 16% (2019: 17%) of total group revenue, 22% (2019: 27%) of group profit before taxation and 5% (2019: 4%) of total group assets is represented by 295 (2019: 300) reporting components, none of which individually represented more than 2% (2019: 5%) of any of total Group revenue, Group profit before taxation or total Group assets. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors, and the auditors of the shared service centres, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

Due to the travel restrictions imposed as a result of COVID-19, the Group team performed a virtual site visit for one component location in the United States for the purpose of performing a detailed file review. In addition, the Group team performed virtual site visits for the shared service centres in Costa Rica, Malaysia and Romania, as well as performing a virtual site visit for a further one component location in United States for business understanding and risk assessment purposes.

In 2019 the Group team visited two component locations in Canada and the United States for the purpose of performing detailed file reviews. In addition, the Group team visited the shared service centres in Costa Rica, Malaysia and Romania, as well as visiting a further two component locations in Brazil and Mexico for business understanding and risk assessment purposes.

In addition, the Group audit team held an audit risk planning and strategy virtual conference which in-scope component auditors attended. Further to these visits and conference, the Group team also held telephone and/or online meetings as part of the audit planning phase to explain our audit instructions and discuss the component auditors' plans as well as performing detailed remote file reviews upon completion of the component auditors' engagements. The findings reported to the Group audit team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 Going concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The enactment of regulation that significantly impairs the Group's ability to communicate, differentiate, market or launch its products;
- Product liability, regulatory or other significant cases may be lost or compromised resulting in a material loss or other consequence.

We also considered less predictable but realistic second order impacts, such as the impact COVID-19 and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 73 is materially consistent with the financial statements and our audit knowledge.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the Audit Committee, and internal audit whether they have knowledge of any actual, suspected or alleged fraud, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing".
- Reading Board, Audit Committee, Remuneration Committee, Nominations Committee, Transactions Committee, Corporate Committee and Committees of the Board's minutes.
- Considering the International Executive Incentive Scheme and performance targets for senior management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates. On this audit we do not believe there is a fraud risk related to revenue recognition as the revenue model is non-complex with no material estimation or manual intervention, revenue is disaggregated between a significant number of End Markets and remuneration targets are based on Group performance rather than End Market performance.

We did not identify any additional fraud risks.

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

We also performed procedures including:

- Identifying journal entries to test from a Group perspective based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue accounts, those approved by an individual not authorized to approve postings, those posted to accounts that contain significant estimates and period-end adjustments and those posted to accounts which could drive certain key metrics such as the bonus calculation.
- Identifying journal entries to test for components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue accounts with senior management referenced in the description, users who only posted one entry for the fiscal year and those posted with an unusual combination.
- Assessing significant accounting estimates for bias.

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

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, money-laundering, sanctions, environmental protection legislation, food and drug administration, data privacy, competition and contract legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the criminal investigations into allegations of misconduct by the governmental authorities' matters discussed in note 27 we performed inquiries, obtained legal confirmations and assessed disclosures against our understanding from legal correspondence.

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

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

Financial Statements

Independent Auditor's Report Continued

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 84 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the group principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 84 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 140, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Jeremy Hall (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

16 February 2021

Financial Statements

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of British American Tobacco p.l.c.

This page is intentionally left blank

This page is intentionally left blank

Financial Statements

Group Income Statement

	Notes	For the years ended 31 December		
		2020 £m	2019 £m	2018 £m
Revenue¹	2	25,776	25,877	24,492
Raw materials and consumables used		(4,583)	(4,599)	(4,664)
Changes in inventories of finished goods and work in progress		445	162	114
Employee benefit costs	3(a),(e)	(2,744)	(3,221)	(3,005)
Depreciation, amortisation and impairment costs	3(b),(e),(f),(h)	(1,450)	(1,512)	(1,038)
Other operating income	3(e),(i)	188	163	85
Loss on reclassification from amortised cost to fair value		(3)	(3)	(3)
Other operating expenses	3(c),(d),(e),(g),(h)	(7,667)	(7,851)	(6,668)
Profit from operations	2	9,962	9,016	9,313
Net finance costs	4	(1,745)	(1,602)	(1,381)
Share of post-tax results of associates and joint ventures	2, 5	455	498	419
Profit before taxation		8,672	7,912	8,351
Taxation on ordinary activities	6	(2,108)	(2,063)	(2,141)
Profit for the year		6,564	5,849	6,210
Attributable to:				
Owners of the parent		6,400	5,704	6,032
Non-controlling interests		164	145	178
		6,564	5,849	6,210
Earnings per share				
Basic	7	280.0p	249.7p	264.0p
Diluted	7	278.9p	249.0p	263.2p

Note:

1. Revenue is net of duty, excise and other taxes of £39,172 million, £39,826 million and £38,553 million for the years ended 31 December 2020, 2019 and 2018, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Group Statement of Comprehensive Income

	Notes	For the years ended 31 December		
		2020 £m	2019 £m	2018 £m
Profit for the year		6,564	5,849	6,210
Other comprehensive (expense)/income				
Items that may be reclassified subsequently to profit or loss:		(2,997)	(3,216)	3,099
Differences on exchange		(2,597)	(2,967)	3,868
Cash flow hedges				
– net fair value losses		(257)	(246)	(58)
– reclassified and reported in profit for the year		90	53	17
Net investment hedges				
– net fair value (losses)/gains		(16)	21	(472)
– differences on exchange on borrowings		(163)	(18)	(236)
Associates – share of OCI, net of tax	5	(98)	(115)	(38)
Tax on items that may be reclassified	6(f)	44	56	18
Items that will not be reclassified subsequently to profit or loss:		55	(507)	115
Retirement benefit schemes				
– net actuarial gains/(losses)	11	105	(582)	138
– surplus recognition	11	10	(7)	4
Associates – share of OCI, net of tax	5	(34)	7	6
Tax on items that will not be reclassified	6(f)	(26)	75	(33)
Total other comprehensive (expense)/income for the year, net of tax		(2,942)	(3,723)	3,214
Total comprehensive income for the year, net of tax		3,622	2,126	9,424
Attributable to:				
Owners of the parent		3,474	2,000	9,239
Non-controlling interests		148	126	185
		3,622	2,126	9,424

The accompanying notes are an integral part of these consolidated financial statements.

Financial Statements

Group Statement of Changes in Equity

Notes	Attributable to owners of the parent						Total equity £m
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
Balance at 1 January 2020	614	26,609	(3,555)	40,234	63,902	258	64,160
Total comprehensive (expense)/income for the year comprising:	–	–	(3,012)	6,486	3,474	148	3,622
Profit for the year	–	–	–	6,400	6,400	164	6,564
Other comprehensive (expense)/income for the year	–	–	(3,012)	86	(2,926)	(16)	(2,942)
Other changes in equity							
Cash flow hedges reclassified and reported in total assets	–	–	(33)	–	(33)	–	(33)
Employee share options							
– value of employee services	24	–	–	88	88	–	88
– proceeds from new shares issued	–	2	–	–	2	–	2
– treasury shares used for share option schemes	–	7	–	(7)	–	–	–
Dividends and other appropriations							
– ordinary shares	18(e)	–	–	(4,747)	(4,747)	–	(4,747)
– to non-controlling interests	–	–	–	–	–	(141)	(141)
Purchase of own shares							
– held in employee share ownership trusts	–	–	–	(17)	(17)	–	(17)
Other movements non-controlling interests	23	–	–	–	–	17	17
Other movements	–	–	–	4	4	–	4
Balance at 31 December 2020	614	26,618	(6,600)	42,041	62,673	282	62,955

The accompanying notes are an integral part of these consolidated financial statements.

Notes	Attributable to owners of the parent						Total equity £m
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
Balance at 1 January 2019	614	26,606	(333)	38,557	65,444	244	65,688
Total comprehensive (expense)/income for the year comprising:	–	–	(3,190)	5,190	2,000	126	2,126
Profit for the year	–	–	–	5,704	5,704	145	5,849
Other comprehensive expense for the year	–	–	(3,190)	(514)	(3,704)	(19)	(3,723)
Other changes in equity							
Cash flow hedges reclassified and reported in total assets	–	–	(32)	–	(32)	–	(32)
Employee share options							
– value of employee services	24	–	–	115	115	–	115
– proceeds from shares issued	–	3	–	–	3	–	3
Dividends and other appropriations							
– ordinary shares	18(e)	–	–	(3,476)	(3,476)	–	(3,476)
– to non-controlling interests	–	–	–	–	–	(148)	(148)
Purchase of own shares							
– held in employee share ownership trusts	–	–	–	(117)	(117)	–	(117)
Other movements non-controlling interests	23	–	–	–	–	36	36
Other movements	–	–	–	(35)	(35)	–	(35)
Balance at 31 December 2019	614	26,609	(3,555)	40,234	63,902	258	64,160

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	Attributable to owners of the parent						Total equity £m
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
Balance at 31 December 2017		614	26,602	(3,392)	36,935	60,759	222	60,981
Accounting policy change (IFRS 9) (note 30)		–	–	(9)	(29)	(38)	–	(38)
Revised balance at 1 January 2018		614	26,602	(3,401)	36,906	60,721	222	60,943
Total comprehensive income for the year comprising:		–	–	3,090	6,149	9,239	185	9,424
Profit for the year		–	–	–	6,032	6,032	178	6,210
Other comprehensive income for the year		–	–	3,090	117	3,207	7	3,214
Other changes in equity								
Cash flow hedges reclassified and reported in total assets		–	–	(22)	–	(22)	–	(22)
Employee share options								
– value of employee services	24	–	–	–	121	121	–	121
– proceeds from shares issued		–	4	–	–	4	–	4
Dividends and other appropriations								
– ordinary shares		–	–	–	(4,463)	(4,463)	–	(4,463)
– to non-controlling interests		–	–	–	–	–	(163)	(163)
Purchase of own shares								
– held in employee share ownership trusts		–	–	–	(139)	(139)	–	(139)
Non-controlling interests – acquisitions		–	–	–	(11)	(11)	–	(11)
Other movements		–	–	–	(6)	(6)	–	(6)
Balance at 31 December 2018		614	26,606	(333)	38,557	65,444	244	65,688

The accompanying notes are an integral part of these consolidated financial statements.

Financial Statements

Group Balance Sheet

		31 December	
	Notes	2020 £m	2019 £m
Assets			
Intangible assets	8	115,343	118,787
Property, plant and equipment	9	5,060	5,518
Investments in associates and joint ventures	10	1,796	1,860
Retirement benefit assets	11	714	430
Deferred tax assets	12	534	424
Trade and other receivables	13	242	248
Investments held at fair value	14	22	12
Derivative financial instruments	15	367	452
Total non-current assets		124,078	127,731
Inventories	16	5,998	6,094
Income tax receivable		79	122
Trade and other receivables	13	3,721	4,093
Investments held at fair value	14	242	123
Derivative financial instruments	15	430	313
Cash and cash equivalents	17	3,139	2,526
		13,609	13,271
Assets classified as held-for-sale		3	3
Total current assets		13,612	13,274
Total assets		137,690	141,005
Equity – capital and reserves			
Share capital	18(a)	614	614
Share premium, capital redemption and merger reserves	18(b)	26,618	26,609
Other reserves	18(c)	(6,600)	(3,555)
Retained earnings	18(c)	42,041	40,234
Owners of the parent		62,673	63,902
Non-controlling interests	18(d)	282	258
Total equity		62,955	64,160
Liabilities			
Borrowings	19	39,927	37,804
Retirement benefit liabilities	11	1,524	1,459
Deferred tax liabilities	12	16,314	17,050
Other provisions for liabilities	20	387	388
Trade and other payables	21	1,064	1,034
Derivative financial instruments	15	41	287
Total non-current liabilities		59,257	58,022
Borrowings	19	4,041	7,562
Income tax payable		868	683
Other provisions for liabilities	20	598	670
Trade and other payables	21	9,693	9,727
Derivative financial instruments	15	278	181
Total current liabilities		15,478	18,823
Total equity and liabilities		137,690	141,005

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

Richard Burrows

Chairman

16 February 2021

Group Cash Flow Statement

	Notes	For the years ended 31 December		
		2020 £m	2019 £m	2018 £m
Profit from operations		9,962	9,016	9,313
Adjustments for				
– depreciation, amortisation and impairment costs	3(b)	1,450	1,512	1,038
– increase in inventories		(144)	(371)	(192)
– decrease/(increase) in trade and other receivables		300	(699)	502
– decrease in receivables related to the charge in respect of the Quebec Class Actions	13	–	436	–
– increase/(decrease) in Master Settlement Agreement payable	3(d)	369	(124)	1,364
– (decrease)/increase in trade and other payables		(320)	730	123
– decrease in net retirement benefit liabilities		(96)	(40)	(100)
– increase/(decrease) in other provisions for liabilities		–	382	(107)
– other non-cash items		46	106	31
Cash generated from operating activities		11,567	10,948	11,972
Dividends received from associates		351	252	214
Tax paid		(2,132)	(2,204)	(1,891)
Net cash generated from operating activities		9,786	8,996	10,295
Cash flows from investing activities				
Interest received		48	80	52
Purchases of property, plant and equipment		(511)	(664)	(758)
Proceeds on disposal of property, plant and equipment		44	34	38
Purchases of intangibles		(244)	(151)	(185)
Purchases of investments		(343)	(191)	(320)
Proceeds on disposals of investments		184	339	167
Investment in associates and acquisitions of other subsidiaries net of cash acquired		39	(86)	(32)
Proceeds on disposal of non-core business net of cash disposed		–	–	17
Net cash used in investing activities		(783)	(639)	(1,021)
Cash flows from financing activities				
Interest paid		(1,737)	(1,601)	(1,557)
Interest element of lease liabilities		(26)	(32)	(2)
Capital element of lease liabilities		(164)	(154)	(10)
Proceeds from increases in and new borrowings		9,826	4,247	2,111
(Outflows)/inflows relating to derivative financial instruments		(283)	(564)	49
Purchases of own shares held in employee share ownership trusts		(18)	(117)	(139)
Reductions in and repayments of borrowings		(10,633)	(5,640)	(5,586)
Dividends paid to owners of the parent		(4,745)	(4,598)	(4,347)
Capital injection from/(purchases of) non-controlling interests		17	20	(11)
Dividends paid to non-controlling interests		(136)	(157)	(142)
Other		2	3	4
Net cash used in financing activities		(7,897)	(8,593)	(9,630)
Net cash flows generated from/(used in) operating, investing and financing activities		1,106	(236)	(356)
Differences on exchange		(253)	(57)	(138)
Increase/(decrease) in net cash and cash equivalents in the year		853	(293)	(494)
Net cash and cash equivalents at 1 January		2,035	2,328	2,822
Net cash and cash equivalents at 31 December	17	2,888	2,035	2,328

The accompanying notes are an integral part of these consolidated financial statements.

Financial Statements

Notes on Accounts

1 Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)[®], and international accounting standards in conformity with the requirements of the Companies Act 2006[®], and in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU) ('IFRS as adopted by the EU'). International Financial Reporting Standards as adopted by the EU[®] and international accounting standards in conformity with the requirements of the Companies Act 2006[®] differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the periods presented.

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

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related notes to the accounts.

The critical accounting judgements include:

- the identification and quantification of adjusting items, which are separately disclosed as memorandum information, is explained below and the impact of these on the calculation of adjusted earnings per share is described in note 7;
- the determination as to whether to recognise provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims, as well as other contingent liabilities. The accounting policy on contingent liabilities, which are not provided for, is set out below and the contingent liabilities of the Group are explained in note 27. Judgement is necessary to assess the likelihood that a pending claim is probable (more likely than not to succeed), possible or remote;
- the determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exists in relation to the investments held by the Group. This is assessed after taking into account the Group's ability to appoint Directors to the entity's Board, its relative shareholding compared with other shareholders, any significant contracts or arrangements with the entity or its other shareholders and other relevant facts and circumstances. The application of these policies to Group subsidiaries in territories including Canada and Malaysia is explained in note 28; and
- the review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency, or multiple exchange rates.

The critical accounting estimates include:

- the review of asset values, especially indefinite life assets such as goodwill and certain trademarks and similar intangibles. The key assumptions used in respect of the impairment testing are the determination of cash-generating units, the budgeted and forecast cash flows of these units, the long-term growth rate for cash flow projections and the rate used to discount the cash flow projections. These are described in note 8;

- the estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, and amounts recognised in other comprehensive income, involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, salary and pension increases, inflation, as well as discount rates and asset values at the year-end. The assumptions used by the Group and sensitivity analysis are described in note 11; and
- the estimation of amounts to be recognised in respect of taxation and legal matters, and the estimation of other provisions for liabilities and charges are subject to uncertain future events, may extend over several years and so the amount and/or timing may differ from current assumptions. The accounting policy for taxation is explained below. The recognised deferred tax assets and liabilities, together with a note of unrecognised amounts, are shown in note 12, and a contingent tax asset is explained in note 6(b). Other provisions for liabilities and charges are as set out in note 20. Litigation related deposits are shown in note 13. The application of these accounting policies to the payments made and credits recognised under the Master Settlement Agreement by Reynolds American Inc. (Reynolds American) is described in note 3(d).

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

These consolidated financial statements were authorised for issue by the Board of Directors on 16 February 2021.

Basis of consolidation

The consolidated financial information includes the financial statements of British American Tobacco p.l.c. and its subsidiary undertakings, collectively 'the Group', together with the Group's share of the results of its associates and joint arrangements.

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.

Associates comprise investments in undertakings, which are not subsidiary undertakings or joint arrangements, where the Group's interest in the equity capital is long-term and over whose operating and financial policies the Group exercises a significant influence. They are accounted for using the equity method.

Joint arrangements comprise contractual arrangements where two or more parties have joint control and where decisions regarding the relevant activities of the entity require unanimous consent.

Joint operations are jointly-controlled arrangements where the parties to the arrangement have rights to the underlying assets and obligations for the underlying liabilities relating to the arrangement.

The Group accounts for its share of the assets, liabilities, income and expenses of any such arrangement. Joint ventures comprise arrangements where the parties to the arrangement have rights to the net assets of the arrangement. They are accounted for using the equity method.

1 Accounting Policies Continued

Foreign currencies and hyperinflationary territories

The functional currency of the Parent Company is sterling and this is also the presentation currency of the Group. The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at the applicable rates of exchange at the end of each year. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed.

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

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group using 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 in equity as qualifying cash flow hedges, on intercompany net investment loans and qualifying net investment hedges. Foreign exchange gains or losses recognised in the income statement are included in profit from operations or net finance costs depending on the underlying transactions that gave rise to these exchange differences.

In addition, for hyperinflationary countries where the effect on the Group results would be significant, the financial statements in local currency are adjusted to reflect the impact of local inflation prior to translation into sterling, in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*. Where applicable, IAS 29 requires all transactions to be indexed by an inflationary factor to the balance sheet date, potentially leading to a monetary gain or loss on indexation. In addition, the Group assesses the carrying value of fixed assets after indexation and applies IAS 36 *Impairment of Assets*, where appropriate, to ensure that the carrying value correctly reflects the economic value of such assets.

The results and balance sheets of operations in hyperinflationary territories are translated at the period end rate. In the case of Venezuela, the Group uses an estimated exchange rate calculated by reflecting the development of the general price index since the Group last achieved meaningful repatriation of dividends.

Revenue

Revenue principally comprises sales of cigarettes, other tobacco products, and nicotine products, to external customers. Revenue excludes duty, excise and other taxes related to sales in the period and is stated after deducting rebates, returns and other similar discounts and payments to direct and indirect customers. Revenue is recognised when control of the goods is transferred to a customer; this is usually evidenced by a transfer of the significant risks and rewards of ownership upon delivery to the customer, which in terms of timing is not materially different to the date of shipping.

Retirement benefit costs

The Group operates both defined benefit and defined contribution schemes including post-retirement healthcare schemes. For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 *Employee Benefits* based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements. Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

Share-based payments

The Group has equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Research and development

Research expenditure is charged to income in the year in which it is incurred. Development expenditure is charged to income in the year it is incurred, unless it meets the recognition criteria of IAS 38 *Intangible Assets* to be capitalised as an intangible asset.

Taxation

Taxation is chargeable on the profits for the period, together with deferred taxation. The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries, associates and joint arrangements operate and generate taxable income.

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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 the statement of other comprehensive income or the statement of changes in equity.

Financial Statements

Notes on Accounts Continued

1 Accounting Policies Continued

The Group has exposures in respect of the payment or recovery of a number of taxes. With effect from 1 January 2019, the Group adopted the requirements of IFRIC 23 *Uncertainty over Income Tax Treatments* which requires that, where there is uncertainty as to whether a particular tax treatment will be accepted by the relevant taxation authority, the financial statements reflect the probable outcome with estimated amounts determined based on the most likely amount or expected value, depending on which method is expected to better predict the resolution of the uncertainty. Prior to 1 January 2019, liabilities or assets for these payments or recoveries were recognised at such time as an outcome became probable and when the amount could reasonably be estimated.

Goodwill

Goodwill arising on acquisitions is capitalised and any impairment of goodwill is recognised immediately in the income statement and is not subsequently reversed.

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associates and joint ventures, goodwill is included in the carrying value of the investment in the associated company or joint venture. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets other than goodwill

The intangible assets shown on the Group balance sheet consist mainly of trademarks and similar intangibles, including certain intellectual property, acquired by the Group's subsidiary undertakings and computer software.

Acquired trademarks and similar assets are carried at cost less accumulated amortisation and impairment. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. Other trademarks and similar assets are amortised on a straight-line basis over their remaining useful lives, consistent with the pattern of economic benefits expected to be received, which do not exceed 20 years. Any impairments of trademarks are recognised in the income statement but increases in trademark values are not recognised.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to five years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding 10 years.

With effect from 1 January 2021, Global software solutions will be amortised on a straight-line basis over periods not exceeding 13 years. The revision in useful economic life is a result of ongoing use of Global software solutions due to the extension of third-party supplier support. In 2021 and 2022, the estimated impact of this change in accounting estimate is a reduction in annual amortisation expense of £26 million and, in 2023, a reduction in annual amortisation expense of £12 million.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held-for-sale. Freehold and leasehold property are depreciated at rates between 2.5% and 4% per annum, and plant and equipment at rates between 3% and 25% per annum.

With effect from 1 January 2018, the Group has changed certain estimates of useful economic lives for cigarette-making machinery across the Group, harmonising depreciation rates used by the historical BAT Group and by Reynolds from 14 years and 30 years, respectively, to a standard 20-year life (5% per annum).

Capitalised interest

Borrowing costs which are directly attributable to the acquisition, construction or production of intangible assets or property, plant and equipment that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset.

Leased assets

With effect from 1 January 2019, the Group has applied IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment in note 9 and the liabilities included as part of borrowings in note 19.

In adopting IFRS 16, the Group applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard.

The Group took advantage of certain practical expedients available under the Standard, including 'grandfathering' previously recognised lease arrangements such that contracts were not reassessed at the implementation date as to whether they were, or contained, a lease, and leases previously classified as finance leases under IAS 17 *Leases* remained capitalised on the adoption of IFRS 16. In addition, as part of the implementation, the Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics, has assessed whether individual leases are onerous prior to applying the Standard, has applied hindsight in determining the lease term if the contract contains options to extend or terminate the lease, and has not applied the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

For leasing arrangements entered into after 1 January 2019, the Group has also adopted several practical expedients available under the Standard including not applying the requirements of IFRS 16 to leases of intangible assets, applying the portfolio approach where appropriate to do so, and to not apply the recognition and measurement requirements of IFRS 16 to short-term leases (leases of less than 12 months maximum duration) or leases of low-value assets. Except for property-related leases, non-lease components have not been separated from lease components.

Lease liabilities are initially recognised at an amount equal to the present value of estimated contractual lease payments at the inception of the lease, after taking into account any options to extend the term of the lease. Lease commitments are discounted to present value using the interest rate implicit in the lease if this can be readily determined, or the applicable incremental rate of borrowing, as appropriate. Right-of-use lease assets are initially recognised at an amount equal to the lease liability, adjusted for initial direct costs in relation to the assets, then depreciated over the shorter of the lease term and their estimated useful lives.

1 Accounting Policies Continued

Prior to 1 January 2019, the Group applied IAS 17 *Leases*.

Arrangements where the Group had substantially all the risks and rewards of ownership of the leased asset were classified as finance leases and were included as part of property, plant and equipment. Finance lease assets were initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, then depreciated over the shorter of the lease term and their estimated useful lives. Lease payments due were shown as a liability within borrowings. Lease payments were shown within financing activities in the cash flow statement and consisted of capital and finance charge elements, with the finance element charged to the income statement. Under IAS 17, leases which were not classified as finance leases were classified as operating leases and such arrangements were not capitalised. Rental payments under operating leases were charged to operating profit on a straight-line basis over the lease term.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of a cash-generating unit may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value-in-use.

A cash-generating unit is the smallest identifiable group of assets that generates cash flows which are largely independent of the cash flows from other assets or groups of assets. At the acquisition date, any goodwill acquired is allocated to the relevant cash-generating unit or group of cash-generating units expected to benefit from the acquisition for the purpose of impairment testing of goodwill.

Impairment of financial assets held at amortised cost

Loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on initial recognition of the underlying asset. As permitted by IFRS 9 *Financial Instruments*, loss allowances on trade receivables arising from the recognition of revenue under IFRS 15 *Revenue from Contracts with Customers* are initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less costs to completion and sale. Tobacco inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognised industry practice.

Financial instruments

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

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current. In addition, current liabilities include amounts where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

With effect from 1 January 2019, the Group early adopted the phase one Amendments to IFRS 9 and IFRS 7 regarding Interest Rate Benchmark Reform. The Amendments provide an exemption for certain hedging relationships directly affected by changes in interest rate benchmarks where the reform gives rise to uncertainties regarding the interest rate designated as a hedged risk, or the timing or amount of interest rate cashflows of either the hedged item or of the hedging instrument, such that without the exemption the relationship might not qualify for hedge accounting. In addition, with effect from 1 January 2020, the Group has early adopted the phase two Amendments which provide a practical expedient for financial assets and financial liabilities that are modified, or have existing contractual terms activated that change the basis for determining the contractual cash flows, as a result of Interest Rate Benchmark Reform, such that the change to the contractual cash flows is applied prospectively by revising the effective interest rate. The impact on the Group's profit or equity from these amendments was not material.

Financial Statements

Notes on Accounts
Continued

1 Accounting Policies Continued

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

- **Investments:** these are non-derivative financial assets that cannot be classified as loans and other receivables or cash and cash equivalents. Dividend and interest income on these investments are included within finance income when the Group's right to receive payments is established. This category includes financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income.
- **Loans and other receivables:** these are non-derivative financial assets with fixed or determinable payments that are solely payments of principal and interest on the principal amount outstanding, that are primarily held in order to collect contractual cash flows. These balances include trade and other receivables and are measured at amortised cost, using the effective interest rate method, and stated net of allowances for credit losses. In addition, as explained in note 13, certain litigation related deposits are recognised as assets within loans and other receivables where management has determined that these payments represent a resource controlled by the entity as a result of past events. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.
- **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 their date of acquisition. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in the liabilities section on the balance sheet.

Fair values for quoted investments are based on observable market prices. If there is no active market for a financial asset, the fair value is established by using valuation techniques principally involving discounted cash flow analysis.

Non-derivative financial liabilities, including borrowings and trade payables, are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs. As shown in note 19, certain borrowings are subject to fair value hedges, as defined below.

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

- for derivatives that are designated as *cash flow hedges*, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the income statement in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the income statement in the same periods as the hedged item;
- for derivatives that are designated as *fair value hedges*, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;
- for derivatives that are designated as *hedges of net investments in foreign operations*, the changes in their fair values are recognised directly in 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 reclassified to the income statement when the foreign 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. These are referred to as 'held-for-trading'.

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

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

Derivative fair value changes recognised in the income statement are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs.

1 Accounting Policies Continued

Dividends

With effect from 1 January 2018, the Company has moved to four interim quarterly dividend payments, and, as referred to in note 18 (e), from 2019 the Company and Group recognise the interim dividend in the period in which it is paid.

Segmental analysis

The Group is organised and managed on the basis of its geographic regions. These are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the chief operating decision maker, identified as the Management Board, for assessing performance and allocating resources.

The Group is primarily a single product business providing cigarettes and other tobacco products. While the Group has clearly differentiated brands, global segmentation between a wide portfolio of brands is not part of the regular internally reported financial information. The results of New Category products are reported as part of the results of each geographic region, and are not currently material to the Group.

The prices agreed between Group companies for intra-group sales of materials, manufactured goods, charges for royalties, commissions, services and fees, are based on normal commercial practices which would apply between independent businesses. Royalty income, less related expenditure, is included in the region in which the licensor is based.

Adjusting items

Adjusting items are significant items of income or expense in revenue, profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance because of their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting. These items are separately disclosed in the segmental analyses or in the notes to the accounts as appropriate.

The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance and are used to derive the Group's principal non-GAAP measures of adjusted revenue, adjusted profit from operations, adjusted diluted earnings per share and [®]operating cash flow conversion ratio[®], all of which are before the impact of adjusting items and which are reconciled from revenue, profit from operations, diluted earnings per share and [®]cash conversion ratio[®].

Provisions

Provisions are recognised when either a legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets

Subsidiaries and associate companies are defendants in tobacco-related and other litigation. Provision for this litigation (including legal costs) is made at such time as an unfavourable outcome becomes probable and the amount can be reasonably estimated.

Contingent assets are possible assets whose existence will only be confirmed by future events not wholly within the control of the entity and are not recognised as assets until the realisation of income is virtually certain.

Where a provision has not been recognised, the Group records its external legal fees and other external defence costs for tobacco-related and other litigation as these costs are incurred.

As explained in note 13, certain litigation-related deposits are recognised as assets within loans and other receivables where management has determined that these payments represent a resource controlled by the entity. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.

Repurchase of share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

Future changes to accounting policies

Certain changes to IFRS will be applicable to the Group financial statements in future years, but are not expected to have a material effect on reported profit or equity or on the disclosures in the financial statements.

Financial Statements

Notes on Accounts

Continued

2 Segmental Analyses

The chief operating decision maker, the Management Board, reviews adjusted profit from operations at constant currencies to evaluate segment performance and allocate resources to the overall business. The Management Board also reviews at constant currencies external adjusted revenues, which are included within adjusted profit from operations. The results of New Categories (comprising Tobacco Heating Products, Vapour products and Modern Oral products) are reported to the Management Board as part of the results of each geographic region. However, additional information has been provided based on product category. Interest income, interest expense and taxation are centrally managed and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

The four geographic regions are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the Management Board for assessing performance and allocating resources. Transactions between Group subsidiaries are conducted on arm's length terms in accordance with appropriate transfer pricing rules and Organisation for Economic Cooperation & Development (OECD) principles. The Management Board reviews current and prior year adjusted segmental revenue, adjusted profit from operations of subsidiaries and joint operations, and adjusted post-tax results of associates and joint ventures at constant rates of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group, including intercompany royalties payable in foreign currency to UK entities. However, the Group does not adjust for the normal transactional gains and losses in operations which are generated by movements in exchange rates.

In respect of the United States region, all financial statements and financial information provided by or with respect to the US business or RAI (and/or RAI and its subsidiaries (collectively, the 'Reynolds Group')) are prepared on the basis of US GAAP and constitute the primary financial statements or financial information of the US business or RAI (and/or the Reynolds Group). Solely for the purpose of consolidation within the results of BAT p.l.c. and the BAT Group, this financial information is then converted to IFRS. To the extent any such financial information provided in these financial statements relates to the US business or RAI (and/or the Reynolds Group), it is provided as an explanation of the US business's or RAI's (and/or the Reynolds Group's) primary US GAAP based financial statements and information.

The following table shows 2020 revenue and adjusted revenue at current rates, and 2020 revenue translated using 2019 rates of exchange. The 2019 figures are stated at the 2019 rates of exchange.

	2020					2019		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
United States	11,536	(63)	11,473	–	11,473	10,373	–	10,373
APME	4,644	(107)	4,537	–	4,537	5,153	–	5,153
AMSSA	4,321	(549)	3,772	–	3,772	4,261	–	4,261
ENA	6,169	(175)	5,994	–	5,994	6,040	50	6,090
Revenue	26,670	(894)	25,776	–	25,776	25,827	50	25,877

Note: adjusting items in revenue are in respect of excise included in goods acquired from a third party under short-term arrangements and then passed on to customers. This is deemed as adjusting due to the distorting nature to revenue and operating margin. From 2020 onwards, such arrangements have been discontinued or are immaterial such that no adjustments have been made in 2020.

In 2020, the translation exchange in AMSSA was driven by the depreciation of key currencies against the pound sterling including the Brazilian real.

2 Segmental Analyses Continued

The following table shows 2019 revenue and adjusted revenue at current rates, and 2019 adjusted revenue translated using 2018 rates of exchange. The 2018 figures are stated at the 2018 rates of exchange.

	2019					2018		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
United States	9,917	456	10,373	–	10,373	9,495	–	9,495
APME	5,157	(4)	5,153	–	5,153	4,882	–	4,882
AMSSA	4,491	(230)	4,261	–	4,261	4,111	–	4,111
ENA	6,118	(78)	6,040	50	6,090	5,824	180	6,004
Revenue	25,683	144	25,827	50	25,877	24,312	180	24,492

Note: adjusting items in revenue are in respect of excise included in goods acquired from a third party under short-term arrangements and then passed on to customers. This is deemed as adjusting due to the distorting nature to revenue and operating margin.

The following table shows 2020 profit from operations and adjusted profit from operations at current rates, and 2020 adjusted profit from operations translated using 2019 rates of exchange. The 2019 figures are stated at the 2019 rates of exchange.

	2020					2019		
	Adjusted* segment result Constant rates £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting* items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
United States	5,816	(32)	5,784	(809)	4,975	5,036	(626)	4,410
APME	1,909	(56)	1,853	(381)	1,472	2,059	(306)	1,753
AMSSA	1,796	(178)	1,618	(65)	1,553	1,842	(638)	1,204
ENA	2,140	(30)	2,110	(148)	1,962	2,193	(544)	1,649
Profit from operations	11,661	(296)	11,365	(1,403)	9,962	11,130	(2,114)	9,016
Net finance costs	(1,612)	20	(1,592)	(153)	(1,745)	(1,522)	(80)	(1,602)
APME	465	(26)	439	13	452	470	25	495
ENA	3	–	3	–	3	3	–	3
Share of post-tax results of associates and joint ventures	468	(26)	442	13	455	473	25	498
Profit/(loss) before taxation	10,517	(302)	10,215	(1,543)	8,672	10,081	(2,169)	7,912
Taxation (charge)/credit on ordinary activities	(2,493)	63	(2,430)	322	(2,108)	(2,501)	438	(2,063)
Profit for the year					6,564			5,849

* The adjustments to profit from operations, net finance costs, the Group's share of the post-tax results of associates and joint ventures and taxation are explained in notes 3(e) to 3(h), note 4(b), note 5(a), and note 6(b), 6(d) and 6(e), respectively.

Financial Statements

Notes on Accounts
Continued

2 Segmental Analyses Continued

The following table shows 2019 profit from operations and adjusted profit from operations at current rates, and 2019 adjusted profit from operations translated using 2018 rates of exchange. The 2018 figures are stated at the 2018 rates of exchange.

	2019					2018		
	Adjusted* segment result Constant rates £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting* items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
United States	4,798	238	5,036	(626)	4,410	4,511	(505)	4,006
APME	2,102	(43)	2,059	(306)	1,753	1,948	(90)	1,858
AMSSA	1,912	(70)	1,842	(638)	1,204	1,738	(194)	1,544
ENA	2,220	(27)	2,193	(544)	1,649	2,150	(245)	1,905
Profit from operations	11,032	98	11,130	(2,114)	9,016	10,347	(1,034)	9,313
Net finance costs	(1,466)	(56)	(1,522)	(80)	(1,602)	(1,385)	4	(1,381)
APME	463	7	470	25	495	384	32	416
ENA	3	–	3	–	3	3	–	3
Share of post-tax results of associates and joint ventures	466	7	473	25	498	387	32	419
Profit/(loss) before taxation	10,032	49	10,081	(2,169)	7,912	9,349	(998)	8,351
Taxation (charge)/credit on ordinary activities	(2,498)	(3)	(2,501)	438	(2,063)	(2,364)	223	(2,141)
Profit for the year					5,849			6,210

* The adjustments to profit from operations, net finance costs, the Group's share of the post-tax results of associates and joint ventures and taxation are explained in notes 3(e) to 3(h), note 4(b), note 5(a), and note 6(b), 6(d) and 6(e), respectively.

Adjusted profit from operations at constant rates of £11,661 million (2019: £11,032 million; 2018: £10,924 million) excludes certain depreciation, amortisation and impairment charges as explained in notes 3(e), 3(f) and 3(h). These are excluded from segmental profit from operations at constant rates as follows:

	2020					2019		
	Adjusted depreciation, amortisation and impairment Constant rates £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m	Depreciation, amortisation and impairment £m
United States	205	(1)	204	272	476	258	391	649
APME	170	(3)	167	274	441	163	182	345
AMSSA	137	(16)	121	34	155	137	35	172
ENA	266	(7)	259	119	378	216	130	346
	778	(27)	751	699	1,450	774	738	1,512

	2019					2018		
	Adjusted depreciation, amortisation and impairment Constant rates £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m	Depreciation, amortisation and impairment £m
United States	249	9	258	391	649	154	289	443
APME	162	1	163	182	345	105	22	127
AMSSA	140	(3)	137	35	172	101	115	216
ENA	218	(2)	216	130	346	143	109	252
	769	5	774	738	1,512	503	535	1,038

2 Segmental Analyses Continued

Additional information by product category

Although the Group's operations are managed on a Regional basis, additional information for revenue is provided based on product category as follows:

	2020					2019		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
Combustibles	23,594	(842)	22,752	–	22,752	22,951	50	23,001
New Categories	1,449	(6)	1,443	–	1,443	1,255	–	1,255
Vapour	615	(4)	611	–	611	401	–	401
THP	636	(2)	634	–	634	728	–	728
Modern Oral	198	–	198	–	198	126	–	126
Traditional Oral	1,165	(5)	1,160	–	1,160	1,081	–	1,081
Other	462	(41)	421	–	421	540	–	540
Revenue	26,670	(894)	25,776	–	25,776	25,827	50	25,877

	2019					2018		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
Combustibles	22,892	59	22,951	50	23,001	21,892	180	22,072
New Categories	1,214	41	1,255	–	1,255	917	–	917
Vapour	392	9	401	–	401	318	–	318
THP	693	35	728	–	728	565	–	565
Modern Oral	129	(3)	126	–	126	34	–	34
Traditional Oral	1,036	45	1,081	–	1,081	941	–	941
Other	541	(1)	540	–	540	562	–	562
Revenue	25,683	144	25,827	50	25,877	24,312	180	24,492

External revenue and non-current assets other than financial instruments, deferred tax assets and retirement benefit assets are analysed between the UK and all foreign countries at current rates of exchange as follows:

	United Kingdom			All foreign countries			Group		
	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m
Revenue is based on location of sale									
External revenue	188	178	184	25,588	25,699	24,308	25,776	25,877	24,492

	United Kingdom		All foreign countries		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Intangible assets	487	492	114,856	118,295	115,343	118,787
Property, plant and equipment	344	333	4,716	5,185	5,060	5,518
Investments in associates and joint ventures	8	8	1,788	1,852	1,796	1,860

The consolidated results of the Reynolds Group operating in the United States met the criteria for separate disclosure under the requirements of IFRS 8 *Operating Segments*. Revenue arising from the operations of the Reynolds Group, inclusive of the sales made to fellow Group companies, in 2020, 2019 and 2018 was £11,481 million, £10,417 million and £9,506 million, respectively. The majority of sales are to customers based in the US. Non-current assets attributable to the operations of the Reynolds Group were £105,549 million (2019: £109,186 million).

The main acquisitions comprising the goodwill balance of £43,319 million (2019: £44,316 million), included in intangible assets, are provided in note 8. Included in investments in associates and joint ventures are amounts of £1,724 million (2019: £1,794 million) attributable to the investment in ITC Ltd. Further information is provided in notes 5 and 10.

Financial Statements

Notes on Accounts

Continued

3 Profit From Operations

Enumerated below are movements in costs that have impacted profit from operations in 2020, 2019 and 2018. These include changes in our underlying business performance, as well as the impact of adjusting items, as defined in note 1, in profit from operations (note 3(e) to 3(h)).

(a) Employee benefit costs

	2020 £m	2019 £m	2018 £m
Wages and salaries	2,277	2,651	2,463
Social security costs	194	223	207
Other pension and retirement benefit costs (note 11)	182	227	212
Share-based payments – equity and cash-settled (note 24)	91	120	123
	2,744	3,221	3,005

(b) Depreciation, amortisation and impairment costs

	2020 £m	2019 £m	2018 £m
Intangibles			
– amortisation and impairment of trademarks and similar intangibles	360	508	377
– amortisation and impairment of computer software	129	108	111
– impairment of goodwill (note 3(h))	209	194	–
Property, plant and equipment – depreciation and impairment	752	702	550
	1,450	1,512	1,038

Intangibles – amortisation and impairment

The acquisition of businesses has resulted in the capitalisation of certain trademarks and similar intangibles. The amortisation and impairment of these acquired trademarks and similar intangibles are charged to the income statement as adjusting, as explained in note 3(f).

Property, plant and equipment – depreciation and impairment

Gains and losses recognised on disposal of property, plant and equipment are included within depreciation and impairment of property, plant and equipment.

Additionally, impairment costs resulting from obsolete machines in relation to downsizing and factory rationalisation as mentioned in note 3(e) are reported as part of depreciation and impairment of property, plant and equipment.

In 2018, the Group recognised an impairment charge of £110 million in respect of the operations in Venezuela mentioned in note 3(h).

3 Profit From Operations Continued

(c) Other operating expenses include:

	2020 £m	2019 £m	2018 £m
Research and development expenses (excluding employee benefit costs and depreciation)	121	126	105
Exchange differences	(29)	22	(15)
Hedge ineffectiveness within operating profit	(3)	(5)	(8)
Expense relating to short-term leases	10	16	–
Expenses relating to leases of low-value assets	1	1	–
Gains arising from sale and leaseback transactions	(1)	–	–
Rent of plant and equipment (operating leases) – minimum lease payments	–	–	61
Rent of property (operating leases) – minimum lease payments	–	–	110
Auditor's remuneration			
Total expense for audit services pursuant to legislation:			
– fees to KPMG LLP for Parent Company and Group audit	8.7	6.8	6.3
– fees to KPMG LLP firms and associates for local statutory and Group reporting audits	9.9	9.0	8.8
Total audit fees expense – KPMG LLP firms and associates	18.6	15.8	15.1
Audit fees expense to other firms	0.2	0.1	0.2
Total audit fees expense	18.8	15.9	15.3
Fees to KPMG LLP firms and associates for other services:			
– audit-related assurance services	8.5	8.5	9.4
– other assurance services	0.5	0.5	0.3
– tax advisory services	–	–	–
– tax compliance	–	–	–
– audit of defined benefit schemes of the Company	0.5	0.4	0.4
– other non-audit services	–	–	–
	9.5	9.4	10.1

The total auditor's remuneration to KPMG firms and associates included above are £28.1 million (2019: £25.2 million; 2018: £25.2 million).

Under SEC regulations, the remuneration to KPMG firms and associates of £28.1 million in 2020 (2019: £25.1 million; 2018: £25.2 million) is required to be presented as follows: audit fees £27.5 million (2019: £24.7 million; 2018: £24.7 million), audit-related fees £0.5 million (2019: £0.4 million; 2018: £0.4 million), tax fees £nil million (2019: £nil million; 2018: £nil million) and all other fees £0.1 million (2019: £0.1 million; 2018: £0.1 million). Audit related fees are in respect of services provided to associated pension schemes. All other fees are in respect of other assurance services provided over information derived from the financial information systems subject to audit or over the controls over those systems.

Financial Statements

Notes on Accounts

Continued

3 Profit From Operations Continued

Total research and development costs including employee benefit costs and depreciation are £307 million (2019: £376 million; 2018: £258 million). Included in the 2019 research and development costs is £65 million of costs primarily related to packages in respect of employee benefit reductions as part of the Group's 2019 restructuring initiative (Quantum), as discussed in note 3(e).

(d) Master Settlement Agreement

In 1998, the major US cigarette manufacturers (including the R.J. Reynolds Tobacco Company, Lorillard and Brown & Williamson, businesses which are now part of the Reynolds Group) entered into the Master Settlement Agreement (MSA) with attorneys general representing most US states and territories. The MSA imposes a perpetual stream of future payment obligations on the major US cigarette manufacturers. The amounts of money that the participating manufacturers are required to annually contribute are based upon, amongst other things, the volume of cigarettes sold and market share (based on cigarette shipments in that year).

During 2012, R.J. Reynolds Tobacco Company, Santa Fe Natural Tobacco Company (SFNTC), various other tobacco manufacturers, 17 states, the District of Columbia and Puerto Rico reached an agreement related to the Non-Participating Manufacturer (NPM) adjustment under the MSA and three more states joined the agreement in 2013. Under this agreement, R.J. Reynolds Tobacco Company has received credits of more than US\$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits have been applied against the companies' MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations. During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. R.J. Reynolds Tobacco Company has received US\$170 million in credits, which has been applied over a five-year period from 2014. During 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014 and included a method to determine future adjustments from 2015 forward. R.J. Reynolds Tobacco Company has received US\$285 million in credits, which was applied over a four-year period from 2016. During 2016, no additional states agreed to settle NPM disputes. During 2017, two more states agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US\$61 million in credits, which will be applied over a five-year period from 2017. During 2018, nine more states agreed to settle NPM disputes related to claims for the period 2004 to 2019, with an option through 2022, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$182 million in credits for settled periods through 2017, which will be applied over a five-year period from 2018. Also, in 2018, one additional state agreed to settle NPM disputes related to claims for the period 2004 to 2024, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$205 million in credits for settled periods through 2017, which will be applied over a five-year period from 2019. In the first quarter of 2020, certain conditions set forth in the 2017 and 2018 agreements were met for those 10 states. In addition, in August 2020, 24 states, the District of Columbia and Puerto Rico agreed to settle NPM disputes related to claims for the period 2018-2022. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjusting items. Only credits in respect of prior year payments are included as adjusting items.

The BAT Group is subject to substantial payment obligations under the MSA and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (such settlement agreements, collectively State Settlement Agreements). Reynolds Group's operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2020 amounted to US\$3,572 million (2019: US\$2,762 million; 2018: US\$2,741 million) in respect of settlement expenses and US\$2,848 million (2019: US\$2,918 million; 2018: US\$917 million) in respect of settlement cash payments. In 2020, R.J. Reynolds Tobacco Company recognised additional expenses, included above, under the state settlement agreements in the states of Mississippi, Florida, Texas and Minnesota. R.J. Reynolds Tobacco Company recognised US\$241 million of expense for payment obligations to the State of Florida for the ITG Brands, LLC acquired brands from the date of divestiture, June 12, 2015, as a result of an unfavourable judgment. In addition, R.J. Reynolds Tobacco Company recognised US\$264 million related to the resolution of claims against it in the States of Texas, Minnesota and Mississippi for payment obligations to those states for the ITG Brands, LLC acquired brands from the date of divestiture. Finally, R.J. Reynolds Tobacco Company settled certain related claims with Phillip Morris USA under the state settlement agreements in the states of Mississippi, Texas and Minnesota for US\$8 million. Additional information related to the resolution of these claims is included in note 27.

(e) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise. These costs represent additional expenses incurred that are not related to the normal business and day-to-day activities. These initiatives include a review of the Group's manufacturing operations, and the costs associated with Quantum, being a review of the Group's organisational structure announced in 2019 to simplify the business and create a more efficient, agile and focused company.

3 Profit From Operations Continued

The costs of the Group's initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	2020 £m	2019 £m	2018 £m
Employee benefit costs	91	364	176
Depreciation, amortisation and impairment costs	151	63	48
Other operating expenses	166	145	145
Other operating income	–	(7)	(6)
	408	565	363

The adjusting charge in 2020 relates to the ongoing restructuring costs associated with the implementation of revisions to the Group's operating model, mainly in relation to Quantum. This includes the cost of packages in respect of permanent headcount reduction and permanent employee benefit reductions in the Group. The costs also cover the downsizing and factory rationalisation activities in the Netherlands, Hungary, Russia and APME.

Also, in 2020, as a consequence of a reduction in volumes due to the significant increase in excise in Indonesia, the Group has announced a restructuring programme which includes the partial closure of the factory operations in Indonesia. As a result of this decision, a £69 million impairment has been recognised in respect of machinery. This impairment charge relates to some of the machinery in use as well machinery held for future use which, following the significant recent changes in consumer preferences, is not expected to be brought in to manufacturing in the future.

The adjusting charge in 2019 relates to the ongoing restructuring costs associated with the implementation of revisions to the Group's operating model, mainly in relation to Quantum. This includes the cost of packages in respect of permanent headcount reduction and permanent employee benefit reductions in the Group. The costs also cover the downsizing and factory rationalisation activities in Germany, Russia and APME. Included in other operating income are amounts related to cash and reversal of deferred consideration associated with the acquisition of TDR d.o.o. (TDR) (note 23).

Restructuring and integration costs in 2018 include integration costs associated with the acquisition of Reynolds American and ongoing costs of implementing the revisions to the Group's operating model. This includes the cost of packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover downsizing activities in Russia, Germany and APME. Included in other operating income are gains from the sale of land and buildings in the Netherlands.

(f) Amortisation and impairment of trademarks and similar intangibles

Acquisitions in previous years have resulted in the capitalisation of trademarks and similar intangibles, including those which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation and impairment charge of £339 million (2019: £481 million; 2018: £377 million) is charged as adjusting and included in depreciation, amortisation and impairment costs in the income statement. In 2019, the Group incurred an impairment charge of £129 million, which included the partial impairment of the Kodiak brand, as explained in note 8(c).

(g) Fox River

As explained in note 27, a Group subsidiary has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States and, in 2011, the subsidiary provided £274 million in respect of claims in relation to environmental clean-up costs of the Fox River.

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into a Funding Agreement with regard to the costs for the clean-up of Fox River.

In January 2017, NCR and Appvion entered into a consent decree with the US Government to resolve how the remaining clean-up will be funded and to resolve further outstanding claims between them. The Consent Decree was approved by a US District Judge in August 2017. The US Government enforcement action against NCR was terminated as a result of that order and contribution claims from the Potentially Responsible Parties ('PRPs') against NCR were dismissed. On 4 January 2019, the US Government, P. H. Glatfelter and Georgia-Pacific (the remaining Fox River PRPs) sought approval for a separate Consent Decree to bring an end to all litigation concerning the Fox River clean-up. This Consent Decree was approved by the District Court of the Eastern District of Wisconsin on 14 March 2019 and concludes all existing litigation on the Fox River.

In July 2016, the High Court ruled in a Group subsidiary's favour that a dividend of €135 million paid by Windward to Sequana in May 2009 was a transaction made with the intention of putting assets beyond the reach of the Group subsidiary and of negatively impacting its interests. On 10 February 2017, further to a hearing in January 2017 to determine the relief due, the Court found in the Group subsidiary's favour, ordering that Sequana must pay an amount up to the full value of the dividend plus interest which equates to around US\$185 million, related to past and future clean-up costs.

Financial Statements

Notes on Accounts

Continued

3 Profit From Operations Continued

The Court granted all parties leave to appeal and Sequana a stay in respect of the above payments. In June 2018, the Court of Appeal heard arguments in the Sequana Claims Appeal (as defined in note 27). On 6 February 2019, the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay the above mentioned dividend. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling. In February 2017, Sequana entered into a process in France seeking court protection (the 'Sauvegarde'), exiting the Sauvegarde in June 2017. On 7 March 2019, Sequana announced that it was unable to pay its debts and that it had applied to convert the Sauvegarde into 'redressement judiciaire', a form of insolvent receivership. On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings ('liquidation judiciaire'). No payments have been received.

The provision is £70 million at 31 December 2020 (2019: £73 million). Based on the Funding Agreement, £3 million has been paid in 2020, which includes legal costs of £1 million (2019: £35 million, including legal costs of £3 million; 2018: £30 million, including legal costs of £5 million).

(h) Other adjusting items

Included within 'other operating expenses'

In 2020, the Group incurred £447 million (2019: £874 million; 2018: £294 million) of other adjusting items which have been adjusted within 'other operating expenses'.

The charge in 2020 primarily includes £487 million (2019: £236 million; 2018: £178 million) of litigation costs. In 2020, this was largely in respect of charges following the development in cases regarding payment obligations under the state settlement agreements with Florida, Texas, Minnesota and Mississippi for brands previously sold to a third party. The Group recognised a charge of £188 million in the period for a final judgment of a case in the Florida court. The Group continues to pursue indemnification remedies in a Delaware court for payments made to Florida as a result of this judgment, as explained in note 27. During 2020, the Group also recognised a provision of £212 million related to the settlement discussions with other manufacturers and the states of Texas, Minnesota and Mississippi for payment obligations related to these brands in prior years. In 2020, the charge also includes £87 million predominantly related to other litigation costs including *Engle* progeny litigation.

Also included in 2020, is a credit of £40 million recognised in relation to the prior year charge associated with the excise dispute in Russia, of which, £14 million is offset in the adjusting items included in taxation (note 6(d)).

In August 2019, the Russian tax authority issued a final audit report to JSC British American Tobacco-SPb (BAT SpB) related to the application of legislation introduced in 2017 that prospectively limited the amount of production that could take place prior to excise tax increases, without being subject to higher excise tax rates. The Final audit report sought to retrospectively apply the legislation to the years 2015 to 2017. BAT SpB submitted an appeal to the Federal Tax Services (FTS) objecting to the findings. The FTS accepted some of BAT SpB's arguments and, on 27 January 2020, a final claim was issued by the FTS. As a consequence, the Group recognised a charge of £202 million included in other adjusting items in 2019. The Group also recognised an interest charge of £50 million (note 4(b)).

Also, in 2019, a charge of £436 million was incurred in respect of the Quebec class actions as explained in note 27.

Included within 'depreciation, amortisation and impairment'

During 2020, the Group impaired the goodwill arising from Malaysia amounting to £197 million, goodwill arising from the acquisition of Twisp of £11 million and goodwill arising from the acquisition of Blue Nile of £1 million, as explained in note 8(e).

During 2019, the Group impaired the goodwill arising from the Bentoel acquisition, amounting to £172 million, goodwill arising from the VapeWild acquisition of £12 million and goodwill arising from the Highendsmoke acquisition of £10 million as explained in note 8(e).

In 2018, the European Securities and Markets Authority (ESMA) recognised the specific issues related to Venezuela and proposed that companies with exposure to Venezuela use an 'estimated' exchange rate rather than the official exchange rate, as otherwise required under IAS 21. Accordingly, the Group has used an exchange rate calculated with reference to the estimated inflation since the latest dividend payment in 2010. In addition, the net assets of the Group's Venezuelan operations are subject to accounting adjustments IAS 29 *Financial Reporting in Hyperinflationary Economies*, as they are revalued, for accounting purposes, from their acquisition date to the balance sheet date. However, management believes that such a revaluation is not reflective of the recoverable value of those assets and have incurred an impairment charge of £110 million. This charge has been treated as an adjusting item as it does not reflect the underlying performance of the Group. The Group has also recognised a monetary gain due to hyperinflation accounting under IAS 29 of £45 million within net finance costs (note 4(b)).

(i) Other operating income

Other operating income comprises income that is associated with the Group's normal activities, but which falls outside the definition of turnover and includes one-off capital profits on property sales and one-off disposals of fixed assets.

As explained in note 27, the Group recognised £58 million (2019: £86 million; 2018: £nil) in respect of a tax case in Brazil. In 2019 and 2018, as discussed in note 3(e) above, certain items of operating income have been incurred as part of the Group's restructuring and integration activities.

4 Net Finance Costs

(a) Net finance costs/(income)

	2020 £m	2019 £m	2018 £m
Interest expense	1,605	1,676	1,592
Interest expense on lease liabilities	26	32	1
Facility fees	23	10	13
Interest and fair value related to early repurchase of bonds (note 4(b))	142	–	–
Interest related to adjusting tax payables (note 4(b))	11	80	41
Venezuela hyperinflation (note 4(b))	–	–	(45)
Fair value changes on derivative financial instruments and hedged items	(217)	367	(154)
Exchange differences	205	(479)	1
Finance costs	1,795	1,686	1,449
Interest under the effective interest method	(50)	(84)	(68)
Finance income	(50)	(84)	(68)
Net finance costs	1,745	1,602	1,381

The Group manages foreign exchange gains and losses and fair value changes on a net basis excluding adjusting items, which are explained in note 4(b). The derivatives that generate the fair value changes are explained in note 15.

Facility fees principally relate to the Group's central banking facilities.

In October 2020, the Group completed a tender offer to repurchase sterling-equivalent £2,653 million of bonds, including £24 million of accrued interest. Following this, in November 2020, the Group also completed a 'make-whole' bond redemption exercise of sterling-equivalent £462 million of bonds, including £6 million of accrued interest. Further details on the tender offer and 'make-whole' redemption exercise are provided in note 22. Other costs directly associated with the early repurchase of bonds, including the premium paid, have been treated as adjusting items, as detailed in note 4(b).

(b) Adjusting items included in net finance costs

Adjusting items are significant items in net finance costs which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance.

In 2020, the Group incurred additional interest costs of £157 million and fair value gains of £15 million in relation to the early repurchase of bonds.

In addition, the Group recognised interest on adjusting tax payables of £11 million (2019: £80 million; 2018: £41 million), which included interest of £21 million (2019: £28 million; 2018: £25 million) in relation to the Franked Investment Income Group Litigation Order (FII GLO) (note 6(b)) and a net credit of £10 million (2019: charge of £50 million, 2018: charge of £12 million) in respect of the excise dispute (note 3(h)) and withholding tax in Russia.

In 2018, the Group recognised a monetary gain of £45 million related to the application of hyperinflationary accounting in Venezuela (note 3(h)).

Financial Statements

Notes on Accounts
Continued

5 Associates and Joint Ventures

	2020		2019		2018	
	Total £m	Group's share £m	Total £m	Group's share £m	Total £m	Group's share £m
Revenue	7,001	1,983	7,581	2,158	7,235	2,058
Profit from operations	2,006	591	2,386	704	2,128	630
Net finance costs	(6)	(2)	(7)	(2)	(8)	(3)
Profit on ordinary activities before taxation	2,000	589	2,379	702	2,120	627
Taxation on ordinary activities	(421)	(125)	(666)	(196)	(678)	(201)
Profit on ordinary activities after taxation	1,579	464	1,713	506	1,442	426
Non-controlling interests	(30)	(9)	(27)	(8)	(24)	(7)
Post-tax results of associates and joint ventures	1,549	455	1,686	498	1,418	419

Enumerated below are movements that have impacted the post-tax results of associates and joint ventures in 2020, 2019 and 2018.

(a) Adjusting items

In 2020, the Group's interest in ITC Ltd. (ITC) decreased from 29.46% to 29.42% (2019: 29.57% to 29.46%; 2018: 29.71% to 29.57%) as a result of ITC issuing ordinary shares under the ITC Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £17 million (2019: £25 million; 2018: £22 million), which is treated as a deemed partial disposal and included in the income statement.

In 2020, ITC recognised a charge in respect of the cost of leaf tobacco stocks destroyed in a third-party warehouse fire, the Group's share of which was £4 million.

In 2018, ITC also recognised an adjusting gain in respect of the release of certain provisions related to a tax claim, the Group's share of which was £10 million.

(b) Other financial information

The Group's share of the results of associates and joint ventures is shown in the table below.

	2020	2019	2018
	Group's share £m	Group's share £m	Group's share £m
Profit on ordinary activities after taxation			
– attributable to owners of the Parent	455	498	419
Other comprehensive income:			
Items that may be reclassified to profit & loss	(98)	(115)	(38)
Items that will not be reclassified to profit & loss	(34)	7	6
Total comprehensive income	323	390	387

5 Associates and Joint Ventures Continued

Summarised financial information of the Group's associates and joint ventures is shown below.

	2020		
	ITC £m	Others £m	Total £m
Revenue	4,892	2,109	7,001
Profit on ordinary activities before taxation	1,930	70	2,000
Post-tax results of associates and joint ventures	1,495	54	1,549
Other comprehensive income	(450)	–	(450)
Total comprehensive income	1,045	54	1,099

	2019		
	ITC £m	Others £m	Total £m
Revenue	5,556	2,025	7,581
Profit on ordinary activities before taxation	2,322	57	2,379
Post-tax results of associates and joint ventures	1,646	40	1,686
Other comprehensive income	(365)	–	(365)
Total comprehensive income	1,281	40	1,321

	2018		
	ITC £m	Others £m	Total £m
Revenue	5,072	2,163	7,235
Profit on ordinary activities before taxation	2,059	61	2,120
Post-tax results of associates and joint ventures	1,373	45	1,418
Other comprehensive income	(110)	–	(110)
Total comprehensive income	1,263	45	1,308

Financial Statements

Notes on Accounts
Continued

6 Taxation on Ordinary Activities

(a) Summary of taxation on ordinary activities

	2020 £m	2019 £m	2018 £m
UK corporation tax	38	8	60
Comprising:			
– current year tax expense	38	41	66
– adjustments in respect of prior periods	–	(33)	(6)
Overseas tax	2,387	2,047	2,455
Comprising:			
– current year tax expense	2,369	2,074	2,460
– adjustments in respect of prior periods	18	(27)	(5)
Total current tax	2,425	2,055	2,515
Deferred tax	(317)	8	(374)
Comprising:			
– deferred tax relating to origination and reversal of temporary differences	(184)	55	(304)
– deferred tax relating to changes in tax rates	(133)	(47)	(70)
	2,108	2,063	2,141

(b) Franked Investment Income Group Litigation Order

The Group is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 23 corporate groups in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK.

The original claim was filed in 2003. The trial of the claim was split broadly into issues of liability and quantification. The main liability issues were heard by the High Court, Court of Appeal and Supreme Court in the UK and the European Court of Justice in the period to November 2012. The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgment handed down on 18 December 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advance corporation tax, the law of restitution including the defence on change of position and questions concerning the calculation of overpaid interest, the approach of the Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for the Group. Appeals on a majority of the issues were made to the Court of Appeal, which heard the arguments in June 2016. The Court of Appeal determined in November 2016 on the majority of issues that the conclusion reached by the High Court should be upheld. The Supreme Court gave permission for a number of issues to be appealed in two separate hearings. The first, in February 2020, concerned the time limit for bringing claims. HMRC sought to challenge existing case law. In November 2020 the Supreme Court handed down its judgment. The Supreme Court agreed to partially overturn existing case law but introduced a new test for determining whether claims of this type are in time. The case has been remitted to the High Court to apply that new test to the facts. The second hearing was heard in December 2020 and concerned issues relating to the type of claims BAT is entitled to bring. Judgment following the second December hearing is expected in 2021. In July 2018, the Supreme Court handed down its judgment in the Prudential Assurance Company Ltd case, which is closely related to the FII GLO. Applying the Prudential judgment reduces the value of the FII claim to approximately £0.6 billion, mainly as the result of the application of simple interest.

During 2015, HMRC paid to the Group a gross amount of £1,224 million in two separate payments. The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal. The second payment in November 2015 followed the introduction of a new 45% tax on the interest component of restitution claims against HMRC. HMRC held back £261 million from the second payment contending that it represents the new 45% tax on that payment, leading to total cash received by the Group of £963 million. Actions challenging the legality of the withholding of the 45% tax have been lodged by the Group. The First Tier Tribunal found in favour of HMRC in July 2017 and the Group's appeal to the Upper Tribunal was heard in July 2018 and judgment has not yet been handed down.

The net £0.9 billion held by the Group is higher than the current value of the claim referred to above. Due to the uncertainty of the amounts and eventual outcome the Group has not recognised any impact in the Income Statement in the current or prior period. The receipt, net of the deduction by HMRC, is held as deferred income as disclosed in note 21. Any future recognition as income will be treated as an adjusting item, due to the size of the amount, with interest of £21 million for the 12 months to 31 December 2020 (2019: £28 million; 2018: £25 million) accruing on the balance, which was also treated as an adjusting item.

6 Taxation on Ordinary Activities Continued

(c) Factors affecting the taxation charge

The taxation charge differs from the standard 19% (2019: 19%; 2018: 19%) rate of corporation tax in the UK. The major causes of this difference are listed below:

	2020		2019		2018	
	£m	%	£m	%	£m	%
Profit before tax	8,672		7,912		8,351	
Less: share of post-tax results of associates and joint ventures (see note 5)	(455)		(498)		(419)	
	8,217		7,414		7,932	
Tax at 19% (2019 and 2018: 19%) on the above	1,561	19.0	1,409	19.0	1,507	19.0
Factors affecting the tax rate:						
Tax at standard rates other than UK corporation tax rate	368	4.5	353	4.8	384	4.8
Other national tax charges	142	1.7	147	2.0	204	2.6
Permanent differences	20	0.3	122	1.6	7	0.1
Overseas withholding taxes	155	1.9	106	1.4	155	1.9
Double taxation relief on UK profits	(22)	(0.3)	(29)	(0.4)	(35)	(0.4)
Unutilised/utilised tax losses	5	0.1	16	0.2	5	0.1
Adjustments in respect of prior periods	18	0.2	(60)	(0.8)	(11)	(0.1)
Deferred tax relating to changes in tax rates	(133)	(1.6)	(47)	(0.6)	(70)	(0.9)
Additional net deferred tax (credits)/charges	(6)	(0.1)	46	0.6	(5)	(0.1)
	2,108	25.7	2,063	27.8	2,141	27.0

(d) Adjusting items included in taxation

In 2020, adjusting items in taxation included a net credit of £35 million mainly relating to the release of a provision regarding the application of overseas withholding tax, the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017 due to changes in US state tax rates and the excise dispute in Russia (note 3(h)).

In 2019, adjusting items in taxation total a credit of £65 million relating primarily to changes in US state tax rates, relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017.

In 2018, adjusting items in taxation relate to a £79 million credit due to changes in US state tax rates in the period, relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017, and a £55 million charge related to retrospective guidance issued by a tax authority in the ENA region regarding the application of withholding tax (WHT) between 2015 and 2017.

(e) Tax on adjusting items

In addition, the tax on adjusting items, separated between the different categories, as per note 7, amounted to £287 million (2019: £373 million; 2018: £199 million). The adjustment to the adjusted earnings per share (note 7) also includes £8 million (2019: £17 million; 2018: £6 million) in respect of the non-controlling interests' share of the adjusting items net of tax.

(f) Tax on items recognised directly in other comprehensive income

	2020 £m	2019 £m	2018 £m
Current tax	(5)	(7)	(8)
Deferred tax	23	138	(7)
Credited/(charged) to other comprehensive income	18	131	(15)

The tax relating to each component of other comprehensive income is disclosed in note 18.

Financial Statements

Notes on Accounts
Continued

7 Earnings Per Share

	2020			2019			2018		
	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Basic earnings per share (ordinary shares of 25p each)	6,400	2,286	280.0	5,704	2,284	249.7	6,032	2,285	264.0
Share options	–	9	(1.1)	–	7	(0.7)	–	7	(0.8)
Diluted earnings per share	6,400	2,295	278.9	5,704	2,291	249.0	6,032	2,292	263.2

Adjusted earnings per share calculation

Earnings have been affected by a number of adjusting items, which are described in notes 3 to 6. Adjusting items are significant items in the profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance. To illustrate the impact of these items, an adjusted earnings per share calculation is shown below.

		2020		2019		Basic 2018	
	Notes	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic earnings per share		6,400	280.0	5,704	249.7	6,032	264.0
Effect of restructuring and integration costs	3(e)	408	17.8	565	24.7	363	15.9
Tax and non-controlling interests on restructuring and integration costs		(64)	(2.8)	(101)	(4.4)	(83)	(3.6)
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	3(f),(h)	548	24.0	675	29.6	377	16.5
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles		(77)	(3.4)	(115)	(5.0)	(78)	(3.4)
Effect of associates' adjusting items net of tax	5(a)	(13)	(0.6)	(25)	(1.1)	(32)	(1.4)
Effect of Quebec class action	3(h)	–	–	436	19.1	–	–
Tax on Quebec class action		–	–	(124)	(5.4)	–	–
Effect of Russia excise dispute	3(h)	(40)	(1.7)	202	8.9	–	–
Tax on Russia excise dispute	6(d)	14	0.6	(16)	(0.7)	–	–
Effect of hyperinflation on Venezuela retained earnings	3(h),4(b)	–	–	–	–	65	2.8
Other adjusting items	3(h)	487	21.2	236	10.3	184	8.0
Tax effect on other adjusting items		(104)	(4.5)	(50)	(2.2)	(44)	(1.9)
Deferred tax relating to changes in tax rates	6	(21)	(0.9)	(49)	(2.2)	(79)	(3.5)
Effect of early repurchase of bonds	4(b)	142	6.2	–	–	–	–
Tax effect of early repurchase of bonds		(32)	(1.4)	–	–	–	–
Effect of interest on FII GLO settlement and other	4(b)	11	0.5	80	3.5	41	1.8
Tax effect of interest on FII GLO settlement and other		(4)	(0.2)	–	–	–	–
Effect of retrospective guidance on WHT	6(d)	(42)	(1.8)	–	–	55.0	2.4
Adjusted earnings per share (basic)		7,613	333.0	7,418	324.8	6,801	297.6

7 Earnings Per Share Continued

	Notes	2020		2019		Diluted 2018	
		Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted earnings per share		6,400	278.9	5,704	249.0	6,032	263.2
Effect of restructuring and integration costs	3(e)	408	17.7	565	24.7	363	15.8
Tax and non-controlling interests on restructuring and integration costs		(64)	(2.8)	(101)	(4.4)	(83)	(3.6)
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	3(f),(h)	548	23.9	675	29.5	377	16.4
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles		(77)	(3.4)	(115)	(5.0)	(78)	(3.4)
Effect of associates' adjusting items net of tax	5(a)	(13)	(0.6)	(25)	(1.1)	(32)	(1.4)
Effect of Quebec class action	3(h)	–	–	436	19.0	–	–
Tax on Quebec class action		–	–	(124)	(5.4)	–	–
Effect of Russia excise dispute	3(h)	(40)	(1.7)	202	8.8	–	–
Tax on Russia excise dispute	6(d)	14	0.6	(16)	(0.7)	–	–
Effect of hyperinflation on Venezuela retained earnings	3(h),4(b)	–	–	–	–	65	2.8
Other adjusting items	3(h)	487	21.2	236	10.3	184	8.0
Tax effect on other adjusting items		(104)	(4.5)	(50)	(2.2)	(44)	(1.9)
Deferred tax relating to changes in tax rates	6	(21)	(0.9)	(49)	(2.2)	(79)	(3.4)
Effect of early repurchase of bonds	4(b)	142	6.2	–	–	–	–
Tax effect of early repurchase of bonds		(32)	(1.4)	–	–	–	–
Effect of interest on FII GLO settlement and other	4(b)	11	0.5	80	3.5	41	1.8
Tax effect of interest on FII GLO settlement and other		(4)	(0.2)	–	–	–	–
Effect of retrospective guidance on WHT	6(d)	(42)	(1.8)	–	–	55	2.4
Adjusted earnings per share (diluted)		7,613	331.7	7,418	323.8	6,801	296.7

Financial Statements

Notes on Accounts

Continued

7 Earnings Per Share Continued

Headline earnings per share as required by the JSE Limited

The presentation of headline earnings per share, as an alternative measure of earnings per share, is mandated under the JSE Listing Requirements. It is calculated in accordance with Circular 1/2019 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

	2020		2019		Basic 2018	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic earnings per share	6,400	280.0	5,704	249.7	6,032	264.0
Effect of impairment of intangibles, property, plant and equipment and assets held-for-sale	465	20.3	518	22.7	238	10.3
Tax and non-controlling interests on impairment of intangibles and property, plant and equipment	(74)	(3.3)	(79)	(3.5)	(65)	(2.8)
Effect of (gains)/losses on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	(26)	(1.1)	7	0.3	(11)	(0.5)
Tax and non-controlling interests on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	8	0.3	(1)	–	4	0.2
Effect of gains on disposal of businesses, non-current investments and brands	–	–	–	–	(10)	(0.4)
Tax on gains on disposal of businesses, non-current investments and brands	–	–	–	–	2	0.1
Issue of shares and change in shareholding in associate	(17)	(0.7)	(25)	(1.1)	(22)	(1.0)
Headline earnings per share (basic)	6,756	295.5	6,124	268.1	6,168	269.9

	2020		2019		Diluted 2018	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted earnings per share	6,400	278.9	5,704	249.0	6,032	263.2
Effect of impairment of intangibles, property, plant and equipment and assets held-for-sale	465	20.3	518	22.5	238	10.3
Tax and non-controlling interests on impairment of intangibles and property, plant and equipment	(74)	(3.3)	(79)	(3.4)	(65)	(2.8)
Effect of (gains)/losses on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	(26)	(1.1)	7	0.3	(11)	(0.5)
Tax and non-controlling interests on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	8	0.3	(1)	–	4	0.2
Effect of gains on disposal of businesses, non-current investments and brands	–	–	–	–	(10)	(0.4)
Tax on gains on disposal of businesses, non-current investments and brands	–	–	–	–	2	0.1
Issue of shares and change in shareholding in associate	(17)	(0.7)	(25)	(1.1)	(22)	(1.0)
Headline earnings per share (diluted)	6,756	294.4	6,124	267.3	6,168	269.1

8 Intangible Assets

(a) Overview of intangible assets

	2020				
	Goodwill £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £m
1 January					
Cost	44,316	1,207	75,726	115	121,364
Accumulated amortisation and impairment		(780)	(1,797)		(2,577)
Net book value at 1 January	44,316	427	73,929	115	118,787
Differences on exchange	(824)	(3)	(2,252)	–	(3,079)
Additions					
– internal development	–	–	–	142	142
– acquisitions (note 23)	36	–	39	–	75
– separately acquired	–	–	103	13	116
Reallocations	–	127	23	(150)	–
Amortisation charge	–	(121)	(338)	–	(459)
Impairment	(209)	(8)	(22)	–	(239)
31 December					
Cost	43,319	1,307	73,598	120	118,344
Accumulated amortisation and impairment		(885)	(2,116)		(3,001)
Net book value at 31 December	43,319	422	71,482	120	115,343

	2019				
	Goodwill £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £m
1 January					
Cost	46,163	1,101	78,736	125	126,125
Accumulated amortisation and impairment		(698)	(1,414)		(2,112)
Net book value at 1 January	46,163	403	77,322	125	124,013
Differences on exchange	(1,676)	(2)	(2,976)	–	(4,654)
Additions					
– internal development	–	–	–	148	148
– acquisitions (note 23)	23	–	54	–	77
– separately acquired	–	–	7	6	13
Reallocations	–	134	30	(164)	–
Amortisation charge	–	(105)	(361)	–	(466)
Impairment	(194)	(3)	(147)	–	(344)
31 December					
Cost	44,316	1,207	75,726	115	121,364
Accumulated amortisation and impairment		(780)	(1,797)		(2,577)
Net book value at 31 December	44,316	427	73,929	115	118,787

(b) Goodwill

Goodwill of £43,319 million (2019: £44,316 million) is included in intangible assets in the balance sheet of which the following are the significant acquisitions: Reynolds American £32,719 million (2019: £33,761 million); Rothmans Group £4,591 million (2019: £4,704 million); Imperial Tobacco Canada £2,304 million (2019: £2,335 million); ETI (Italy) £1,474 million (2019: £1,396 million) and ST (principally Scandinavia) £1,111 million (2019: £1,048 million). The principal allocations of goodwill in the Rothmans' acquisition are to the cash-generating units of Europe and South Africa, with the remainder mainly relating to operations in APME.

During 2020, the Group recognised a goodwill impairment charge of £209 million (2019: £194 million) as explained in note 8(e)(iv) below.

Financial Statements

Notes on Accounts

Continued

8 Intangible Assets Continued

(c) Trademarks and similar intangibles

Trademarks and similar intangibles with indefinite lives

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Reynolds American with indefinite lives amounting to £68,839 million (2019: £71,032 million). These trademarks, including Newport, Camel, Natural American Spirit, Grizzly and Pall Mall, all of which are part of the Group's Strategic Portfolio of key brands, form the core focus of the US business and receive significant support in the form of dedicated internal resources, forecasting and, where appropriate, marketing investment. These trademarks have significant market share and positive cashflow growth expectations. There are no regulatory or contractual restrictions on the use of the trademarks, and there are no plans by management to significantly redirect resources elsewhere. Consequently, in the view of management, these trademarks do not have a foreseeable and definite end to their ability to generate future cash flows and hence are not amortised.

Trademarks and similar intangibles with definite lives

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Reynolds American £2,260 million (2019: £2,590 million). On 20 October 2020, the Group acquired the formulations, brands, associated know-how and other relevant assets owned by Dryft Sciences, LLC, relating to its white nicotine pouch products, these have been accounted as trademarks with a value of £103 million (see note 23).

In 2020, due to the migration to Vuse and difficult trading conditions in South Africa and the delisting of certain brands in Belize, the Group recognised an impairment charge of £18 million.

In 2019, as a result of declining volumes, the Group recognised a partial impairment of the Kodiak brand of £63 million. In addition, as a result of the regulatory uncertainty in the US vaping market, the Group did not submit Premarket Tobacco Applications (PMTA) for the vaping e-liquids purchased as part of the VapeWild acquisition (note 23). As a consequence, the Group recognised an impairment charge of £37 million in respect of the brands acquired as part of the acquisition. The Group withdrew the VapeWild products from the market in September 2020. Also, in 2019, the Group announced that it was simplifying its New Category product portfolio, with vapour products to be branded Vuse, modern oral products to be branded Velo and tobacco heating products continuing to be branded glo. As a result, the carrying values of trademarks and similar intangible assets acquired as part of the Chic, Must Have Limited and Quantus/Highendsmoke business combinations (see note 23), amounting to £29 million in total, have been fully impaired, as the acquired trademarks will no longer generate future economic benefits.

(d) Computer software and assets in the course of development

Included in computer software and assets in the course of development are internally developed assets with a carrying value of £513 million (2019: £516 million). The costs of internally developed assets include capitalised expenses of employees working full time on software development projects, third-party consultants, and software licence fees from third-party suppliers.

The Group has £6 million of future contractual commitments (2019: £4 million) related to intangible assets.

(e) Impairment testing

(i) Estimation uncertainty

As described in note 1, the critical accounting estimates used in the preparation of the consolidated financial statements include the review of asset values, especially indefinite life assets such as goodwill and certain trademarks and similar intangibles.

There is significant judgement with regard to assumptions and estimates involved in the forecasting of future cash flows, which form the basis of the assessment of the recoverability of these assets, with the effect that the value-in-use of calculations incorporate estimation uncertainty, particularly for certain assets held in relation to the Canada, US, Malaysia, Peru and South Africa markets and the Global Travel Retail (GTR) business.

(ii) Impairment testing – Trademarks and similar intangibles with indefinite lives (brands)

The trademarks and similar intangibles have been tested for impairment in line with the following methodology. The recoverable amounts of trademarks and similar intangibles with indefinite lives have been determined on a value-in-use basis. The value-in-use calculations use cash flows based on detailed brand budgets prepared by management using projected sales volumes, revenues and projected brand profitability covering a five-year horizon and, thereafter, grown into perpetuity. Corporate costs are allocated to the brand budgets based on either specific allocations, where appropriate, or based on volumes. The pre-tax discount rates, ranging between 8.29% and 9.01%, and long-term growth rates of 1%, applied to the brand value-in-use calculations have been determined by local management based on experience, specific market and brand trends and pricing and cost expectations. Following the application of a reasonable range of sensitivities, there was no indication of impairment.

Refer to note 8(e)(v) for further information on the Newport brand impairment testing. As the trademarks and similar intangibles with indefinite lives relate to the acquisition of Reynolds American, the brand budgets used in the value-in-use calculations have been incorporated into the budget information used in the impairment testing of the Reynolds American goodwill.

8 Intangible Assets Continued

(iii) Cash-generating units and information on goodwill impairment testing

In 2020, goodwill was allocated for impairment testing purposes to 19 (2019: 21) individual cash-generating units – one in the United States (2019: two), six in APME (2019: five), seven in AMSSA (2019: seven) and five in ENA (2019: seven).

Due to initiatives to simplify the business and improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, £555 million of goodwill arising from the Rothmans acquisition allocated to the UK Exports cash-generating unit has been transferred to the Europe cash-generating unit and a portion of goodwill amounting to £235 million has been transferred from the Singapore cash-generating unit to a newly created Global Travel and Retail (GTR) cash-generating unit. The effective date for both transfers was 1 January 2020. The transfer of the UK Exports cash-generating unit and the 2019 impairment of goodwill arising from the Quantus/Highendsmoke acquisition (refer to note 8(e)(iv)) resulted in the ENA cash-generating units reducing to five. The number of cash-generating units in APME increased to six with the addition of the newly created GTR and Eastern Tobacco (note 23(a)) cash-generating units and the removal of Indonesia as a cash-generating unit due to the 2019 impairment (note 8(e)(iv)). In addition, the cash-generating units in the United States have reduced by one as a result of the impairment of goodwill in VapeWild (note 8(e)(iv)).

	2020		2019	
	Carrying amount £m	Pre-tax discount rate %	Carrying amount £m	Pre-tax discount rate %
Cash-generating unit				
Reynolds American	32,719	7.6	33,761	7.3
Canada	2,304	19.1	2,335	19.1
Europe	5,639	6.2	4,809	6.2
South Africa	552	11.5	598	9.3
Australia	756	7.9	711	6.7
Singapore	356	9.6	599	6.4
Malaysia	232	10.3	435	7.5
Other	761	7.4	1,068	6.8
Total	43,319		44,316	

Included within 'Other' above is goodwill arising on various acquisitions that have been allocated to multiple cash-generating units which are insignificant. The pre-tax discount rate represents the weighted average pre-tax discount rate.

The recoverable amounts of all cash-generating units have been determined on a value-in-use basis. The key assumptions for the recoverable amounts of all units are the budgeted volumes, revenues, operating margins and long-term growth rates, which directly impact the cash flows, and the discount rates used in the calculation. The long-term growth rate is used purely for the impairment testing of goodwill under IAS 36 *Impairment of Assets* and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments.

Pre-tax discount rates, as shown above, were used in the impairment testing, based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made. These adjustments are derived from external sources and are based on the spread between bonds (or credit default swaps, or similar indicators) issued by the US or comparable governments and by the relevant local government, adjusted for the Group's own credit market risk. For ease of use and consistency in application, these results are periodically calibrated into bands based on internationally recognised credit ratings. The long-term growth rates and discount rates have been applied to the budgeted cash flows of each cash-generating unit. These cash flows have been determined by local management based on experience, specific market and brand trends as well as pricing and cost expectations. These have been endorsed by Group management as part of the consolidated Group's budget.

(iv) Impairment testing – Goodwill (excluding Reynolds American and Canada)

The value-in-use calculations use cash flows based on detailed financial budgets prepared by management covering a one-year period extrapolated over a 10-year horizon with growth of 3% (2019: 4%) in years 2 to 10, including 1% inflation (2019: 2% inflation), after which a total growth rate of 1% (2019: 2%) has been assumed as the long-term volume decline is more than offset by pricing to drive revenue growth. A 10-year horizon is considered appropriate based on the Group's history of profit and cash growth, its well-balanced portfolio of brands and the industry in which it operates. For recent acquisitions and start-up ventures the detailed financial budget is expanded to reflect the medium-term plan of the country or market management spanning five years or beyond.

Financial Statements

Notes on Accounts
Continued

8 Intangible Assets Continued

As a result of difficult trading conditions, the above assumptions were amended to reflect the short to medium-term plans of the country or area management spanning up to a period of five years for the South Africa, GTR, Peru and Malaysia cash-generating units.

In South Africa, where there was a five-month sales ban, the forecast cash flows were reduced to reflect the recovery after the ban was lifted and the growth rate was reduced from 1% to -1%. Following the application of a reasonable range of sensitivities, there was no indication of impairment. For the South Africa cash-generating unit headroom to reduce to £nil, the forecast cash flows would need to reduce by a further 20% in each forecast year or the pre-tax discount rate would need to increase by 4%. Management believe that the post-ban recovery will continue in South Africa and therefore both scenarios are not considered by management, at this stage, to be reasonably possible.

For GTR, due to difficult trading conditions as a consequence of the COVID-19 pandemic, the growth rate was reduced from 1% to 0%. Following the application of a reasonable range of sensitivities, there was no indication of impairment. For the GTR cash-generating unit headroom to reduce to £nil, the forecast cash flows would need to reduce by a further 44% in each forecast year or the pre-tax discount rate would need to increase by 5.1%. Management believes that the duty free business will recover and therefore both scenarios are not considered, at this stage, to be reasonably possible.

In Peru, due to difficult trading conditions as a consequence of the COVID-19 pandemic, the growth rate was reduced from 1% to 0%. As a result, the Peru cash-generating unit is sensitive to reasonable possible changes in assumptions as outlined in the table below.

As a result of the merger with Rothmans in 1999, the Group recognised goodwill attributable to the business in Malaysia, measured at MYR2,357 million (approximately £429 million) under IFRS. Difficult trading conditions, including high incidence of illicit trade and downtrading, are now expected to negatively impact forecast operating cash flows and have resulted in the Group recognising an impairment charge of £197 million in 2020. This partial impairment reduces the carrying value of goodwill to £232 million.

In addition, during the year, the Group has impaired in full the goodwill arising from the acquisitions of Twisp in South Africa and Blue Nile in Sudan due to difficult trading conditions in these markets. This has resulted in the recognition of impairment charges of £11 million and £1 million, respectively.

The table below shows the headroom and the impairment charge that would be recognised if the assumptions used in the value-in-use calculation were changed:

	Carrying amount of CGU £m	Headroom £m	Increase in discount rate ^{1,2} £m	Decrease in cash flows ^{1,2} £m	1% increase in terminal decline £m
					Impairment charge
Cash-generating unit					
Malaysia ¹	278	–	(28)	(28)	(20)
Peru ²	185	12	(15)	(28)	(15)

Notes:

1. Malaysia: reasonably possible changes in key assumptions that would result in additional impairment would be a 1.4% increase in the pre-tax discount rate, a 10% decrease each year in forecast cash flows or a 1% increase in terminal decline.
2. Peru: reasonably possible changes in key assumptions that would result in impairment would be a 1.4% increase in the pre-tax discount rate, a 20% decrease in forecast cash flows reflecting a permanent loss in volumes arising from the COVID-19 pandemic or a 1% increase in terminal decline.

With the exception of the Malaysia and Peru cash-generating units, following the application of a reasonable range of sensitivities to all the cash-generating units, and after reflecting the impairments above, there was no indication of any further impairment.

In 2009, the Group acquired Bentoel and the goodwill arising from this acquisition was assigned to the Indonesia cash-generating unit. During 2019, the Indonesian government announced a significant increase in excise effective 1 January 2020. The recoverable amount of the Indonesia cash-generating unit had been determined on a value-in-use basis using a 10-year forecast with cash flows after year 10 extrapolated as described above. The 10-year forecast had been prepared to take into account the expected decline in revenue and the impact this would have on net revenue, operating profit and cash flows. The extent of the significant increase in excise was such that the forecast cash flows did not support the carrying value of goodwill and therefore the goodwill of £172 million was fully impaired in 2019. The other assets held by the Indonesian cash-generating unit were assessed for impairment and based on the recoverable amounts, no impairment charges were recognised at that time. However, as explained in note 3(e), in 2020, a £69 million impairment has been recognised in respect of machinery held by the Indonesian business.

As explained in note 8(c) above, in addition to the impairment of trademarks and similar intangibles, in 2019 the goodwill associated with the acquisitions of VapeWild and Quantus/Highendsmoke (note 23) was fully impaired amounting to £12 million and £10 million, respectively.

8 Intangible Assets Continued

(v) Impairment testing – Reynolds American

Goodwill relating to Reynolds American and the Newport trademark

On 15 November 2018, the US Food and Drug Administration (FDA) announced an intention to ban flavoured vaping products and menthol cigarettes. Management recognise that the FDA announcement in 2018 does not itself constitute a ban on menthol in cigarettes, and any proposed regulation of menthol in cigarettes would need to be introduced through the established US comprehensive rule-making process, the timetable and outcome for which was, and remains, uncertain. In addition, it is unclear how any such potential US regulation might affect the manufacture and marketing of Group combustible brands containing menthol.

During 2020, the FDA issued the Unified Agenda that did not progress the potential regulations with regards to menthol in tobacco products or restrictions on nicotine in tobacco products. The Group continues to monitor the regulatory developments but does not believe there is any significant impact of such restrictions on the Group's operations at this time. The Group has a long-standing track record of managing regulatory shifts and in the event of regulatory change the Group remains confident in its ability to navigate that environment successfully.

Since 2018, having considered the combination of the risk of implementation and impact of any change in regulations, the Group has not recognised any impairment on either the Newport brand or the Reynolds American goodwill, as management concluded that there would not be a significant impact to the value-in-use. The base case scenario used in the impairment model therefore does not include any potential impact of changes in regulation in relation to menthol flavourings in combustibles.

The carrying amounts for Reynolds American goodwill and Newport were £32,719 million and £29,248 million, respectively (2019: £33,761 million and £30,179 million). The value-in-use calculations for brands, as described in note 8(e)(ii) above, have been incorporated in the base case scenario used in the Reynolds American goodwill model. The value-in-use calculations have been prepared based on a five-year cash flow forecast which assumes long-term volume decline of cigarettes. This decline is more than offset by pricing. After this forecast, a growth rate of 1% has been assumed for Reynolds American goodwill and 1% for Newport and a pre-tax discount rate of 7.6% (2019: 7.3%) and 8.3% (2019: 8.6%), respectively.

The excess of value-in-use earnings over the carrying values (headroom) of the Reynolds American goodwill and the Newport brand would be reduced to nil if the following individual changes, none of which are considered reasonably possible by management, were made to the key assumptions used in the impairment model.

	Reynolds American goodwill %	Newport %
Assumptions		
Decrease in revenue by	5.6	16.2
Increase in pre-tax discount rate by	1.1	2.4

For Reynolds American goodwill, the change in revenue assumption is based on combustibles revenue in the five-year forecast reducing by 5.6% in each year and assumes that other assumptions are not changed. Due to the increased risk of uncertainty around the long-term implications of the COVID-19 pandemic several cash flow forecasts were prepared. The Group, for the purposes of preparing the impairment analysis, used conservative pricing assumptions and reduced the terminal value growth rate from 2% in 2019 to 1%. Such assumptions have been used for the purposes of impairment analysis only and do not reflect management's assessment of the potential performance of the Reynolds American cash-generating unit, which is expected to substantially exceed such assumptions. However, by using these conservative assumptions (including the reduction in terminal value growth compared to 2019), revenue would have to underperform the Group's impairment model by 5.6% per annum (2019: 13.4%). This is not deemed by management, due to the pricing potential, to be a reasonably possible scenario.

For Newport, the change in revenue assumption is based on the Newport revenue in the five-year forecast reducing by 16.2% in each year and assumes that other assumptions are not changed.

(vi) Impairment testing – Canada

Goodwill relating to Imperial Tobacco Canada Ltd (ITCAN)

In March 2019, ITCAN obtained an Initial Order from the Ontario Superior Court of Justice granting it protection under the Companies' Creditors Arrangement Act (CCAA). If the CCAA bankruptcy protection were to end, significant liabilities might crystallise. As a consequence, to reflect the risk to future operating cash flows, the value-in-use calculations have been prepared based on a five-year cash flow forecast, after which a growth rate of -2.3% and a pre-tax discount rate of 19.1% (2019: 19.1%) have been assumed. Further information on the Quebec Class Actions and CCAA can be found in note 27.

In addition to the increase in discount rate, a reasonable range of sensitivities was applied to the value-in-use calculation and there was no indication of impairment.

The excess of value-in-use earnings over the carrying values (headroom) of the ITCAN goodwill would be reduced to nil if the following individual changes, none of which are considered reasonably possible by management, were made to the key assumptions used in the impairment model. The change in revenue assumption is based on combustibles revenue in the five-year forecast reducing by 20.5% in each year and assumes that other assumptions are not changed.

Financial Statements

Notes on Accounts
Continued

8 Intangible Assets Continued

Canada
goodwill
%

Assumptions

Decrease in revenue by	20.5
Increase in pre-tax discount rate by	10.1

The £2,304 million of goodwill relating to ITCAN on the Group's balance sheet at 31 December 2020 will continue to be reviewed on a regular basis. Any future impairment charge would result in a non-cash charge to the income statement that will be treated as an adjusting item.

9 Property, Plant and Equipment

(a) Overview of property, plant and equipment, including right-of-use assets

2020

	Freehold property £m	Leasehold property £m	Plant, equipment and other owned £m	Plant, equipment and other leased £m	Assets in the course of construction £m	Total £m
1 January						
Cost	1,503	785	5,795	215	921	9,219
Accumulated depreciation and impairment	(427)	(229)	(2,974)	(71)	–	(3,701)
Net book value at 1 January	1,076	556	2,821	144	921	5,518
Differences on exchange	(38)	(25)	(150)	(4)	(55)	(272)
Additions						
– right-of-use assets	–	67	–	36		103
– separately acquired	2	–	40	–	459	501
– acquisition of subsidiaries (note 23)	–	1	–	–	–	1
Reallocations	84	14	427	–	(525)	–
Depreciation	(38)	(118)	(313)	(62)	–	(531)
Impairment	(5)	(1)	(184)	–	(36)	(226)
Right-of-use assets – reassessments, modifications and terminations	–	(11)	–	(7)	–	(18)
Disposals	(7)	–	(9)	–	–	(16)
Net reclassifications as held-for-sale	–	–	–	–	–	–
31 December						
Cost	1,518	798	5,807	217	764	9,104
Accumulated depreciation and impairment	(444)	(315)	(3,175)	(110)	–	(4,044)
Net book value at 31 December	1,074	483	2,632	107	764	5,060

9 Property, Plant and Equipment Continued

	2019					
	Freehold property £m	Leasehold property £m	Plant, equipment and other owned £m	Plant, equipment and other leased £m	Assets in the course of construction £m	Total £m
31 December						
Cost	1,515	268	5,730	33	1,108	8,654
Accumulated depreciation and impairment	(411)	(129)	(2,931)	(17)		(3,488)
Net book value at 31 December	1,104	139	2,799	16	1,108	5,166
Accounting policy change (IFRS 16) (note 30)		470		140		610
Net book value at 1 January	1,104	609	2,799	156	1,108	5,776
Differences on exchange	(56)	(30)	(136)	(9)	(51)	(282)
Additions						
– right-of-use assets	–	85	–	77		162
– separately acquired	3	1	46	–	566	616
– acquisition of subsidiaries (note 23)	–	4	2	–	–	6
Reallocations	73	12	610	–	(695)	–
Depreciation	(37)	(114)	(308)	(62)		(521)
Impairment	(6)	(2)	(159)	–	(7)	(174)
Right-of-use assets – reassessments, modifications and terminations	–	(9)	–	(18)		(27)
Disposals	(5)	–	(27)	–		(32)
Net reclassifications as held-for-sale	–	–	(6)	–		(6)
31 December						
Cost	1,503	785	5,795	215	921	9,219
Accumulated depreciation and impairment	(427)	(229)	(2,974)	(71)	–	(3,701)
Net book value at 31 December	1,076	556	2,821	144	921	5,518

Refer to notes 3(b) and 3(e) for more information on property, plant and equipment impairments.

As of 31 December 2020, the Group owns freehold property amounting to £1,074 million (2019: £1,076 million), representing factories, warehouses and office buildings together with adjoining land, mainly in the US, UK, Bangladesh, Indonesia and South Korea.

Upon adoption of IFRS 16 Leases prospectively from 1 January 2019, the right-of-use assets related to leased properties have been included in the asset class 'Leasehold Property' and other right-of-use assets have been reported under 'Plant, equipment and other leased'. A further breakdown of leasehold property is given in note 9(c).

Financial Statements

Notes on Accounts
Continued

9 Property, Plant and Equipment Continued

	2020 £m	2019 £m
Cost of freehold land within freehold property on which no depreciation is provided	251	261
Contracts placed for future expenditure	110	133

(b) Right-of-use assets

The Group leases various offices, warehouses, retail spaces, equipment and vehicles through its subsidiaries across the globe. Arrangements are entered into in the course of ordinary business, and lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions reflecting local commercial practice. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets representing 'leasehold property' relate to leases in respect of offices, retail space, warehouses and manufacturing facilities occupied by Group subsidiaries and include property leases with lease terms of more than five years in Japan, Brazil, Germany, Romania and Poland, amongst other countries. In addition, capitalised expenditure representing leasehold improvements is included in this category.

Assets representing 'plant, equipment and other' relate to leases of various assets including tobacco vending machines, industrial equipment and distribution vehicles in Japan, Russia, Romania, Brazil and other countries.

(c) Leasehold property

As of 31 December 2020, the Group holds £132 million (2019: £135 million) of leasehold properties acquired and another £351 million (2019: £421 million) of right-of-use leased properties.

	2020 £m	2019 £m
Leasehold land and property comprises		
– net book value of long leasehold	17	83
– net book value of short leasehold	466	473
	483	556

	2020				
Leasehold property net book value movements for the year ended 31 December 2020	Net book value at 1 January £m	Differences on exchange £m	Depreciation and impairment £m	Other net movements* £m	Net book value at 31 December £m
– Property acquired (IAS16)	135	(6)	(11)	14	132
– Right-of-use properties (IFRS16)	421	(19)	(108)	57	351
	556	(25)	(119)	71	483

	2019					
Leasehold property net book value movements for the year ended 31 December 2019	Net book value at 1 January £m	Accounting policy changes IFRS16 £m	Differences on exchange £m	Depreciation and impairment £m	Other net movements* £m	Net book value at 31 December £m
– Property acquired (IAS16)	139	–	(7)	(10)	13	135
– Right-of-use properties (IFRS16)	–	470	(23)	(106)	80	421
	139	470	(30)	(116)	93	556

* Property acquired (IAS 16) other net movements represent additions (directly acquired and/or transferred from assets in the course of construction) net of disposals, whereas the right-of-use properties (IFRS 16) other net movements relates to new leases net of reassessments, modifications and terminations as reported in the Property, plant and equipment movement table in note 9(a). Other net movements also includes £1 million (2019: £4 million) in relation to acquired companies.

10 Investments in Associates and Joint Ventures

	2020 £m	2019 £m
1 January	1,860	1,737
Total comprehensive income (note 5)	323	390
Dividends	(394)	(239)
Additions (note 23)	5	8
Other equity movements	2	(36)
31 December	1,796	1,860
Non-current assets	1,021	1,237
Current assets	1,155	1,085
Non-current liabilities	(61)	(74)
Current liabilities	(319)	(388)
	1,796	1,860
ITC Ltd. (Group's share of the market value is £7,574 million (2019: £9,099 million))	1,724	1,794
Other listed associates (Group's share of the market value is £184 million (2019: £221 million))	26	22
Unlisted associates	46	44
	1,796	1,860

The Group's investment in Tisak d.d. (Tisak) was acquired as part of the TDR transaction (note 23). During 2016, the Group entered into an agreement with Tisak's parent Agrokor d.d. (Agrokor) to convert certain outstanding trading balances into long-term loans and an additional shareholding in Tisak. As part of the agreement, Agrokor had the right to reacquire the additional shareholding in Tisak. As a consequence of this, while the Group had legal ownership of the additional shareholding, it did not consider that the shares provided any additional equity interest and continued to account for 26% of the equity of Tisak. In 2017, due to the financial difficulties of Agrokor and Tisak, the Group fully impaired this investment resulting in a charge of £27 million to the income statement in that year that was reported as an adjusting item. In July 2018, Agrokor's creditors approved a settlement plan proposed by Agrokor's administrators. The settlement plan has not returned any value to the Group and Tisak is expected to be liquidated in 2021.

The principal associate undertaking of the Group is ITC Ltd. (ITC). Included within the dividends amount of £394 million (2019: £239 million) are £386 million (2019: £231 million) attributable to dividends declared by ITC.

ITC Ltd.

ITC is an Indian conglomerate based in Kolkata and maintains a presence in cigarettes, hotels, paper and packaging, agri-business and other fast-moving goods (e.g. confectionery, branded apparel, personal care, stationery and safety matches). BAT's interest in ITC is 29.42%.

ITC prepares accounts on a quarterly basis with a 31 March year-end. As permitted by IAS 28, results up to 30 September 2020 have been used in applying the equity method. This is driven by the availability of information at the half-year, to be consistent with the treatment in the Group's interim accounts. Any further information available after the date used for reporting purposes is reviewed and any material items adjusted for in the final results. The latest published information available is at 31 December 2020.

	2020 £m	2019 £m
Non-current assets	3,399	4,124
Current assets	3,513	3,234
Non-current liabilities	(194)	(237)
Current liabilities	(858)	(1,031)
	5,860	6,090
Group's share of ITC Ltd. (2020: 29.42%; 2019: 29.46%)	1,724	1,794

Financial Statements

Notes on Accounts

Continued

11 Retirement Benefit Schemes

The Group's subsidiary undertakings operate defined benefit and defined contribution schemes including post-retirement healthcare schemes. Benefits provided through defined contribution schemes are charged as an expense as payments fall due.

The liabilities arising in respect of defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. It is Group policy that all schemes are formally valued at least every three years.

The principal schemes are in the US, UK, Germany, Canada, Netherlands and Switzerland. Together, schemes in these territories account for around 95% of the total underlying obligations of the Group's defined benefit pension arrangements. These obligations consist mainly of final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In addition, the Group operates several healthcare benefits schemes, of which the most significant are in the US and Canada. The liabilities in respect of healthcare benefits are also assessed by qualified independent actuaries, applying the projected unit credit method.

All of these arrangements, including funded schemes where formal trusts or equivalents are required, have been developed and are operated in accordance with local practices and regulations where applicable in the countries concerned. For example, in the US, the main funded pension plans are the *Reynolds American Retirement Plan* ("PEP") and the *Retirement Income Plan for Certain RAI Affiliates* ("Affiliates"), and the only funded healthcare scheme is the *Brown & Williamson Tobacco Corporation Welfare & Fringe Benefit Plan*, all of which are established with corporate trustees that are required to run the plans in accordance with the plan's rules and to comply with all relevant legislation, including the Employee Retirement Income Security Act of 1974. Similarly, in the UK, the main pension arrangement is the *British American Tobacco UK Pension Fund* (UK Fund), which is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the Fund's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004 and all other relevant legislation. With effect from 1 July 2020, the UK Fund was closed to further accrual of benefits with all active members becoming deferred members of the fund. No incentives or compensation was provided to affected employees. A past service credit was recognised on the difference between the salary increase assumption for active members and the inflation assumption for deferred members at the date of the plan amendment and curtailment of benefits.

Responsibility for the governance of the schemes across the Group, including investment decisions and contribution schedules, generally lies with the trustees. The trustees for each arrangement will usually consist of representatives appointed by both the sponsoring company and the beneficiaries. In the US, the corporate trustees act as custodians with a committee of local management acting in a fiduciary capacity with regard to investment decisions, risk mitigation and administration of the arrangements.

The majority of schemes are subject to local regulations regarding funding requirements. Contributions to defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, and after taking into account regulatory requirements in each territory. The Group's contributions to funded retirement benefit schemes in 2021 in total are expected to be £81 million compared to £103 million in 2020.

Contributions to the various funded plans in the US are agreed with the named fiduciary, scheme actuaries and the committee of local management after taking account of statutory requirements including the Pension Protection Act of 2006, as amended. Through its US subsidiaries, the Group may make significant contributions, either as required by statutory requirements or at the discretion of the Group, with the aim of maintaining a funding status of at least 90% and becoming fully funded long-term. During 2020, the Group did not contribute to its funded pension and post-retirement plans in the US and does not expect to do so in 2021. By the end of 2020, the PEP and Affiliates plans referred to above were each reporting a surplus under IAS 19 (£113 million and £119 million, respectively). Under the rules of these plans, any surplus would be returnable to the Group in the event of a termination or could otherwise be repurposed for other existing or replacement benefit plans and accordingly no surplus restrictions have been recognised.

With effect from July 2018, contributions to the UK Fund, as agreed with the Trustee to meet the cost of future benefit accrual, were £18 million per annum. Additional annual contributions to cover funding shortfalls were payable as required until the Fund was valued to 110% on a Technical Provisions basis. These were £12 million in 2020, and £12 million in each of 2019 and 2018. Total contributions payable to the UK Fund were secured by a charge over the Group's Head Office (Globe House) up to a maximum of £150 million. Following the completion of the 2020 triennial valuation noted below, the Trustee agreed to release the charge over Globe House. The UK Fund closed to future accrual for current employees with effect from 1 July 2020. Consequently, the Trustee and the Group agreed to reduce the 2020 contribution payment for future service from £18 million to £9 million to reflect this. An interim Schedule of Contributions dated 15 July 2020 was put in place in order to give effect to this until the formal valuation of the Fund had been completed.

The formal triennial actuarial valuation of the Fund was carried out with an effective date of 31 March 2020. This showed that the Fund had a surplus of £139 million on a Technical Provisions basis, in accordance with the statutory funding objective. The Trustee also has a Long-Term Funding Target to be fully funded on a Solvency Liabilities basis by 2026, and on this basis the Fund had a surplus of £7 million at the valuation date. The Trustee and the Group agreed a new Schedule of Contributions with an effective date of 5 October 2020 such that the Group will pay £12 million per annum from July 2021 until July 2023. Under the rules of the scheme, any future surplus would be returnable to the Group by refund at the end of the life of the scheme. The funding commitment is therefore not considered onerous, and in accordance with IFRIC 14 no additional liabilities or surplus restrictions have been recognised in respect of these commitments.

Payments made to pensioners by the operating companies in Germany, net of income on scheme assets, are deemed to be company contributions to the Contractual Trust Arrangements and are anticipated to be around £33 million in 2021 and the same amount for the four years after that. Contributions to pension schemes in Canada, Netherlands and Switzerland in total are anticipated to be around £20 million in 2021 and then around £10 million per annum for the four years after that.

11 Retirement Benefit Schemes Continued

The majority of benefit payments are from trustee administered funds, however, there are also a number of unfunded schemes where the sponsoring company meets the benefit payment obligation as it falls due, including UK based Defined Benefit and Defined Contribution Unapproved Unfunded Retirement Benefit Schemes (DB UURBS and DC UURBS respectively). The DC UURBS credits accrued in the year are increased in line with the Company's Weighted Average Cost of Debt and the scheme is therefore treated as a defined benefit scheme under IAS 19. For unfunded schemes in the US, UK and Canada, 39% of the liabilities reported at year-end are expected to be settled by the Group within 10 years, 28% between 10 and 20 years, 18% between 20 and 30 years, and 15% thereafter.

The funded arrangements in the Group have policies on investment management, including strategies over a preferred long-term investment profile, and schemes in certain territories including Canada and Netherlands manage their bond portfolios to match the weighted average duration of scheme liabilities.

For funded plans in the US, the Group employs a risk mitigation strategy which seeks to balance pension plan returns with a reasonable level of funded status volatility. Based on this framework, the asset allocation has two primary components. The first component is the hedging portfolio, which uses extended duration fixed income holdings (typically US Government and investment grade corporate bonds) and, to a lesser extent, derivatives to match a portion of the interest rate risk associated with the benefit obligations, thereby reducing expected funded status volatility. The second component is the return-seeking portfolio, which is designed to enhance portfolio returns. The return-seeking portfolio is broadly diversified across asset classes.

On 31 May 2019, the Trustee of the UK Fund entered into an agreement with Pension Insurance Corporation plc (PIC) to acquire an insurance policy that operates as a UK Fund investment asset, with the intent of matching a specific part of the UK Fund's future cash flow arising from the accrued pension liabilities of retired and deferred members. Such an arrangement, commonly referred to as a 'buy-in', has reduced the UK Fund's value at risk in relation to key risks associated with improved longevity, inflation and interest rate movements while improving the security to the UK Fund and its members. On an IAS 19 basis, the fair value of the insurance policy matches the present value of the liabilities being insured. On completion of the transaction, a loss of £691 million was recognised through the statement of other comprehensive income on the revaluation of the insurance asset.

For the residual assets in the UK Fund, the current allocation is broadly split as 75% in risk reducing assets and 25% in return seeking assets. The return seeking portfolio is invested in illiquid assets which, in the normal course of events, will wind down naturally over time, with their value being realised as the investments mature. This is consistent with the Trustee's ultimate target which is to be 100% invested in risk reducing assets or matching assets. Given the strong funding position of the UK Fund as shown in the 31 March 2020 Actuarial valuation, the Trustee will continue to review the investment strategy and may look to increase the proportion of risk-reducing or matching assets, commensurate with their ultimate target to further reduce the UK Fund's exposure to the key risk above.

Through its defined benefit pension schemes and healthcare benefit schemes, the Group is exposed to a number of risks, including:

Asset volatility:

The plan liabilities are calculated using discount rates set by reference to bond yields. If plan assets underperform this yield, e.g. due to stock market volatility, this will create a deficit. However, most schemes hold a proportion of assets which are expected to outperform bonds in the long term, and the majority of schemes by value are subject to local regulation regarding funding deficits.

Changes in bond yields:

A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings or other hedging instruments.

Inflation risk:

Some of the Group's pension obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases, caps on the level of inflationary increases are in place in the scheme rules, while some assets and derivatives provide specific inflation protection.

Life expectancy:

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. Assumptions regarding mortality and mortality improvements are regularly reviewed in line with actuarial tables and scheme specific experience.

Financial Statements

Notes on Accounts
Continued

11 Retirement Benefit Schemes Continued

The amounts recognised in the balance sheet are determined as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Present value of funded scheme liabilities	(11,970)	(11,454)	(253)	(272)	(12,223)	(11,726)
Fair value of funded scheme assets	12,403	11,682	173	178	12,576	11,860
	433	228	(80)	(94)	353	134
Unrecognised funded scheme surpluses	(16)	(28)	–	–	(16)	(28)
	417	200	(80)	(94)	337	106
Present value of unfunded scheme liabilities	(602)	(578)	(545)	(557)	(1,147)	(1,135)
	(185)	(378)	(625)	(651)	(810)	(1,029)

The above net (liability)/asset is recognised in the balance sheet as follows:

– retirement benefit scheme liabilities	(897)	(807)	(627)	(652)	(1,524)	(1,459)
– retirement benefit scheme assets	712	429	2	1	714	430
	(185)	(378)	(625)	(651)	(810)	(1,029)

The net liabilities of funded pension schemes by territory are as follows:

	Liabilities		Assets		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
– US	(5,012)	(4,945)	5,144	4,818	132	(127)
– UK	(3,485)	(3,214)	3,866	3,533	381	319
– Germany	(1,035)	(958)	918	928	(117)	(30)
– Canada	(756)	(738)	758	747	2	9
– Netherlands	(873)	(778)	893	814	20	36
– Switzerland	(348)	(333)	312	294	(36)	(39)
– Rest of Group	(461)	(488)	512	548	51	60
Funded schemes	(11,970)	(11,454)	12,403	11,682	433	228

Of the Group's unfunded pension schemes 54% (2019: 50%) relate to arrangements in the UK and 32% (2019: 32%) relate to arrangements in the US, while 85% (2019: 86%) of the Group's unfunded healthcare arrangements relate to arrangements in the US.

The amounts recognised in the income statement are as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Defined benefit schemes						
Service cost						
– current service cost	72	92	2	2	74	94
– past service (credit)/cost, curtailments and settlements	(12)	7	–	–	(12)	7
Net interest on the net defined benefit liability						
– interest on scheme liabilities	300	391	27	34	327	425
– interest on scheme assets	(289)	(388)	(7)	(8)	(296)	(396)
– interest on unrecognised funded scheme surpluses	1	–	–	–	1	–
	72	102	22	28	94	130
Defined contribution schemes	88	97	–	–	88	97
Total amount recognised in the income statement (note 3(a))	160	199	22	28	182	227

The above charges are recognised within employee benefit costs in note 3(a) and include a charge of £10 million in 2020 (2019: £16 million) in respect of settlements, past service costs and defined contribution costs reported as part of the restructuring costs charged in arriving at profit from operations (note 3(e)). Included in current service cost in 2020 is £16 million (2019: £21 million) of administration costs. Current service cost is stated after netting employee contributions, where applicable.

11 Retirement Benefit Schemes Continued

The movements in scheme liabilities are as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Present value at 1 January	12,032	11,562	829	861	12,861	12,423
Differences on exchange	(106)	(343)	(23)	(30)	(129)	(373)
Current service cost	72	94	2	2	74	96
Past service cost/(credit) & settlements	(58)	7	–	–	(58)	7
Interest on scheme liabilities	300	391	27	34	327	425
Contributions by scheme members	1	–	–	–	1	–
Benefits paid	(737)	(743)	(58)	(63)	(795)	(806)
Actuarial (gains)/losses						
– arising from changes in demographic assumptions	26	(84)	(7)	(10)	19	(94)
– arising from changes in financial assumptions	1,032	1,105	59	70	1,091	1,175
Experience gains	10	43	(31)	(35)	(21)	8
Present value at 31 December	12,572	12,032	798	829	13,370	12,861

Changes in financial assumptions principally relate to discount rate movements in both years.

Scheme liabilities by scheme membership:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Active members	1,305	1,895	54	59	1,359	1,954
Deferred members	1,897	1,308	2	2	1,899	1,310
Retired members	9,370	8,829	742	768	10,112	9,597
Present value at 31 December	12,572	12,032	798	829	13,370	12,861

Approximately 95% of scheme liabilities in both years relate to guaranteed benefits.

The movements in funded scheme assets are as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of scheme assets at 1 January	11,682	11,747	178	178	11,860	11,925
Differences on exchange	(117)	(326)	(7)	(6)	(124)	(332)
Settlements	(45)	–	–	–	(45)	–
Interest on scheme assets	289	388	7	8	296	396
Company contributions	103	82	–	–	103	82
Contributions by scheme members	3	3	–	–	3	3
Benefits paid	(696)	(704)	(15)	(17)	(711)	(721)
Actuarial gains/(losses)	1,184	492	10	15	1,194	507
Fair value of scheme assets at 31 December	12,403	11,682	173	178	12,576	11,860

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Equities – listed	1,259	1,221	5	7	1,264	1,228
Equities – unlisted	992	1,025	68	68	1,060	1,093
Bonds – listed	2,432	2,739	5	7	2,437	2,746
Bonds – unlisted	3,163	2,417	73	74	3,236	2,491
Other assets – listed	202	549	13	13	215	562
Other assets – unlisted	4,355	3,731	9	9	4,364	3,740
Fair value of scheme assets at 31 December	12,403	11,682	173	178	12,576	11,860

Scheme assets have been diversified into equities, bonds and other assets and are typically invested via fund investment managers into both pooled and segregated mandates of listed and unlisted equities and bonds.

Financial Statements

Notes on Accounts
Continued

11 Retirement Benefit Schemes Continued

In the above analysis investments via equity-based investment funds are shown under listed equities, and investments via bond-based investment funds are shown under listed bonds. Other assets include insurance contracts, cash and other deposits, derivatives and other hedges, recoverable taxes, infrastructure investments and investment property.

In the US, pension plan assets are invested using active investment strategies and multiple investment management firms. Managers within each asset class cover a range of investment styles and approaches. Allowable investment types include global equity, fixed income, real assets, private equity and absolute return. The range of allowable investment types utilised for pension assets provides enhanced returns and more widely diversifies the plan.

The UK Fund historically has diversified a portion of the assets held by investing in equities listed on non-UK stock exchanges via investment funds, and by making use of liability driven investment funds and inflation opportunity funds as part of its investment portfolio. As noted above, during 2019 the Trustee acquired an insurance policy that operates as a UK Fund investment asset in a 'buy-in' transaction. The residual assets now predominantly consist of liability driven investments and absolute return funds as well as a proportion of illiquid investments, such as private equity and infrastructure investments.

The actuarial gains and losses in both years principally relate to movements in the fair values of scheme assets and actual returns are stated net of applicable taxes and fund management fees. The fair values of listed scheme assets were derived from observable data including quoted market prices and other market data, including market values of individual segregated investments and of pooled investment funds where quoted. The fair values of unlisted assets were derived from cash flow projections of estimated future income after taking into account the estimated recoverable value of these assets.

The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes			Healthcare schemes			Total		
	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m
Unrecognised funded scheme surpluses at 1 January	(28)	(20)	(23)	–	–	–	(28)	(20)	(23)
Differences on exchange	3	(1)	1	–	–	–	3	(1)	1
Interest on unrecognised funded scheme surpluses	(1)	–	(2)	–	–	–	(1)	–	(2)
Movement in year (note 18)	10	(7)	4	–	–	–	10	(7)	4
Unrecognised funded scheme surpluses at 31 December	(16)	(28)	(20)	–	–	–	(16)	(28)	(20)

The principal actuarial assumptions (weighted to reflect individual scheme differences) used in the following territories are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

	2020						2019					
	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK	Germany	Canada	Netherlands	Switzerland
Rate of increase in salaries (%)	3.4	–	2.5	3.0	2.1	1.1	3.4	3.0	0.6	3.0	2.1	1.3
Rate of increase in pensions in payment (%)	2.5	3.0	1.5	Nil	0.9	Nil	2.5	3.0	0.4	Nil	0.9	Nil
Rate of increase in deferred pensions (%)	–	2.2	1.5	Nil	0.9	–	–	2.2	0.4	Nil	0.9	–
Discount rate (%)	2.6	1.4	0.9	2.3	0.5	–	3.3	2.0	0.3	3.0	1.1	0.1
General inflation (%)	2.5	3.0	1.5	2.0	2.0	0.9	2.5	3.0	0.4	2.0	2.0	1.1

	2020						2019					
	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK	Germany	Canada	Netherlands	Switzerland
Weighted average duration of liabilities (years)	11.6	17.0	14.0	11.0	18.0	13.4	11.4	16.1	14.0	11.0	17.8	13.9

For healthcare inflation in the **US**, the assumption is 6.0% for 2020 (2019: 6.5%) and in **Canada**, the assumption is 5.0% for both years.

11 Retirement Benefit Schemes Continued

Mortality assumptions are subject to regular review. The principal schemes used the following tables:

US	PRI-2012 mortality tables without collar or amount, projected with MP-2020 generational projection (2019: RP-2019 and MP-2019)
UK	S2PA (YOB) with the CMI (2019) improvement model with a 1.25% long-term improvement rate (2019: CMI (2018))
Germany	RT Heubeck 2018 G (both years)
Canada	CPM-2014 Private Table (both years)
Netherlands	AG Prognosetafel 2020 (2019: AG Prognosetafel 2018)
Switzerland	LPP/BVG 2015 base table with CMI projection factors for mortality improvements with a 1.5% long-term improvement rate (both years)

Based on the above, the weighted average life expectancy, in years, for mortality tables used to determine benefit obligations is as follows:

	US		UK		Germany		Canada		Netherlands		Switzerland	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
31 December 2020												
Member age 65 (current life expectancy)	20.4	22.4	22.8	24.1	18.3	23.8	21.6	24.0	20.6	24.0	21.9	23.9
Member age 45 (life expectancy at age 65)	21.9	23.8	24.5	25.9	23.1	26.0	22.6	24.9	22.7	25.7	23.8	25.8
31 December 2019												
Member age 65 (current life expectancy)	20.6	22.6	22.4	23.9	20.2	23.7	21.6	23.9	21.0	24.3	21.8	23.8
Member age 45 (life expectancy at age 65)	22.2	24.1	24.0	25.2	23.0	25.9	22.6	24.9	23.4	26.3	23.7	25.7

For the remaining territories, typical assumptions are that real salary increases will be from 0% to 9.0% (2019: 0% to 5.0%) per annum and discount rates will be from 0% to 12.0% (2019: 0% to 11.7%) above inflation. Pension increases, where allowed for, are generally assumed to be in line with inflation. Assumptions of life expectancy are in line with best practice in each territory. For countries where there is not a deep market in such corporate bonds, the yield on government bonds is used.

The valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2020 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase £m	1 year decrease £m	0.25 percentage point increase £m	0.25 percentage point decrease £m
Average life expectancy – increase/(decrease) of scheme liabilities	343	(339)		
Rate of inflation – increase/(decrease) of scheme liabilities			209	(196)
Discount rate – (decrease)/increase of scheme liabilities			(388)	411

A one percentage point increase in healthcare inflation would increase healthcare scheme liabilities by £41 million, and a one percentage point decrease would decrease liabilities by £32 million. The income statement effect of this change in assumption is not material.

Financial Statements

Notes on Accounts
Continued

12 Deferred Tax

Net deferred tax (liabilities)/assets comprise:

	Stock relief £m	Excess of capital allowances over depreciation £m	Tax losses £m	Undistributed earnings of associates and subsidiaries £m	Retirement benefits £m	Trademarks £m	Other temporary differences £m	Total £m
1 January 2020	(45)	(208)	79	(318)	279	(17,408)	995	(16,626)
Differences on exchange	4	13	(3)	8	–	528	(44)	506
Credited/(charged) to the income statement	28	(6)	(21)	(18)	(12)	75	138	184
Credited relating to changes in tax rates	–	12	3	97	–	21	–	133
Credited to other comprehensive income	–	–	–	–	(21)	–	44	23
31 December 2020	(13)	(189)	58	(231)	246	(16,784)	1,133	(15,780)
1 January 2019	(70)	(210)	105	(281)	222	(18,246)	1,048	(17,432)
Differences on exchange	4	11	(2)	15	(9)	701	(40)	680
Subsidiaries acquired (note 23)	–	–	–	–	–	(4)	–	(4)
Credited/(charged) to the income statement	21	(9)	(24)	(52)	(15)	92	(68)	(55)
(Charged)/credited relating to changes in tax rates	–	–	–	–	(1)	49	(1)	47
Credited to other comprehensive income	–	–	–	–	82	–	56	138
31 December 2019	(45)	(208)	79	(318)	279	(17,408)	995	(16,626)

The net deferred tax liabilities are reflected in the Group balance sheet as follows: deferred tax asset of £534 million and deferred tax liability of £16,314 million (2019: deferred tax asset of £424 million and deferred tax liability of £17,050 million), after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

At the balance sheet date, the Group has not recognised a deferred tax asset in respect of unused tax losses of £342 million (2019: £342 million) which have no expiry date and unused tax losses of £458 million (2019: £208 million) which will expire within the next 20 years.

In 2020 and 2019 the Group has not recognised any deferred tax asset in respect of deductible temporary differences which have no expiry date and has not recognised £173 million (2019: £92 million) in respect of deductible temporary differences which will expire within the next 10 years.

At the balance sheet date, the Group has unused tax credits of £80 million (2019: £80 million) which have no expiry date. No amount of deferred tax has been recognised in respect of these unused tax credits.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries which would be subject to dividend withholding tax and for which no withholding tax liability has been recognised was £0.6 billion (2019: £0.6 billion).

13 Trade and Other Receivables

	2020 £m	2019 £m
Trade receivables	2,763	3,369
Loans and other receivables	696	629
Prepayments and accrued income	504	343
	3,963	4,341
Current	3,721	4,093
Non-current	242	248
	3,963	4,341

The majority of receivables are held in order to collect contractual cash flows, in accordance with the Group's business model for managing financial assets, and hence are measured at amortised cost. In certain countries, however, the Group has entered into factoring arrangements and periodically sells certain trade receivables to banks and other financial institutions, without recourse, for cash. These trade receivables have been derecognised from the statement of financial position to reflect the transfer by the Group of substantially all of the risks and rewards of the receivables, including credit risk. Consequently, the cash inflows have been recognised within operating cash flows. Typically in these arrangements, the Group also acts as a collection agent for the bank. At 31 December 2020, the value of trade receivables derecognised through the factoring arrangements where the Group acts as a collection agent was £600 million (2019: £572 million) and where the Group does not act as a collection agent was £25 million (2019: £26 million). Included in trade receivables above is £205 million (2019: £295 million) of trade debtor balances which were available for factoring under these arrangements.

Included in loans and other receivables are £78 million of litigation related deposits (2019: £110 million). Management has determined that these payments represent a resource controlled by the entity, as a result of past events and from which future economic benefits are expected to flow to the entity either by being recoverable on conclusion of ongoing appeal processes or by reducing amounts payable on recognition of liabilities which have yet to be determined should the appeal process fail. These deposits are held at the fair value of consideration transferred less impairment, if applicable. The effect of discounting would be immaterial.

Prepayments and accrued income include £8 million (2019: £5 million) of accrued income primarily in relation to rebates.

Amounts receivable from related parties including associated undertakings are shown in note 26.

Trade and other receivables have been reported in the balance sheet net of allowances as follows:

	2020 £m	2019 £m
Trade receivables – gross	2,804	3,396
Trade receivables – allowance	(41)	(27)
Loans and other receivables – gross	696	639
Loans and other receivables – allowance	–	(10)
Prepayments and accrued income	504	343
Net trade and other receivables per balance sheet	3,963	4,341

Financial Statements

Notes on Accounts
Continued

13 Trade and Other Receivables Continued

The movements in the allowance account are as follows:

	2020			2019		
	Trade receivables £m	Loans and other receivables £m	Total £m	Trade receivables £m	Loans and other receivables £m	Total £m
1 January	27	10	37	30	10	40
Differences on exchange	(2)	–	(2)	(2)	–	(2)
Provided in the year	31	–	31	24	–	24
Released	(15)	(10)	(25)	(25)	–	(25)
31 December	41	–	41	27	10	37

As permitted by IFRS 9, the loss allowance on trade receivables arising from the recognition of revenue under IFRS 15 is initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

Trade and other receivables are predominantly denominated in the functional currencies of subsidiary undertakings apart from the following: US dollar: 2.6% (2019: 4.2%), UK sterling: 0.1% (2019: 0.2%), Euro: 0.4% (2019: 1.1%) and other currencies: 1.7% (2019: 11.2%).

There is no material difference between the above amounts for trade and other receivables and their fair value due to the short-term duration of the majority of trade and other receivables as determined using discounted cash flow analysis. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers.

14 Investments Held at Fair Value

	2020 £m	2019 £m
Investments		
Fair value through P&L	255	127
Fair value through OCI	9	8
	264	135
Current	242	123
Non-current	22	12
	264	135

Investments held at fair value through other comprehensive income (OCI) relate to the Group's corporate venturing partnerships with various start-up businesses which are held for their strategic value.

	2020 £m	2019 £m
Functional currency	260	131
US dollar	4	4
	264	135

The classification of these investments under the IFRS 13 fair value hierarchy is given in note 22.

There is no material difference between the investments held at fair value and their gross contractual values.

15 Derivative Financial Instruments

The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these derivative assets and liabilities under the IFRS 13 fair value hierarchy is given in note 22.

	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges				
– interest rate swaps	20	–	177	62
– cross-currency swaps	255	–	191	–
Cash flow hedges				
– interest rate swaps	–	–	–	187
– cross-currency swaps	189	–	114	84
– forward foreign currency contracts	62	100	57	50
Net investment hedges				
– forward foreign currency contracts	211	43	178	19
Held-for-trading*				
– interest rate swaps	45	53	3	6
– forward foreign currency contracts	15	123	45	60
Total	797	319	765	468
Current	430	278	313	181
Non-current	367	41	452	287
	797	319	765	468
Derivatives				
– in respect of net debt**	518	172	527	384
– other	279	147	238	84
	797	319	765	468

* Derivatives which do not meet the tests for hedge accounting under IFRS 9 or which are not designated as hedging instruments are referred to as 'held-for-trading'. These derivatives principally consist of interest rate swaps and forward foreign currency contracts which have not been designated as hedges due to their value changes offsetting with other components of net finance costs relating to financial assets and financial liabilities. The Group does not use derivatives for speculative purposes. All derivatives are undertaken for risk management purposes.

** Derivatives in respect of net debt are in a net asset position of £346 million as at 31 December 2020 (2019: net asset position of £143 million). The Group's net debt is presented in note 19.

For cash flow hedges, the timing of expected cash flows is as follows: assets of £251 million (2019: £171 million) of which £98 million (2019: £51 million) is expected within one year and £143 million (2019: £114 million) beyond five years and liabilities of £100 million (2019: £321 million) of which £94 million (2019: £75 million) is expected within one year and £nil (2019: £163 million) beyond five years.

The Group's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. A certain number of forward foreign currency contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 19. Interest rate swaps have been used to manage the interest rate profile of external borrowings and are reflected in the re-pricing table in note 19.

Financial Statements

Notes on Accounts
Continued

15 Derivative Financial Instruments Continued

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

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

	2020				2019			
	Assets		Liabilities		Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m
Within one year								
– forward foreign currency contracts	7,345	(6,567)	10,661	(10,185)	10,168	(9,367)	8,534	(8,069)
– cross-currency swaps	1,756	(1,655)	–	–	35	(38)	18	(62)
Between one and two years								
– forward foreign currency contracts	522	(498)	285	(266)	548	(524)	278	(263)
– cross-currency swaps	33	(54)	–	–	811	(765)	969	(1,012)
Between two and three years								
– cross-currency swaps	1,446	(1,261)	–	–	15	(23)	17	(36)
Between three and four years								
– cross-currency swaps	19	(29)	–	–	725	(590)	683	(679)
Between four and five years								
– cross-currency swaps	469	(451)	–	–	9	(15)	10	(15)
Beyond five years								
– cross-currency swaps	767	(594)	–	–	762	(609)	460	(435)
	12,357	(11,109)	10,946	(10,451)	13,073	(11,931)	10,969	(10,571)

The maturity dates of net-settled derivative financial instruments, which primarily relate to interest rate swaps, are as follows:

	2020		2019	
	Assets Inflow £m	Liabilities Outflow £m	Assets Inflow £m	Liabilities Outflow £m
Within one year	296	263	44	44
Between one and two years	26	21	25	39
Between two and three years	16	18	25	39
Between three and four years	–	–	10	21
Between four and five years	–	–	43	63
Beyond five years	–	–	182	263
	338	302	329	469

15 Derivative Financial Instruments Continued

The items designated as hedging instruments are as follows:

	2020		2019	
	Nominal amount of hedging instrument £m	Changes in fair value used for calculating hedge ineffectiveness £m	Nominal amount of hedging instrument £m	Changes in fair value used for calculating hedge ineffectiveness £m
Interest rate risk exposure:				
Fair value hedges				
– interest rate swaps	757	(5)	3,065	73
– cross-currency swaps	1,428	66	1,436	(72)
Cash flow hedges				
– interest rate swaps	–	–	4,068	(103)
– cross-currency swaps	2,822	(155)	2,695	(61)
Foreign currency risk exposure:				
Cash flow hedges				
– forward foreign currency contracts	3,279	(36)	3,827	(3)
Net investment hedges (derivative related)				
– forward foreign currency contracts	5,922	156	5,274	161
Net investment hedges (non-derivative related)				
– debt (carrying value) in borrowings designated as net investment hedges of net assets	392	21	372	22

16 Inventories

	2020 £m	2019 £m
Raw materials and consumables	2,362	2,750
Finished goods and work in progress	3,549	3,258
Goods purchased for resale	87	86
	5,998	6,094

Inventories pledged as security for liabilities amount to £2 million (2019: £7 million). Write-offs taken to other operating expenses in the Group income statement were £309 million (2019: £255 million; 2018: £148 million). In 2020, this included £24 million in relation to the restructuring in Indonesia (refer to note 3(e)) and £47 million as a result of the decision to withdraw glo Sens from Japan. Goods purchased for resale include Group brands produced under third-party contract manufacturing arrangements.

Financial Statements

Notes on Accounts

Continued

17 Cash and Cash Equivalents

	2020 £m	2019 £m
Cash and bank balances	2,940	2,256
Cash equivalents	199	270
	3,139	2,526

The carrying value of cash and cash equivalents approximates their fair value.

Cash and cash equivalents are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	2020 £m	2019 £m
Functional currency	2,597	2,199
US dollar	197	127
Euro	170	64
Other currencies	175	136
	3,139	2,526

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts and accrued interest where applicable, as follows:

	2020 £m	2019 £m
Cash and cash equivalents as above	3,139	2,526
Less overdrafts and accrued interest	(251)	(491)
Net cash and cash equivalents	2,888	2,035

Cash and cash equivalents include restricted amounts of £878 million (2019: £445 million) due to subsidiaries in CCAA protection (note 28), as well as £455 million (2019: £182 million) principally due to exchange control restrictions, including amounts of £141 million (2019: £nil) where the underlying restrictions are expected to be short-term in nature.

Cash and cash equivalents also include £48 million (2019: £14 million) of cash that is held as a hedging instrument.

18 Capital and Reserves

(a) Share capital

	Ordinary shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2020	2,456,520,738	614.12
Changes during the year		
– share option schemes	70,859	0.02
31 December 2020	2,456,591,597	614.14
Allotted and fully paid		
1 January 2019	2,456,415,884	614.09
Changes during the year		
– share option schemes	104,854	0.03
31 December 2019	2,456,520,738	614.12
Allotted and fully paid		
1 January 2018	2,456,278,414	614.06
Changes during the year		
– share option schemes	137,470	0.03
31 December 2018	2,456,415,884	614.09

(b) Share premium account, capital redemption reserves and merger reserves comprise:

	Share premium account £m	Capital redemption reserves £m	Merger reserves £m	Total £m
31 December 2020	103	101	26,414	26,618
31 December 2019	94	101	26,414	26,609
31 December 2018	91	101	26,414	26,606

Share premium account

The share premium account includes the difference between the value of shares issued and their nominal value. The share premium increase includes £2 million (2019: £3 million; 2018: £4 million) in respect of ordinary shares issued under the Company's share option schemes. A further £7 million (2019: £nil; 2018: £nil) increase in share premium is related to shares repurchased and not cancelled that have been transferred from the Company to other Group undertakings, to be granted to certain employees on vesting of awards, and represents the excess of transfer price of the share over the original weighted average cost of shares.

Capital redemption account

On the purchase of own shares as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of shares purchased. Purchased shares which are not cancelled are classified as treasury shares and presented as a deduction from total equity.

Financial Statements

Notes on Accounts
Continued

18 Capital and Reserves Continued

Merger reserve account

The merger reserve comprises:

- a. In 1999, shares were issued for the acquisition of the Rothmans International B.V. Group and the difference between the fair value of shares issued and their nominal value of £3,748 million was credited to merger reserves; and
- b. On 25 July 2017, the Group announced the completion of the acquisition of the remaining 57.8% of RAI not already owned by the Group. Shares were issued for the acquisition and the difference between the fair value of shares issued and their nominal value of £22,666 million was credited to merger reserves.

(c) Equity attributed to owners of the parent – movements in other reserves and retained earnings (which are after deducting treasury shares) comprise:

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Retained earnings	
							Treasury shares (vi) £m	Other £m
1 January 2020	(3,974)	(346)	13	179	573	(3,555)	(5,261)	45,495
Comprehensive income and expense								
Profit for the year	–	–	–	–	–	–	–	6,400
Differences on exchange	(2,582)	–	–	–	–	(2,582)	–	–
Cash flow hedges								
– net fair value losses	–	(256)	–	–	–	(256)	–	–
– reclassified and reported in profit for the year	–	90	–	–	–	90	–	–
Net investment hedges								
– net fair value losses	(16)	–	–	–	–	(16)	–	–
– differences on exchange on borrowings	(163)	–	–	–	–	(163)	–	–
Associates – share of OCI, net of tax (note 5)	(95)	(3)	–	–	–	(98)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	44	–	–	–	44	–	–
Retirement benefit schemes								
– net actuarial gains (note 11)	–	–	–	–	–	–	–	105
– surplus recognition (note 11)	–	–	–	–	–	–	–	10
Associates – share of OCI, net of tax (note 5)	–	–	(31)	–	–	(31)	–	(3)
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	(26)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	–	(33)	–	–	–	(33)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	88
– treasury shares used for share option schemes	–	–	–	–	–	–	9	(16)
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(4,747)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(17)	–
Other movements	–	–	–	–	–	–	119	(115)
31 December 2020	(6,830)	(504)	(18)	179	573	(6,600)	(5,150)	47,191

18 Capital and Reserves Continued

							Retained earnings	
	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Treasury shares (vi) £m	Other £m
1 January 2019	(914)	(177)	6	179	573	(333)	(5,242)	43,799
Comprehensive income and expense								
Profit for the year	–	–	–	–	–	–	–	5,704
Differences on exchange	(2,948)	–	–	–	–	(2,948)	–	–
Cash flow hedges								
– net fair value losses	–	(246)	–	–	–	(246)	–	–
– reclassified and reported in profit for the year	–	53	–	–	–	53	–	–
Net investment hedges								
– net fair value gains	21	–	–	–	–	21	–	–
– differences on exchange on borrowings	(18)	–	–	–	–	(18)	–	–
Associates – share of OCI, net of tax (note 5)	(115)	–	–	–	–	(115)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	56	–	–	–	56	–	–
Retirement benefit schemes								
– net actuarial losses (note 11)	–	–	–	–	–	–	–	(582)
– surplus recognition (note 11)	–	–	–	–	–	–	–	(7)
Associates – share of OCI, net of tax (note 5)	–	–	7	–	–	7	–	–
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	75
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	–	(32)	–	–	–	(32)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	115
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(3,476)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(117)	–
Other movements	–	–	–	–	–	–	98	(133)
31 December 2019	(3,974)	(346)	13	179	573	(3,555)	(5,261)	45,495

Financial Statements

Notes on Accounts
Continued

18 Capital and Reserves Continued

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Retained earnings	
							Treasury shares (vi) £m	Other £m
31 December 2017	(4,029)	(132)	17	179	573	(3,392)	(5,195)	42,130
Accounting policy change (IFRS 9) (note 30)	–	–	(9)	–	–	(9)	–	(29)
1 January 2018	(4,029)	(132)	8	179	573	(3,401)	(5,195)	42,101
Comprehensive income and expense								
Profit for the year	–	–	–	–	–	–	–	6,032
Differences on exchange	3,861	–	–	–	–	3,861	–	–
Cash flow hedges								
– net fair value losses	–	(58)	–	–	–	(58)	–	–
– reclassified and reported in profit for the year	–	17	–	–	–	17	–	–
Investments held at fair value								
– reclassified and reported in retained earnings	–	–	(8)	–	–	(8)	–	8
Net investment hedges								
– net fair value losses	(472)	–	–	–	–	(472)	–	–
– differences on exchange on borrowings	(236)	–	–	–	–	(236)	–	–
Associates – share of OCI, net of tax (note 5)	(38)	–	–	–	–	(38)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	18	–	–	–	18	–	–
Retirement benefit schemes								
– net actuarial gains	–	–	–	–	–	–	–	138
– surplus recognition	–	–	–	–	–	–	–	4
Associates – share of OCI, net of tax (note 5)	–	–	6	–	–	6	–	–
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	(33)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	–	(22)	–	–	–	(22)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	121
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(4,463)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(139)	–
Non-controlling interests – acquisitions	–	–	–	–	–	–	–	(11)
Other movements	–	–	–	–	–	–	92	(98)
31 December 2018	(914)	(177)	6	179	573	(333)	(5,242)	43,799

18 Capital and Reserves Continued

i. Translation reserve:

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

In 2018, within the translation reserve differences on exchange, a gain of £107 million has been recognised in relation to the application of hyperinflationary accounting in Venezuela as explained in note 3(h).

ii. Hedging reserve:

The hedging reserve is explained in the accounting policy on financial instruments in note 1.

Of the amounts reclassified from the hedging reserve and reported in profit for the year, a gain of £16 million (2019: £12 million gain; 2018: £15 million gain) and a gain of £19 million (2019: £3 million gain; 2018: £23 million gain) were reported within revenue and raw materials and consumables, respectively, together with a loss of £2 million (2019: £11 million gain; 2018: £7 million loss) reported in other operating expenses and a gain of £57 million (2019: £27 million gain; 2018: £14 million loss) reported within net finance costs.

The Group hedges certain foreign currency denominated borrowings with cross-currency interest rate swaps. As permitted by IFRS 9 *Financial Instruments*, the foreign currency basis spreads have been separated from the hedging instrument and are recognised in reserves as a 'cost of hedging' and are reclassified to the income statement in the same period in which profit and loss is affected by the hedged expected cashflows as a component of the associated interest expense. The basis spreads are disclosed within hedging reserves as they are not material. Included within the balance of hedging reserves at 31 December 2020 is an accumulated gain of £9 million (2019: £14 million; 2018: £20 million) in respect of the cost of hedging.

iii. Fair value reserve:

The fair value reserve is explained in the accounting policy on financial instruments in note 1. Fair value gains and losses arising from investments held at fair value through other comprehensive income are recognised in this reserve.

iv. Revaluation reserve:

The revaluation reserve relates to the acquisition of the cigarette and snus business of ST in 2008.

v. Other reserves:

Other reserves comprise:

- (a) £483 million which arose in 1998 from merger accounting in a Scheme of Arrangement and Reconstruction whereby British American Tobacco p.l.c. acquired the entire share capital of B.A.T Industries p.l.c. and the share capital of that company's principal financial services subsidiaries was distributed, so effectively demerging them; and
- (b) In the 1999 Rothmans transaction, convertible redeemable preference shares were issued as part of the consideration. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The £90 million balance in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

vi. Treasury shares:

Total equity attributable to owners of the parent is stated after deducting the cost of treasury shares which include £4,836 million (2019: £4,845 million; 2018: £4,845 million) for shares repurchased and not cancelled and £314 million (2019: £416 million; 2018: £397 million) in respect of the cost of own shares held in employee share ownership trusts. The reduction in the shares repurchased and not cancelled is primarily due to shares reissued to satisfy the vesting of US share options.

The share buy-back programme was suspended from 30 July 2014. As at 31 December 2020, treasury shares include 6,053,158 (2019: 8,275,677; 2018: 7,536,408) shares held in trust and 162,347,246 (2019: 162,645,590; 2018: 162,645,590) shares repurchased and not cancelled as part of the Company's share buy-back programme. From March 2020 the Company has utilised shares acquired in the share buy-back programme to satisfy shared-based payment awards made to certain employees.

Taxation in equity

The tax attributable to components of other comprehensive income is as follows:

	2020 £m	2019 £m	2018 £m
Hedging reserve			
Cash flow hedges – net fair value losses	44	56	18
	44	56	18
Retained earnings			
– actuarial (gains)/losses in respect of subsidiaries	(26)	75	(33)
	(26)	75	(33)
Owners of the parent	18	131	(15)
Non-controlling interests	–	–	–
Total tax recognised in other comprehensive income for the year (note 6(f))	18	131	(15)

Financial Statements

Notes on Accounts

Continued

18 Capital and Reserves Continued

(d) Non-controlling interests

Movements in non-controlling interests primarily relate to profit for the year and dividends (reported as a movement in retained earnings) and differences on exchange arising from the translation into sterling (reported as a movement in other reserves). Information on subsidiaries with material non-controlling interests is provided in note 28.

(e) Dividends and other appropriations

With effect from 1 January 2018, the Company pays interim dividends on a quarterly basis. The interim quarterly dividend payment for the year ended 31 December 2019 of 210.4p per ordinary share (31 December 2018: 203.0p per ordinary share) was payable in four equal instalments: amounts payable in May 2020 of £1,185 million (May 2019: £1,157 million), August 2020 of £1,195 million (August 2019: £1,159 million), November 2020 of £1,206 million (November 2019: £1,160 million) and £1,203 million in February 2021 (February 2020: £1,161 million) respectively. The total dividends recognised as an appropriation from reserves in 2020 was £4,747 million (2019: £3,476 million).

As described in last year's annual report, the Group revised in 2019 the recognition of the dividend. From 2019, the Group recognises interim dividends as a liability in the Group's financial statements in the period in which they are paid. Prior to this, interim dividends were recognised when confirmed by the Directors of the Company.

The Board has declared an interim dividend of 215.6p per ordinary share of 25p, for the year ended 31 December 2020, payable in four equal quarterly instalments of 53.9p per ordinary share in May 2021, August 2021, November 2021 and February 2022. These payments will be recognised as appropriations from reserves in 2021 and 2022. The total amount payable is estimated to be £4,946 million based on the number of shares outstanding at the date of these accounts.

19 Borrowings

	Currency	Maturity dates	Interest rates	2020 £m	2019 £m
Eurobonds	Euro	2021 to 2045	0.9% to 4.9%	8,875	7,591
	Euro	2021	3m EURIBOR +50bps	984	931
	UK sterling	2021 to 2055	1.8% to 7.3%	4,590	4,161
	Swiss franc	2021 to 2026	0.6% to 1.4%	540	510
Bonds issued pursuant to Rules under the US Securities Act (as amended)					
	US dollar	2022 to 2050	1.7% to 8.1%	25,461	23,805
	US dollar	2022	USD 3m LIBOR + 88bps	548	1,325
Bonds and notes				40,998	38,323
Commercial paper				–	1,056
Other loans				1,929	4,624
Bank loans				317	293
Bank overdrafts				249	491
Lease liabilities				475	579
				43,968	45,366

Other loans primarily comprise £1,929 million (2019: £3,859 million) relating to a term loan maturing in January 2022 and £nil (2019: £745 million) relating to bilateral facilities. Commercial paper is issued at competitive rates to meet short-term borrowing requirements as and when needed.

Current borrowings per the balance sheet include interest payable of £499 million at 31 December 2020 (2019: £474 million).

Included within borrowings are £5,356 million (2019: £5,136 million) of borrowings subject to fair value hedges where their amortised cost has been increased by £173 million (2019: £210 million) in the table above.

The fair value of borrowings is estimated to be £47,029 million (2019: £45,674 million) of which £44,059 million (2019: £38,631 million) has been calculated using quoted market prices and is within level 1 of the fair value hierarchy and £2,970 million (2019: £7,043 million) has been calculated based on discounted cash flow analysis and is within level 3 of the fair value hierarchy.

Amounts secured on Group assets including property, plant and equipment, inventory and receivables as at 31 December 2020 are £21 million (2019: £88 million). The majority of lease liabilities are also secured against the associated assets.

19 Borrowings Continued

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2020 £m	2019 £m	2020 £m	2019 £m
Within one year	4,041	7,562	4,901	8,926
Between one and two years	4,049	2,947	5,355	4,181
Between two and three years	2,587	6,992	3,829	8,215
Between three and four years	3,854	2,505	5,095	3,529
Between four and five years	4,108	3,173	5,025	3,871
Beyond five years	25,329	22,187	35,848	32,176
	43,968	45,366	60,053	60,898

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 that year.

Borrowings are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	Functional currency £m	US dollar £m	UK sterling £m	Euro £m	Other currencies £m	Total £m
31 December 2020						
Total borrowings	32,000	2,700	452	8,221	595	43,968
Effect of derivative financial instruments						
– cross-currency swaps	3,795	–	(450)	(3,536)	(265)	(456)
– forward foreign currency contracts	593	(460)	–	(520)	394	7
	36,388	2,240	2	4,165	724	43,519
31 December 2019						
Total borrowings	32,536	2,772	451	8,919	688	45,366
Effect of derivative financial instruments						
– cross-currency swaps	3,946	–	(450)	(3,432)	(249)	(185)
– forward foreign currency contracts	(610)	(213)	–	440	372	(11)
	35,872	2,559	1	5,927	811	45,170

The exposure to interest rate changes when borrowings are re-priced is as follows:

	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	Beyond 5 years £m	Total £m
31 December 2020							
Total borrowings	6,519	1,568	2,594	3,855	4,108	25,324	43,968
Effect of derivative financial instruments							
– interest rate swaps	219	(219)	–	–	–	–	–
– cross-currency swaps	454	–	(744)	–	(23)	(143)	(456)
	7,192	1,349	1,850	3,855	4,085	25,181	43,512
31 December 2019							
Total borrowings	11,145	1,888	4,432	2,451	3,161	22,289	45,366
Effect of derivative financial instruments							
– interest rate swaps	1,794	(508)	(226)	–	–	(1,060)	–
– cross-currency swaps	1,335	(758)	–	(649)	–	(115)	(187)
	14,274	622	4,206	1,802	3,161	21,114	45,179

Financial Statements

Notes on Accounts

Continued

19 Borrowings Continued

Lease liabilities are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2020 £m	2019 £m	2020 £m	2019 £m
Within one year	137	154	156	178
Between one and two years	98	120	114	138
Between two and three years	71	92	80	100
Between three and four years	47	64	55	72
Between four and five years	35	43	41	51
Beyond five years	87	106	104	135
	475	579	550	674

For more information on leasing arrangements refer to note 9(b).

The Group's undrawn committed borrowing facilities (note 22) amount to £9,366 million (2019: £6,000 million) with £6,366 million maturing within one year (2019: £3,000 million maturing within one year) and with £3,000 million maturing between four and five years (2019: £3,000 million maturing between one and two years).

The Group defines net debt as follows:

	2020 £m	2019 £m
Borrowings (excluding lease liabilities)*	43,493	44,787
Lease liabilities	475	579
Derivatives in respect of net debt (note 15)	(346)	(143)
Cash and cash equivalents (note 17)	(3,139)	(2,526)
Current investments held at fair value (note 14)	(242)	(123)
	40,241	42,574

* Borrowings as at 31 December 2020 include £790 million (2019: £848 million) in respect of the purchase price adjustments relating to the acquisition of Reynolds American.

The movements in net debt are presented below along with a reconciliation to the financing activities in the Group Cash Flow Statement:

	2020 £m					
	Opening balance	Subsidiaries acquired	Cash flow	Foreign exchange	Fair value, accrued interest and other	Closing balance
Borrowings (excluding lease liabilities)	44,787	–	(1,049)	(195)	(50)	43,493
Lease liabilities	579	1	(164)	(24)	83	475
Derivatives in respect of net debt (note 15)	(143)	–	(240)	(134)	171	(346)
Cash and cash equivalents (note 17)	(2,526)	(96)	(768)	264	(13)	(3,139)
Current investments held at fair value (note 14)	(123)	–	(119)	20	(20)	(242)
	42,574	(95)	(2,340)	(69)	171	40,241

19 Borrowings Continued

						2019 £m	
	Opening balance	Accounting policy change (IFRS 16) (note 30)	Subsidiaries acquired	Cash flow	Foreign exchange	Fair value, accrued interest and other	Closing balance
Borrowings (excluding lease liabilities)	47,495	–	–	(1,176)	(1,536)	4	44,787
Lease liabilities	14	607	3	(154)	(30)	139	579
Derivatives in respect of net debt (note 15)	(378)	–	–	(391)	598	28	(143)
Cash and cash equivalents (note 17)	(2,602)	–	–	17	57	2	(2,526)
Current investments held at fair value (note 14)	(178)	–	–	95	38	(78)	(123)
	44,351	607	3	(1,609)	(873)	95	42,574

'Fair value, accrued interest and other' movements in lease liabilities in 2020 mainly comprise additions of £85 million (2019: £135 million) (net of reassessments, modifications and terminations), see note 9(a). The £20 million movement (2019: £78 million increase) in current investments held at fair value represents the fair value gains for these investments.

	2020 £m	2019 £m
Cash flows per net debt statement	(2,340)	(1,609)
Non-financing cash flows included in net debt	1,129	(329)
Interest paid	(1,737)	(1,601)
Interest element of lease liabilities	(26)	(32)
Remaining cash flows relating to derivative financial instruments	(43)	(173)
Purchases of own shares held in employee share ownership trusts	(18)	(117)
Dividends paid to owners of the parent	(4,745)	(4,598)
Capital injection from non-controlling interests	17	20
Dividends paid to non-controlling interests	(136)	(157)
Other	2	3
Net cash used in financing activities per cash flow statement	(7,897)	(8,593)

Financial Statements

Notes on Accounts
Continued

20 Provisions for Liabilities

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	Other provisions £m	Total £m
1 January 2020	298	28	73	659	1,058
Differences on exchange	5	(2)	–	(57)	(54)
Subsidiaries acquired	–	–	–	6	6
Provided in respect of the year	60	19	–	312	391
– in respect of MSA litigation (Texas, Minnesota, Mississippi)	–	–	–	212	212
– in respect of other	60	19	–	100	179
Utilised during the year	(122)	(7)	(3)	(284)	(416)
– in respect of excise dispute in Russia	–	–	–	(226)	(226)
– in respect of other	(122)	(7)	(3)	(58)	(190)
31 December 2020	241	38	70	636	985
Analysed on the balance sheet as					
– current	165	23	1	409	598
– non-current	76	15	69	227	387
	241	38	70	636	985

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	Other provisions £m	Total £m
1 January 2019	127	33	108	381	649
Differences on exchange	(11)	(1)	–	(17)	(29)
Provided in respect of the year	235	9	–	793	1,037
– in respect of Quebec Class Action	–	–	–	436	436
– in respect of excise dispute in Russia	–	–	–	252	252
– in respect of other	235	9	–	105	349
Utilised during the year	(53)	(13)	(35)	(498)	(599)
– in respect of Quebec Class Action	–	–	–	(436)	(436)
– in respect of other	(53)	(13)	(35)	(62)	(163)
31 December 2019	298	28	73	659	1,058
Analysed on the balance sheet as					
– current	203	14	6	447	670
– non-current	95	14	67	212	388
	298	28	73	659	1,058

The restructuring provisions relate to the restructuring and integration costs incurred and are reported as adjusting items. The principal restructuring activities in 2020 and 2019 are as described in note 3(e). While some elements of the non-current provisions of £76 million will unwind over several years, as termination payments are made over extended periods in some countries, it is estimated that approximately 88% of these non-current provisions will unwind within five years.

Employee-related benefits mainly relate to employee benefits other than post-employment benefits. The principal components of these provisions are gratuity and termination awards, and 'jubilee' payments due after a certain service period. It is estimated that approximately 61% of the non-current provisions of £15 million will unwind within five years.

A provision of £274 million was made in 2011 for a potential claim under a 1998 settlement agreement entered into by a Group subsidiary in respect of the clean-up of sediment in the Fox River. On 30 September 2014, the Group, NCR, Appvion and Windward Prospects entered into a funding agreement; the details of this agreement are explained in note 27. This agreement led to payments of £2 million in 2020 (2019: £32 million). In addition, the Group incurred legal costs of £1 million (2019: £3 million), which were also charged against the provision. It is expected that the non-current provision will unwind within five years.

20 Provisions for Liabilities Continued

Other provisions comprise balances set up in the ordinary course of general business that cannot be classified within the other categories, such as sales returns and onerous contracts, together with amounts in respect of supplier, excise and other disputes. The nature of the amounts provided in respect of disputes is such that the extent and timing of cash flows are difficult to estimate and the ultimate liability may vary from the amounts provided. Other provisions also include a provision for interest of £129 million in relation to the Franked Investment Income Group Litigation Order (FII GLO), as mentioned in notes 4(b) and 6(b).

In 2020, the Group recognised a provision of US\$272 million (£212 million) in relation to the ITG MSA litigation agreements with the states of Texas, Minnesota and Mississippi. Further details are provided in note 27.

On 1 March 2019, the Quebec Court of Appeal in Montreal upheld the Superior Court's decision of May 2015 (reducing ITCAN's share of the judgment due to a change in interest computation to a maximum of CAD\$9.2 billion). The Court of Appeal also upheld the previously stated requirements for the defendants to deposit CAD\$1.1 billion into an escrow account. The Board of Directors of ITCAN reassessed the recoverability of the litigation related deposit and, accordingly, the Group recognised a charge against the income statement of CAD\$758 million (£436 million) in 2019, reflecting the amount of the judgment that is considered to be probable and estimable in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Consequently, the Group utilised the litigation related deposit which was shown as a receivable at 31 December 2018 (within trade and other receivables) against the current estimate of the liability and both the provision and litigation related deposit were reduced accordingly. Further details are provided in note 27.

In 2019, the Group recognised a provision of £252 million in relation to the Russia excise dispute. The provision was utilised in January 2020, when the tax claim was paid.

Amounts provided above are shown net of reversals of unused provisions which include reversals of £72 million (2019: £18 million) for restructuring of existing businesses, £4 million (2019: £3 million) for employee benefits and £125 million (2019: £97 million) for other provisions, of which £4 million (2019: £10 million) was reclassified to trade and other payables.

21 Trade and Other Payables

	2020 £m	2019 £m
Trade payables	3,722	3,453
Duty, excise and other taxes	3,410	3,852
Accrued charges and deferred income	2,228	2,037
FII GLO deferred income (note 6(b))	963	963
Social security and other taxation	53	51
Sundry payables	381	405
	10,757	10,761
Current	9,693	9,727
Non-current	1,064	1,034
	10,757	10,761

As explained in note 13, the Group acts as a collection agent for banks and other financial institutions in certain debt factoring arrangements. The cash collected in respect of these arrangements that has not yet been remitted amounts to £128 million (2019: £115 million) and is included in sundry payables.

In addition, the Group has certain Supply Chain Financing (SCF) or 'reverse factoring' arrangements in place. The principal purpose of these arrangements is to provide the supplier with the option to access liquidity earlier through the sale of its receivables due from the Group to a bank or other financial institution prior to their due date. Management has determined that the Group's payables to these suppliers have neither been extinguished nor have the liabilities been significantly modified by these arrangements. The value of amounts payable, invoice due dates and other terms and conditions applicable, from the Group's perspective, remain unaltered, with only the ultimate payee being changed. At 31 December 2020, the value of amounts payable under the SCF programmes was £48 million (2019: £71 million). The cash outflows in respect of these arrangements have been recognised within operating cash flows.

Accrued charges and deferred income include £nil of deferred income (2019: £4 million) and £55 million (2019: £61 million) in respect of interest payable mainly related to tax matters. FII GLO deferred income of £963 million relates to receipts in 2015, in respect of the Franked Investment Income Government Litigation Order (note 6(b)). Amounts payable to related parties including associated undertakings are shown in note 26.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables, as determined using discounted cash flow analysis.

Trade and other payables are predominantly denominated in the functional currencies of subsidiary undertakings with less than 5% in other currencies (2019: less than 6% in other currencies).

Financial Statements

Notes on Accounts
Continued

22 Financial Instruments and Risk Management

Management of financial risks

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

The Group defines capital as net debt (note 19) and equity (note 18). There are no externally imposed capital requirements for the Group. Group policies include a set of financing principles that provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided. The key objective of the financing principles is to appropriately balance the interests of equity and debt holders in driving an efficient financing mix for the Group. The Group's average cost of debt in 2020 is 3.6% (2019: 3.3%).

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 Group and obtaining this financing from a wide range of sources. The Group has a target average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2020, the average centrally managed debt maturity was 9.9 years (2019: 9.1 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 16.4% (2019: 18.6%).

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

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to mobilise cash efficiently within the Group. The key objectives of Treasury in respect of cash and cash equivalents are to protect their principal value, to concentrate cash at the centre, to minimise the required debt issuance and to optimise the yield earned. The amount of debt issued by the Group is determined by forecasting the net debt requirement after the mobilisation of cash.

The Group continues to target a solid investment-grade credit rating. In January 2017, Moody's and S&P revised the Group's rating to Baa2 and BBB+ with stable outlook, respectively, following the announcement of the Reynolds American acquisition. The Group's strategy is to continue deleveraging and is seeking to recover to Baa1/BBB+ in the medium term. The Group is confident of its continued ability to successfully access the debt capital markets for future refinancing requirements.

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

As part of its working capital management, in certain countries, the Group has entered into factoring arrangements and supply chain financing arrangements. These are explained in further detail in note 13 and note 21.

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies to predominantly fund short-to-medium term working capital requirements.

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

In March and April 2020, the Group arranged short-term bilateral facilities with core relationship banks for a total amount of approximately £4.8 billion, strengthening the Group's liquidity position and further mitigating liquidity risks during the COVID-19 crisis. The bilateral facilities have since been reduced to a total amount of approximately £3.4 billion. At 31 December 2020, these facilities were undrawn.

In April 2020, the Group accessed the US dollar market under its SEC Shelf Programme, raising a total of US\$2.4 billion across three tranches. Additionally, the Group accessed the European market under its EMTN Programme, raising a total of €1.7 billion across two tranches.

In May and June 2020, the Group repaid US\$750 million and US\$770.8 million bonds at maturity, respectively. Additionally, in June 2020, the Group raised £500 million in the Sterling market under its EMTN Programme.

In July 2020, the Group repaid a €600 million bond and a £1.9 billion term loan at maturity, and in August 2020, the Group repaid a US\$1 billion bond at maturity.

In September 2020, the Group accessed the US dollar market under its SEC Shelf programme, raising a total of US\$6.25 billion across five tranches. The Group also made a tender offer to repurchase portions of seven series of bonds prior to their maturities. The tender offer was completed in October 2020, totalling US\$3.2 billion under five series of bonds, £70 million and €100 million under two separate series of bonds, all of which would have otherwise matured in 2021 and 2022.

In October 2020, the Group exercised the make whole redemption provision to fully redeem the remaining amounts outstanding following the tender offer on three series of bonds that would have otherwise matured in 2022. In November 2020, the balance outstanding on these bonds was repurchased, totalling US\$597.6 million.

22 Financial Instruments and Risk Management Continued

Subsequent to the balance sheet date, at the end of February 2021, the Group anticipates repaying a €650 million bond at maturity.

In March and June 2019, the Group repaid €820 million and US\$750 million bonds at maturity, respectively.

In July 2019, the Group extended the £3 billion tranche of its £6 billion revolving credit facility for a further 364 days with a one-year term-out option. At 31 December 2019, the facility was undrawn (2018: the facility was undrawn).

In July 2019, the Group also arranged short-term bilateral facilities with some of its core banks for a total amount of £745 million.

Additionally, the Group filed its inaugural SEC shelf programme in July 2019. The SEC shelf programme together with the EMTN programme, will be the basis for future normal issuances in the capital markets.

The Group accessed the US dollar bond market through the SEC shelf programme in September 2019, successfully raising US\$3.5 billion across four tranches.

In September 2019, the Group repaid a US\$650 million bond at maturity.

As part of the liquidity management strategy, the Group redeemed prior to their maturity a US\$2.25 billion bond in September 2019 and a US\$1.25 billion bond in November 2019, that would have otherwise matured in 2020.

In December 2019, the Group repaid a £500 million bond at maturity.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries and associates into its reporting currency, sterling. The Group's primary balance sheet translation exposures are to the US dollar, Canadian dollar, euro, Danish krone, Swiss franc, South African rand, Russian rouble, Brazilian real, Australian dollar, Malaysian ringgit, Singaporean dollar and Indian rupee. These exposures are kept under continuous review. The Group's policy on borrowings is to broadly match the currency of these borrowings with the currency of cash flows arising from the Group's underlying operations. Within this overall policy, the Group aims to minimise all balance sheet translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency borrowings. The main objective of these policies is to protect shareholder value by increasing certainty and minimising volatility in earnings per share. At 31 December 2020, the currency profile of the Group's gross debt, after taking into account derivative contracts, was 63% US dollar (2019: 59%), 13% euro (2019: 13%), 19% sterling (2019: 21%) and 5% other currencies (2019: 7% other currencies).

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint arrangements; these exposures are not normally hedged. Exposures also arise from:

(i) foreign currency denominated trading transactions undertaken by subsidiaries. These exposures comprise committed and highly probable forecast sales and purchases, which are offset wherever possible. The remaining exposures are hedged within the Treasury policies and procedures with forward foreign exchange contracts and options, which are designated as hedges of the foreign exchange risk of the identified future transactions; and

(ii) forecast dividend flows from subsidiaries to the centre.

To ensure cash flow certainty, the Group enters into forward foreign exchange contracts which are designated as net investment hedges of the foreign exchange risk arising from the investments in these subsidiaries.

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 exchange rates in respect of non-functional currency financial assets and liabilities held across the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. 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% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 10% strengthening of functional currencies against non-functional currencies would result in pre-tax profit being £61 million lower (2019: £16 million lower; 2018: £33 million higher) and items recognised directly in other comprehensive income being £57 million higher (2019: £22 million lower; 2018: £384 million higher). A 10% weakening of functional currencies against non-functional currencies would result in pre-tax profit being £74 million higher (2019: £20 million higher; 2018: £41 million lower) and items recognised directly in other comprehensive income being £70 million lower (2019: £27 million higher; 2018: £469 million lower).

The exchange sensitivities on items recognised directly in other comprehensive income relate to hedging of certain net asset currency positions in the Group, as well as on cash flow hedges in respect of future transactions, but do not include sensitivities in respect of exchange on non-financial assets or liabilities.

Financial Statements

Notes on Accounts
Continued

22 Financial Instruments and Risk Management Continued

Interest rate risk

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

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

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on a net basis (at least 50% fixed on a net basis in the short to medium term) as a result of regular reviews of market conditions and strategy by the Corporate Finance Committee and the board of the main central finance company. At 31 December 2020, the relevant ratios of floating to fixed rate borrowings were 7:93 (2019: 18:82) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps to vary the fixed and floating mix, or forward starting swaps to manage the refinancing risk. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of financial assets and 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 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 lower (2019: £143 million lower; 2018: £90 million lower). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being £29 million higher (2019: £108 million higher; 2018: £74 million higher). The effect of these interest rate changes on items recognised directly in other comprehensive income is not material in either year.

In accordance with the UK Financial Conduct Authority's announcement on 27 July 2017, LIBOR and other benchmark rates are expected to be discontinued after 2021. The Group has early adopted the Phase 2 Amendments to IFRS 9 *Financial Instruments* in respect of disclosures and other accounting matters relating to Interest Rate Benchmark Reform.

As at 31 December 2020, the Group has floating rate borrowings with nominal value of £1,929 million and US\$750 million (£549 million) that are due to mature in January 2022 and August 2022 respectively. The Group assessed the impact on these borrowings consequent to Interest Rate Benchmark Reform and concluded that they are not significant.

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

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

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

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

Credit risk

The Group has no significant concentrations of customer credit risk. Subsidiaries have policies in place requiring appropriate credit checks on potential customers before sales commence. The process for monitoring and managing credit risk once sales to customers have been made varies depending on local practice in the countries concerned.

Certain territories have bank guarantees, other guarantees or credit insurance provided in the Group's favour in respect of Group trade receivables, the issuance and terms of which are dependent on local practices in the countries concerned. All derivatives are subject to ISDA agreements or equivalent documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group aims to transact with counterparties with strong investment grade credit ratings. However, the Group recognises that due to the need to operate over a large geographic footprint, this will not always be possible. Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions throughout its geographic footprint, while at the same time ensuring that there is no geographic concentration in the location of counterparties.

With the following exceptions, the maximum exposure to the credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group's balance sheet. The Group has entered into short-term risk participation agreements in relation to certain leaf supply arrangements and the maximum exposure under these would be £88 million (2019: £54 million). In addition, the Group has entered into guarantee arrangements to support short-term bank credit facilities with certain distribution and supply chain partners. The maximum exposure under the arrangements would be £36 million (2019: £54 million).

22 Financial Instruments and Risk Management Continued

Price risk

The Group is exposed to price risk on investments held by the Group, which are included in investments held at fair value on the consolidated balance sheet, but the quantum of such is not material.

Hedge accounting

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

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

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value in accordance with IFRS 13 classification hierarchy:

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets at fair value								
Investment held at fair value (note 14)	171	–	93	264	78	–	57	135
Derivatives relating to								
– interest rate swaps (note 15)	–	65	–	65	–	180	–	180
– cross-currency swaps (note 15)	–	444	–	444	–	305	–	305
– forward foreign currency contracts (note 15)	–	288	–	288	–	280	–	280
Assets at fair value	171	797	93	1,061	78	765	57	900
Liabilities at fair value								
Derivatives relating to								
– interest rate swaps (note 15)	–	53	–	53	–	255	–	255
– cross-currency swaps (note 15)	–	–	–	–	–	84	–	84
– forward foreign currency contracts (note 15)	–	266	–	266	–	129	–	129
Liabilities at fair value	–	319	–	319	–	468	–	468

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. The Group's level 2 financial instruments include OTC derivatives.

Financial Statements

Notes on Accounts
Continued

22 Financial Instruments and Risk Management Continued

Netting arrangements of derivative financial instruments

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

	2020			2019		
	Amount presented in the Group balance sheet* £m	Related amounts not offset in the Group balance sheet £m	Net amount £m	Amount presented in the Group balance sheet* £m	Related amounts not offset in the Group balance sheet £m	Net amount £m
Financial assets						
– Derivative financial instruments (note 15)	797	(237)	560	765	(291)	474
Financial liabilities						
– Derivative financial instruments (note 15)	(319)	237	(82)	(468)	291	(177)
	478	–	478	297	–	297

* No financial instruments have been offset in the Group balance sheet.

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trades 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 transactions and amounts owed to it by the defaulting party. If that sum exceeds the amounts 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.

The hedged items by risk category are presented below:

	2020				
	Carrying amount of the hedged item £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item £m	Line item in the statement of financial position where the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve (gross of tax) £m
Fair value hedges					
Interest rate risk					
– borrowings (liabilities)	5,356	173	Borrowings	(57)	
Cash flow hedges					
Interest rate risk					
– borrowings (liabilities)	2,816		Borrowings	155	(628)

22 Financial Instruments and Risk Management Continued

2019

	Carrying amount of the hedged item £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item £m	Line item in the statement of financial position where the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve (gross of tax) £m
Fair value hedges					
Interest rate risk					
– borrowings (liabilities)	5,136	210	Borrowings	(9)	
Cash flow hedges					
Interest rate risk					
– borrowings (liabilities)	4,013		Borrowings	163	(308)
			Derivative financial instruments		
– derivative financial instruments (assets)*	2			–	–
			Derivative financial instruments		
– derivative financial instruments (liabilities)*	(49)			1	(1)

* In 2019, the carrying value reported for derivative financial instruments represents the aggregated exposure as at the balance sheet date. For assets, the gross nominal value amounted to £226 million and for liabilities, the gross nominal value amounted to £932 million.

£392 million (2019: £372 million) of the Group's borrowings are designated as net investment hedge instruments of the Group's net investments in foreign operations. In line with the Group's risk management policies, the net investment hedge relationships are reviewed periodically. A number of these relationships had matured in 2019. The change in the value used for calculating hedge ineffectiveness for hedged items designated under net investment hedge relationships is £21 million (2019: £22 million).

As at 31 December 2020, the total balance of the cash flow hedge reserve was a loss of £504 million (2019: loss of £346 million) including a loss of £628 million (2019: loss of £309 million) in relation to interest rate exposure and foreign currency exposure arising from borrowings held by the Group, £nil (2019: loss of £160 million) in relation to interest rate exposure on forecasted borrowings, and a gain of £139 million (2019: gain of £105 million) in relation to deferred tax arising from cash flow hedges. The remainder related to the Group's foreign currency exposure on forecasted transactions, and cost of hedging (note 18(c)(ii)).

23 Business Combinations, Disposals and Other Changes in the Group

(a) Acquisitions

The Group acquired certain businesses and other tobacco assets as noted below. The financial impact of these transactions to the Group were immaterial individually and in aggregate. Except as noted, there were no material differences between the fair value and book values of net assets acquired in business combinations.

On 12 November 2020, the Group acquired 100% of the share capital in **Eastern Tobacco Company for Trading**, formerly known as Rafique Mohammed Sudki Jad Establishment for Trading when acting as BAT's distributor in Saudi Arabia (KSA), for £50 million (SAR 246 million). Goodwill of £36 million, representing anticipated synergies, and trademarks and similar intangibles of £39 million, as well as £96 million of cash and cash equivalents, were recognised on acquisition. The transaction is expected to enable the Group to take ownership of its route to market in KSA.

On 21 December 2017, the Group signed an agreement to acquire 100% of the share capital of **Twisp Proprietary Limited**, a South African e-cigarette/nicotine vapour company with a market share of circa 70% within South Africa and a leading presence in shopping malls via its branded kiosks outlets. Completion of the proposed acquisition was conditional upon South African anti-trust clearance, which was given in the second half of 2019 and BAT acquired control on 30 September 2019 for a purchase price of £25 million of which £6 million is deferred and contingent upon future performance in the market. Goodwill of £12 million, representing a strategic premium to enter this segment of the South African vapour market, and trademarks and similar intangibles of £15 million were recognised on acquisition. Due to difficult trading conditions, the goodwill was fully impaired in 2020 and deferred consideration adjusted by £3 million.

On 8 April 2019, the Group via its US subsidiary R.J. Reynolds Vapor Company (RJR Vapor), acquired a 45% stake in **VapeWild Holdings LLC**, a vertically integrated vapour manufacturer and retailer with 13 branded vape shops and an e-commerce platform focused on its own branded liquids, for US\$40 million. This was followed by a further acquisition of 15% on 24 June 2019 for US\$8 million, giving the Group a 60% interest in the target for US\$48 million (£36 million). The Group has accounted for these investments as a single transaction and has consolidated VapeWild as a subsidiary from the date of the first investment. Goodwill of £11 million, representing a strategic premium to enter this segment of the US vapour market, and trademarks and similar intangibles of £39 million were recognised on acquisition. Following the announcements with regards to flavours in vapour in the US, goodwill was impaired in full in 2019. The business was subsequently discontinued and liquidation proceedings commenced in December 2020.

Financial Statements

Notes on Accounts

Continued

23 Business Combinations, Disposals and Other Changes in the Group Continued

On 22 November 2018, the Group completed the acquisition of **Quantus Beteiligungs-und Beratungsgesellschaft mbH**, Germany's leading vapour retail chain trading as 'Highendsmoke', from a private shareholder. The fair value of consideration payable was £21 million. Goodwill of £11 million, representing a strategic premium to enter the German vapour retail market, and trademarks and similar intangibles of £13 million were recognised on acquisition. As explained in note 8, at the end of 2019, acquired goodwill and intangibles were fully impaired.

On 26 September 2018, as part of an agreement to acquire an additional 44% stake in the Myanmar business, the Group acquired the business and individual assets of a local distributor, **Star Way Limited**, from IMU Enterprises Limited for £6 million. Goodwill of £3 million, representing anticipated synergies, was recognised on acquisition.

On 5 May 2017, the Group acquired certain tobacco assets, including a distribution company, **Express Logistic and Distribution EOOD** (ELD), from Bulgartabac Holding AD in Bulgaria. The assets acquired, including brands and other intangibles of £117 million, were purchased for a total consideration of £110 million, of which £28 million was contingent upon future performance in the market. £14 million of this was paid during 2018 and £13 million of this was paid during 2019. Subsequently, ELD was disposed of in 2019 at carrying value.

On 4 January 2017, the Group completed the acquisition of 100% of **Winnington Holding AB**, a Swedish manufacturer of 'white' snus, for a purchase price of £31 million. Goodwill of £8 million and brands and similar intangibles of £28 million were recognised. £8 million of the consideration was contingent on post-acquisition targets being met and was substantially settled in January 2019.

On 30 December 2015, the Group acquired 100% of the **CHIC Group** from private shareholders. The fair value of the consideration payable was £82 million, of which £30 million was contingent on achievement of certain post-acquisition targets. £6 million of this was paid during 2016, £13 million during 2017 and £1 million in final settlement in 2018.

On 17 November 2015, the Group acquired 100% of **Blue Nile Cigarette Company Limited** from a private shareholder. The fair value of the consideration payable was £45 million of which £8 million was contingent on achievement of certain post-acquisition targets. Subsequent payments in respect of this were £1 million in 2016, £5 million in 2017, £1 million in 2018 and £1 million in 2019.

On 30 September 2015, the Group acquired **TDR** and other tobacco and retail assets from Adris Grupa d.d. (Adris) for a total enterprise value of €550 million. Part of the consideration was contingent upon certain targets being met post-acquisition, and £5 million of this was paid in January 2017. In 2019, the Group reached an agreement with Adris regarding the level of contingent consideration such that any remaining amounts would not be paid by the Group and the Group received €3 million in full and final settlement of all claims between Adris and the Group. Consequently, €9 million of cash and deferred consideration was recognised as other income (note 3(e)).

(b) Non-controlling interests

In 2020, the Group made a capital contribution to **Brascuba Cigarrillos S.A.** at a cost of £17 million (2019: £20 million). This contribution was in proportion to a capital contribution made by the non-controlling interest to the company and as such, the Group's shareholding remains unchanged.

In 2018, included in the acquisition of non-controlling interests are the purchases of the remaining shares in **British American Tobacco Vranje a.d.** in Serbia and an additional 44% stake in **British American Tobacco Myanmar Limited**. The financial impact of these transactions to the Group is immaterial individually and in aggregate.

(c) Other transactions

On 20 October 2020, the Group acquired the formulations, brands, associated know-how and other relevant assets owned by **Dryft Sciences, LLC** (DSL) relating to its white nicotine pouch products for consideration of up to US\$150 million payable in accordance with the achievement of certain milestones. The transaction has been accounted for as an asset acquisition, rather than as a business combination, as the intellectual property and associated assets acquired do not represent an integrated set of activities required by IFRS for business combination accounting. Consequently, the consideration payable has been assigned to the acquired assets by relative fair value.

During 2020, the Group increased its ownership of a wholesale producer and distributor operating in the agriculture sector based in Uzbekistan, **FE "Samfruit" JSC** to 38.63%, for £5 million.

On 10 January 2019, the Group acquired a minority stake in **AYR Limited**, a vapour technology company based in the UK, for £8 million, with the potential to increase this in the future. The investment terms also provide for the Group and AYR to agree a commercial collaboration agreement under which the Group and AYR will jointly develop future vaping products.

24 Share-Based Payments

The Group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive Plan (LTIP)

Awards granted in 2020 under the Long-Term Incentive Plan are the Performance Share Plan and the Restricted Share Plan with the following conditions:

Performance Share Plan (PSP): nil-cost options released three years from date of grant. Payout is subject to performance conditions based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant) in 2020, 2019 and 2018. Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled PSP awards are granted in March each year.

Restricted Share Plan (RSP): Nil-cost options released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled RSP awards were granted in March.

Awards granted in 2018 and 2019 are nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. The performance conditions and the dividend entitlement attached to these awards are identical to the PSP award mentioned above. Both equity and cash-settled LTIP awards were granted in March.

Following the acquisition of Reynolds American on 25 July 2017, underlying Reynolds American shares for LTIPs were replaced with BAT American Depositary Shares (ADS). LTIP awards for ADSs are measured against the performance conditions of Reynolds American at the maximum of 150% at the vesting date. Equity-settled LTIPs were granted by Reynolds American in March each year with options exercisable after three years from the date of grant with the payment made no later than 90 days from date of vesting. Participants are not entitled to dividends prior to exercise of the options.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled deferred shares are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20% discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three-year or five-year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £6,000 in any tax year.

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,600 in any year) under the equity-settled schemes are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c.. The maximum amount that can be allocated in this way to any individual is £1,800 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

Share-based payment expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	2020		2019		2018	
	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m
LTIP (note (a))	36	–	58	1	70	–
DSBS (note (b))	44	3	50	4	44	2
Other schemes	8	–	7	–	7	–
Total recognised in the income statement (note 3(a))	88	3	115	5	121	2

Financial Statements

Notes on Accounts

Continued

24 Share-Based Payments Continued

Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Group has recorded liabilities in respect of vested and unvested grants at the end of 2020 and 2019:

	2020		2019	
	Vested £m	Unvested £m	Vested £m	Unvested £m
LTIP	0.3	1.5	0.5	2.8
DSBS	0.2	5.7	0.3	6.2
Total liability	0.5	7.2	0.8	9.0

(a) Long-Term incentive Plan

Details of the movements for the equity- and cash-settled LTIP scheme during the years ended 31 December 2020 and 31 December 2019, were as follows:

	2020		2019	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	9,193	318	6,908	306
Granted during the period	3,856	109	4,552	202
Exercised during the period	(1,590)	(63)	(1,045)	(129)
Forfeited during the period	(1,459)	(90)	(1,222)	(61)
Outstanding at end of year	10,000	274	9,193	318
Exercisable at end of year	690	27	739	25

As at 31 December 2020, the Group has 10,000,000 shares (2019: 9,193,000 shares) outstanding which includes 2,876,738 shares (2019: 2,479,057 shares) which are related to Reynolds American LTIP awards from which nil shares (2019: 43,924 shares) are exercisable at the end of the year.

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £29.37 (2019: £28.31; 2018: £38.90) for equity-settled and £28.68 (2019: £30.87; 2018: £40.62) for cash-settled options.

The weighted average British American Tobacco p.l.c. share price for ADS on the New York Stock Exchange at the date of exercise for share options exercised during the period relating to equity-settled Reynolds American LTIP awards was US\$40.04 (2019: US\$36.35; 2018: US\$51.43).

The outstanding shares for the year ended 31 December 2020 had a weighted average remaining contractual life of 8.1 years (2019: 8.2 years; 2018: 8.1 years) for the equity-settled scheme, 1.72 years for Reynolds American equity-settled scheme (2019: 1.93 years; 2018: 1.91 years) and 8.1 years (2019: 8.3 years; 2018: 8.1 years) for the cash-settled share-based payment arrangements.

(b) Deferred Share Bonus Scheme

Details of the movements for the equity- and cash-settled DSBS scheme during the years ended 31 December 2020 and 31 December 2019, were as follows:

	2020		2019	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	3,748	282	3,248	281
Granted during the period	1,829	109	2,097	202
Exercised during the period	(1,368)	(175)	(1,500)	(184)
Forfeited during the period	(68)	(16)	(97)	(17)
Outstanding at end of year	4,141	200	3,748	282
Exercisable at end of year	91	4	90	6

24 Share-Based Payments Continued

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the financial year was £28.08 (2019: £28.40; 2018: £40.00) for equity-settled and £28.06 (2019: £30.06; 2018: £40.51) for cash-settled options.

The outstanding shares for the year ended 31 December 2020 had a weighted average remaining contractual life of 1.4 years (2019: 1.5 years; 2018: 1.3 years) for the equity-settled scheme and 1.4 years (2019: 1.5 years; 2018: 1.1 years) for the cash-settled scheme.

Valuation assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

	2020		2019	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	25.0	25.0	22.0	22.0
Average expected term to exercise (years)*	3.5 / 3.0	3.0	3.5	3.0
Risk-free rate (%)	0.2	0.2	0.7	0.7
Expected dividend yield (%)	7.9	7.9	6.5	6.5
Expected dividend yield (%) – Management Board	7.9	7.9	6.0	6.0
Share price at date of grant (£)	26.33	26.33	30.83	30.83
Share price at date of grant (£) – Management Board	26.33	26.33	33.28	33.28
Fair value at grant date (£)*	21.23 / 20.76	20.76	21.93	25.35
Fair value at grant date (£) – Management Board*	21.23 / 20.76	20.76	24.03	25.35

* Where two figures have been quoted for the Long Term Incentive Plan, the numbers relate to PSP and RSP awards, respectively.

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2020 LTIP (PSP)	2019 LTIP
Average share price volatility FMCG comparator group (%)	21	18
Average correlation FMCG comparator group (%)	31	28

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index (the share price index plus the dividend reinvested) over a five-year period. The FMCG share price volatility and correlation was also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards, excluding RSP, contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This pay-out calculation is based on expectations published in analysts' forecasts.

Financial Statements

Notes on Accounts

Continued

25 Group Employees

The average number of persons employed by the Group and its associates during the year, including Directors, was 89,182 (2019: 94,846).

	2020 Number	2019 Number
United States	4,914	5,046
APME	12,703	14,910
AMSSA	17,869	18,638
ENA	23,957	25,505
Subsidiary undertakings	59,443	64,099
Associates	29,739	30,747
	89,182	94,846

Included within the employee numbers for ENA are certain employees in the UK in respect of central functions. Some of the costs of these employees are allocated or charged to the various regions and markets in the Group.

26 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 business. Transactions with CTBAT International Limited (a joint operation) are not included in these disclosures as the results are immaterial to the Group.

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. The Group's share of dividends from associates, included in other net income in the table below, was £394 million (2019: £239 million; 2018: £211 million).

	2020 £m	2019 £m	2018 £m
Transactions			
– revenue	495	511	473
– purchases	(80)	(79)	(101)
– other net income	388	248	216
Amounts receivable at 31 December	33	42	26
Amounts payable at 31 December	(5)	(2)	(1)

During 2020, the Group made a capital contribution in Brascuba Cigarrillos S.A. at a cost of £17 million (2019: £20 million) and increased its ownership of FE “Samfruit” JSC to 38.63% for £5 million.

During 2020, there was a capital reduction in CTBAT International Limited of approximately US\$171 million with funds due to be remitted prorate to investors in 2021.

During 2019, the Group acquired 60% of VapeWild Holdings LLC and a minority stake in AYR Limited.

During 2018, the Group acquired a further 44% interest in British American Tobacco Myanmar Limited and a further 11% interest in British American Tobacco Vranje.

The key management personnel of British American Tobacco consist of the members of the Board of Directors of British American Tobacco p.l.c. and the members of the Management Board. No such person had any material interest during the year in a contract of significance (other than a service contract) with the Company or any subsidiary company. The term key management personnel in this context includes their close family members.

	2020 £m	2019 £m	2018 £m
The total compensation for key management personnel, including Directors, was:			
– salaries and other short-term employee benefits	17	26	21
– post-employment benefits	2	4	4
– share-based payments	13	23	18
	32	53	43

26 Related Party Disclosures Continued

The following table, which is not part of IAS 24 disclosures, shows the aggregate emoluments of the Directors of the Company.

	Executive Directors			Chairman			Non-Executive Directors			Total		
	2020 £'000	2019 £'000	2018 £'000	2020 £'000	2019 £'000	2018 £'000	2020 £'000	2019 £'000	2018 £'000	2020 £'000	2019 £'000	2018 £'000
Salary; fees; benefits; incentives												
– salary	2,026	2,356	2,211							2,026	2,356	2,211
– fees				714	695	680	1,028	969	1,092	1,742	1,664	1,772
– taxable benefits	744	608	427	77	137	116	72	310	303	893	1,055	846
– short-term incentives	3,274	4,791	5,031							3,274	4,791	5,031
– long-term incentives	1,294	4,420	5,300							1,294	4,420	5,300
Sub-total	7,338	12,175	12,969	791	832	796	1,100	1,279	1,395	9,229	14,286	15,160
Pension; other emoluments												
– pension	304	686	921							304	686	921
– other emoluments	20	47	50							20	47	50
Sub-total	324	733	971							324	733	971
Total emoluments	7,662	12,908	13,940	791	832	796	1,100	1,279	1,395	9,553	15,019	16,131

Aggregate gains on LTIP shares exercised in the year

	Award	Exercised LTIP shares	Exercise date	Price per share (£)	Aggregate gain (£)
Jack Bowles	27 March 2017	18,497	06 April 2020	29.62	547,881
Tadeu Marroco	27 March 2017	14,755	08 June 2020	31.23	460,799

LTIP – Value of awards 2017

	Shares	Price per share (£) ¹	Face value (£)
Jack Bowles	26,463	52.11	1,378,987
Tadeu Marroco	21,109	52.11	1,099,990

Note:

1. For information only as awards are made as nil-cost options.

Sharesave – Aggregate Gains 2020

	Award date	Shares	Exercise date	Price per share (£)	Aggregate gain (£)
Tadeu Marroco	23 March 2015	495	09 June 2020	30.26	0

Sharesave – Value of award 2015

	Shares	Price per share (£)	Face value (£)
Tadeu Marroco	495	30.26	14,979

Financial Statements

Notes on Accounts

Continued

27 Contingent Liabilities and Financial Commitments

1. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards.
2. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, if it is probable that an outflow of economic resources will be required to settle the obligation and if the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgement.
3. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.
8. Group companies generally do not settle claims. However, Group companies may enter into settlement discussions in some cases, if they believe it is in their best interests to do so. Exceptions to this general approach include, but are not limited to, actions taken pursuant to 'offer of judgment' statutes and Filter Cases, as defined below. An 'offer of judgment,' if rejected by the plaintiff, preserves the Group's right to recover attorneys' fees under certain statutes in the event of a verdict favourable to the Group. Such offers are sometimes made through court-ordered mediations. Other settlements by Group companies include the State Settlement Agreements (as defined in paragraph 41 below), the funding by various tobacco companies of a US\$5.2 billion (approximately £3.8 billion) trust fund contemplated by the Master Settlement Agreement (as described in paragraph 41 below) to benefit tobacco growers, the original *Broin* flight attendant case, and most of the *Engle* progeny cases pending in US federal court, after the initial docket of over 4,000 such cases was reduced to approximately 400 cases. The Group believes that the circumstances surrounding these claims are readily distinguishable from the current categories of tobacco-related litigation claims involving Group companies.

General Litigation Overview

4. There are a number of legal and regulatory actions, proceedings and claims against Group companies related to tobacco and New Category products that are pending in a number of jurisdictions. These proceedings include, among other things, claims for personal injury (both individual claims and class actions) and claims for economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments).
5. The plaintiffs in these cases seek recovery on a variety of legal theories, including negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, violations of unfair and deceptive trade practices statutes, conspiracy, public nuisance, medical monitoring and violations of competition and antitrust laws. The plaintiffs seek various forms of relief, including compensatory and, where available, punitive damages, treble or multiple damages and statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, attorneys' fees, and injunctive and other equitable relief.
6. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even hundreds of billions of sterling.
7. With the exception of the *Engle* progeny cases described below, the Group continues to win the majority of tobacco-related litigation claims that reach trial, and a very high percentage of the tobacco-related litigation claims brought against them, including *Engle* progeny cases, continue to be dismissed at or before trial. Based on their experience in tobacco-related litigation and the strength of the defences available to them in such litigation, the Group's companies believe that their successful defence of tobacco-related litigation in the past will continue in the future.
9. Although the Group intends to defend all pending cases vigorously, and believes that the Group's companies have valid bases for appeals of adverse verdicts and valid defences to all actions, and that an outflow of resources related to any individual case is not considered probable, litigation is subject to many uncertainties, and, generally, it is not possible to predict the outcome of any particular litigation pending against Group companies, or to reasonably estimate the amount or range of any possible loss. Furthermore, a number of political, legislative, regulatory and other developments relating to the tobacco industry and cigarette smoking have received wide media attention. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation. Therefore, the Group does not provide estimates of the financial effect of the contingent liabilities represented by such litigation, as such estimates are not practicable.
10. The following table lists the categories of the tobacco-related actions pending against Group companies as of 31 December 2020 and the increase or decrease from the number of cases pending against Group companies as of 31 December 2019. Details of the quantum of past judgments awarded against Group companies, the majority of which are under appeal, are also identified along with any settlements reached during the relevant period. Given the volume and more active nature of the *Engle* progeny cases and the Filter Cases in the US described below, and the fluctuation in the number of such cases and amounts awarded from year to year, the Group presents judgment or settlement figures for these cases on a three-year basis. Where no quantum is identified, either no judgment has been awarded against a Group company, or where a verdict has been reached no quantification of damages has been given, or no settlement has been entered into. Further details on the judgments, damages quantification and settlements are included within the case narratives below. For a discussion of the non-tobacco related litigation pending against the Group, see note 27, paragraph 85, et seq.

27 Contingent Liabilities and Financial Commitments Continued

Case Type	Case Numbers as at 31 December 2020	Case Numbers as at 31 December 2019 (note 1)	Change in Number Increase/(decrease)
US tobacco-related actions			
Medical reimbursement cases (note 2)	2	2	No change
Class actions (note 3)	20	19	1
Individual smoking and health cases (note 4)	189	135	54
<i>Engle</i> Progeny Cases (note 5)	1,400	1,773	(373)
<i>Broin</i> II Cases (note 6)	1,227	1,228	(1)
Filter Cases (note 7)	48	51	(3)
State Settlement Agreements – Enforcement and Validity (note 8)	4	4	No change
Non-US tobacco-related actions			
Medical reimbursement cases	19	18	1
Class actions (note 9)	12	13	(1)
Individual smoking and health cases (note 10)	68	81	(13)

(Note 1) This includes cases to which the Reynolds American Inc. (Reynolds American) group companies were a party at such date.

(Note 2) This category of cases includes the Department of Justice action. See note 27, paragraphs 20-24.

(Note 3) See note 27, paragraphs 25-38.

(Note 4) This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs and punitive damages. Out of the 189 active individual smoking and health cases, four judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately US\$147 million (approximately £108 million), which are pending post-trial in trial courts or on appeal. For a further description of these cases, see note 27, paragraphs 39-40.

(Note 5) In July 1998, trial began in *Engle v. R.J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including R. J. Reynolds Tobacco Co. (RJRT) (individually, and as successor by merger to Lorillard Tobacco Company (Lorillard Tobacco)) and Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) (B&W). In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £106 billion) in punitive damages, apportioned US\$36.3 billion (approximately £26.6 billion) to RJRT, US\$17.6 billion (approximately £12.9 billion) to B&W, and US\$16.3 billion (approximately £11.9 billion) to Lorillard Tobacco. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three *Engle* class representatives to stand and setting aside the punitive damages award. Putative *Engle* class members were permitted to file individual lawsuits, deemed '*Engle* progeny cases', against the *Engle* defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008). Between the period 1 January 2018 and 31 December 2020, 33 judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately US\$332.2 million (approximately £243 million). Certain of these judgments have been appealed by RJRT and in certain other cases, RJRT still had time to appeal, as of 31 December 2020. For a further description of the *Engle* progeny cases, see note 27, paragraphs 29-38 seq.

(Note 6) *Broin v. Philip Morris, Inc.* was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to Environmental Tobacco Smoke (ETS) in airplane cabins. Group companies and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of US\$300 million (approximately £219.5 million) to fund research on the detection and cure of tobacco-related diseases and US\$49 million (approximately £35.8 million) in plaintiffs' counsel's fees and expenses. Group companies' share of these payments totalled US\$174 million (approximately £127.3 million). *Broin* II cases refer to individual cases by class members. There have been no *Broin* II trials since 2007. For a further description of the *Broin* II cases, see note 16 to paragraph 40.

(Note 7) Includes claims brought against Lorillard Tobacco and Lorillard Inc. by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Since 1 January 2018, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$31.3 million (approximately £22.9 million) in settlements to resolve 124 Filter Cases. See note 17 to paragraph 40.

(Note 8) Group companies' expenses and payments under the State Settlement Agreements for 2020 amounted to approximately US\$3.6 billion (approximately £2.6 billion) in respect of settlement expenses and US\$2.9 billion (approximately £2.1 billion) in respect of settlement cash payments. See note 27, paragraph 43. The pending cases referred to above relate to the enforcement, validity or interpretation of the State Settlement Agreements in which RJRT, B&W or Lorillard Tobacco is a party. See note 27, paragraphs 41-53.

Financial Statements

Notes on Accounts

Continued

27 Contingent Liabilities and Financial Commitments Continued

(Note 9) Outside the United States, there are 12 class actions being brought against Group companies as of 31 December 2020. These include class actions in the following jurisdictions: Canada (11) and Venezuela (1). For a description of the Group companies' class actions, see note 27, paragraphs 70-83. Pursuant to the judgment in 2015 in the two Quebec class actions, the plaintiffs were awarded damages and interest in the amount of CAD\$15.6 billion, most of which were on a joint and several basis (approximately £8.9 billion), of which the Group companies' share was CAD\$10.4 billion (approximately £5.9 billion). On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. The share of the judgment for Imperial Tobacco Canada Limited (Imperial), the Group's operating company in Canada, was reduced to approximately CAD\$9.2 billion (approximately £5.3 billion). For a further description of the Quebec Class Actions, see paragraph 78. All of the class actions in Canada are currently stayed pursuant to a court order. See paragraph 58.

(Note 10) As at 31 December 2020, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (31), Italy (14), Chile (8), Canada (6), Argentina (5) and Ireland (2). There were a further two jurisdictions with one active case only. Out of these 68 cases, in 2020, one case in Argentina (Baldassare) returned a first instance judgment on 28 December 2020, in the amount of ARS 685,976 (approximately £6,000) in compensatory damages and ARS 2,500,000 (approximately £22,000) in punitive damages (plus interest), which judgment is subject to appeal, in the plaintiffs' favour as of 31 December 2020.

11. Certain terms and phrases used in this note 27 may require some explanation.
 - a. 'Judgment' or 'final judgment' refers to the final decision of the court resolving the dispute and determining the rights and obligations of the parties. At the trial court level, for example, a final judgment generally is entered by the court after a jury verdict and after post-verdict motions have been decided. In most cases, the losing party can appeal a verdict only after a final judgment has been entered by the trial court.
 - b. 'Damages' refers to the amount of money sought by a plaintiff in a complaint, or awarded to a party by a jury or, in some cases, by a judge. 'Compensatory damages' are awarded to compensate the prevailing party for actual losses suffered, if liability is proved. In cases in which there is a finding that a defendant has acted wilfully, maliciously or fraudulently, generally based on a higher burden of proof than is required for a finding of liability for compensatory damages, a plaintiff also may be awarded 'punitive damages'. Although damages may be awarded at the trial court stage, a losing party may be protected from paying any damages until all appellate avenues have been exhausted by posting a supersedeas bond. The amount of such a bond is governed by the law of the relevant jurisdiction and generally is set at the amount of damages plus some measure of statutory interest, modified at the discretion of the appropriate court or subject to limits set by a court or statute.

- c. 'Settlement' refers to certain types of cases in which cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, have agreed to resolve disputes with certain plaintiffs without resolving the cases through trial.
- d. All sums set out in note 27 have been converted to GBP and US\$ using the following end closing rates as at 31 December 2020: GBP 1 to US\$ 1.3670, GBP 1 to CAD\$ 1.7415, GBP 1 to EURO 1.1172, GBP 1 to BRL 7.1002, GBP 1 to AOA 895.4418, GBP 1 to NGN 539.6035, GBP 1 to KRW 1484.92, GBP 1 to HRK 8.4326, GBP 1 to JPY 141.1308, GBP 1 to QAR 4.9770 and GBP 1 to SAR 5.128.

US Tobacco Litigation

12. Group companies, notably RJRT (individually and as successor by merger to Lorillard Tobacco) and B&W as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.
13. The total number of US tobacco product liability cases pending at 31 December 2020 involving RJRT, B&W and/or Lorillard Tobacco was approximately 2,901. As at 31 December 2020, British American Tobacco (Investments) Limited (Investments) has been served as a co-defendant in one of those cases (2018:1). No other UK-based Group company has been served as a co-defendant in any US tobacco product liability case pending as at 31 December 2020.
14. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases and other claims.
15. RJRT (individually and as successor by merger to Lorillard Tobacco), American Snuff Co., Santa Fe Natural Tobacco Company, Inc. (SFNTC), R.J. Reynolds Vapor Company (RJR Vapor), Reynolds American, Lorillard Inc., other Reynolds American affiliates and indemnitees, including but not limited to B&W (collectively, the Reynolds Defendants), believe that they have valid defences to the tobacco-related litigation claims against them, as well as valid bases for appeal of adverse verdicts against them. The Reynolds Defendants have, through their counsel, filed pleadings and memoranda in pending tobacco-related litigation that set forth and discuss a number of grounds and defences that they and their counsel believe have a valid basis in law and fact.
16. Scheduled trials. Trial schedules are subject to change, and many cases are dismissed before trial. In the US, there are 30 cases, exclusive of *Engle* progeny cases, scheduled for trial as of 31 December 2020 through 31 December 2021, for the Reynolds Defendants: 19 individual smoking and health cases, 10 Filter Cases and one non-smoking and health case. There are also approximately 112 *Engle* progeny cases against RJRT (individually and as successor to Lorillard Tobacco) and B&W scheduled for trial through 31 December 2021. It is not known how many of these cases will actually be tried.

27 Contingent Liabilities and Financial Commitments Continued

17. Trial results. From 1 January 2018 through 31 December 2020, 83 trials occurred in individual smoking and health, *Engle* progeny, and Filter Cases in which the Reynolds Defendants were defendants, including 10 where mistrials were declared. Verdicts in favour of the Reynolds Defendants and, in some cases, other defendants, were returned in 27 cases (including one directed verdict after the jury reached an impasse in a punitive damages trial), tried in Florida (25) and Massachusetts (2). Verdicts in favour of the plaintiffs were returned in 37 cases (including one in which the jury found for the plaintiff in Phase I and the parties reached a resolution agreement prior to completion of Phase II), which were tried in Florida (32), the US Virgin Islands (2), and Massachusetts (3). Seven of the cases in Florida were dismissed during trial. Two cases were punitive damages retrials.
 18. These civil actions seek to recover amounts spent by government entities and other third-party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking.
 19. At 31 December 2020, one US medical reimbursement suit (*Crow Creek Sioux Tribe v. American Tobacco Co.*) was pending against RJRT, B&W and Lorillard Tobacco in a Native American tribal court in South Dakota. The plaintiffs seek to recover actual and punitive damages, restitution, funding of a clinical cessation programme, funding of a corrective public education programme, and disgorgement of unjust profits from sales to minors. No other medical reimbursement suits are pending against these companies by county or other political subdivisions of the states.
- ### US Department of Justice Action
20. On 22 September 1999, the US Department of Justice brought an action in the US District Court for the District of Columbia against various industry members, including RJRT, B&W, Lorillard Tobacco, B.A.T Industries p.l.c. (Industries) and Investments (*United States v. Philip Morris USA Inc.*). The US Department of Justice initially sought (1) recovery of federal funds expended in providing health care to smokers who developed alleged smoking-related diseases pursuant to the Medical Care Recovery Act and Medicare Secondary Payer provisions of the Social Security Act and (2) equitable relief under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO), including disgorgement of roughly US\$280 billion (approximately £204.8 billion) in profits the government contended were earned as a consequence of a purported racketeering 'enterprise' along with certain 'corrective communications'. In September 2000, the district court dismissed the government's Medical Care Recovery Act and Medicare Secondary Payer claims. In February 2005, the US Court of Appeals for the DC Circuit (the DC Circuit) ruled that disgorgement was not an available remedy.
 21. Industries was dismissed for lack of personal jurisdiction on 28 September 2000. In addition, Investments was a defendant at the trial, but intervening changes in controlling law post-trial led to a 28 March 2011 court ruling that the court's Final Judgment and Remedial Order no longer applied to Investments prospectively, and for this reason, Investments would not have to comply with any of the remaining injunctive remedies being sought by the government. As the government did not appeal the 28 March 2011 ruling, this means that Investments is no longer in the case and is not subject to any injunctive relief that the court is expected to order against the remaining defendants. As the case continued as against RJRT and Lorillard Tobacco with respect to injunctive relief and related matters, the following is noted.
 22. The non-jury trial of the RICO portion of the claim began on 21 September 2004 and ended on 9 June 2005. On 17 August 2006, the federal district court issued its Final Judgment and Remedial Order, which found certain defendants, including RJRT, B&W, Lorillard Tobacco and Investments, had violated RICO, but did not impose any direct financial penalties. The district court instead enjoined the defendants from committing future racketeering acts, participating in certain trade organisations, making misrepresentations concerning smoking and health and youth marketing, and using certain brand descriptors such as 'low tar', 'light', 'ultra-light', 'mild' and 'natural'. The district court also ordered the defendants to issue 'corrective communications' on five subjects, including smoking and health and addiction, and to comply with further undertakings, including maintaining websites of historical corporate documents and disseminating certain marketing information on a confidential basis to the government. In addition, the district court placed restrictions on the defendants' ability to dispose of certain assets for use in the United States, unless the transferee agrees to abide by the terms of the district court's order, and ordered certain defendants to reimburse the US Department of Justice its taxable costs incurred in connection with the case.
 23. Defendants, including RJRT, B&W, Lorillard Tobacco and Investments, appealed, and the US government cross-appealed to the DC Circuit. On 22 May 2009, the DC Circuit affirmed the federal district court's RICO liability judgment, but vacated the order and remanded for further factual findings and clarification as to whether liability should be imposed against B&W, based on changes in the nature of B&W's business operations (including the extent of B&W's control over tobacco operations). The court also remanded on three other discrete issues relating to the injunctive remedies, including for the district court 'to reformulate' the injunction on the use of low-tar descriptors 'to exempt foreign activities that have no substantial, direct, and foreseeable domestic effects,' and for the district court to evaluate whether corrective communications could be required at point-of-sale displays (which requirement the DC Circuit vacated). On 28 June 2010, the US Supreme Court denied the parties' petitions for further review.
 24. On 22 December 2010, the district court dismissed B&W from the litigation. In November 2012, the trial court entered an order setting forth the text of the corrective statements and directed the parties to engage in discussions with the Special Master to implement them. After various proceedings and appeals, the federal district court in October 2017 ordered RJRT and the other US tobacco company defendants to fund the publishing of compelled public statements in various US media outlets, including in newspapers, on television, on the companies' websites, and in inserts on cigarette packaging. The compelled public statements in newspapers and on television were completed in 2018 and in package inserts were completed in mid-2020. Also, the compelled public statements now appear on RJRT websites. The district court is considering mandating the display of the compelled public statements at retail point of sale; an evidentiary hearing is scheduled to begin on 12 July 2021.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

(b) Class Actions

25. At 31 December 2020, RJRT, B&W and Lorillard Tobacco were named as defendants in two separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted by their smoking, and SFNTC was named in 17 separate cases relating to the use of the words 'natural,' '100% additive-free,' or 'organic' in Natural American Spirit advertising and promotional materials. If the classes are or remain certified, separate trials may be needed to assess individual plaintiffs' damages. Among the pending class actions, 18 specified the amount of the claim in the complaint, including 17 that alleged that the plaintiffs were seeking in excess of US\$5 million (approximately £3.6 million) and one that alleged that the plaintiffs were seeking less than US\$75,000 (approximately £54,900) per class member plus unspecified punitive damages.

No Additive/Natural/Organic Claim Cases

26. A total of 17 putative class actions have been filed in nine US federal district courts against SFNTC, a subsidiary of Reynolds American, which cases generally allege, in various combinations, violations of state deceptive and unfair trade practice statutes, and claim state common law fraud, negligent misrepresentation, and unjust enrichment based on the use of descriptors such as 'natural,' 'organic' and '100% additive-free' in the marketing, labelling, advertising, and promotion of SFNTC's Natural American Spirit brand cigarettes. In these actions, the plaintiffs allege that the use of these terms suggests that Natural American Spirit brand cigarettes are less harmful than other cigarettes and, for that reason, violated state consumer protection statutes or amounted to fraud or a negligent or intentional misrepresentation. The actions seek various categories of recovery, including economic damages, injunctive relief (including medical monitoring and cessation programmes), interest, restitution, disgorgement, treble and punitive damages, and attorneys' fees and costs. In April 2016, in response to a motion by the various plaintiffs, the US Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases for pre-trial purposes before a federal court in New Mexico. On 21 December 2017, that court granted the defendants' motion to dismiss in part, dismissing a number of claims with prejudice, and denied it in part. The district court conducted a five-day hearing on the motion for class certification and on the motion challenging the admissibility expert opinion testimony in December 2020. The parties filed post-hearing briefs in January 2021 and will file proposed findings of fact and conclusions of law in February 2021. A decision is expected in the second half of 2021.

Other Putative Class Actions

27. *Jones v. American Tobacco Co.* is a putative class action filed in December 1998 in the Circuit Court, Jackson County, Missouri. The action was brought by a plaintiff on behalf of a putative class of Missouri tobacco product users and purchasers against various defendants, including RJRT, B&W and Lorillard Tobacco alleging that the plaintiffs' use of the defendants' tobacco products has caused them to become addicted to nicotine, and seeking an unspecified amount of compensatory and punitive damages. There is currently no activity in this case.

28. *Young v. American Tobacco Co.* is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana against various US cigarette manufacturers, including RJRT and B&W, and parent companies of such manufacturers. This putative ETS class action was brought on behalf of a putative class of Louisiana residents who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes manufactured by the defendants, and who allegedly suffered injury as a result of that exposure, and seeks an unspecified amount of compensatory and punitive damages. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of an ongoing smoking cessation programme ordered by the court in a now-concluded Louisiana state court certified class action, *Scott v. American Tobacco Co.*

Engle Class Action and Engle Progeny Cases (Florida)

29. In July 1998, trial began in *Engle v. R. J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco. The then-certified class consisted of Florida citizens and residents, and their survivors, who suffered from smoking-related diseases that first manifested between 5 May 1990, and 21 November 1996, and were caused by an addiction to cigarettes. In July 1999, the jury in this Phase I found against RJRT, B&W, Lorillard Tobacco and the other defendants on common issues relating to the defendants' conduct, general causation, the addictiveness of cigarettes, and entitlement to punitive damages.

30. In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £106 billion) in punitive damages, apportioned US\$36.3 billion (approximately £26.6 billion) to RJRT, US\$17.6 billion (approximately £12.9 billion) to B&W, and US\$16.3 billion (approximately £11.9 billion) to Lorillard Tobacco. The three class representatives in the *Engle* class action were awarded US\$13 million (approximately £9.5 million) in compensatory damages.

31. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three *Engle* class representatives to stand and setting aside the punitive damages award. The court preserved certain of the jury's Phase I findings, including that cigarettes can cause certain diseases, nicotine is addictive, and defendants placed defective cigarettes on the market, breached duties of care, concealed health-related information and conspired. Putative *Engle* class members were permitted to file individual lawsuits, deemed '*Engle* progeny cases', against the *Engle* defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008).

32. During 2015, RJRT and Lorillard Tobacco, together with Philip Morris USA Inc. (PM USA), settled virtually all of the *Engle* progeny cases then pending against them in federal district court. The total amount of the settlement was US\$100 million (approximately £73.2 million) divided as follows: RJRT US\$42.5 million (approximately £31.1 million); PM USA US\$42.5 million (approximately £31.1 million); and Lorillard Tobacco US\$15 million (approximately £10.9 million). The settlement covered more than 400 federal *Engle* progeny cases but did not cover 12 federal progeny cases previously tried to verdict and then pending on post-trial motions or appeal, and two federal progeny cases filed by different lawyers from the ones who negotiated the settlement for the plaintiffs.

27 Contingent Liabilities and Financial Commitments Continued

33. As at 31 December 2020, there were approximately 1,400 *Engle* progeny cases pending in which RJRT, B&W and/or Lorillard Tobacco have all been named as defendants and served. These cases include claims by or on behalf of 1,725 plaintiffs. In addition, as of 31 December 2020, RJRT was aware of seven additional *Engle* progeny cases that have been filed but not served. The number of pending cases fluctuates for a variety of reasons, including voluntary and involuntary dismissals. Voluntary dismissals include cases in which a plaintiff accepts an 'offer of judgment' from RJRT, Lorillard Tobacco and/or RJRT's affiliates and indemnitees. An offer of judgment, if rejected by the plaintiff, preserves RJRT's and Lorillard Tobacco's right to recover attorneys' fees under Florida law in the event of a verdict favourable to RJRT or Lorillard Tobacco, or affiliates of such entities. Such offers are sometimes made through court-ordered mediations.

34. 71 trials occurred in *Engle* progeny cases in Florida state and federal courts against RJRT, B&W and/or Lorillard Tobacco from 1 January 2018 through 31 December 2020, and additional state court trials are scheduled for 2021.

35. The following chart identifies the number of trials in *Engle* progeny cases as at 31 December 2020 and additional information about the adverse judgments entered:

Trials/verdicts/judgments of individual *Engle* progeny cases from 1 January 2018 through 31 December 2020:

Total number of trials	71
Number of trials resulting in plaintiffs' verdicts	33**
Total damages awarded in final judgments against RJRT	US\$332,210,000 (approximately £243 million)
Amount of overall damages comprising 'compensatory damages' (approximately)	US\$107,621,000 (of overall US\$332,210,000) (approximately £78.7 million of £243 million)
Amount of overall damages comprising 'punitive damages' (approximately)	US\$224,589,000 (of overall US\$332,210,000) (approximately £164.3 million of £243 million)

** Of the 33 trials resulting in plaintiffs' verdicts 1 January 2018 to 31 December 2020 (note 11):

Number of adverse judgments appealed by RJRT	24 (note 12)
Number of adverse judgments, in which RJRT still has time to file an appeal	0
Number of adverse judgments in which an appeal was not, and can no longer be, sought	8

Appeals of individual *Engle* progeny cases 1 January 2018 to 31 December 2020:

Number of adverse judgments appealed by RJRT	26 (note 13)
--	--------------

Note 11: the 33 trials include two cases that were tried twice (*Gloger v. R.J. Reynolds Tobacco Co.* and *Bessent-Dixon v. R.J. Reynolds Tobacco Co.*) and one case (*Robert Miller v. R.J. Reynolds Tobacco Co.*) where plaintiff moved for a mistrial following a plaintiff's verdict where the jury awarded no compensatory or punitive damages, and an adverse judgment has not yet been entered.

Note 12: of the 24 adverse judgments appealed by RJRT as a result of judgments arising in the period 1 January 2018 to 31 December 2020:

- 10 appeals remain undecided in the District Courts of Appeal; and one case has been affirmed but the rehearing time is pending;
- 12 appeals were decided and/or closed in the District Court of Appeals. Of these 12 appeals, seven were affirmed in favour of plaintiff. One was reversed for a new trial, one was voluntarily dismissed and judgment paid, one was involuntarily dismissed, and one was affirmed in part, reversed in part, for additur or a new trial, one was reversed in part for reinstatement of jury's punitive damages verdict and entry of amended final judgment.

Note 13: of the 26 adverse judgments appealed by RJRT (during the period 1 January 2018 to 31 December 2020):

- 10 appeals remain undecided in the District Courts of Appeal and one case affirmed but rehearing time pending;
- 15 were decided and/or closed in the District Courts of Appeal. Of these appeals, nine were affirmed in favour of plaintiff, one was reversed for a new trial, one was voluntarily dismissed and judgment paid, one was involuntarily dismissed, one was affirmed in part, reversed in part, for additur or a new trial, one reversed in part for reinstatement of jury's punitive damages verdict and entry of amended final judgment. Note that one appeal was reversed in the Eleventh Circuit for entry of order granting Defendants' motion for judgment in accordance with the verdict; and
- does not include two cases that were appealed prior to the relevant time period but which remain pending before the Florida Supreme Court.

36. By statute, Florida applies a US\$200 million (approximately £146.3 million) bond cap to all *Engle* progeny cases in the aggregate. Individual bond caps for any given *Engle* progeny case vary depending on the number of judgments in effect at a given time. Judicial attempts by several plaintiffs in the *Engle* progeny cases to challenge the bond cap as violating the Florida Constitution have failed. In addition, bills have been introduced in sessions of the Florida legislature that would eliminate the *Engle* progeny bond cap, but those bills have not been enacted as of 31 December 2020.

37. In 2020, RJRT or Lorillard Tobacco paid judgments in eight *Engle* progeny cases. Those payments totalled US\$73.7 million (approximately £53.9 million) in compensatory or punitive damages. Additional costs were paid in respect of attorneys' fees and statutory interest.

38. In addition, accruals for damages and attorneys' fees and statutory interest for one case (*Starr-Blundell v. R. J. Reynolds Tobacco Co.*) was recorded in Reynolds American's consolidated balance sheet as of 31 December 2020 to the value of US\$69,200 (approximately £50,621).

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

(c) Individual Cases

39. As of 31 December 2020, 189 individual cases were pending in the United States against RJRT, B&W and/or Lorillard Tobacco. This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty, and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs, and punitive damages. The category does not include the *Engle* progeny cases, *Broin* II cases, and Filter Cases discussed above and below. One of the individual cases is brought by or on behalf of an individual or his/her survivors alleging personal injury as a result of exposure to ETS.
40. The following chart identifies the number of individual cases pending as of 31 December 2020 as against the number pending as of 31 December 2019, along with the number of *Engle* progeny cases, *Broin* II cases, and Filter Cases, which are discussed further below.

Case Type	US Case Numbers 31 December 2020	US Case Numbers 31 December 2019	Change in Number Increase/(Decrease)
Individual Smoking and Health Cases (note 14)	189	135	54
<i>Engle</i> Progeny Cases (Number of Plaintiffs) (note 15)	1,400 (1,725)	1,773 (2,228)	(373) (503)
<i>Broin</i> II Cases (note 16)	1,227	1,228	(1)
Filter Cases (note 17)	48	51	(3)

(Note 14) Out of the 189 pending individual smoking and health cases, four have received adverse verdicts or judgments in the court of first instance or on appeal, and the total amount of those verdicts or judgments is approximately US\$147 million (approximately £108 million).

(Note 15) The number of *Engle* progeny cases will fluctuate as cases are dismissed or if any of the dismissed cases are appealed. Please see earlier table in paragraph 35.

(Note 16) *Broin v. Philip Morris, Inc.* was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to ETS in airplane cabins. In October 1997, RJRT, B&W, Lorillard Tobacco and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of US\$300 million (approximately £220 million) in three annual US\$100 million (approximately £73 million) instalments, allocated among the companies by market share, to fund research on the early detection and cure of diseases associated with tobacco smoke. It also required those companies to pay a total of US\$49 million (approximately £36 million) for the plaintiffs' counsel's fees and expenses. RJRT's portion of these payments was approximately US\$86 million (approximately £63 million); B&W's was approximately US\$57 million (approximately £41 million); and Lorillard Tobacco's was approximately US\$31 million (approximately £23 million). The settlement agreement, among other things, limits the types of claims class members may bring and eliminates claims for punitive damages. The settlement agreement also provides that, in individual cases by class members that are referred to as *Broin* II lawsuits, the defendants will bear the burden of proof with respect to whether ETS can cause certain specifically enumerated diseases, referred to as 'general causation'. With respect to all other liability issues, including whether an individual plaintiff's disease was caused by his or her exposure to ETS in airplane cabins, referred to as 'specific causation', individual plaintiffs will bear the burden of proof. On 7 September 1999, the Florida Supreme Court approved the settlement. There have been no *Broin* II trials since 2007. There have been periodic efforts to activate cases and the Group expects this to continue over time.

(Note 17) Includes claims brought against Lorillard Tobacco and Lorillard Inc. by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Pursuant to the terms of a 1952 agreement between P. Lorillard Company and H&V Specialties Co., Inc. (the manufacturer of the filter material), Lorillard Tobacco is required to indemnify Hollingsworth & Vose for legal fees, expenses, judgments and resolutions in cases and claims alleging injury from finished products sold by P. Lorillard Company that contained the filter material. As of 31 December 2020, Lorillard Tobacco and/or Lorillard Inc. was a defendant in 48 Filter Cases. Since 1 January 2018, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$31.3 million (approximately £22.8 million) in settlements to resolve 124 Filter Cases.

(d) State Settlement Agreements

41. In November 1998, the major US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, entered into the Master Settlement Agreement (MSA) with attorneys general representing 46 US states, the District of Columbia and certain US territories and possessions. These cigarette manufacturers previously settled four other cases, brought on behalf of Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively and with the MSA, the 'State Settlement Agreements').
42. These State Settlement Agreements settled all health care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the defending major US cigarette manufacturers from various additional present and potential future claims; imposed future payment obligations in perpetuity on RJRT, B&W, Lorillard Tobacco and other major US cigarette manufacturers; and placed significant restrictions on their ability to market and sell cigarettes and smokeless tobacco products. In accordance with the MSA, various tobacco companies agreed to fund a US\$5.2 billion (approximately £3.8 billion) trust fund to be used to address the possible adverse economic impact of the MSA on tobacco growers.

27 Contingent Liabilities and Financial Commitments Continued

43. RJRT and SFNTC are subject to the substantial payment obligations under the State Settlement Agreements. Payments under the State Settlement Agreements are subject to various adjustments for, among other things, the volume of cigarettes sold, relative market share, operating profit and inflation. Reynolds American's operating subsidiaries' expenses and payments under the State Settlement Agreements for 2017, 2018, 2019 and 2020 and the projected expenses and payments for 2021 and 2022 onwards are set forth below (in millions of US dollars)*:

	2017	2018	2019	2020	2021	2022 and thereafter
Settlement expenses	\$2,856	\$2,741	\$2,762	\$3,572		
Settlement cash payments	\$4,612	\$917	\$2,918	\$2,848		
Projected settlement expenses					\$>3,300	\$>3,300
Projected settlement cash payments					\$>3,600	\$>3,300

* Subject to adjustments for changes in sales volume, inflation, operating profit and other factors. Payments are allocated among the companies on the basis of relative market share or other methods.

44. The State Settlement Agreements have materially adversely affected RJRT's shipment volumes. Reynolds American believes that these settlement obligations may materially adversely affect the results of operations, cash flows or financial position of Reynolds American and RJRT in future periods. The degree of the adverse impact will depend, among other things, on the rate of decline in US cigarette sales in the premium and value categories, RJRT's share of the domestic premium and value cigarette categories, and the effect of any resulting cost advantage of manufacturers not subject to the State Settlement Agreements.
45. In addition, the MSA includes an adjustment that potentially reduces the annual payment obligations of RJRT, Lorillard Tobacco and the other signatories to the MSA, known as 'Participating Manufacturers' (PMs). Certain requirements, collectively referred to as the 'Adjustment Requirements', must be satisfied before the Non-Participating Manufacturers (NPM) Adjustment for a given year is available: (i) an Independent Auditor must determine that the PMs have experienced a market share loss, beyond a triggering threshold, to those manufacturers that do not participate in the MSA (such non-participating manufacturers being referred to as NPMs); and (ii) in a binding arbitration proceeding, a firm of independent economic consultants must find that the disadvantages of the MSA were a significant factor contributing to the loss of market share. This finding is known as a significant factor determination.
46. When the Adjustment Requirements are satisfied, the MSA provides that the NPM Adjustment applies to reduce the annual payment obligation of the PMs. However, an individual settling state may avoid its share of the NPM Adjustment if it had in place and diligently enforced during the entirety of the relevant year a 'Qualifying Statute' that imposes escrow obligations on NPMs that are comparable to what the NPMs would have owed if they had joined the MSA. In such event, the state's share of the NPM Adjustment is reallocated to other settling states, if any, that did not have in place and diligently enforce a Qualifying Statute.
47. RJRT and Lorillard Tobacco are or were involved in NPM Adjustment proceedings concerning the years 2003 to 2019. In 2012, RJRT, Lorillard Tobacco, and SFNTC entered into an agreement (the Term Sheet) with certain settling states that resolved accrued and potential NPM adjustments for the years 2003 through 2012 and, as a result, RJRT and SFNTC collectively received, or are to receive, more than US\$1.1 billion (approximately £804 million) in credits that, in substantial part, were applied to MSA payments in 2014 through 2017. After an arbitration panel ruled in September 2013 that six states had not diligently enforced their qualifying statutes in the year 2003, additional states joined the Term Sheet. RJRT executed the NPM Adjustment Settlement Agreement on 25 September 2017 (which incorporated the Term Sheet). Since the NPM Adjustment Settlement Agreement was executed, an additional 10 states have joined. NPM proceedings are ongoing and could result in further reductions of the companies' MSA-related payments.
48. On 18 January 2017, the State of Florida filed a motion to join Imperial Tobacco Group, PLC (ITG) as a defendant and to enforce the Florida State Settlement Agreement, which motion sought payment under the Florida State Settlement Agreement of approximately US\$45 million (approximately £33 million) with respect to the four brands (Winston, Salem, Kool and Maverick) that were sold to ITG in the divestiture of certain assets, on 12 June 2015, by subsidiaries or affiliates of Reynolds American and Lorillard, together with the transfer of certain employees and certain liabilities, to a wholly-owned subsidiary of Imperial Brands plc (the Divestiture), referred to as the 'Acquired Brands'. The motion also claimed future annual losses of approximately US\$30 million per year (approximately £22 million) absent the court's enforcement of the Florida State Settlement Agreement. The State's motion sought, among other things, an order declaring that RJRT and ITG are in breach of the Florida Settlement Agreement and are required, jointly and severally, to make annual payments to the State under the Florida State Settlement Agreement with respect to the Acquired Brands. In addition, on 18 January 2017, PM USA filed a motion to enforce the Florida State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 January 2017, RJRT sought leave to file a supplemental pleading for breach by ITG of its obligations regarding joinder into the Florida State Settlement Agreement. The Florida court, on 30 March 2017, ruled that ITG should be joined into the enforcement action.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

49. After a bench trial, on 27 December 2017 the court entered an order holding that RJRT (not ITG) is liable for annual settlement payments for the Acquired Brands, finding that ITG did not assume liability for annual settlement payments under the terms of the asset purchase agreement relating to the Divestiture and RJRT remained liable for payments under the Florida State Settlement Agreement as to the Acquired Brands. In January 2018, the auditor of the Florida State Settlement Agreement adjusted the final 2017 invoice for the annual payment and amended the 2015 and 2016 invoices for the respective annual payment and the net operating profit penalty for each of those years under the Florida Settlement Agreement, based on the auditor's interpretation of the court's order. The adjusted invoices reflected amounts due to both the State of Florida and PM USA. In total, the estimated additional amounts due were US\$99 million (approximately £72 million) with US\$84 million (approximately £61 million) to the State of Florida and US\$16 million (approximately £12 million) to PM USA. RJRT advised the auditor that it disputed these amounts, and therefore no further amounts were due or would be paid for those years pending the final resolution of RJRT's appeal of the court's order. On 23 January 2018, RJRT filed a notice of appeal, and on 25 January 2018, RJRT filed an amended notice of appeal, and PM USA filed a notice of appeal as to the court's ruling as to ITG. On 26 January 2018, the State moved for recovery of its attorneys' fees and costs from RJRT. The State and PM USA filed a joint motion for the entry of final judgment on 1 February 2018. The court declined to enter a final judgment until after resolution of the dispute between RJRT and PM USA regarding PM USA's assertion that settlement payment obligations have been improperly shifted to PM USA. On 15 August 2018, the court entered a final judgment in the action (the Final Judgment). As a result of the Final Judgment, PM USA's challenge to RJRT's accounting assumptions related to the Acquired Brands was rendered moot, subject to reinstatement if ITG joins the Florida State Settlement Agreement or if judgment is reversed. On 29 August 2018, RJRT filed a notice of appeal on the Final Judgment. On 7 September 2018, PM USA filed a notice of appeal with respect to the court's ruling as to ITG. On 12 September 2018, RJRT filed a motion to consolidate RJRT's appeal with the appeal filed by PM USA, which was granted on 1 October 2018. Appellate briefing was completed on 6 February 2020. Oral argument, originally scheduled for 7 April 2020, was conducted through video conference on 9 June 2020. On 29 July 2020, Florida's Fourth District Court of Appeal affirmed the Final Judgement. On 12 August 2020, RJRT filed a motion for rehearing or for certification to the Florida Supreme Court of the 29 July 2020 decision. On 10 June 2020, RJRT posted an additional bond in the amount of US\$84,102,984.75 (approximately £61.5 million), over the US\$103,694,155.08 (approximately £75.8 million) bond initially posted, to cover additional disputed amounts plus two years of statutory interest. The total amount RJRT bonded for its appeal was US\$187,797,139.83 (approximately £138 million). RJRT's motion for rehearing or certification to the Florida Supreme Court was denied on 18 September 2020 and its motion for review was denied by the Florida Supreme Court on 18 December 2020. On 5 October 2020, RJRT satisfied the Final Judgment (approximately US\$192,869,589.86 (approximately £140,000,000)) and paid approximately US\$3.1 million (approximately £2.2 million) of Florida's attorneys' fees but continues to litigate over the remaining approximately US\$300,000 (approximately £219,000) in attorneys' fees. RJRT's appellate bonds were released to RJRT by order dated 5 November 2020. RJRT will seek indemnification from ITG.
50. On 17 February 2017, ITG filed an action in the Court of Chancery of the State of Delaware seeking declaratory relief and a motion for a temporary restraining order against Reynolds American and RJRT. In its complaint, ITG asked the court to declare various matters related to its rights and obligations under the asset purchase agreement (and related documents) relating to the Divestiture. ITG sought an injunction barring Reynolds American and/or RJRT from alleging in the Florida enforcement litigation that ITG had breached the asset purchase agreement and requiring these companies to litigate issues under the asset purchase agreement in Delaware. Following a hearing on ITG's complaint and motion on 1 March 2017, the Delaware court entered a temporary restraining order that enjoined Reynolds American and RJRT from 'taking offensive action to assert claims against ITG Brands' in the Florida enforcement action, but the order does not prevent RJRT from making arguments in response to claims asserted by the State of Florida, PM USA or ITG in the Florida enforcement litigation. On 24 March 2017, Reynolds American and RJRT answered the ITG complaint and filed a motion to stay proceedings in Delaware pending the outcome of the Florida enforcement litigation, which motion was denied 18 May 2017. Cross motions for partial judgment on the pleadings were filed focusing on whether ITG's obligation to use 'reasonable best efforts' to join the Florida State Settlement Agreement continued after the 12 June 2015 closing. On 30 November 2017, following argument, the Delaware court ruled in favour of RJRT, holding that ITG's obligation to use its reasonable best efforts to join the Florida Settlement Agreement did not terminate due to the closing of the asset purchase agreement relating to the Divestiture. On 4 January 2019, RJRT filed another motion for partial judgment on the pleadings seeking to resolve two contract-interpretation questions under the asset purchase agreement: first, to the extent RJRT is held liable for any settlement payments based on post-closing sales of the Acquired Brands, ITG assumed this liability, and second, that the asset purchase agreement does not entitle ITG to a unique protection from an equity-fee law that does not yet exist in a Previously Settled State. Argument on RJRT's motion for partial judgment was heard on 4 June 2019. On 23 September 2019, the Delaware Chancery Court declined to resolve, at this time, the first issue, whether ITG had assumed any liability imposed on RJRT for making settlement payments on ITG's brands. The court concluded that both sides had presented reasonable interpretations of the asset purchase agreement, which was therefore ambiguous, so the court would require an evidentiary hearing to interpret the intent of the asset purchase agreement on assumed liabilities. The court also granted RJRT's motion on the second issue and ruled that ITG could not refuse to join the Florida State Settlement Agreement unless a joinder exempted it from a future equity-fee statute. On 1 October 2019, the Chancery Court entered an order on these latest motions for partial judgment on the pleadings. It granted RJRT's motion on the second issue. It denied both parties' motions on the first issue, deferring resolution until after the court receives evidence related to the parties' intent in their contract. On 11 October 2019, ITG filed in the Chancery Court a motion to seek interlocutory appeal in the Supreme Court, which was denied on 31 October 2019. On 31 October 2019, ITG filed a notice of interlocutory appeal directly to the Delaware Supreme Court, which was denied on 7 November 2019. Discovery is currently ongoing with respect to the hearing to interpret the intent of the asset purchase agreement on assumed liabilities.

27 Contingent Liabilities and Financial Commitments Continued

51. On 26 March 2018, the State of Minnesota filed a motion against RJRT to enforce the Minnesota State Settlement Agreement, which motion seeks payments under the Minnesota State Settlement Agreement of approximately US\$40 million (approximately £29 million) with respect to the Acquired Brands. The motion also claims future annual losses of approximately US\$15 million (approximately £11 million) absent the court's enforcement of the Minnesota State Settlement Agreement. The State of Minnesota also filed a separate complaint against ITG, which complaint seeks the same payments. The State's motion against RJRT and complaint against ITG seek, among other things, an order declaring that RJRT and ITG are in breach of the Minnesota State Settlement Agreement and are jointly and severally liable to make annual payments to the State of Minnesota under the Minnesota State Settlement Agreement with respect to the Acquired Brands. In addition, on 28 March 2018, PM USA filed a motion to enforce the Minnesota State Settlement Agreement, asserting, among other things, that RJRT and ITG breached the Minnesota State Settlement Agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 March 2018, the Minnesota court consolidated the motions to enforce and separate complaint against ITG into one proceeding captioned *In re Petition of the State of Minnesota for an Order Compelling Payments of Settlement Proceeds Related to ITG Brands LLC*, Court File No. 62-CV-18-1912. On 11 June 2018, the court held a scheduling conference in the case and by order dated 21 June 2018, set a discovery schedule for the case, under which discovery is complete. A hearing on the motions to enforce to determine if RJRT and/or ITG are liable to make payments on the Acquired Brands was held on 26 June 2019. On 24 September 2019, the Minnesota District Court issued an Order and Memorandum, holding RJRT liable for settlement payments on the Acquired Brands, and determining the issue of whether ITG is a 'successor or assign' of RJRT under the Minnesota State Settlement Agreement is unresolved, reasoning ITG's status depends on whether it satisfied its post-closing obligation to expend its reasonable best efforts to join the Minnesota State Settlement Agreement. On 23 December 2019, ITG filed a motion in the Minnesota District Court seeking certification of an appeal of certain questions arising from the 24 September 2019 order. On 21 January 2020, a hearing was held on ITG's motion seeking certification of an appeal. On 19 February 2020, the Minnesota District Court entered an Order and Memorandum denying ITG's motion for certification. A multi-day hearing to determine whether ITG is liable for settlement payments was completed on 9 September 2020. The parties filed post-hearing briefs on 13 November 2020; a decision is pending. A status conference is scheduled for 3 March 2021. Settlement discussions are ongoing. Under the proposed settlement framework, ITG and RJR Tobacco would split the 2015-2019 payments, ITG would join the settlement agreement and make all payments from 2020 forward, and RJR Tobacco and PM would resolve outstanding payment calculation issues.
52. On 28 January 2019, the State of Texas filed motions in the original Texas health care reimbursement case, brought against the tobacco industry that led to the Texas State Settlement Agreement, to join ITG as a defendant and to enforce the Texas State Settlement Agreement against RJRT and ITG, seeking payment under the Texas State Settlement Agreement of approximately US\$125 million (approximately £91 million) with respect to the Acquired Brands that were sold to ITG in the Divestiture. The motion also claimed future annual losses of an unspecified amount absent the court's enforcement of the Texas State Settlement Agreement. The State's motion sought, among other things, an order declaring that RJRT, or in the alternative, ITG, is in breach of the Texas Settlement Agreement and is required to make annual payments to the State under the Texas State Settlement Agreement with respect to the Acquired Brands. In addition, on 29 January 2019, PM USA filed a motion to enforce the Texas State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. After completion of discovery, a hearing on the motions to enforce was held on 30 October 2019. On 25 February 2020, the Court entered a Memorandum Opinion and Order holding that RJRT remains liable for settlement payments on the Acquired Brands under the Texas Settlement Agreement. The Court further held that, although ITG is unambiguously an assign within the meaning of the Texas Settlement Agreement, a final determination of the scope of ITG's obligations under the APA is to be determined in the litigation pending before the Delaware Court. Pursuant to the Court's direction, on 9 March 2020 the parties submitted a status report indicating the remaining issues before the Court include RJRT's position that the Court should subtract the equity fee payments made on the Acquired Brands by ITG's distributors from the settlement payments due by RJRT after including the Acquired Brands in calculating damages, whether a final judgment should be entered in favour of ITG, whether a partial final judgment should be entered against RJRT and the State's request for an award of attorneys' fees and costs against RJRT and/or ITG. On 5 May 2020 the Court entered final judgment (later clarified in a 14 August 2020 amended judgment) on the State's motion, ordering RJRT to pay all settlement amounts due on the Acquired Brands under the Texas Settlement Agreement; granting RJRT a full dollar-for-dollar set-off for all equity fee payments made on the Acquired Brands by ITG or its distributors, but holding RJRT liable for any equity fee payments that are lawfully refunded; and ordering the case closed, to be reopened after ITG's liability under the APA is determined by the Delaware Court. ITG's equity fee payments to Texas for the Acquired Brands currently equal approximately 90% of the annual Texas settlement payments for those brands. Thus, the settlement payments for those Acquired Brands exceed ITG's equity fee payments by approximately US\$3 million (approximately £2 million) per year. As such, RJRT would owe approximately US\$3 million (approximately £2 million) a year after an equity fee credit. Due to how the profit penalty is allocated, RJRT will pay approximately US\$10 million (approximately £7 million) less in 2019 in Texas payments than it would have paid had ITG joined, with that trend continuing in future years. However, because ITG made equity fee payments at a substantially lower rate before 2019, and because of how the profit penalty was calculated before now, RJRT owes approximately US\$260.4 million (before interest) (approximately £190 million) in past payments under the judgment through 2020. On 3 and 4 June 2020, respectively, RJRT and ITG filed notices of appeal of the 5 May 2020 judgment. In August 2020, RJRT filed a notice of appeal, and in September 2020, the State and ITG filed notices of appeal from the portion of the judgment denying the motion to remove the equity fee set-off. RJRT moved to dismiss ITG's appeal for lack of jurisdiction, which motion was ordered by the Fifth Circuit Court of Appeals to be argued with ITG's appeal. On 2 November 2020 RJRT filed its appellate brief. On 19 January 2021 the parties filed responses. Settlement discussions are ongoing. Under the proposed settlement framework, ITG and RJR Tobacco would split the 2015-2019 payments, ITG would join the settlement agreement and make all payments from 2020 forward, and RJR Tobacco and PM would resolve outstanding payment calculation issues.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

53. In June 2015, ITG joined the Mississippi Settlement Agreement. On 26 December 2018, PM USA filed a Motion to Enforce Settlement Agreement against RJRT and ITG alleging RJRT and ITG failed to act in good faith in calculating the base-year net operating profits for the Acquired Brands, claiming damages of approximately US\$6 million (approximately £4 million) through 2017. On 21 February 2019, the Chancery Court of Jackson County, Mississippi held a scheduling conference and issued a discovery schedule order. A hearing on PM USA's Motion to Enforce Settlement Agreement originally scheduled for 3-6 May 2021 was adjourned on consent of the parties to 11-12 August 2021. Settlement discussions are ongoing. Under the proposed settlement framework, RJR Tobacco and PM USA would resolve the outstanding payment calculation. On 3 December 2019, the State of Mississippi filed a Notice of Violation and Motion to Enforce the Settlement Agreement in the Chancery Court of Jackson County, Mississippi against RJRT, PM USA and ITG, seeking a declaration that the base year 1997 net operating profit to be used in calculating the Net Operating Profit Adjustment was not affected by the change in the federal corporate tax rate in 2018 from 35% to 21%, and an order requiring RJRT to pay the approximately US\$5 million (approximately £3.6 million) difference in its 2018 payment because of this issue. Determination of this issue may affect RJRT's annual payment thereafter. A hearing on Mississippi's Motion to Enforce Settlement Agreement is scheduled on 6-7 October 2021.

(e) UK — Based Group Companies

54. As at 31 December 2020, Investments has been served in one dormant individual action in the US (Perry) in which there has been no activity since 1998 following the plaintiff's death in 1997. Given the continued lack of activity, this case will now be considered dormant and closed.

Tobacco-Related Litigation Outside the United States

55. As at 31 December 2020:

- a. medical reimbursement actions are being brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea;
- b. class actions are being brought in Canada and Venezuela;
- c. active tobacco product liability claims against the Group's companies existed in 12 markets outside the US. The only markets with five or more claims were Argentina, Brazil, Canada, Chile, Nigeria and Italy.

(a) Medical reimbursement cases**Angola**

56. In or about November 2016, BAT Angola affiliate Sociedade Unificada de Tabacos de Angola (SUT) was served with a collective action filed in the Provincial Court of Luanda, 2nd Civil Section, by the consumer association Associação Angolana dos Direitos do Consumidor (AADIC). The lawsuit seeks damages of AOA 800,000,000 (approximately £893,400) allegedly incurred by the Angolan Instituto Nacional do Controlo do Cancro (INCC) for the cost of treating tobacco-related disease, non-material damages allegedly suffered by certain individual smokers on the rolls of INCC, and the mandating of certain cigarette package warnings. SUT filed its answer to the claim on or about 5 December 2016. The case remains pending.

Argentina

57. In 2007, the non-governmental organisation the Argentina Tort Law Association (ATLA) and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. (Nobleza) and Massalín Particulares. The case is being heard in the Contentious Administrative Court. The parties filed conclusive briefs on 20 May 2019 and await the Court's decision.

Canada

58. On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in two Quebec class actions (the Quebec Class Actions), as further described below. The share of the judgment for Imperial, the Group's operating company in Canada, is approximately CAD \$9.2 billion (approximately £5.3 billion). As a result of this judgment, there were attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million (approximately £436 million) on deposit with the court. JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the Companies' Creditors Arrangement Act (the CCAA) on 8 March 2019. A court order to stay all tobacco litigation in Canada against all defendants (including RJRT and its affiliate R.J. Reynolds Tobacco International Inc. (collectively, the RJR Companies)) until 4 April 2019 was obtained, and the need for a mediation process to resolve all the outstanding litigation across the country was recognised. On 12 March 2019 Imperial filed for creditor protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation, including British American Tobacco p.l.c. (the Company), Investments, Industries and Carreras Rothmans Limited (collectively, the UK Companies). On 22 March 2019, Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the Stays). The Stays are currently in place until 31 March 2021. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.

59. The below represents the state of the referenced litigation as at the advent of the Stays.

60. Following the implementation of legislation enabling provincial governments to recover health-care costs directly from tobacco manufacturers, 10 actions for recovery of health-care costs arising from the treatment of smoking and health-related diseases have been brought. These proceedings name various Group companies as defendants, including the UK Companies and Imperial as well as the RJR Companies. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business to Japan Tobacco Incorporated (JTI), JTI has agreed to indemnify RJRT for all liabilities and obligations (including litigation costs) arising in respect of the Canadian recoupment actions. Subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these actions.

61. The 10 cases were proceeding in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island. The enabling legislation is in force in all 10 provinces. In addition, legislation has received Royal Assent in two of the three territories in Canada, but has yet to be proclaimed into force.

27 Contingent Liabilities and Financial Commitments Continued

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial Investments Industries Carreras Rothmans Limited RJR Companies Other former Rothmans Group companies All have been served.	The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed, and document production and discoveries were ongoing. On 13 February 2017 the province delivered an expert report dated October 2016, quantifying its damages in the amount of CAD\$118 billion (approximately £67 billion). No trial date has been set. The federal government is seeking CAD\$5 million (approximately £3 million) jointly from all the defendants in respect of costs pertaining to the third-party claim, now dismissed.
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production and discoveries are substantially complete. The most recent expert report filed by the Province estimated a range of damages between CAD \$11.1 billion (approximately £6.3 billion) and CAD \$23.2 billion (approximately £13.3 billion), including expected future costs. Following a motion to set a trial date, the New Brunswick Court of Queen's Bench ordered that the trial commence on 4 November 2019. On 7 March 2019, the New Brunswick Court of Queen's Bench released a decision which requires the Province to produce a substantial amount of additional documentation and data to the defendants. As a result, the original trial date of 4 November 2019 would have been delayed. No new trial date has been set.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	The defences of Imperial, the UK Companies and the RJR Companies have been filed. The parties completed significant document production in the summer of 2017 and discoveries commenced in the autumn of 2018. On 15 June 2018, the province delivered an expert report quantifying its damages in the range of CAD\$280 billion (approximately £161 billion) – CAD\$630 billion (approximately £362 billion) in 2016/2017 dollars for the period 1954 – 2060, and the Province amended the damages sought in its Statement of Claim to CAD\$330 billion (approximately £190 billion). On 31 January 2019, the Province delivered a further expert report claiming an additional amount between CAD \$9.4 billion (approximately £5.4 billion) and CAD\$10.9 billion in damages (approximately £6.3 billion) in respect of ETS. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2001	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	The case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province began its document production in March 2018. Damages have not been quantified by the province. No trial date has been set.
Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2007	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province has delivered a test shipment of documents. Damages have not been quantified by the province. No trial date has been set.
Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production commenced. Damages have not been quantified by the province. No trial date has been set.
Alberta	Crown's Right of Recovery Act 2009	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province commenced its document production. The province has stated its claim to be worth CAD\$10 billion (approximately £5.7 billion). No trial date has been set.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2009	Imperial, Investments Industries, the RJR Companies and Carreras Rothmans Limited have been named as defendants and served.	The case is at an early case management stage. The defences of Imperial, Investments Industries, Carreras Rothmans Limited and the RJR Companies have been filed. Motions over admissibility of documents and damages discovery have been filed but not heard. The province is seeking CAD\$60 billion (approximately £34.5 billion). No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the next step was expected to be document production, which the parties deferred for the time being. Damages have not been quantified by the province. No trial date has been set.
Nova Scotia	Tobacco Health Care Costs Recovery Act 2005	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed. The province provided a test document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

Nigeria

62. British American Tobacco (Nigeria) Limited (BAT Nigeria), the Company and Investments have been named as defendants in a medical reimbursement action by the federal government of Nigeria, filed on 6 November 2007 in the Federal High Court, and in similar actions filed by the Nigerian states of Kano (9 May 2007), Oyo (30 May 2007), Lagos (13 March 2008), Ogun (26 February 2008), and Gombe (17 October 2008) commenced in their respective High Courts. In the five cases that remain active, the plaintiffs seek a total of approximately 10.6 trillion Nigerian naira (approximately £18.5 billion) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.
63. The suits claim that the state and federal government plaintiffs incurred costs related to the treatment of smoking-related illnesses resulting from allegedly tortious conduct by the defendants in the manufacture, marketing, and sale of tobacco products in Nigeria, and assert that the plaintiffs are entitled to reimbursement for such costs. The plaintiffs assert causes of action for negligence, negligent design, fraud and deceit, fraudulent concealment, breach of express and implied warranty, public nuisance, conspiracy, strict liability, indemnity, restitution, unjust enrichment, voluntary assumption of a special undertaking, and performance of another's duty to the public.
64. The Company and Investments have made a number of challenges to the jurisdiction of the Nigerian courts. Such challenges are still pending (on appeal) against the federal government and the states of Lagos, Kano, Gombe and Ogun. The underlying cases are stayed or adjourned pending the final outcome of these jurisdictional challenges. In the state of Oyo, on 13 November 2015, and 24 February 2017, respectively, the Company's and Investments' jurisdictional challenges were successful in the Court of Appeal and the issuance of the writ of summons was set aside.

South Korea

65. In April 2014, Korea's National Health Insurance Service (NHIS) filed a healthcare recoupment action against KT&G (a Korean tobacco company), PM Korea and BAT Korea (including BAT Korea Manufacturing). The NHIS is seeking damages of roughly 54 billion Korean Won (approximately £36.3 million) in respect of health care costs allegedly incurred by the NHIS treating patients with lung (small cell and squamous cell) and laryngeal (squamous cell) cancer between 2003 and 2012. Court hearings in the case, which constitute the trial, commenced in September 2014. On 20 November 2020, the court issued a judgment in favour of the defendants and dismissing all of the plaintiff's claims. The NHIS filed an appeal of the judgment on 11 December 2020.

Brazil

66. On 21 May 2019, the Federal Attorney's Office (AGU) in Brazil filed an action in the Federal Court of Rio Grande do Sul against the Company, the BAT Group's Brazilian subsidiary Souza Cruz LTDA (Souza Cruz), Philip Morris International, Philip Morris Brazil Indústria e Comércio LTDA and Philip Morris Brasil S/A, asserting claims for medical reimbursement for funds allegedly expended by the federal government as public health care expenses to treat 26 tobacco-related diseases over the last five years and that will be expended in perpetuity during future years, including diseases allegedly caused both by cigarette smoking and exposure to ETS. The action includes a claim for moral damages allegedly suffered by Brazilian society to be paid into a public welfare fund. The action is for an unspecified amount of monetary compensation, as the AGU seeks a bifurcated action in which liability would be determined in the first phase followed by an evidentiary phase to ascertain damages.
67. On 19 July 2019, the trial court ordered that service of the action on the Company be effected via service on Souza Cruz. On 6 August 2019, Souza Cruz refused to receive service on behalf of the Company due to Souza Cruz's lack of power to receive the summons on behalf of the Company and such refusal was attached to the case files on 9 August 2019. On 7 August 2019, Souza Cruz was served with the complaint by the AGU and Souza Cruz's acknowledgement of service was attached to the case files on 12 August 2019.

27 Contingent Liabilities and Financial Commitments Continued

68. On 19 August 2019, Souza Cruz filed an interlocutory appeal challenging the 19 July 2019 trial court order permitting the AGU to effect service on the Company by serving Souza Cruz and requesting a stay of the proceedings until the appeal is decided. Souza Cruz also appealed the fact that several documents attached to the AGU's complaint are in English, without proper translation, and it also appealed the very short term of 30 days for the defendants to prepare their defences.
69. On 20 August 2019, Souza Cruz informed the trial court about the appeal and the trial court entered an order, which ordered the closure of the online system preventing the parties from submitting any petition so that no prejudice would be caused to the defendants and permitted the AGU, within 15 days of its notification, to respond to the argument that the service of a foreign defendant via its Brazilian subsidiary constituted improper service. On 21 August 2019, the substitute reporting judge of the appellate court, having been notified that the trial court judge had in the meantime issued a new decision (thereby revoking the previous decision), ruled that the appeal filed had therefore been rendered moot. The AGU filed its submission in the trial court on 19 September 2019, and Souza Cruz filed a reply submission on 25 September 2019. Souza Cruz reported on 4 February 2020 that the trial court ruled that service of the Company via its Brazilian subsidiary constituted proper service, denied the request for additional time to file defences, denied the request to have the foreign language documents attached to the initial complaint fully translated into Portuguese, and ordered that defences be filed within 30 business days. On 18 February 2020, Souza Cruz filed an interlocutory appeal (including a request to stay the deadline to file defences). On 12 March 2020, the court denied the request for a stay. On 11 May 2020, the Company filed a petition to intervene in Souza Cruz's interlocutory appeal. On 17 June 2020, AGU filed its opposition to Souza Cruz's interlocutory appeal. The Company filed a reply submission on 8 July 2020. On 15 July 2020, the court denied the interlocutory appeal. Souza Cruz and the Company submitted on 6 August 2020 requests for clarification of this appellate decision, which requests remain pending. Souza Cruz and the Company filed their respective defences on 12 May 2020. On 19 May 2020, a notice was sent to the Public Prosecutor's Office (MPF) regarding the AGU's request that the MPF join the action as a plaintiff. The MPF, in its response filed 10 July 2020, rejected the AGU's request, and declined to join the action as party, but will act as an 'inspector of the law', which enables MPF to express its opinion on matters in the case. The judge so far has not opened up the term for the AGU to reply to the defences presented.
71. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, returning the case to the lower court for production of evidence and a new judgment. Following production of evidence, on 16 May 2011, the lower court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. The plaintiffs' appeal to the Sao Paulo Court of Appeals was unsuccessful. The plaintiffs then filed a Special Appeal to the Superior Court of Justice, which was rejected under procedural grounds on 20 February 2017. The plaintiffs filed an appeal of the rejection in the Superior Court of Justice on 15 March 2017. On 8 May 2020, this appeal was rejected and plaintiffs filed a further appeal that was in turn rejected on 28 August 2020. Plaintiffs filed no further appeal and the Superior Court of Justice certified the decision in favour of defendants on 22 September 2020, which closed the case.

Canada

(b) Class Actions

Brazil

70. In 1995, the Associação de Defesa da Saúde do Fumante class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the Lower Civil Court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health.
72. As noted above, on 1 March 2019 the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in two Quebec Class Actions, as further described below. Imperial's share of the judgment is approximately CAD \$9.2 billion (approximately £5.3 billion). As a result of this judgment, there were attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million (approximately £436 million) on deposit with the court. JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the CCAA on 8 March 2019. A court order to stay all tobacco litigation in Canada against all defendants (including the RJR Companies) until 4 April 2019 was obtained, and the need for a mediation process to resolve all the outstanding litigation across the country was recognised. On 12 March 2019 Imperial filed for protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation, including the UK Companies. On 22 March 2019, Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the Stays). The Stays are currently in place until 31 March 2021. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.
73. The below represents the state of the referenced litigation as at the advent of the Stays.
74. There are 11 class actions being brought in Canada against Group companies.
75. *Knight Class Action*: the Supreme Court of British Columbia certified a class of all consumers who purchased Imperial cigarettes in British Columbia bearing 'light' or 'mild' descriptors since 1974. The plaintiff is seeking compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial on the basis that the marketing of light and mild cigarettes was deceptive because it conveyed a false and misleading message that those cigarettes are less harmful than regular cigarettes.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

76. On appeal, the appellate court confirmed the certification of the class, but limited any financial liability, if proven, to 1997 onward. Imperial's third-party claim against the federal government was dismissed by the Supreme Court of Canada. The federal government is seeking a cost order of CAD\$5 million (approximately £3 million) from Imperial relating to its now dismissed third-party claim. After being dormant for several years, the plaintiff delivered a Notice of Intention to Proceed, and Imperial delivered an application to dismiss the action for delay. The application was heard on 23 June 2017 and was dismissed on 23 August 2017. Notice to class members of certification was provided on 14 February 2018. As at the date of the Stays, the next steps were expected to include discovery-related ones.
77. *Growers' Class Action*: in December 2009, Imperial was served with a proposed class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board. The plaintiffs allege that Imperial and the Canadian subsidiaries of Philip Morris International and JTI failed to pay the agreed domestic contract price to the growers used in products manufactured for the export market and which were ultimately smuggled back into Canada. JTI has sought indemnification pursuant to the JTI Indemnities (discussed below at paragraphs 137-138). The plaintiffs seek damages in the amount of CAD\$50 million (approximately £29 million). Various preliminary challenges have been heard, the last being a motion for summary judgment on a limitation period. The motion was dismissed and ultimately, leave to appeal to the Ontario Court of Appeal was dismissed in November 2016. In December 2017, the plaintiffs proposed that the action proceed by way of individual actions as opposed to a class action. The defendants did not consent. As at the date of the Stays, the claim was in abeyance pending further action from the plaintiffs.
78. *Quebec Class Actions*: there are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers. The court certified two classes, with the class definitions being revised in the judgment rendered 27 May 2015. One class consists of residents of Quebec who (a) smoked before 20 November 1998 at least 12 pack years of cigarettes manufactured by the defendants; and (b) were diagnosed before 12 March 2012 with: lung cancer, or cancer (squamous cell carcinoma) of the throat, or emphysema. The group also includes the heirs of persons deceased after 20 November 1998 who meet the criteria described above. The second consists of residents of Quebec who, as of 30 September 1998, were addicted to nicotine contained in cigarettes and who in addition meet the following three criteria: (a) they started smoking before 30 September 1994 by smoking cigarettes manufactured by the defendants; (b) between 1 September and 30 September 1998 they smoked on average at least 15 cigarettes manufactured by the defendants on a daily basis; and (c) they still smoked an average of at least 15 cigarettes manufactured by the defendants as of 21 February 2005, or until their death if it occurred before that date. The group also includes the heirs of members who meet the criteria described above. Pursuant to the judgment, the plaintiffs were awarded damages and interest against Imperial and the Canadian subsidiaries of Philip Morris International and JTI in the amount of CAD\$15.6 billion (approximately £8.9 billion), most of which was on a joint and several basis, of which Imperial's share was CAD\$10.4 billion (approximately £5.9 billion). An appeal of the judgment was filed on 26 June 2015. The court also awarded provisional execution pending appeal of CAD\$1,131 million (approximately £650 million), of which Imperial's share was approximately CAD\$742 million (approximately £426 million). This order was subsequently overturned by the Court of Appeal. Following the cancellation of the order for provisional execution, the plaintiffs filed a motion against Imperial and one other manufacturer seeking security in the amount of CAD \$5 billion (approximately £2.9 billion) to guarantee, in whole or in part, the payment of costs of the appeal and the judgment. On 27 October 2015, the Court of Appeal ordered the parties to post security in the amount of CAD\$984 million (approximately £565 million), of which Imperial's share was CAD\$758 million (approximately £436 million). The security was paid in seven equal quarterly instalments of just over CAD\$108 million (approximately £62 million) between 31 December 2015 and 30 June 2017. The appeal was heard in November 2016. On 1 March 2019, the trial judgment was upheld by a unanimous decision of the five-member panel of the Court of Appeal, with one exception being an amendment to the original interest calculation applied to certain portions of the judgment. The interest adjustment has resulted in the reduction of the total maximum award in the two cases to CAD \$13.7 billion (approximately £7.9 billion) as of 1 March 2019, with Imperial's share being reduced to approximately CAD \$9.2 billion (approximately £5.2 billion). The Court of Appeal also upheld the payment of the initial deposits into the defendants' solicitors' trusts account within 60 days, totalling approximately CAD \$1.13 billion (approximately £649 million), of which Imperial's share was recalculated by the Court of Appeal as CAD \$759 million (approximately £436 million). Imperial has already paid CAD \$758 million (approximately £436 million) into court as security for the judgment.
79. *Other Canadian Smoking and Health Class Actions*: seven putative class actions, described below, have been filed against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies, in various Canadian Provinces. In these cases, none of which have quantified their asserted damages, the plaintiffs allege claims based on fraud, fraudulent concealment, breach of warranty of merchantability, and of fitness for a particular purpose, failure to warn, design defects, negligence, breach of a 'special duty' to children and adolescents, conspiracy, concert of action, unjust enrichment, market share liability and violations of various trade practices and competition statutes. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business, and subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these seven actions (Semple, Kunka, Adams, Dorion, Bourassa, McDermid and Jacklin, discussed below).
80. In June 2009, four smoking and health class actions were filed in Nova Scotia (Semple), Manitoba (Kunka), Saskatchewan (Adams) and Alberta (Dorion) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. In Saskatchewan, the Company, Carreras Rothmans Limited and Ryesekks p.l.c. have been released from Adams, and the RJR Companies have brought a motion challenging the jurisdiction of the court. No date has been set in these cases with respect to the certification motion hearing. There are service issues in relation to Imperial and the UK Companies in Alberta and in relation to the UK Companies in Manitoba.

27 Contingent Liabilities and Financial Commitments Continued

81. In June 2010, two further smoking and health class actions were filed in British Columbia against various Canadian and non-Canadian tobacco-related entities, including Imperial, the UK Companies and the RJR Companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have 'smoked a minimum of 25,000 cigarettes'. The UK Companies, Imperial, the RJR Companies and other defendants objected to jurisdiction. Subsequently, the Company, Carreras Rothmans Limited and Rysekks p.l.c. were released from Bourassa and McDermid. Imperial, Industries, Investments and the RJR Companies remain as defendants in both actions. The plaintiffs did not serve their certification motion materials and no date for a certification motion was set.
82. In June 2012, a smoking and health class action was filed in Ontario (Jacklin) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. The claim has been in abeyance.

Venezuela

83. In April 2008, the Venezuelan Federation of Associations of Users and Consumers (FEVACU) and Wolfgang Cardozo Espinel and Giorgio Di Muro Di Nunno, acting as individuals, filed a class action against the Venezuelan government. The class action seeks regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. Both C.A Cigarrera Bigott Sucs. (Cigarrera Bigott), a Group subsidiary, and ASUELECTRIC, represented by its president Giorgio Di Muro Di Nunno (who had previously filed as an individual), have been admitted as third parties by the Constitutional Chamber of the Supreme Court of Justice. A hearing date for the action is yet to be scheduled. On 25 April 2017 and on 23 January 2018, Cigarrera Bigott requested the court to declare the lapsing of the class action due to no proceedings taking place in the case in over a year. A ruling on the matter is yet to be issued.

(c) Individual Tobacco Related Personal Injury Claims

84. As at 31 December 2020, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (31), Italy (14), Chile (8), Canada (6), Argentina (5) and Ireland (2). There were a further two jurisdictions with one active case only. Out of the 68 active individual tobacco related personal injury claims, one case in Argentina (Baldassare) received an unfavourable verdict as at 31 December 2020. In that case, a first instance judgment, issued on 28 December 2020, awarded damages to the plaintiff in the amount of ARS 685,976 (approximately £6,000) in compensatory damages and ARS 2,500,000 (approximately £22,000) in punitive damages (plus interest). This judgment is subject to appeal.

Non-Tobacco Related Litigation

VUSE Litigation

85. On 15 May 2020, four public school districts in the State of Illinois (Peoria Public Schools District 150, Hall Township High School District 502, Marion Community School District 2, and La Moille Community Unit School District 303) filed a putative class action complaint in California federal court, individually and on behalf of all similarly situated school districts in Illinois, against Reynolds American, RJR Vapor, the Company, Lorillard LLC and LOEC, Inc., as well as against JUUL Labs Inc., Altria Group Inc., Altria Client Services Inc., Altria Group Distribution Company, Nu Mark LLC, Nu Mark Innovations Ltd., Imperial Brands plc, Fontem Ventures BV, Fontem US Inc., and Walgreen Co. Plaintiffs have asserted several claims against Reynolds American, RJR Vapor, Lorillard LLC, and LOEC, Inc. and the Company, including claims of public nuisance alleging that the defendants negligently or intentionally marketed vapour products to students enrolled in the plaintiffs' schools, as well as claims for negligence, misrepresentation, fraud, unjust enrichment and alleged violation of Illinois consumer fraud and trade practices statutes. The complaint was served on 13 July 2020 on Reynolds American, RJR Vapor, Lorillard LLC, and LOEC, Inc., and on 3 August 2020, Reynolds American, RJR Vapor, Lorillard LLC, and LOEC, Inc. moved for dismissal of the complaint for lack of personal jurisdiction, improper venue and failure to state a claim for relief. On 3 August 2020, the Company moved to dismiss the complaint for improper service and lack of personal jurisdiction. The case was assigned to a multi-district litigation proceeding that was consolidated for pre-trial purposes in October 2019 by the US JPML at the request of JUUL Labs Inc. On 13 August 2020, plaintiffs filed a notice of voluntary dismissal without prejudice, and the case was closed.
86. On 22 July 2020, Nicholas Bernston filed a personal injury action in the Northern District of Oklahoma against JUUL Labs Inc. (JUUL), Altria Client Services, LLC, RJR Vapor, Reynolds American, and others. The complaint seeks damages for personal injuries (including pneumonia and acute respiratory failure) allegedly resulting from vaping on several theories, including strict liability, negligence, and breach of implied warranty of merchantability. On 24 July 2020, JUUL notified the JPML that this case could be a potential tag-along in the JUUL MDL. On 5 August 2020, the Judicial Panel on Multidistrict Litigation entered a conditional transfer order transferring the case to the Northern District of California. That order became effective on 12 August 2020, and this case now is a member case in the JUUL multidistrict litigation (MDL). On 13 October 2020, RJR Vapor and Reynolds American moved to dismiss the complaint or, in the alternative, for a stay or a suggestion of remand to the Northern District of Oklahoma. On 16 October 2020, the MDL court issued an order staying those motions to dismiss. The case will remain pending against Reynolds American and RJR Vapor, but they will not be subject to discovery or other pretrial obligations absent further order from the court.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

Croatian Distributor Dispute

87. BAT Hrvatska d.o.o. u likvidaciji and British American Tobacco Investments (Central and Eastern Europe) Limited are named as defendants in a claim by Mr Perica received on 22 August 2017 and brought before the commercial court of Zagreb, Croatia. Mr Perica seeks damages of HRK 408,000,000 (approximately £48 million) relating to a BAT Standard Distribution Agreement dating from 2005. BAT Hrvatska d.o.o. and British American Tobacco Investments (Central and Eastern Europe) Ltd filed a reply to the statement of claim on 6 October 2017. A hearing had been scheduled to take place on 10 May 2018, but it was postponed due to a change of the judge hearing the case. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Zagreb. TDR d.o.o. is also named as the defendant in a claim by Mr Perica received on 30 April 2018 and brought before the commercial court of Zagreb, Croatia. Mr. Perica seeks payment in the amount of HRK 408,000,000 (approximately £48 million) claiming that BAT Hrvatska d.o.o. transferred a business unit to TDR d.o.o. thus giving rise to a liability of TDR d.o.o. for the debts incurred by BAT Hrvatska d.o.o. on the basis of the provisions of Croatian civil obligations law. A response to the statement of claim was filed on 30 May 2018. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Pula. Mr Perica filed an appeal against this decision which was rejected by the High Commercial Court of The Republic of Croatia confirming therewith that the competent court to hear this case is the Municipal Court in Pula. The Municipal Court in Zagreb has decided that the claims by Mr Perica initiated on 22 August 2017 and 30 April 2018 shall be heard as one case in front of the Municipal Court of Zagreb.

BAT/Reynolds American Inc. Shareholder Litigation

88. Following the Company's acquisition of the remaining 57.8% of Reynolds American in July 2017, pursuant to North Carolina law, under which Reynolds American was incorporated, a number of Reynolds American shareholders dissented and asserted their rights to a judicial appraisal of the value of their Reynolds American stock. On 29 November 2017, Reynolds American filed a Complaint for Judicial Appraisal in state court in North Carolina against 20 dissenting shareholders holding an aggregate of approximately 9.65 million shares. The complaint asked the court to determine the fair value of the dissenting shareholders' shares in Reynolds American and any accrued interest. A trial was held in June 2019, at which the dissenters sought US\$92.17 per share plus interest. On 27 April 2020, the court issued its final judgment upholding Reynolds American's proposed valuation of \$59.64 per share and concluding that no further payment is due to the dissenters for their shares. Dissenting shareholders holding an aggregate of approximately 6.52 million shares filed a notice of appeal to the North Carolina Supreme Court on 21 May 2020, and briefing of the appeal concluded on 14 December 2020.

Patents Litigation

89. Certain Group companies are party to a number of patent litigation cases and procedural challenges concerning the validity of patents owned by or licensed to them and/or the alleged infringement of third-parties' patents.

90. On 22 June 2018, an affiliate of Philip Morris International (PMI) commenced proceedings against British American Tobacco Japan, Ltd. (BAT Japan) in the Japanese courts challenging the import, export, sale and offer of sale of the glo device and of the NeoStiks consumable in Japan at the time the claim was brought (and earlier models of the glo device), alleging that the glo devices directly infringe certain claims of two Japanese patents that have been issued to the PMI affiliate and that the NeoStiks indirectly infringe certain claims of those patents. On 17 January 2019, the PMI affiliate introduced new grounds of infringement, alleging that the glo device also infringes some other claims in the two PMI affiliate's Japanese patents. Damages for the glo device and NeoStik are claimed in the court filing, to the amount of 100 million Yen (approximately £708,000). The PMI affiliate has also filed a request for injunction with respect to the glo device. BAT Japan denies infringement and is challenging the validity of the two PMI affiliate's Japanese patents.

91. Fuma International LLC (Fuma) filed two separate patent infringement complaints in the US District Court for the Middle District of North Carolina against RJR Vapor on 6 March 2019 and 2 July 2019, each alleging that Vuse Solo and Vuse Ciro products infringe a patent. The two complaints were consolidated into a single proceeding involving both asserted Fuma patents. Fuma seeks monetary damages in an amount ranging from US\$64.0 million (approximately £47 million) to US\$135.4 million (approximately £99 million) (which the Court may (but is not obligated to) increase up to 3x the actual damages awarded should RJR Vapor be found to have willfully infringed) and an injunction. RJR Vapor filed its answer, affirmative defences and declaratory judgment counterclaim for patent unenforceability based on inequitable conduct on 26 July 2019. RJR Vapor's inequitable conduct counterclaim was dismissed by the Court on 6 March 2020. The Court issued its claim construction order on 23 March 2020, which is consistent with RJR Vapor's non-infringement positions for Vuse Ciro and Vuse Solo products. The first court ordered mediation session was held on 23 January 2020 and a second was held on 30 October 2020. Dispositive motions were filed on 20 October 2020 (Fuma moved for summary judgment of infringement and RJR Vapor moved for summary judgment of non-infringement). Briefing on the summary judgment motions was completed on 25 November 2020.

92. On 9 April 2020, Nicoventures Trading Limited (Nicoventures) commenced an action in the England and Wales High Court (Patents Court) against Philip Morris Products S.A. (PMP) for revocation against three divisional patents in the same family, of which PMP is the proprietor (a further divisional patent in the same family was added into the revocation action on 9 July 2020). On 12 May 2020 PMP filed its defence together with a counterclaim for patent infringement against Nicoventures and Investments concerning prototype examples or production samples of certain 'glo' tobacco heating devices. PMP are seeking an injunction, an order for delivery up or a destruction upon oath of all infringing articles, and either an account of profits or damages on commercial sales (and interest thereon). On 12 June 2020, Nicoventures and Investments filed their defence to the counterclaim. The trial of this action will take place in the week commencing 17 May 2021.

27 Contingent Liabilities and Financial Commitments Continued

93. On 28 May 2020 Altria Client Services LLC and U.S.

Smokeless Tobacco Company LLC commenced proceedings against RJR Vapor before the US District Court for the Middle District of North Carolina against the vapour products Vuse Vibe and Vuse Alto, and the tin used in the modern oral product Velo. Nine patents in total were asserted: two against Vibe, four against Alto and three against Velo. On 5 January 2021, Altria filed an Amended Complaint that adds Modoral Brands, Inc. as a defendant with respect to the Velo product claims. The plaintiffs have sought damages but have not to date sought preliminary or permanent injunctions. RJR Vapor has responded to the complaint. Pleadings are closed, and fact discovery is proceeding. The parties have agreed on a mediator, but have not set a date for mediation. The court issued a scheduling order on 28 October 2020. Significant dates in that order include a claim construction hearing tentatively set for the week of 22 March 2021 and the close of fact discovery on 23 June 2021. No trial date has been set.

94. On 9 April 2020, RAI Strategic Holdings, Inc. and RJR Vapor commenced an action in the US District Court for the Eastern District of Virginia against Altria Client Services LLC, Philip Morris USA, Inc., Altria Group, Inc., Philip Morris International, Inc., and Philip Morris Products S.A. (collectively, Philip Morris) for infringement of six patents based on the importation and commercialisation within the United States of IQOS. On 8 May 2020 and 12 June 2020, Philip Morris filed Inter Partes Review (IPR) petitions in the US Patent Office challenging the validity of each of the six patents asserted. On 29 June 2020, Philip Morris asserted counterclaims alleging that RJR Vapor infringes five patents. On 24 November 2020, the court issued a claim construction order that determined that each disputed term would have its plain and ordinary meaning. On 4 December 2020, the magistrate judge issued an order staying RJR Vapor and Philip Morris's patent claims pending a decision by the US Patent Office regarding whether to proceed with the IPRs. At the time of the stay, fact and expert discovery was ongoing and was scheduled to conclude 26 January 2021. If the stay is lifted, fact and expert discovery will resume and it is expected that the date for close of fact and expert discovery will be rescheduled based on the date the stay is lifted (i.e., approximately 8 weeks after the date the stay is lifted). On 13 January 2021, the USPTO instituted one of the IPRs. The parties submitted a joint status report on 19 January 2021. On 20 January 2021, Philip Morris filed a motion to lift the stay solely as to the counterclaims against RJRV; RJRV is opposing Philip Morris's motion and filed its opposition on 28 January 2021.

95. On 27 November 2020 Philip Morris filed a complaint before the Regional Court Mannheim in Germany against British American Tobacco (Germany) GmbH (BAT Germany) alleging that the sale, offer for sale and importation of Vype ePod products infringes a patent. Philip Morris is seeking an injunction, a recall of product from commercial customers and a declaratory judgment for damages. The trial of this action will take place on 15 June 2021.

96. On 11 December 2020 Philip Morris filed a complaint before the Regional Court Dusseldorf in Germany against BAT Germany alleging that the sale, offer for sale and importation of glo TABAK HEATER and neo STICK products infringe a patent. Philip Morris is seeking an injunction, a recall of product from commercial customers and a declaratory judgment for damages.

Mozambican IP Litigation

97. On 19 April 2017, Sociedade Agrícola de Tabacos, Limitada (SAT) (a BAT Group company in Mozambique) filed a complaint to the National Inspectorate for Economic Activities (INAE), the government body under the Ministry of Industry and Trade, regarding alleged infringements of its registered trademark (GT) by GS Tobacco SA (GST). INAE subsequently seized the allegedly infringing products (GS cigarettes) and fined and ordered GST to discontinue manufacturing products that could infringe SAT's intellectual property rights. Following INAE's decision, in July 2017 and March 2018, SAT sought damages via the Judicial Court of Nampula, from GST in the amount of and equivalent to £573,000 as well as a permanent restraint order in connection with the manufacturing and selling of the allegedly infringing products. The Judicial Court of Nampula (Tribunal Judicial de Nampula) granted the order on an interim basis on 7 August 2017. After hearing the parties, on 5 September 2017, the court found that no alleged infringement by GST had occurred and removed the interim restraint order, this decision was appealed by SAT and is currently pending a decision. GST filed an application for review against INAE's initial decision directly to the Minister of Trade and Industry, which reversed the decision of INAE. On 31 December 2018, SAT was notified of GST's counterclaim against SAT at the Judicial Court of Nampula for damages allegedly sustained as a result of SAT's complaint to INAE (and INAE's decision). GST is seeking damages in the amount equivalent to £190 million. On 31 January 2019 SAT filed a formal response to the counterclaim. GST was notified on 28 February 2019 to file a response to our formal response to the counterclaim and the judge scheduled the preliminary hearing for 14 March 2019. This hearing was adjourned and was held on 2 April 2019, when the court heard arguments on the validity of SAT's counterclaim. On 2 September 2019, SAT received notification of an order which provided that (i) SAT's claim had been dismissed by the court; and (ii) the GST counterclaim would proceed to trial. On 9 September 2019 SAT responded to the order by appealing the dismissal of the SAT claim. Additionally, SAT made an interlocutory application in the counterclaim proceedings to challenge certain questions posed by the judge, on the basis that the responses may be used as evidence at trial.

Malawi Group Action

98. In December 2020, the Company and British American Tobacco (GLP) Limited (GLP) were named as defendants in a claim made in the English High Court by around 7,500 Malawian tobacco farmers and their family members. The claim also names Imperial Brands plc and five affiliates as defendants. The claimants allege they were subjected to unlawful and exploitative working conditions on tobacco farms from which it is alleged that the defendants indirectly acquire tobacco. They seek unquantified damages (including aggravated and exemplary damages) for the torts of negligence and conversion and unquantified personal and proprietary remedies for restitution of unjust enrichment. They also seek an injunction to restrain the commission of further torts of conversion or negligence by the defendants. The Company and GLP intend vigorously to defend the claim.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

Qatar Customs Authority Claims

99. On 12 November 2020, British American Tobacco Middle East W.L.L (formerly British American Tobacco Middle East SPC) (BATME), along with its distributor in Qatar, Ali Bin Ali Establishment (ABA), filed a case before the Qatar Court of First Instance which challenges a decision of the Qatar Customs Authority dated 16 August 2020 ordering ABA to pay a total amount of QAR 160,531,588 (approximately £33 million) in customs duties and penalties in relation to 27 consignments of cigarettes imported into Qatar by ABA. BAT ME's potential liability in respect of the foregoing amounts arises from certain contractual arrangements with ABA. BAT ME and ABA strongly assert that the additional customs duty and penalties imposed by the Qatar Customs Authority are inconsistent with the customs law of the GCC. The case is in the very early stages, and the Qatar Customs Authority has not yet filed its pleading in response to the claim.

Saudi Arabia Customs Claim

100. On 25 January 2021, Walid Ahmed Mohammed Al Naghi for Trading Establishment (Al Naghi), a former distributor for the Group's operating companies in the Middle East, filed a claim in the Commercial Court in Jeddah, Saudi Arabia, seeking SAR 2,105,356,121 (approximately £410 million) for reimbursement of funds allegedly due under contract. Al Naghi did not formally name any Group entity as a defendant in the claim. The claim was dismissed orally by the Court on 9 February 2021.

Rentko Asbestos Action

101. On 15 January 2021, plaintiffs in an individual asbestos personal injury action (Rentko), originally filed 5 October 2020 in the New York City Asbestos Litigation court, filed an amended complaint, which names as defendants the Company, BATUS Holdings, Inc., British American Tobacco (Brands), Inc., and RJRT, along with various other defendants. The amended complaint was served 20 January 2021 on BATUS Holdings, Inc. and British American Tobacco (Brands), Inc., and served 22 January 2021 on RJRT. The amended complaint alleges that one of the plaintiffs was exposed to the defendants' asbestos and asbestos-contaminated talcum powder products, which allegedly caused her to develop mesothelioma, and asserts claims under state law, including for negligence, breach of warranty, product liability, negligent misrepresentation, fraudulent concealment, and civil conspiracy. A further amended complaint was filed on 27 January 2021, which names Reynolds American as a defendant as an alleged successor in interest to the Company, and which was served on Reynolds American on 5 February 2021. Plaintiffs seek unspecified compensatory and punitive damages jointly and severally against the defendants.

Fox River

Background to environmental liabilities arising out of contamination of the Fox River:

102. In Wisconsin, the authorities have identified potentially responsible parties (PRPs) to fund the clean-up of river sediments in the lower Fox River. The pollution was caused by discharges of Polychlorinated Biphenyls (PCBs) from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation (NCR).

103. In NCR's Form 10-K Annual Report for the year ended 31 December 2014, which is the most recent public source available, the total clean-up costs for the Fox River are estimated at US\$825 million (approximately £603 million). This estimate is subject to uncertainties and does not include natural resource damages (NRDs). Total NRDs may range from US\$0 to US\$246 million (approximately £0 to £180 million).

104. Industries' involvement with the environmental liabilities arises out of indemnity arrangements which it became party to due to a series of transactions that took place from the late-1970s onwards and subsequent litigation brought by NCR against Industries and Appvion Inc. (Appvion) (a former Group subsidiary) in relation to those arrangements which was ultimately settled. US authorities have never identified Industries as a PRP.

105. There has been a substantial amount of litigation in the United States involving NCR and Appvion regarding the responsibility for the costs of the clean-up operations. The US Government also brought enforcement proceedings against NCR and Appvion to ensure compliance with regulatory orders made in relation to the Fox River clean-up. This litigation has been settled through agreements with other PRPs and a form of settlement known as a Consent Decree with the US Government, approved by the District Court of Wisconsin on 23 August 2017.

106. The principal terms of that Consent Decree, in summary, are as follows:

- a. NCR is obliged to perform and fund all of the remaining Fox River remediation work by itself.
- b. The US Government enforcement proceedings were settled, with NCR having no liability to meet the US Government's claim for costs it had incurred in relation to the clean-up to date, a secondary responsibility to meet certain future costs, and no liability to the US Government for NRDs.
- c. NCR ceased to pursue its contribution claims against the other PRPs and in return received contribution protection preventing other PRPs from pursuing their contribution claims against NCR and existing claims for contribution being dismissed by order of the Court. NCR does, however, have the right to reinstate its contribution claims if the other PRPs decide to continue to pursue certain contractual claims against NCR.
- d. Appvion also agreed to cease pursuance of claims against the other PRPs, subject to retention of the right to reinstate its claims if the other PRPs decide to continue to pursue certain claims against Appvion.

107. A Consent Decree between the US Government, P.H. Glatfelter and Georgia Pacific settling the allocation of costs on the Fox River was approved by the District Court in the Eastern District of Wisconsin on 14 March 2019. This Consent Decree concludes all existing litigation on the Fox River, following P.H. Glatfelter's withdrawal of its appeal against the issuance of the Consent Decree as a term of the settlement.

108. In NCR's Form 10-K Annual Report for the year ended 31 December 2019 NCR disclosed that, in November 2019, an arbitral tribunal had awarded US\$10 million (approximately £7 million) to a remediation general contractor engaged by the LLC formed by NCR and Appvion to perform the clean-up operation of the Fox River. It further indicated that it expected its indemnitors and co obligors to bear responsibility for the majority of the award, estimating its own share as approximately one fourth of the award.

27 Contingent Liabilities and Financial Commitments Continued

Industries' involvement with environmental liabilities arising out of the contamination of the Fox River:

109. NCR has taken the position that, under the terms of a 1998 Settlement Agreement between it, Appvion and Industries, and a 2005 arbitration award, Industries and Appvion generally had a joint and several obligation to bear 60% of the Fox River environmental remediation costs imposed on NCR and of any amounts NCR has to pay in respect of other PRPs' contribution claims. BAT has not acknowledged any such liability to NCR and has defences to such claims. Further, under the terms of the Funding Agreement (described below), any dispute between Industries and NCR as to the final amount of any NCR claim against Industries in respect of the Fox River (if any) can only be determined at the later of (i) the completion of Fox River remediation works or (ii) the final resolution and exhaustion of all possible appeals in proceedings brought against Sequana, PricewaterhouseCoopers LLP (PwC) and other former advisers.
110. Until May 2012, Appvion and Windward Prospects Limited (Windward) (another former Group subsidiary) had paid a 60% share of the clean-up costs. Industries was never required to contribute. Around that time, Appvion refused to continue to pay clean-up costs, leading to NCR demanding that Industries pay a 60% share.
111. Industries commenced proceedings against Windward and Appvion in December 2011 seeking indemnification in respect of any liability it might have to NCR (the English Indemnity Proceedings) pursuant to a 1990 de-merger agreement between those parties.

Funding Agreement of 30 September 2014

112. On 30 September 2014, Industries entered into a Funding Agreement with Windward, Appvion, NCR and BTI 2014 LLC (BTI) (a wholly-owned subsidiary of Industries). Pursuant to the Funding Agreement, the English Indemnity Proceedings and a counterclaim Appvion had brought in those proceedings, as well as an NCR-Appvion arbitration concerning Appvion's indemnity to NCR, were discontinued as part of an overall agreement between the parties providing a framework through which they would together fund the ongoing costs of the Fox River clean-up. Under the agreement, NCR has agreed to accept funding by Industries at the lower level of 50% of the ongoing clean-up related costs of the Fox River (rather than the 60% referenced above). This remains subject to an ability to litigate at a later stage the extent of Industries' liability in relation to Fox River clean-up related costs (including in respect of the 50% of costs that Industries has paid under the Funding Agreement to date). In addition, Windward has contributed US\$10 million (approximately £7 million) of funding and Appvion has contributed US\$25 million (approximately £18 million) for Fox River and agreed to contribute US\$25 million (approximately £18 million) for the Kalamazoo River (see further below). Appvion entered Chapter 11 bankruptcy protection on 1 October 2017.
113. The parties also agreed to cooperate in order to maximise recoveries from certain claims made against third parties, including (i) a claim commenced by Windward in the High Court of England & Wales (the High Court) against Sequana and the former Windward directors (the Windward Dividend Claim). That claim was assigned to BTI under the Funding Agreement, and relates to dividend payments made by Windward to Sequana of around €443 million (approximately £397 million) in 2008 and €135 million (approximately £121 million) in 2009 (the Dividend Payments) and (ii) a claim commenced by Industries directly against Sequana to recover the value of the Dividend Payments alleging that the dividends were paid for the purpose of putting assets beyond the reach of Windward's creditors (including Industries) (the BAT section 423 Claim) (together, the Sequana Proceedings).
114. The Windward Dividend Claim and BAT section 423 Claim were heard together in the High Court, with judgment handed down on 11 July 2016. The court upheld the BAT section 423 Claim and, by way of a consequential judgment dated 10 February 2017, ordered that Sequana pay to BTI an amount up to the full value of the 2009 Dividend plus interest, which equates to around US\$185 million (approximately £135 million). The Court dismissed the Windward Dividend Claim.
115. The parties pursued cross appeals on the judgment, during which time Sequana was granted a stay in respect of the above payments. That stay was lifted in May 2017, three months after Sequana had entered into an insolvency process in France seeking court protection (the Sauvegarde). On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings (*liquidation judiciaire*). To date, Industries has not received any payments from Sequana.
116. On 6 February 2019 the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay approximately US\$185 million (approximately £135 million). Because of Sequana's ongoing insolvency process, execution of that judgment is stayed. The Court of Appeal dismissed BTI's appeal in relation to the Windward Dividend Claim. The Court of Appeal also dismissed Sequana's application for permission to appeal the High Court's costs order in favour of Industries. Sequana therefore remains liable to pay around £10 million in costs to Industries.
117. All parties to the appeal sought permission from the Court of Appeal for a further appeal to the UK Supreme Court. On 31 July 2019, BTI was granted permission to appeal to the Supreme Court. On the same day, the Supreme Court refused Sequana permission to appeal. The hearing of BTI's appeal was listed to take place on 25 and 26 March 2020 but was adjourned because of the Covid-19 pandemic. The hearing is now listed to take place on 4 and 5 May 2021.
118. BTI has brought claims against certain of Windward's former advisers, including Windward's auditors at the time of the dividend payments, PwC (which claims were also assigned to BTI under the Funding Agreement). The claim had been stayed pending the outcome of the Sequana Proceedings. Once that stay was lifted, PwC applied to strike-out BTI's claim. A hearing of this application took place in October 2019. On 15 November 2019, the court dismissed PwC's application. The court granted PwC permission to appeal in respect of part of its dismissal of the application and the hearing of that appeal was heard by the Court of Appeal on 27 and 28 October 2020. On 11 January 2021, the Court of Appeal handed down judgment dismissing PwC's appeal. The Court of Appeal also refused PwC's application for permission to appeal to the Supreme Court and made an order requiring PwC to file its Defence within two months of 11 January 2021. PwC has subsequently applied directly to the Supreme Court for permission to appeal the Court of Appeal's decision.
119. An agreed stay is also in place in respect of BTI's separate assigned claim against Freshfields Bruckhaus Deringer.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

120. The sums Industries has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing US litigation. In 2019, Industries paid £32 million in respect of clean-up costs and is potentially liable for further costs associated with the clean-up. From January through December 2020, Industries paid £2 million. Industries has a provision of £70 million which represents the current best estimate of its exposure – see note 20.

Kalamazoo

121. NCR is also being pursued by Georgia-Pacific, a designated PRP in respect of the Kalamazoo River in Michigan, in relation to remediation costs caused by PCBs released into that river.

122. On 26 September 2013, the Michigan Court held that NCR was liable as a PRP on the basis that it had arranged for the disposal of hazardous material for the purposes of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

123. The second phase of the Kalamazoo trial to determine the apportionment of liability amongst PRPs took place between September and December 2015. On 29 March 2018, Judge Jonker ordered that NCR pay 40% of Georgia-Pacific past costs (around US\$22 million (approximately £16 million)). The question of future remediation costs was not determined.

124. The parties commenced appeal proceedings against the judgment in July 2018. NCR also agreed an appeal bond with Georgia-Pacific to prevent enforcement of the judgment while it remained subject to appeal.

125. It is anticipated that NCR will look to Industries to pay 60% of any sums it becomes liable to pay to Georgia-Pacific on the basis, it would be asserted, that the river constitutes a 'Future Site' for the purposes of the Settlement Agreement. The Funding Agreement described above does not resolve any such claims, but does provide an agreed mechanism pursuant to which any surplus from the valuable recoveries of any third-party claims that remains after all Fox River related clean-up costs have been paid and Industries and NCR have been made whole may be applied towards Kalamazoo clean-up costs, in the event that NCR were to be successful in any claim for a portion of them from Industries or Appvion (subject to Appvion's cap, described below). Industries has defences to any claims made by NCR in relation to the Kalamazoo River. No such claims have been made against Industries.

126. Industries also anticipates that NCR may seek to recover from Appvion (subject to a cap of US\$25 million (approximately £18 million)) for 'Future Sites' under the Funding Agreement. The basis of the recovery would be the same as any demand NCR may make on Industries. Appvion entered Chapter 11 bankruptcy protection on 1 October 2017. The effect of the Chapter 11 proceedings on Appvion's liability for Future Sites payments under the Funding Agreement is currently uncertain.

127. On 11 December 2019, NCR announced that it had entered into a Consent Decree with the US Government and the State of Michigan, pursuant to which it assumed liability for certain remediation work at the Kalamazoo River. This Consent Decree was approved by the District Court for the Western District of Michigan on 2 December 2020. The payments to be made on the face of the Consent Decree in respect of such work total approximately US\$245 million (approximately £179 million). The Consent Decree also provides for the withdrawal of NCR's appeal against Georgia-Pacific, and payment by NCR of the outstanding judgment against it of approximately US\$20 million (approximately £15 million) to Georgia-Pacific.

128. The quantum of the clean-up costs for the Kalamazoo River is presently unclear. It may well exceed the amounts which are payable on the face of the Consent Decree.

129. As detailed above, Industries is taking active steps to protect its interests, including seeking to procure the repayment of the Windward dividends, pursuing the other valuable claims that are now within its control, and working with the other parties to the Funding Agreement to maximise recoveries from third parties with a view to ensuring that amounts funded towards clean-up related costs are later recouped under the agreed repayment mechanisms under the Funding Agreement.

Other environmental matters

130. Reynolds American and its subsidiaries are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances. Such laws and regulations provide for significant fines, penalties and liabilities, sometimes without regard to whether the owner or operator of the property or facility knew of, or was responsible for, the release or presence of hazardous or toxic substances. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances. In the past, RJRT has been named a PRP with third parties under CERCLA with respect to several superfund sites. Reynolds American and its subsidiaries are not aware of any current environmental matters that are expected to have a material adverse effect on the business, results of operations or financial position of Reynolds American or its subsidiaries.

Criminal investigations

131. The Group has been investigating, and is aware of governmental authorities' investigations into, allegations of misconduct. The Group is cooperating with the authorities' investigations, including the DOJ and OFAC in the United States, which are conducting an investigation into suspicions of breach of sanctions. In January 2021, the Group was informed that the investigation by UK's Serious Fraud Office (the SFO) into suspicions of corruption in the conduct of business by Group companies and associated persons had been closed. The SFO stated that it would continue to offer assistance to the ongoing investigations of other law enforcement partners.

132. The potential for fines, penalties or other consequences cannot currently be assessed. As the investigations are ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

27 Contingent Liabilities and Financial Commitments Continued

Closed litigation matters

133. The following matters on which the Company reported in the contingent liabilities and financial commitments note 27 to the Company's 2019 financial statements have been dismissed, concluded or resolved as noted below:

Matter	Jurisdiction	Companies named as Defendants	Description	Disposition
Vuse Litigation (Whatcom County)	USA	Reynolds American, RJR Vapor, the Company, Lorillard LLC and LOEC Inc.	Public Nuisance	Voluntary dismissal by plaintiff
Cyprus competition investigation	Cyprus	B.A.T. (Cyprus) Ltd	Investigation	Investigation ended without liability to B.A.T. (Cyprus) Ltd

General Litigation Conclusion

134. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere.
135. As indicated above, on 1 March 2019 the Quebec Court of Appeal released its appeal judgment. The trial judgment was largely upheld by a unanimous decision of the five-member panel including the requirement that the defendants deposit the initial deposits in their solicitors' trust accounts within 60 days. This is the only executory aspect of the judgment. In these circumstances we are of the view that it is more likely than not that there will be an outlay and it is reasonably estimable at CAD \$758 million (approximately £436 million), the amount of the initial deposit paid into court. If further adverse judgments are entered against any of the Group's companies in any case, avenues of appeal will be pursued. Such appeals could require the appellants to post appeal bonds or substitute security (as has been necessary in Quebec) in amounts which could in some cases equal or exceed the amount of the judgment. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in any particular period could be materially adversely affected by the impact of a significant increase in litigation, difficulties in obtaining the bonding required to stay execution of judgments on appeal, or any final outcome of any particular litigation.
136. Having regard to all these matters, with the exception of the Quebec Class Actions, Fox River and certain *Engle* progeny cases identified above, the Group does not consider it appropriate to make any provision in respect of any pending litigation because the likelihood of any resulting material loss, on an individual case basis, is not considered probable and/or the amount of any such loss cannot be reasonably estimated. Notwithstanding the negative decision in the Quebec Class Actions, the Group does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition. If the facts and circumstances change and result in further unfavourable outcomes in the pending litigation, then there could be a material impact on the financial statements of the Group.

Other contingencies

137. *JTI Indemnities*. By a purchase agreement dated 9 March 1999, amended and restated as of 11 May 1999, referred to as the 1999 Purchase Agreement, R.J. Reynolds Tobacco Holdings, Inc. (RJR) and RJRT sold their international tobacco business to JTI. Under the 1999 Purchase Agreement, RJR and RJRT retained certain liabilities relating to the international tobacco business sold to JTI, and agreed to indemnify JTI against: (i) any liabilities, costs and expenses arising out of the imposition or assessment of any tax with respect to the international tobacco business arising prior to the sale, other than as reflected on the closing balance sheet; (ii) any liabilities, costs and expenses that JTI or any of its affiliates, including the acquired entities, may incur after the sale with respect to any of RJR's or RJRT's employee benefit and welfare plans; and (iii) any liabilities, costs and expenses incurred by JTI or any of its affiliates arising out of certain activities of Northern Brands.
138. RJRT has received claims for indemnification from JTI, and several of these have been resolved. Although RJR and RJRT recognise that, under certain circumstances, they may have other unresolved indemnification obligations to JTI under the 1999 Purchase Agreement, RJR and RJRT disagree what circumstances described in such claims give rise to any indemnification obligations by RJR and RJRT and the nature and extent of any such obligation. RJR and RJRT have conveyed their position to JTI, and the parties have agreed to resolve their differences at a later date.
139. *ITG Indemnity*. In the Divestiture, Reynolds American agreed to defend and indemnify, subject to certain conditions and limitations, ITG in connection with claims relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands on or before 12 June 2015, as well as in actions filed before 13 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands. In the purchase agreement relating to the Divestiture, ITG agreed to defend and indemnify, subject to certain conditions and limitations, Reynolds American and its affiliates in connection with claims relating to the purchase or use of 'blu' brand e-cigarettes. ITG also agreed to defend and indemnify, subject to certain conditions and limitations, Reynolds American and its affiliates in actions filed after 12 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands after 12 June 2015. ITG has tendered a number of actions to Reynolds American under the terms of this indemnity, and Reynolds American has, subject to a reservation of rights, agreed to defend and indemnify ITG pursuant to the terms of the indemnity. Reynolds American has tendered an action to ITG under the terms of this indemnity, and ITG has, subject to a reservation of rights, agreed to defend and indemnify Reynolds American and its affiliates pursuant to the terms of the indemnity. These claims are substantially similar in nature and extent to claims asserted directly against RJRT in similar actions.

Financial Statements

Notes on Accounts
Continued

27 Contingent Liabilities and Financial Commitments Continued

140. *Loews Indemnity.* In 2008, Loews Corporation (Loews), entered into an agreement with Lorillard Inc., Lorillard Tobacco, and certain of their affiliates, which agreement is referred to as the 'Separation Agreement'. In the Separation Agreement, Lorillard agreed to indemnify Loews and its officers, directors, employees and agents against all costs and expenses arising out of third-party claims (including, without limitation, attorneys' fees, interest, penalties and costs of investigation or preparation of defence), judgments, fines, losses, claims, damages, liabilities, taxes, demands, assessments, and amounts paid in settlement based on, arising out of or resulting from, among other things, Loews' ownership of or the operation of Lorillard and its assets and properties, and its operation or conduct of its businesses at any time prior to or following the separation of Lorillard and Loews (including with respect to any product liability claims). Loews is a defendant in three pending product liability actions, each of which is a putative class action. Pursuant to the Separation Agreement, Lorillard is required to indemnify Loews for the amount of any losses and any legal or other fees with respect to such cases. Following the closing of the Lorillard merger, RJRT assumed Lorillard's obligations under the Separation Agreement as was required under the Separation Agreement.

141. *SFRTI Indemnity.* In connection with the 13 January 2016 sale by Reynolds American of the international rights to the Natural American Spirit brand name and associated trademarks, along with SFR Tobacco International GmbH (SFRTI) and other international companies that distributed and marketed the brand outside the United States, to JT International Holding BV (JTI Holding), each of SFNTC, R. J. Reynolds Global Products, Inc., and R. J. Reynolds Tobacco B.V. agreed to indemnify JTI Holding against, among other things, any liabilities, costs, and expenses relating to actions (i) commenced on or before (a) 13 January 2019, to the extent relating to alleged personal injuries, and (b) in all other cases, 13 January 2021; (ii) brought by (a) a governmental authority to enforce legislation implementing European Union Directive 2001/37/EC or European Directive 2014/40/EU or (b) consumers or a consumer association; and (iii) arising out of any statement or claim (a) made on or before 13 January 2016, (b) by any company sold to JTI Holding in the transaction, (c) concerning Natural American Spirit brand products consumed or intended to be consumed outside of the United States and (d) that the Natural American Spirit brand product is natural, organic, or additive free. Under the terms of this indemnity, JTI has requested indemnification from Santa Fe Natural Tobacco Company Germany GmbH (SFNTCG) in connection with an audit of SFNTCG relating to transfer pricing for the tax years 2007 to 2010 and 2012 to 2015. SFNTCG contests the audit results. The amount in dispute is approximately €21 million plus interest (approximately £19 million).

142. *Indemnification of Distributors and Retailers.* RJRT, Lorillard Tobacco, SFNTC, American Snuff Co. and RJR Vapor have entered into agreements to indemnify certain distributors and retailers from liability and related defence costs arising out of the sale or distribution of their products. Additionally, SFNTC has entered into an agreement to indemnify a supplier from liability and related defence costs arising out of the sale or use of SFNTC's products. The cost has been, and is expected to be, insignificant. RJRT, SFNTC, American Snuff Co. and RJR Vapor believe that the indemnified claims are substantially similar in nature and extent to the claims that they are already exposed to by virtue of their having manufactured those products.

143. Except as otherwise noted above, Reynolds American is not able to estimate the maximum potential of future payments, if any, related to these indemnification obligations.

144. *Competition Investigations.* There are instances where Group companies are cooperating with relevant national competition authorities in relation to ongoing competition law investigations and/or engaged in legal proceedings at the appellate level, including (amongst others) in Ukraine and Netherlands.

Tax disputes

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with the Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense. While the amounts that may be payable or receivable in relation to tax disputes could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

The following matters are in or may proceed to litigation:

Corporate taxes**Brazil**

The Brazilian Federal Tax Authority has filed claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The reassessments are for the years 2004 until and including 2012 for a total amount of BRL1,778 million (£250 million) to cover tax, interest and penalties.

Souza Cruz appealed all reassessments. Regarding the first assessments (2004-2006) Souza Cruz's appeals were rejected by the ultimate Administrative Court after which Souza Cruz filed two lawsuits with the Judicial Court to appeal the reassessments. The judgment in respect of the reassessment of corporate income tax has been decided in favour of Souza Cruz by the first level of the Judicial Court and Souza Cruz is waiting to see whether the Brazilian Tax Authorities will appeal the judgment. The lawsuit appealing the social contribution tax is pending judgment in the first level of the Judicial Court. The appeal against the second assessments (2007 and 2008) was upheld at the second tier tribunal and was closed. In 2015, a further reassessment for the same period (2007 and 2008) was raised after the five-year statute of limitation which has been appealed against.

Souza Cruz received further reassessments in 2014 for the 2009 calendar year and in 2015 an assessment for the 2010 calendar year. Souza Cruz appealed both the reassessments in full. In December 2016, assessments were received for the calendar years 2011 and 2012 which have also been appealed.

27 Contingent Liabilities and Financial Commitments Continued

Netherlands

The Dutch tax authority has issued a number of assessments on various issues across the years 2003-2016 in relation to various intra-group transactions. The assessments amount to an aggregate net liability across these periods of £1,220 million covering tax, interest and penalties. The Group has appealed against the assessments in full.

The Group believes that its companies have meritorious defences in law and fact in each of the above matters and intends to pursue each dispute through the judicial system as necessary. The Group does not consider it appropriate to make provision for these amounts nor for any potential further amounts which may be assessed in relation to these matters in subsequent years.

Indirect and other taxes

Bangladesh

On 25 July 2018, the Appellate Division of the Supreme Court of Bangladesh has reversed the decision of the High Court Division against BAT Bangladesh in respect of the retrospective demands for VAT and Supplementary Duty amounting to approximately £154 million. On 3 February 2020, the certified Court Order was received. The Government filed a Review Petition on 25 March 2020 in the Appellate Division of the Supreme Court of Bangladesh against the judgment. The matter is yet to be taken up for hearing.

Egypt

British American Tobacco Egypt LLC is subject to two ongoing civil cases concerning the imposition of sales tax on low-price category brands brought by the Egyptian tax authority for £122 million. Management believes that the tax claims are unfounded and has appealed the tax claims. These cases are under review by the Council of State. During hearings in August 2020, the courts decided, in both cases, to transfer the files to court appointed experts but these sessions have not yet been scheduled. Progress on the case, and further hearings, have been delayed due to COVID-19.

South Korea

In 2016, the Board of Audit and Inspection of Korea (BAI) concluded its tax assessment in relation to the 2014 year-end tobacco inventory, and imposed additional national excise, local excise, VAT taxes and penalties. This resulted in the recognition of a KRW 80.7 billion (approximately £54 million) charge by Group subsidiaries, BAT Korea Ltd., Rothmans Far East B.V. Korea Branch Office and BAT Korea Manufacturing Ltd. Management deems the tax and penalties to be unfounded and has appealed to the tax tribunal against the assessment. On grounds of materiality and the high likelihood of the tax and penalties being reversed in future, the Group classified the tax and penalties charge as an adjusting item in 2016.

On 23 August 2019, the trial court ruled in favour of Rothmans Far East B.V. Korea Branch Office on KRW 6.7 billion (approximately £5 million), the VAT portion of the assessment; appeals on the other elements of the assessment are still pending at trial court. The Korean government appealed the ruling on 16 September 2019. Management expects the final ruling by the Supreme Court by 2022. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling.

Turkey

British American Tobacco Tutun Mamulleri Sanayi ve Ticaret Anonim Sirketi (BAT Tutun) has been subject to tax audits on inventory movements for the years 2015, 2016 and 2019. In November 2020, BAT Tutun received a tax assessment amounting to £100 million comprising principal, penalty and interest for the years 2015 and 2016. The Group is not, at the date of this announcement, aware of any assessment in relation to 2019. Management is engaging with the tax authorities on the matter but believes that the tax claims are unfounded.

Brazil

On 15 March 2017, the Brazilian Supreme Court ruled that for all taxpayers VAT (ICMS) should not be included in the calculation of social contribution taxes (PIS/Cofins) which are levied based on revenue. However, the retrospective application of the basis of calculation is subject to an extraordinary appeal and the final decision is expected by 2022.

The Group's Brazilian subsidiary, Souza Cruz, had filed an individual lawsuit to establish that it had overpaid taxes to the government. Based on favourable court decisions in 2020 and 2019 the Group has recognised £58 million (2019: £86 million) in other income representing management's best estimate of the amounts likely to be recovered at this time with the potential for further amounts in future periods.

If the ruling were to be enacted retrospectively for a period of five years, the potential asset is estimated to be around £507 million.

Financial Statements

Notes on Accounts

Continued

27 Contingent Liabilities and Financial Commitments Continued

Commitments in relation to service contracts, non-capitalised leases

The total future minimum payments under non-cancellable service contracts based on when payments fall due:

	2020 £m	2019 £m
Service contracts		
Within one year	63	15
Between one and five years	17	20
Beyond five years	6	–
	86	35

Financial commitments arising from short-term leases and leases of low-value assets that are not capitalised under IFRS 16 *Leases* are £6 million (2019: £10 million) for property and £3 million (2019: £2 million) for plant, equipment and other assets.

Performance guarantees

As part of the acquisition of TDR in 2015, the Group has committed to keeping the manufacturing facility in Kanfanar, Croatia operational for at least five years following completion of the acquisition. The maximum exposure under this guarantee was £42 million at 31 December 2019. These commitments expired during 2020.

28 Interests in Subsidiaries

Subsidiaries with material non-controlling interests

Non-controlling interests principally arise from the Group's listed investment in Malaysia (British American Tobacco (Malaysia) Berhad), where the Group held 50% of the listed holding company in 2020, 2019 and 2018. The Group has assessed that it exercises de facto control over Malaysia as it has the practical ability to direct the business through effective control of the Company's Board as a result of the Group controlling the largest shareholding block in comparison to other shareholdings which are widely dispersed. Summarised financial information for Malaysia is shown below as required by IFRS 12. As part of the Group's reporting processes, Malaysia report consolidated financial information for the Malaysia group which has been adjusted to comply with Group accounting policies which may differ to local accounting practice. Goodwill in respect of Malaysia, which arose as a result of the acquisition of the Rothmans group referred to in note 8, has not been included as part of the net assets below. In addition, no adjustments have been made to the information below for the elimination of intercompany transactions and balances with the rest of the Group.

Summarised financial information	2020 £m	2019 £m	2018 £m
Revenue	162	191	231
Profit for the year	45	65	87
– <i>Attributable to non-controlling interests</i>	22	33	43
Total comprehensive income	46	65	87
– <i>Attributable to non-controlling interests</i>	23	33	43
Dividends paid to non-controlling interests	(24)	(36)	(40)
Summary net assets:			
Non-current assets	14	20	16
Current assets	120	97	116
Non-current liabilities	(5)	(4)	–
Current liabilities	(137)	(117)	(129)
Total equity at the end of the year	(8)	(4)	3
– <i>Attributable to non-controlling interests</i>	(4)	(2)	1
Net cash generated from operating activities	40	61	86
Net cash used in investing activities	–	–	(2)
Net cash used in financing activities	(35)	(73)	(77)
Differences on exchange	–	–	1
Increase/(decrease) in net cash and cash equivalents	5	(12)	8
Net cash and cash equivalents at 1 January	(2)	10	2
Net cash and cash equivalents at 31 December	3	(2)	10

28 Interests in Subsidiaries Continued

Subsidiaries subject to restrictions:

As a result of the Group's Canadian subsidiary, Imperial Tobacco Canada (ITCAN), entering CCAA protection, the assets of ITCAN are subject to restrictions. The table below summarises the assets and liabilities of ITCAN:

Summarised financial information	2020 £m	2019 £m
Non-current assets	2,354	2,403
Current assets	1,251	768
Non-current liabilities	(132)	(131)
Current liabilities	(528)	(447)
	2,945	2,593

Under the terms of CCAA, the court has appointed FTI Consulting Canada Inc. to act as a monitor. This monitor has no operational input and is not involved in the management of the business. The Group considers that ITCAN continues to meet the requirements of IFRS 10 *Consolidated Financial Statements*, and, until such requirements are not met, the Group will continue to consolidate the results of ITCAN.

Whilst the Group continues to control the operations of its Canadian subsidiary, there are restrictions over the ability to access or use certain assets including the ability to remit dividends. Included in current assets are cash and cash equivalents of £992 million, of which £878 million is restricted (2019: £595 million, £445 million of which was restricted) (note 17) and inventories of £114 million (2019: £117 million). Included in non-current assets for 2020 and 2019 is goodwill of £2.3 billion subject to impairment reviews (note 8). Included in current liabilities are trade and other payables of £284 million (2019: £310 million), the majority of which are amounts payable in respect of duties and excise. Refer to note 27 for information on the Quebec Class Actions.

Other shareholdings

The Group holds 92% of the equity shares of PT Bentoel Internasional Investama Tbk (Bentoel). In 2011, the Group sold 984 million shares, representing approximately 14% of Bentoel's share capital, for the purposes of fulfilling certain obligations pursuant to Bapepam LK (Indonesia) takeover regulations. The Group simultaneously entered into a total return swap on 971 million of the shares. In June 2016, the Group and other investors participated in a rights issue by Bentoel, with the Group increasing its stake in Bentoel to 92%. Simultaneously, the Group amended the total return swap to take account of an additional 1,684 million shares. The shares subject to the total return swap now represent 7% of Bentoel's issued capital. While the Group does not have legal ownership of these shares, it retains the risks and rewards associated with them which results in the Group continuing to recognise an effective interest in 99% of Bentoel's net assets and results.

Refer to note 10 for information on the Group's 42% investment in Tisak d.d..

Financial Statements

Notes on Accounts

Continued

29 Summarised Financial Information

The following summarised financial information is required by the rules of the Securities and Exchange Commission and has been prepared as a requirement of the Regulation S-X 3-10 in respect of the guarantees of:

The financial information relates to the guarantees of:

- US\$12.35 billion of outstanding bonds issued by B.A.T Capital Corporation (BATCAP) in connection with the acquisition of Reynolds, including registered bonds issued in exchange for the initially issued bonds (the 2017 Bonds);
- US\$10.65 billion of outstanding bonds issued by BATCAP pursuant to the Shelf Registration Statement on Form F-3 filed on July 17, 2019, pursuant to which BATCAP or BATIF may issue an indefinite amount of debt securities; and
- US\$1.50 billion of outstanding bonds issued by BATIF pursuant to the Shelf Registration Statement on Form F-3 filed on July 17, 2019, pursuant to which BATCAP or BATIF may issue an indefinite amount of debt securities.

As of July 28, 2020, all relevant Group entities suspended their reporting obligations with respect to the US\$7.7 billion (2019: US\$10.3 billion) of Reynolds unsecured notes and US\$40.9 million (2019: US\$149.5 million) of Lorillard unsecured notes. As such, no summarised financial information is provided with respect to these securities.

As described below, Reynolds American Inc. (Reynolds American) is a subsidiary guarantor of all outstanding series of BATCAP and BATIF bonds. Under the terms of the indentures governing such notes, any subsidiary guarantor (including Reynolds American) other than BATCAP or BATIF, as applicable, BATNF and BATHTN, will automatically and unconditionally be released from all obligations under its guarantee, and such guarantee shall thereupon terminate and be discharged and of no further force or effect, in the event that (1) its guarantee of all then outstanding notes issued under the Group's EMTN Programme is released or (2) at substantially the same time its guarantee of the debt securities is terminated, such subsidiary guarantor is released from all obligations in respect of indebtedness for borrowed money for which such subsidiary guarantor is an obligor (as a guarantor or borrower). Under the EMTN Programme, Reynolds American's guarantee is released if at any time the aggregate amount of indebtedness for borrowed money, subject to certain exceptions, for which Reynolds American is an obligor does not exceed 10% of the outstanding long-term debt of BAT as reflected in the balance sheet included in BAT's most recent publicly released interim or annual consolidated financial statements.

Reynolds American's guarantee may be released notwithstanding Reynolds guaranteeing other indebtedness, provided Reynolds American's guarantee of outstanding notes issued under the EMTN Programme is released. If Reynolds American's guarantee is released, BAT is not required to replace such guarantee, and the debt securities will have the benefit of fewer subsidiary guarantees for the remaining maturity of the debt securities.

Note: The following summarised financial information report the unconsolidated contribution of each applicable company to the Group's consolidated results and not the separate financial statements for each applicable company as local financial statements are prepared in accordance with local legislative requirements and may differ from the financial information provided below. In particular, in respect of the United States region, all financial statements and financial information provided by or with respect to the US business or RAI (and/or RAI and its subsidiaries (collectively, the Reynolds Group)) are prepared on the basis of US GAAP and constitute the primary financial statements or financial information of the US business or RAI (and/or the Reynolds Group). Solely for the purpose of consolidation within the results of BAT p.l.c. and the BAT Group, this financial information is then converted to IFRS. To the extent any such financial information provided in these financial statements relates to the US business or RAI (and/or the Reynolds Group), it is provided as an explanation of the US business's or RAI's (and/or the Reynolds Group's) primary US GAAP based financial statements and information.

The subsidiaries disclosed below are wholly-owned and the guarantees provided are full and unconditional, and joint and several:

- British American Tobacco p.l.c. (as the parent guarantor), referred to as 'BAT p.l.c.' in the financials below;
- B.A.T Capital Corporation (as an issuer or a subsidiary guarantor, as the case may be), referred to as 'BATCAP' in the financials below;
- B.A.T. International Finance p.l.c. (as an issuer or a subsidiary guarantor, as the case may be), referred to as 'BATIF' in the financials below;
- B.A.T. Netherlands Finance B.V. (as a subsidiary guarantor), referred to as 'BATNF' in the financials below;
- Reynolds American Inc. (as a subsidiary guarantor), referred to as 'RAI' in the financials below; and
- British American Tobacco Holdings (The Netherlands) B.V. (as a subsidiary guarantor of the 2017 Bonds only), referred to as 'BATHTN' in the financials below.

29 Summarised Financial Information Continued

In accordance with Regulation S-X 13-01, information in respect of investments in subsidiaries that are not issuers or guarantors has been excluded from non-current assets as shown in the balance sheet table below. The "BATHTN" column in the summarised financial information is only applicable in the context of the 2017 Bonds. British American Tobacco Holdings (The Netherlands) B.V. ('BATHTN') is not an issuer nor guarantor of any of the other securities referenced in this note. None of the issuers or other guarantors has material balances with or an investment in BATHTN. Investments in subsidiaries represents share capital acquired in relation to or issued by subsidiary undertakings.

	Summarised Financial Information					
Year ended 31 December 2020	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Income Statement						
Revenue	–	–	–	–	–	–
(Loss)/profit from operations	(112)	(1)	(2)	–	(5)	–
Dividend income	5,050	–	–	–	4,845	224
Net finance income/(costs)	131	417	174	–	(758)	1
Profit/(loss) before taxation	5,069	416	172	–	4,082	225
Taxation on ordinary activities	(14)	(101)	4	–	170	–
Profit/(loss) for the year	5,055	315	176	–	4,252	225
Intercompany Transactions – Income Statement						
Transactions with non-issuer/non-guarantor subsidiaries income/(expense)	(118)	(1)	4	–	22	–
Transactions with non-issuer/non-guarantor subsidiaries net finance income/(cost)	5	996	747	–	32	–
Dividend income from non-issuer/non-guarantor subsidiaries	5,050	–	–	–	4,845	224

	Summarised Financial Information					
Year ended 31 December 2019	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Income Statement						
Revenue	–	–	–	–	–	–
Loss from operations	(125)	(2)	(5)	–	(2)	(5)
Dividend income	6,090	–	–	–	3,993	195
Net finance income/(costs)	121	154	195	–	(497)	1
Profit/(loss) before taxation	6,086	152	190	–	3,494	191
Taxation on ordinary activities	–	(35)	8	–	125	1
Profit/(loss) for the year	6,086	117	198	–	3,619	192
Intercompany Transactions – Income Statement						
Transactions with non-issuer/non-guarantor subsidiaries (expense)/income	(125)	(2)	(5)	–	19	–
Transactions with non-issuer/non-guarantor subsidiaries net finance income/(cost)	12	773	563	–	33	–
Dividend income from non-issuer/non-guarantor subsidiaries	6,090	–	–	–	3,993	195

Financial Statements

Notes on Accounts
Continued

29 Summarised Financial Information Continued

As at 31 December 2020	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Balance Sheet						
Non-current assets	236	18,991	10,332	1,509	402	26
Current assets	7,070	3,404	30,601	22	268	15
Non-current liabilities	1,580	17,867	15,326	1,509	8,885	6
Non-current borrowings	1,571	17,867	15,243	1,509	8,823	–
Other non-current liabilities	9	–	83	–	62	6
Current liabilities	52	4,444	24,038	22	972	2
Current borrowings	9	4,329	23,478	22	200	1
Other current liabilities	43	115	560	–	772	1
Intercompany Transactions – Balance Sheet						
Amounts due from non-issuer/non-guarantor subsidiaries	7,031	16,088	38,761	–	620	15
Amounts due to non-issuer/non-guarantor subsidiaries	3	3,139	19,550	–	62	1
Investment in subsidiaries (that are not issuers or guarantors)	27,234	–	718	–	23,820	1,580

As at 31 December 2019	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Balance Sheet						
Non-current assets	236	12,722	16,188	–	439	39
Current assets	6,732	6,379	25,441	–	749	16
Non-current liabilities	1,580	15,405	14,918	–	6,864	10
Non-current borrowings	1,571	15,168	14,590	–	6,741	–
Other non-current liabilities	9	237	328	–	123	10
Current liabilities	139	3,800	25,273	–	3,590	3
Current borrowings	13	3,706	24,816	–	2,979	1
Other current liabilities	126	94	457	–	611	2
Intercompany Transactions – Balance Sheet						
Amounts due from non-issuer/non-guarantor subsidiaries	6,690	15,415	38,851	–	1,160	16
Amounts due to non-issuer/non-guarantor subsidiaries	101	2,773	19,190	–	81	1
Investment in subsidiaries (that are not issuers or guarantors)	27,234	–	718	–	24,012	1,419

30 Accounting Policy Changes

Adoption of new accounting standards effective 1 January 2019: Adoption of IFRS 16

Adoption of IFRS 16

With effect from 1 January 2019, the Group adopted IFRS 16 *Leases* with no revision of prior periods, as permitted by the Standard. In accordance with IFRS 16, the distinction between operating leases and finance leases for lessees has been removed.

On the initial implementation of the Standard, previously recognised operating leases were capitalised as right-of-use assets and financial liabilities were recognised at the same initial value. The Group took advantage of certain practical expedients available under the Standard including:

- ‘grandfathering’ previously recognised lease arrangements;
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- assessing whether a lease is onerous prior to applying the Standard;
- applying hindsight in determining the lease term if the contract contains options to extend or terminate the lease; and
- not applying the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

The impact of IFRS 16 to the Group’s balance sheet at 1 January 2019 was the capitalisation of £610 million of right-of-use assets and lease liabilities of £607 million. The weighted average incremental borrowing rate applied in discounting lease commitments at that date was 5.60%. The impact of IFRS 16 to the Group’s results and equity in 2019 was not material.

Adoption of new accounting standards effective 1 January 2018: Adoption of IFRS 9

Adoption of IFRS 9

With effect from 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* with no restatement of prior periods, as permitted by the Standard. The cumulative impact of adopting the Standard, including the effect of tax entries, was recognised as a restatement of opening reserves in 2018, and was £38 million, arising from the impairment of financial assets under the expected loss model.

Financial Statements

Group Companies and Undertakings

This disclosure is made in accordance with Section 409 of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. A full list of subsidiary undertakings, associates and joint ventures and joint operations as defined by IFRS (showing the country of incorporation, effective percentage of equity shares held and full registered office addresses) as at 31 December 2020 is disclosed below.

The subsidiary undertakings that are held directly by British American Tobacco p.l.c. (the ultimate Parent Company) are indicated thus*; all others are held by sub-holding companies.

Unless otherwise stated, the equity shares held are in the form of ordinary shares or common stock, except for those indicated thus#, which include preference shares. The effective percentage of equity shares held in subsidiary undertakings is 100% unless otherwise stated. Further, where the effective percentage of equity shares held by the sub-holding company is different from that held by British American Tobacco p.l.c., the percentage of equity shares held by British American Tobacco p.l.c. is indicated thus^ and is shown after the percentage interest held by the sub-holding company.

The results of a number of these subsidiary undertakings principally affect the financial statements of the Group. These principal subsidiary undertakings are highlighted in grey and are considered to be the main corporate entities in those countries which, in aggregate, contributed 99% of the Group revenue and 100% of profit from operations.

Subsidiary Undertakings

Albania	Austria
Rruga e Kavajes, Ish Kombinati Ushqimor, Tirana, Albania	Dr. Karl Lueger Platz 5, 1010, Wien, Austria
British American Tobacco – Albania SH.P.K.	British American Tobacco (Austria) GmbH
Algeria	Bahrain
Industrial Zone, Cheraga, El Omrane, Ouled Fayet Road, Lot 04 Ilot 789, Algiers, Algeria	Flat 2115, Building 2504, Road 2832, Block 428 Al Seef Area, Kingdom of Bahrain
British American Tobacco (Algérie) S.P.A. (51%)	British American Tobacco Middle East S.P.C.
Angola	Bangladesh
Viana Park, Polo Industrial, Viana, Luanda, Angola	New DOHS Road, Mohakhali, Dhaka 1206, Bangladesh
British American Tobacco – B.A.T. Angola, Limitada ¹	British American Tobacco Bangladesh Company Limited (72.91%)
Sociedade Geral de Distribuição e Comércio, Limitada	Barbados
Sociedade Industrial Tabacos Angola LDA (76.60%)	Braemar Court, Deighton Road, St. Michael, Barbados
Sociedade Unificada Tabacos Angola LDA (76.39%)	B.C.O., Inc
Argentina	Chancery Chambers, Chancery House, High Street, Bridgetown, Barbados
San Martín 140, Floor 14, City of Buenos Aires, Argentina	Southward Insurance Ltd.
BAT Operaciones S.A.U.	Belarus
British American Tobacco Argentina S.A.I.C.y F. (99.98%)	7th Floor, 3 Kuprevicha Str., Minsk, 220141, Belarus
Australia	British-American Tobacco Trading Company Foreign Private Trading Unitary Enterprise
166 William Street, Woolloomooloo, NSW 2011, Australia	Belgium
British American Tobacco (Australasia Holdings) Pty Limited	Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom
British American Tobacco Australasia Limited	British American Tobacco Holdings Belgium N.V.
British American Tobacco Australia Limited	Nieuwe Gentsesteenweg 21, 1702 Groot-Bijgaarden, Belgium
British American Tobacco Australia Overseas Pty Limited	British American Tobacco Belgium N.V.
British American Tobacco Australia Services Limited	Benin
Rothmans Asia Pacific Limited [#]	Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin
The Benson & Hedges Company Pty. Limited	British American Tobacco Benin SA
W.D. & H.O. Wills Holdings Limited	Bolivia
	Av. Costanerita 71, Esq. Calle 6, Piso 5, Zona de Obrajes, La Paz, Bolivia
	BAT Bolivia S.R.L.

Bosnia and Herzegovina

Fra Dominka Mandica 24 A, 88220 Široki Brijeg, Bosnia and Herzegovina

IPRESS d.o.o.

ul. Azize Šaćirbegović 1, 71000 Sarajevo-Novo Sarajevo, Bosnia and Herzegovina

TDR d.o.o. Sarajevo

ul. Kolodvorska 12, 71000 Sarajevo-Novo Sarajevo, Bosnia and Herzegovina

iNovine BH d.o.o.

Opresa d.o.o.

Botswana

Plot 20774 Broadhurst Industrial Estate, Gaborone, Botswana

British American Tobacco Botswana (Pty) Limited

Business Venture Investments Botswana 6773 (Pty) Ltd.

Brazil

Avenida República do Chile, nº 330, Bloco 1, Torre Leste, 30º andar, Centro, Rio de Janeiro/RJ - CEP 20.031-170, Brazil

Souza Cruz LTDA

Yolanda Participacoes S.A.

Brunei Darussalam

6th Floor, Bang Hj Ahmad Laksamana Othman, 38-39, Jalan Sultan, Bandar Seri Begawan BS8811, Brunei Darussalam

Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%)^

Bulgaria

115 M, Tsarigradsko Shose Blvd., Building D, Floor 5, Sofia, Mladost Municipality, 1784, Bulgaria

British American Tobacco Trading EOOD

Burkina Faso

Ouagadougou, Avenue Yennega, BP: 882, Ouagadougou, Burkina Faso

Tobacco Marketing Consultant Burkina Faso SARL

Burundi

Avenue de L'Uprina a Bujumbura, BP 345, Burundi

Tabarundi SARL

Cambodia

1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia

British American Tobacco (Cambodia) Limited (71%)

British American Tobacco (Cambodge) International Limited

Cameroon

Rue Njo Njo, Bonapriso – B.P. 259, Douala, Cameroon

British American Tobacco Cameroun S.A. (99.76%)

Canada

30 Pedigree Court, Brampton, Ontario, L6T 5T8, Canada

Imperial Tobacco Canada Limited

Imperial Tobacco Company Limited

3711 St-Antoine West, Montreal, Quebec, H4C 3P6, Canada

Allan Ramsay and Company Limited

Cameo Inc.

Genstar Corporation²

Imperial Brands Limited

Imperial Tobacco Products Limited

Imperial Tobacco Services Inc.

John Player & Sons Ltd

Liggett & Myers Tobacco Company of Canada Limited (70%) (50%)^ ³

Marlboro Canada Limited

Medaillon Inc.

45 O'Connor Street, Suite 1500, Ottawa, Ontario, K1P 1A4, Canada

2004969 Ontario Inc.

Cayman Islands

Trident Trust Company (Cayman) Ltd., One Capital Place, PO Box 847, Grand Cayman KY1-1103, Cayman Islands

R.J. Reynolds Tobacco (CI), Co.

Chile

Isidora Goyenechea 3000, Piso 15, Las Condes, Santiago, Chile

BAT Chile S.A.

British American Tobacco Chile Operaciones S.A. (99.51%)

Inversiones Casablanca S.A.

China (People's Republic of)

607, Floor 6, China Resources Tower, No. 2666 South Keyuan Road, Zhuhai Community, Yuehai Street, Nanshan District, Shenzhen, People's Republic of China

Nicoventures Business Consulting (Shenzhen) Co., Ltd

Room 436, No. 1000, Zenchen Road, Baoshan District, Shanghai, People's Republic of China

British American (Shanghai) Enterprise Development Co., Ltd

British American Nico Business Consulting (Shanghai) Co., Ltd

Unit 1001 in 901, 9/F, Building 3, No.8 Guanghuadongli, Chaoyang District, Beijing, People's Republic of China

British American Consulting (Beijing) Ltd

Colombia

Av. Cra. 72 # 80-94 Piso 10. Bogotá, Colombia

British American Tobacco Colombia S.A.S.

Vype Colombia S.A.S.

Congo (Democratic Republic of)

1er étage, Immeuble du Centenaire, Gombe, Kinshasa, Democratic Republic of Congo

BAT Distribution SARL

British American Tobacco Congo SARL

1st floor immeuble L'horizon sis avenue Colonel Lukusa n.50, Gombe, Kinshasa, Democratic Republic of Congo

British American Tobacco Services Congo SARL (99%)

British American Tobacco Import SARL (99%)

Costa Rica

325 Metros este del Puente de la Firestone, Llorente, Flores, Heredia, Costa Rica

BASS Americas S.A.

BATCCA Park Inversiones Inmobiliarias, S.A.

BATCCA Servicios S.A.

Financial Statements

Group Companies and Undertakings

Continued

Croatia	
Draškovićeva 27, 10000 Zagreb, Croatia	
Inovine d.d. (93.42%)	
Ivana Lučića 2/a, 10000 Zagreb, Croatia	
BAT HRVATSKA d.o.o. u likvidaciji	
Obala V. Nazora 1, 52210 Rovinj, Croatia	
TDR d.o.o.	
Osječka 2, 33000 Virovitica, Croatia	
Hrvatski Duhani d.d. Tobacco Leaf Processing (89.55%)	
Cuba	
Parcela nº 2 a noroeste do terminal de contêineres de Mariel, a 2,2 km do vértice nº 4, Município de Mariel, Província de Artemisa, na República de Cuba.	
Brascuba Cigarrillos S.A. (50%)	
Cyprus	
Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia, CY-1060, Cyprus	
B.A.T (Cyprus) Limited	
Rothmans (Middle East) Limited	
Czech Republic	
Karolinská 654/2, Prague 8 – Karlín, 186 00, Czech Republic	
British American Tobacco (Czech Republic), s.r.o.	
Denmark	
Vester Farimagsgade 19, 1606 Copenhagen, Denmark	
British American Tobacco Denmark A/S (House of Prince A/S)	
Precis (1789) Denmark A/S	
Egypt	
Administrative unit no.1, 5th Floor, Building S2B, Sector A, Downtown Mall Katameya, 5th settlement, New Cairo, Egypt	
BETCO for General Services and Marketing LLC	
BETCO for Trade and Distribution LLC	
British American Tobacco Egypt LLC	
British American Tobacco North Africa LLC	
Eritrea	
P.O. Box 749, 62 Fel Ket Street, Asmara, Eritrea	
British American Tobacco (Eritrea) Share Company [#]	
Estonia	
Tornimäe 7-10, 10145 Tallinn, Estonia	
British American Tobacco Estonia AS	
Fiji	
Lady Maria Road, Nabua, Suva, Fiji	
British American Tobacco (Fiji) Marketing Pte Limited	
Central Manufacturing Company Pte Limited	
Rothmans of Pall Mall (Fiji) Pte Limited	
Finland	
Itamerentori 2, 00180, Helsinki, Finland	
British American Tobacco Finland Oy	
France	
111 Avenue Victor Hugo, Paris, 75016, France	
Carreras France SAS	
Cœur Défense Tour A 100-110 Esplanade de Gaulle 92932 Paris La Défense Cedex, France	
British American Tobacco France SAS	
Germany	
Alsterufer 4, 20354 Hamburg, Germany	
BATIG Gesellschaft für Beteiligungen m.b.H.	
British American Tobacco (Germany) GmbH	
British American Tobacco (Industrie) GmbH	
Schutterwalder Straße. 23, 01458 Ottendorf-Okrilla, Germany	
Quantus Beteiligungs – und Beratungsgesellschaft mbH	
Ghana	
F190/5 Josiah Tongogari Street, Opposite Tante Marie Restaurant, Labone-Accra, Ghana	
British American Tobacco Ghana Limited (97.09%)	
Greece	
27, Ag. Thoma Street, Maroussi, 151 24, Greece	
British American Tobacco Hellas S.A.	
Guernsey	
St. Martin's House, Le Bordage, St. Peter's Port, GY1 4AU, Guernsey	
Belaire Insurance Company Limited	
Guyana	
Lot 122 Parade Street, Kingston, Georgetown, Guyana	
Demerara Tobacco Company Limited (70.25%)	
Honduras	
Boulevard del Sur, Zona El Cacao, San Pedro Sula, Depart. de Cortés, Honduras	
Tabacalera Hondureña S.A. (83.64%)	
Hong Kong	
11/F, One Pacific Place, 88 Queensway, Hong Kong	
British American Tobacco China Investments Limited	
LEHMAN, LEE & XU CORPORATE SERVICES, Suite 3313, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong	
Reynolds Asia-Pacific Limited	
Level 30, Three Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong	
British American Tobacco Asia-Pacific Region Limited	
British-American Tobacco Company (Hong Kong) Limited	
Level 24, Suites 2407 - 09, 3 Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong	
BAT Global Travel Retail Limited	
Units 2501 and 2506 to 2510, 25/F Island Place Tower, Island Place 510, King's Road, Hong Kong	
American Cigarette Company Limited	
Hungary	
H-1124, Budapest, Csörsz utca 49-51. 3. em., Hungary	
BAT Pécsi Dohánygyár Korlátolt Felelősségű Társaság	

Indonesia

Capital Place Office Tower, 6th Floor, Jl. Gatot Subroto Kav. 18, Jakarta 12710 Indonesia

PT Bentoel Internasional Investama, Tbk (92.48%)

Jl. Raya Karanglo, 1 Desa Banjararum, Kecamatan Singosari, Jawa Timur 65153 Indonesia

PT Bentoel Prima⁴ (100%) (99.99%)[^]

Jl. Susanto No. 2B, Ciptomulyo, Sukun, Malang, Jawa Timur 65148 Indonesia

PT Bentoel Distribusi Utama (100%) (99.8%)[^]

Iran, Islamic Republic of

Unit 5001, No.0, Sahand 1 St., Sabalan 1 St., Phase 3, Eshtehard Industrial Estate, Palang Abad, Alborz Province, Islamic Republic of Iran

B.A.T. Pars Company (Private Joint Stock) (99%)

No. 88, Baran Bld., Kuyeh Sayeh, Across Mellat Park, Vali'asr Ave., Tehran, Islamic Republic of Iran

TDR Parsian Company (PJS) (In Liquidation)

Iraq

Enkawa, Erbil, Kurdistan Region of Iraq

B.A.T. Iraqia Company for Tobacco Trading Limited

Ireland

Suite D, 2nd Floor, The Apex Building, Blackthorn Road, Sandyford Industrial Estate, Dublin 18, Republic of Ireland

Carroll Group Distributors Limited

P.J. Carroll & Company Limited⁴

Rothmans of Pall Mall (Ireland) Limited⁵

Isle of Man

c/o Boston MFO, 2nd Floor, St Mary's Court, 20 Hill Street, Douglas, IM1 1EU, Isle of Man

Abbey Investment Company Limited

The Raleigh Investment Company Limited

Tobacco Manufacturers (India) Limited

Italy

Via Amsterdam 147, 00144 Rome, Italy

British American Tobacco Italia S.p.A.

Ivory Coast

Rue des Jardins -Immeuble Sayegh-Mezzanine, Abidjan, Cocody 2 plateaux, Côte d'Ivoire

British American Tobacco RCI SARL

Marcory, Immeuble Plein Ciel Boulevard VGE – 6 BP 1377, Ivory Coast

Tobacco Marketing Consultant CDI SARL (In Liquidation)

Jamaica

13A Ripon Road, Kingston 5, Jamaica

Carreras Limited (50.40%)⁸

Sans Souci Development Limited (100%) (50.40%)^{^ 8}

Sans Souci Limited (100%) (50.40%)^{^ 8}

Japan

Midtown Tower 20F, 9-7-1 Akasaka, Minato-ku, Tokyo, Japan

British American Tobacco Japan, Ltd.

Jersey

22 Grenville Street, St Helier, JE4 8PX, Jersey

Pathway 5 (Jersey) Limited

Jordan

Airport Road, Al Qastal Industrial Area, Air Cargo Road, Amman, Jordan

British American Tobacco – Jordan Private Shareholding Company Limited¹¹

Kazakhstan

240G, Nursultan Nazarbayev avenue, A26F8D4 Almaty, Republic of Kazakhstan

British American Tobacco Kazakhstan Trading LLP

Kenya

8 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya

BAT Kenya Tobacco Company Limited (100%) (60%)[^]

British American Tobacco Area Limited

British American Tobacco Kenya plc (60%)

East African Tobacco Company (Kenya) Limited (100%) (60%)[^]

Korea, Republic of

141, Gongdan1-ro, Sanam-Myun, Sacheon City, Kyungsangnamdo, Korea (the Republic of)

British American Tobacco Korea Manufacturing Limited

42FI Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Korea (the Republic of)

British American Tobacco Korea Limited

Kosovo, Republic of

Llapllaselle p.n., 10500 Gracanice, Republic of Kosovo

British American Tobacco Kosovo SH.P.K.

Latvia

Mukusalas iela 101, Riga LV-1004, Latvia

British American Tobacco Latvia SIA

Lithuania

J. Galvydžio g. 11-7, LT-08236 Vilnius Lithuania

UAB British American Tobacco Lietuva

Luxembourg

1, Rue Jean Piret, 2350 Luxembourg, Grand Duchy of Luxembourg

British American Tobacco Brands (Switzerland) Limited

Malawi

Northgate Arcade Complex, Masauko Chipembere Highway, Blantyre, Malawi

British American Tobacco (Malawi) Limited

Malaysia

12th Floor, Menara Symphony, No. 5, Jalan Prof Khoo Kay Kim, Seksyen 13, 46200, Petaling Jaya, Selangor Darul Ehsan, Malaysia

British American Tobacco GSD (Kuala Lumpur) Sdn Bhd

Level 11, Sunway Geo Tower, Jalan Lagoon Selatan, Sunway South Quay, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia

BAT Aspac Service Centre Sdn Bhd

Level 19, Guoco Tower, Damansara City, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

British American Tobacco Malaysia Foundation⁷

British American Tobacco (Malaysia) Berhad (50%)

Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%)[^]

Rothmans Brands Sdn. Bhd. (100%) (50%)[^]

Tobacco Importers and Manufacturers Sdn. Bhd. (100%) (50%)[^]

Financial Statements

Group Companies and Undertakings

Continued

Mali
DJELIBOUGOU-Immeuble BASSARO- BP 2065, Bamako -Mali
British American Tobacco (Mali) Sarl
Malta
PM Building, Level 2, Mriehel Industrial Zone, Bone Street, Mriehel, BKR3000, Malta
British American Tobacco (Malta) Limited
Central Cigarette Company Limited
Rothmans of Pall Mall (Malta) Limited
Mexico
Francisco I Madero 2750 Poniente, Colonia Centro, Monterrey, Nuevo León, C.P. 64000, Mexico
British American Tobacco Mexico Comercial, S.A. de C.V.
British American Tobacco Mexico, S.A. de C.V. ⁴
British American Tobacco Servicios S.A. de C.V.
Cigarrera La Moderna, S.A. de C.V.
Predio Los Sauces Sin número, Colonia Los Sauces, C.P. 63197, Tepic, Nayarit, Mexico
Procesadora de Tabacos de Mexico, S.A. de C.V. (93%)
Moldova, Republic of
65, Stephan cel Mare Str., off. 414-417, Chisinau, MD2001, Republic of Moldova
British American Tobacco – Moldova S.R.L.
Mozambique
2289 Avenida de Angola, Maputo, Mozambique
British American Tobacco Mozambique Limitada (95%)
Sociedade Agricola de Tabacos Limitada (95%)
Myanmar
Min Aye Yar Street, Plot No. (55, 56), Survey Ward No. (14) Shwe Than Lwin Industrial Zone, Hlaing Tharyar Township Yangon Region, Myanmar
British American Tobacco Myanmar Limited (95%) ⁸
British American Tobacco Myanmar Services Limited ⁸
Namibia
24 Orban Street, Klein Windhoek, Namibia
Twisp (Pty) Limited
Shop 48, Second Floor Old Power Station Complex, Armstrong Street, Windhoek, Namibia
British American Tobacco Namibia (Pty) Limited

Netherlands
Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands
Aruba Properties B.V.
B.A.T Finance B.V.
B.A.T. Netherlands Finance B.V.
British American Tobacco European Operations Centre B.V.
British American Tobacco Exports B.V.
British American Tobacco Holdings (Australia) B.V.
British American Tobacco Holdings (Malaysia) B.V.
British American Tobacco Holdings (South Africa) B.V.
British American Tobacco Holdings (The Netherlands) B.V.
British American Tobacco Holdings (Venezuela) B.V.
British American Tobacco Holdings (Vietnam) B.V.
British American Tobacco International (Holdings) B.V.
British American Tobacco International Investments B.V.
British American Tobacco Manufacturing B.V.
Molenssteegh Invest B.V.
Precis (1789) B.V.
Precis (1790) B.V.
Rothmans Far East B.V.
Rothmans International Holdings B.V.
Rothmans International Holdings II B.V.
Rothmans Tobacco Investments B.V.
Rothmans UK Holdings B.V.
New Zealand
2 Watt Street, Parnell, Auckland, 1052, New Zealand
British American Tobacco (New Zealand) Limited
British American Tobacco Holdings (New Zealand) Limited
Mint Advisory Limited, Suite 6, 8 Turua Street, St Heliers, Auckland, 1071, New Zealand
New Zealand (UK Finance) Limited [#]
Niger
Rue du Parc, Quartier Terminus, Niamey, Niger
British American Tobacco Niger (In Liquidation)
Nigeria
1, Tobacco Road, Oluyole Local Government Area, Ibadan, Oyo State, Nigeria
British American Tobacco (Nigeria) Limited
2 Olumegbon Road, Ikoyi, Lagos, Nigeria
British American Tobacco Marketing Nigeria Limited

North Macedonia, Republic of

Blvd. 8-mi SEPTENVRI No. 18, 1000 Skopje, Republic of Macedonia
TDR SKOPJE DOOEL Skopje

Norway

Dronning Eufemias Gate 42. 0191 Oslo, Norway

British American Tobacco Norway AS

Pakistan

Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan

British American Tobacco SAA Services (Private) Ltd

Pakistan Tobacco Company Limited (94.65%)

Bun Khurma Chichian Road, Mirpur Azad Jammu & Kashmir, Pakistan

Phoenix (Private) Limited (100%) (94.65%)^

Panama

Torre Banco Panama, Boulevard Costa Del Este y Aveida La Rotonda, Piso 14, Oficina 1400, Costa del Este Ciudad de Panama, Panama

BAT Caribbean, S.A.

British American Tobacco Central America S.A. (87.65%)

British American Tobacco Panama S.A.

Tabacalera Istmeña S.A.

Papau New Guinea

Ashurst Png, Level 11 Mrdc Haus, Cnr Of Musgrave Street and Champion Parade, Port Moresby, National Capital District, Papua New Guinea

British American Tobacco (PNG) Limited

Papua New Guinea Tobacco Co. Ltd

Paradise Tobacco Co. Limited

Rothmans of Pall Mall (P.N.G) Limited

Paraguay

Avda. Aviadores del Chaco N° 2050 (World Trade Center, Torre 2, Piso 17), Asunción, Paraguay

British American Tobacco Productora de Cigarrillos S.A.

Peru

Pasaje Santa Rosa 256, Ate, Lima, Perú

British American Tobacco del Peru Holdings S.A. (98.55%)⁶

British American Tobacco del Peru, S.A.C.

Philippines

31 Tayuman Street, Tondo, Manila, Philippines

Alhambra Industries Inc.[#]

Poland

Aleja Wojska Polskiego 23c, 63-500, Ostrzeszow, Poland

CHIC sp. zo. o.

CHIC sp. zo. osp. k.

Chic Holding sp. zo. o.

Chic Investments sp. zo. o.

eSMOKING Liquids sp. zoo

eSMOKING Liquids sp. zo. o. sp. k.

Nicoventures Polska Sp. z o. o.

Krakowiakow 48, 02-255, Warszawa, Poland

British American Tobacco Polska Trading sp. zo. o.

Rubiez 46, 61-612, Poznan, Poland

eSMOKING INSITUTE sp. zoo

ul. ŁŁZECKA 26E, 02-135, Warszawa, Poland

Nicoventures Poland sp. z o. o.

Ul. Tytoniowa 16, 16-300, Augustow, Poland

British-American Tobacco Polska S.A.

Portugal

Edificio Amoreiras Square, Rua Carlos Alberto da Mota Pinto 17, 3e A, 1070-313, Amoreiras, Lisboa, Portugal

COTAPO Empreendimentos Comerciais e Industriais S.A.

Sociedade Unificada de Tabacos Limitada (76.4%)

Qatar

P O Box 6689, 41 Floor, Tornado Tower, West Bay, Doha, Qatar

British American Tobacco Q LLC

Réunion

5, Immeuble Cap, Avenue Théodore Drouhet, ZAC Horizon 2000, Le Port, 97420, Ile de la Réunion

B.A.T. La Reunion SAS

Romania

319 Splaiul Independentei, Sema Parc 'City Building', 1st Floor, 6th Sector, Bucharest, Romania

British American Shared Services (Europe) S.R.L.

319 Splaiul Independentei, Sema Parc 'City Building', 6th Floor, 6th Sector, Bucharest, Romania

BRITISH American GBS Recruitment S.R.L.

Municipiul Ploiesti, Str. Laboratorului, NR 17-19, Judetul Prahova, Romania

British-American Tobacco Romania Investment S.R.L.

Bucharest Business Park, Building A (3rd floor) and Building B2 (floors 2-4), 1A Bucuresti – Ploiesti (DN1) Road, Sector 1, Bucharest 013681, Romania

British American Tobacco (Romania) Trading SRL

Russia

38, 3rd Konnaya lakhta, Saint Petersburg, 197229 Russia

JSC 'British American Tobacco-SPb'

Building 2, 17 Krylatskaya Street, Moscow, 121614 Russia

JSC 'International Tobacco Marketing Services'

Rwanda

SORAS Building, Boulevard de la Revolution P.O Box 650 Kigali, Rwanda

British American Tobacco Rwanda Limited

Saint Lucia

c/o ADCO Incorporated, 10 Manoel Street, Castries, Saint Lucia

Carisma Marketing Services Ltd

Pointe Seraphine, Castries, Saint Lucia

Rothmans Holdings (Caricom) Limited

Samoa

Vaitele Estate, Vaitele, Samoa

British American Tobacco Company (Samoa) Limited

Saudi Arabia, Kingdom Of

7051 Al Amir Sultan-Al Salamah District, Unit 1302. Jeddah 23525 - 2661 Saudi Arabia

BAT Saudia for Trading

Eastern Tobacco Company For Trading

Senegal

Almadies, Route Hôtel Méridien en Face Club Med, Dakar, Senegal BP 3174

Tobacco Marketing Consultant TMC S.A.R.L. (In Liquidation)

Financial Statements

Group Companies and Undertakings

Continued

Serbia	
Bulevar Milutina Milankovica 1ž, Belgrade, 11070, Serbia	
British American Tobacco South – East Europe d.o.o.	
Kralja Stefana Provenčanog 209, Vranje, 17500, Serbia	
British American Tobacco Vranje a.d.	
Singapore	
15 Senoko Loop, Singapore, 758168	
British-American Tobacco (Singapore) Private Limited	
British-American Tobacco Marketing (Singapore) Private Limited	
18 Ah Hood Road #12-51, Hiap Hoe Bldg at Zhongshan Park, Singapore, 329983	
British American Tobacco Sales & Marketing Singapore Pte. Ltd.	
Shenton Way, #33-00 OUE Downtown, Singapore 068809	
RHL Investments Pte Limited# (In Liquidation)	
Slovenia	
Bravničarjeva ulica 13, 1000 Ljubljana, Slovenia	
British American Tobacco d.o.o.	
Solomon Islands	
Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands	
Solomon Islands Tobacco Company Limited	
South Africa	
Waterway House South, 3 Dock Road, V&A Waterfront, Cape Town 8000, South Africa	
Agrega EEMEA (Pty) Limited	
Amalgamated Tobacco Corporation (South Africa) (Pty) Limited	
American Cigarette Company (Overseas) (Pty) Ltd	
Benson & Hedges (Pty) Limited	
British American Shared Services Africa Middle East (Pty) Limited	
British American Tobacco GSD (South Africa) (Pty) Limited	
British American Tobacco Holdings South Africa (Pty) Limited#	
British American Tobacco Properties South Africa (Pty) Ltd.	
British American Tobacco Services South Africa (Pty) Limited	
British American Tobacco South Africa (Pty) Limited	
British American Tobacco East and Southern Africa (Pty) Limited	
Brown & Williamson Tobacco Corporation (Pty) Limited	
Business Venture Investments No 216 (Pty) Limited	
Carlton Cigarette Company (Pty) Limited	
John Chapman (Pty) Limited	
John Player & Sons (Pty) Limited	
Kentucky Tobacco Corporation (Pty) Limited	
Martins of London (Pty) Limited	
Rembrandt Tobacco Corporation (Overseas) (Pty) Ltd	
Riggio Tobacco Corporation of New York (Pty) Ltd	
Rothmans of Pall Mall London (Pty) Limited	
St. Regis Tobacco Corporation (Pty) Ltd	
Thomas Bear's Son & Co (Pty) Limited	
Tobacco Research and Development Institute (Pty) Limited	
Twisp (Pty) Limited	
W.D. & H.O. Wills (Pty) Limited	
Westminster Tobacco Company (Cape Town & London) (Pty) Limited	
Winfield Tobacco Corporation (Pty) Limited	
Winston Tobacco Company (Pty) Limited	
Spain	
Torre Espacio, Paseo de la Castellana, 259D, 28046 Madrid, Spain	
British American Tobacco España, S.A.	
Sri Lanka	
178 Srimath Ramanathan Mawatha, Colombo, 15, Sri Lanka	
Ceylon Tobacco Company Plc (84.13%)	
Sudan	
Byblos Tower, Al-Muk Nemer Street, Postal Code 1111, P.O Box 1381, Khartoum, Sudan	
Blue Nile Cigarette Company Limited	
Swaziland	
213 King Mswati III Avenue West, Matsapha Industrial Site, Mutsapha, eSwatini	
British American Tobacco Swaziland (Pty) Limited	
Sweden	
Södra Järnväggsgatan 13, 4 fl. SE-252 24 Helsingborg, Sweden	
Niconovum AB	
Stationsvägen 11, 523 74 Hokerum, Sweden	
Winnington AB	
Stenåldersgatan 23, 213 76 Malmö, Sweden	
Fiedler & Lundgren AB	
Västra Trädgårdsgatan 15, 11153 Stockholm, Sweden	
British American Tobacco Sweden AB	
Switzerland	
Route de France 17, 2926 Boncourt, Geneva, Switzerland	
American-Cigarette Company (Overseas) Limited	
BAT Switzerland Vending SA	
British American Tobacco Switzerland SA	
Nicoventures Communications (Switzerland) SA	
Rothmans of Pall Mall Limited	
Route de la Glâne 107, c/o NBA Fiduciaire S.A. 1752 Villars-sur-Glâne, Switzerland	
Intertab S.A. (50%)	
c/o Seepark AG, Gartenstrasse 4, 6300 Zug, Switzerland	
British American Tobacco International Limited (In Liquidation)	
Tanzania	
Acacia Estate Building, Kinondoni Road, P.O Box 288, Dar es Salaam, Tanzania	
BAT Distribution Tanzania Limited	
British American Tobacco (Tanzania) Limited	
International Cigarette Distributors Limited (99%)	
Zanzibar Distribution Company Limited (99%)	
Trinidad and Tobago	
Corner Eastern Main Road and Mt. D'or Road, Champs Fleurs, Trinidad and Tobago	
The West Indian Tobacco Company Limited (50.13%)	
Turkey	
Orjin Maslak İş Merkezi, Eski Büyükdere Caddesi, Kat 9-10, Maslak, Sarıyer, İstanbul	
British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi	

Uganda

10th Floor, Lotus Towers, Plot 16 Mackinnon Road, Nakasero, Kampala, Uganda

British American Tobacco Uganda Limited (90%)

Ukraine

13-15 Bolsunovska Str, Kyiv, 01014 Ukraine

LLC 'British American Tobacco Sales and Marketing Ukraine'

21 Nezalezhnosti Str, Pryluky, Chernihiv Region, 17502 Ukraine

PJSC 'A/T B.A.T. – Prilucky Tobacco Company'

United Arab Emirates

Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates

British American Tobacco GCC DMCC

British American Tobacco ME DMCC

Unit # 2680, DMCC Business Center- Level # 1, Jewellery & Gemplex 3 Dubai United Arab Emirates

British American Tobacco International DMCC

United Kingdom

212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland

Murray, Sons & Company, Limited

7 More London, Riverside, London, SE1 2RT, United Kingdom

Rysekks P.L.C. (50%) (In Liquidation)

Building 7, Chiswick Business Park, 566 Chiswick High Road, London, England, W4 5YG, United Kingdom

British American Tobacco UK Limited

Ten Motives Limited

10 Motives Limited

Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom

Advanced Technologies (Cambridge) Limited

Allen & Ginter (UK) Limited

B.A.T (U.K. and Export) Limited

B.A.T Cambodia (Investments) Limited

B.A.T Far East Holding Limited

B.A.T Far East Leaf Limited

B.A.T Services Limited

B.A.T Uzbekistan (Investments) Limited

B.A.T Vietnam Limited

B.A.T. (Westminster House) Limited

B.A.T. China Limited

BAT Finance COP Limited

BATIF Dollar Limited

BATUS Limited

Big Ben Tobacco Company Limited

British American Shared Services (GSD) Limited

British American Shared Services Limited

British American Tobacco (AIT) Limited

British American Tobacco (GLP) Limited

British American Tobacco (Investments) Limited

British American Tobacco (Philippines) Limited

British American Tobacco (Serbia) Limited

British American Tobacco (South America) Limited

British American Tobacco China Holdings Limited

British American Tobacco Exports Limited

British American Tobacco Georgia Limited

British American Tobacco Global Travel Retail Limited

British American Tobacco International Holdings (UK) Limited

British American Tobacco Investments (Central & Eastern Europe) Limited

British American Tobacco Italy Investments Limited

British American Tobacco Italy Limited

British American Tobacco Korea (Investments) Limited

British American Tobacco Malaysia (Investments) Limited

British American Tobacco Peru Holdings Limited

British American Tobacco UK Pension Fund Trustee Limited⁸

British-American Tobacco (Mauritius) p.l.c.

Carreras Rothmans Limited[#]

Chelwood Trading & Investment Company Limited

East African Tobacco Company (U.K.) Limited

Lord Extra Limited

Myddleton Investment Company Limited

Nicovations Limited

Nicoventures Holdings Limited

Nicoventures Retail (UK) Limited

Nicoventures Trading Limited

Powhattan Limited

Precis (2396) Limited

Ridirectors Limited

Rothmans Exports Limited

Rothmans International Limited

Rothmans International Tobacco (UK) Limited

Rothmans International Services Limited

Rothmans of Pall Mall (Overseas) Limited

Rothmans Trading Limited

Ryservs (1995) Limited

Ryservs (No.3) Limited

Tobacco Exporters International Limited

Tobacco Marketing Consultants Limited

Venezuela Property Company Limited

Westanley Trading & Investment Company Limited

Westminster Tobacco Company Limited

Globe House, 2 Milford Lane, London, WC2R 3LN, United Kingdom

World Investment Company Limited

Financial Statements

Group Companies and Undertakings

Continued

Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom
Amalgamated Tobacco Company Limited
American Cigarette Company (Overseas) Limited
Ardath Tobacco Company Limited
B.A.T Additional Retirement Benefit Scheme Trustee Limited
B.A.T Industries p.l.c.
B.A.T. International Finance p.l.c.*
B.A.T. Operating Finance Limited
BATLaw Limited
BATMark Limited*
Benson & Hedges (Overseas) Limited
British American Global Shared Services Limited
British American Tobacco (1998) Limited*
British American Tobacco (2009) Limited
British American Tobacco (2009 PCA) Limited
British American Tobacco (2012) Limited
British American Tobacco (Brands) Limited
British American Tobacco (Corby) Limited
British American Tobacco (NGP) Limited
British American Tobacco Healthcare Trustee Limited
British American Tobacco Taiwan Logistics Limited
British-American Tobacco (Holdings) Limited
Brown & Williamson Tobacco Corporation (Export) Limited
BTomorrow Ventures Limited
Carreras Limited
Courtleigh of London Limited
Dunhill Tobacco of London Limited
John Sinclair Limited
Louisville Securities Limited
Moorgate Tobacco Co. Limited
Peter Jackson (Overseas) Limited
Precis (1789) Limited
Precis (1814) Limited
Rothmans International Enterprises Limited
Rothmans of Pall Mall Limited
Senior Service (Overseas) Limited
South Western Nominees Limited
The London Tobacco Company Limited
Tobacco Insurance Company Limited
Weston (2009) Limited
Weston Investment Company Limited

United States
CSC-Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento CA 95833-3505, United States
Genstar Pacific Corporation
251 Little Falls Drive, Wilmington, DE 19808, United States
B.A.T Capital Corporation
BATUS Holdings Inc.
BATUS Japan, INC.
BATUS Retail Services, Inc.
British American Tobacco (Brands), Inc.
Brown & Williamson Holdings, Inc.
BTI 2014 LLC
Imasco Holdings Group, Inc.
Imasco Holdings, Inc.
ITL (USA) Limited
Louisville Corporate Services, Inc.
Nicoventures U.S. Limited
Farmers Bank Building, Suite 1402, 301 N. Market Street, Wilmington, DE 19801, United States
Reynolds Finance Company
3700 Airpark Drive, Owensboro, KY 42301, United States
Kentucky BioProcessing, Inc.
401 N. Main Street, Winston-Salem, NC 27101, United States
Conwood Holdings, Inc.
EXP Homes, LLC
Lorillard Licensing Company LLC
Lorillard, LLC
Modoral Brands Inc.
Northern Brands International, Inc.
R.J. Reynolds Global Products, Inc.
R.J. Reynolds Tobacco Company
R.J. Reynolds Tobacco International, Inc
R.J. Reynolds Vapor Company
R.J. Reynolds Tobacco Co.
R.J. Reynolds Tobacco Holdings, Inc.
RAI Innovations Company
RAI International, Inc.
RAI Services Company
RAI Strategic Holdings, Inc.
RAI Trade Marketing Services Company
Reynolds American Inc.
Reynolds Brands Inc.
Reynolds Technologies, Inc.
RJR Realty Relocation Services, Inc.
RJR Vapor Co., LLC
Rosswil LLC
S.F. Imports, Inc.
Spot You More, Inc.
Vuse Stores LLC

3220 Knotts Grove Road, Oxford, NC 27565, United States
Santa Fe Natural Tobacco Company, Inc.
5106, Tradeport Dr., Memphis, TN 38141, United States
American Snuff Company, LLC
Uruguay
Juncal 1392, Montevideo, Uruguay
Kellian S.A.
Uzbekistan
77 Minor Passage, Tashkent, 100084, Uzbekistan
JSC JV "UZBAT A.O." (97.38%)
Venezuela
Registro Mercantil Primero de la Circunscripción, Judicial des Distrito, Capital y Estado, Miranda, Venezuela
Agrega de Venezuela, Agreven, C.A. (50%)
Avenida Francisco de Miranda, Edificio Bigott, Los Ruices, Caracas – Estado Miranda, 1010, Venezuela
Agrobigott, C.A.
Compania Anonima Cigarrera Bigott Sucesores
Distribuidora Bigott, C.A.
Avenida Francisco de Miranda, Torre Regelfall, Municipio Chacao, Estado, Miranda, Caracas, Venezuela
Proyectos de Inversion BAT 1902 C.A.
Vietnam
19/F Mplaza Saigon, 39 Le Duan Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam
East Asia Area Services Company Limited
Area 8, Long Binh Ward, Bien Hoa City, Dong Nai Province, Vietnam
British American Tobacco – Vinataba (JV) (70%)
Lot 45C/I, Road #7, Vinh Loc Industrial Park, Binh Chanh District, Ho Chi Minh City, Vietnam
VINA-BAT Joint Venture Company Limited (49%)
Zambia
Plot No. PH1 IND & 53 & 54, LS-MFEZ, Chifwema Road, Lusaka, Zambia
British American Tobacco (Zambia) plc (78.08%)
Zimbabwe
Manchester Road 1, Southerton, Harare, Zimbabwe
American-Cigarette Company (Overseas) (Private) Ltd
British American Tobacco Zimbabwe (Holdings) Limited (63.74%)
Rothmans Limited

Associated Undertakings and Joint Ventures

Croatia

Slavonska avenija 11a, 10000 Zagreb, Croatia

Tisak d.d. (41.86%)

France

88 Avenue des Ternes, 75017, Paris, France

Alcome SAS (24%)

Hungary

H-6800 Hódmezővásárhely, Erzsébeti út 5/b, Hungary

Országos Dohányboltellátó Korlátolt Felelősségű Társaság (49%)

India

Virginia House, 37, J.L. Nehru Road, Kolkata, 700071, India

ITC Limited (29.42%)

Azamabad, Andhra Pradesh, Hyderabad, 500 020, India

VST Industries Limited (32.16%)⁸

United Kingdom

65a Hopton Street, London, SE1 9LR, United Kingdom

AYR LTD (13.14%)⁹

Uzbekistan

Gulobod Village, Samarkand Region, 140100, Uzbekistan

FE "Samfruit" JSC (38.63%)

Yemen

P.O. Box 14, Sanna, Yemen

Kamaram Industry and Investment Company (31%)

P.O. Box 5302, Hoban, Taiz, Yemen

United Industries Company Limited (32%)

Joint Operations

Hong Kong

29/F, Oxford House, 979 King's Road, Taikoo Place, Quarry Bay, Hong Kong

CTBAT International Co. Limited (50%)

Notes:

1. Ownership held in the class of US Dollar 100 (100%) (76.30%)* and US Dollar 49,900 (100%).
2. Ownership held in the class of Series F and 2nd Preferred shares.
3. Ownership held in the class of A shares (50%) and class of B shares (100%).
4. Ownership held in class of A shares and B shares.
5. Ownership held solely in class of preference shares.
6. Ownership held in class of Investment stock (98.98%) and Ordinary shares (98.35%).
7. Company limited by guarantee.
8. 31 March year-end.
9. 31 May year-end.
10. 30 June year-end.
11. 30 November year-end.

Financial Statements

Balance Sheet@

British American Tobacco p.l.c. – at 31 December

	Note	2020 £m	2019 £m
Assets			
Fixed assets			
Investments in Group undertakings	2	27,995	27,908
Current assets			
Debtors	3	8,373	7,644
Cash at bank and in hand		5	5
Derivative financial instruments		-	8
Total current assets		8,378	7,657
Total assets		36,373	35,565
Equity			
Capital and reserves			
Called up share capital		614	614
Share premium account		104	95
Capital redemption reserve		101	101
Merger reserves		23,116	23,116
Other reserves		90	90
Profit and loss account		9,263	8,529
Total shareholders' funds	4	33,288	32,545
Liabilities			
Creditors	5	3,085	3,020
Derivative financial instruments		-	-
Total liabilities		3,085	3,020
Total Equity and liabilities		36,373	35,565

The accompanying Notes on the Accounts are an integral part of the Parent Company financial statements.

On behalf of the Board

Richard Burrows

Chairman

16 February 2021

Statement of Changes in Equity[@]

British American Tobacco p.l.c. – for the year ended 31 December

	Called up share capital £m	Share premium account £m	Merger Reserve £m	Capital redemption reserves £m	Other Reserves £m	Profit and loss account £m	Total Equity £m
1 January 2020	614	95	23,116	101	90	8,529	32,545
Increase in share capital	–	9	–	–	–	–	9
Profit for the financial year	–	–	–	–	–	5,304	5,304
Dividends – on equity shares	–	–	–	–	–	(4,747)	(4,747)
Consideration paid for purchase of own shares held in Employee Share Ownership Trusts	–	–	–	–	–	(14)	(14)
Other movements*	–	–	–	–	–	191	191
31 December 2020	614	104	23,116	101	90	9,263	33,288

	Called up share capital £m	Share premium account £m	Merger Reserve £m	Capital redemption reserves £m	Other Reserves £m	Profit and loss account £m	Total Equity £m
1 January 2019	614	92	23,116	101	90	5,919	29,932
Increase in share capital	–	3	–	–	–	–	3
Profit for the financial year	–	–	–	–	–	6,106	6,106
Dividends – on equity shares	–	–	–	–	–	(3,476)	(3,476)
Consideration paid for purchase of own shares held in Employee Share Ownership Trusts	–	–	–	–	–	(115)	(115)
Other movements*	–	–	–	–	–	95	95
31 December 2019	614	95	23,116	101	90	8,529	32,545

* Other movements includes share-based payments.

There was no difference between profit and loss for the period and total comprehensive income for the period.

The profit and loss account is stated after deducting the cost of treasury shares which was £5,138 million at 31 December 2020 (31 December 2019: £5,247 million).

Financial Statements

Notes to the Accounts[@]

1 Accounting Policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 ('the Act') and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

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

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

As the consolidated financial statements of the Group include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of disclosures under IFRS 2 related to group settled share-based payments.

The preparation of the financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related Notes on the Accounts.

The critical accounting judgements include the determination as to whether to recognise provisions and the exposures to contingent liabilities (see note 7). Judgement is necessary to assess the likelihood that a pending claim is probable (more likely than not to succeed), possible or remote. The critical accounting estimates include the review of the carrying values of investments in Group companies (note 2).

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

The Company is a public limited company which is listed on the London Stock Exchange and the Johannesburg Stock Exchange and is incorporated and domiciled in the UK. In addition, the Company's shares are traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs).

Foreign currencies

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction.

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

Income

Income consists of dividend income from Group undertakings, fee income from financial guarantees and interest income. These are included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

Taxation

Taxation is that chargeable on the profits for the period, together with deferred taxation. Income tax charges, where applicable, are calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. 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.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

Investments in Group companies

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

Dividends

With effect from 1 January 2018, the Company moved to quarterly payments of interim dividends. The Company recognises the interim dividend as an appropriation of reserves in the period in which it is paid.

Repurchase of share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

Related parties

The Company has taken advantage of the exemption under FRS 101 from disclosing transactions with related parties that are wholly-owned subsidiaries of British American Tobacco p.l.c. Group.

Financial instruments

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

Financial instruments are initially recognised at fair value.

The Company's non-derivative financial assets, including debtors, are held in order to collect contractual cash flows and are subsequently carried at amortised cost. Non-derivative financial liabilities, including creditors, are subsequently carried at amortised cost using the effective interest method. Financial guarantees are initially recorded at fair value, and subsequently carried at this fair value less accumulated amortisation within other creditors. Fees receivable in respect of these guarantees are carried at discounted present value.

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 in profit and loss.

Where interest bearing receivables and payables have their floating rates based on benchmark rates, such as LIBOR, the Company will account for the application of replacement benchmark rates in accordance with the Amendments to IFRS 9 Financial Instruments published in 2019 (phase 1) and 2020 (phase 2) when applicable.

[@] Denotes section, including accompanying text and tables, that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

1 Accounting Policies Continued

Impairment of financial assets held at amortised cost

Loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on the initial recognition of the underlying asset. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12 month expected credit losses. Where the credit risk on the receivables has increased significantly since initial recognition, allowances are measured at an amount equal to the lifetime expected credit loss.

Share-based payments

The Company has equity-settled share-based compensation plans in respect of Group employees.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period.

2 Investments in Group Companies

The Company's directly-owned subsidiaries are British American Tobacco (1998) Limited, B.A.T. International Finance p.l.c. and BATMark Limited. A full list of indirect subsidiaries and other undertakings as required by Section 409 of the Companies Act 2006 is shown on pages 254 to 263 of the Group's financial statements.

Other movements in investments (additions) are related to share-scheme costs net of recharges as well as the cost of certain parental guarantees issued by the Company.

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

Shareholdings at cost less provisions and other fixed asset investments

	2020 £m	2019 £m
1 January	27,908	27,901
Additions	87	7
31 December	27,995	27,908

Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of these awards, less any direct recharges made to Group companies, are recognised as capital contributions to investments in subsidiaries.

Historically, the Company has used the British American Tobacco Group Employee Trust (BATGET), which operates as an extension of the Company, as the vehicle to obtain shares on market and hold them in trust to satisfy outstanding awards. In addition, from March 2020 the Company has utilised treasury shares acquired in the share buy-back programme to satisfy share-based payment awards made to certain employees.

Financial Statements

Notes to the Accounts[®]
Continued

3 Debtors

	2020 £m	2019 £m
Amounts due from Group undertakings	8,373	7,644
Current	7,214	6,826
Non-current	1,204	853
Allowance account	(45)	(35)
31 December	8,373	7,644

	2020 £m	2019 £m
Allowance account		
1 January	35	37
Provided in year	11	–
Released during the year	–	(2)
Foreign exchange	(1)	–
31 December	45	35

	2020 £m	2019 £m
Current	8	8
Non-current	37	27
31 December	45	35

Included within amounts due from Group undertakings is an amount of £7,024 million (2019: £6,681 million) which is unsecured, interest-bearing and repayable on demand. The interest rate is based on LIBOR, which is unlikely to be offered after the end of 2021. The receivable falls under standard lending agreements within the Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The interest rate to be applied in future will be in accordance with the changes to the Group's intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 *Financial Instruments* at that time. The Company does not believe that it would be materially adversely affected by these changes.

Amounts due from Group undertakings include £1,386 million (2019: £989 million) representing the discounted value of the fees receivable from the parental guarantees issued by the Company, of which £183 million (2019: £136 million) is due within one year and £1,204 million (2019: £853 million) is due after more than one year. In addition, amounts due from Group undertakings include balances of £8 million (2019: £9 million) which are unsecured, interest free and repayable on demand.

4 Shareholders' Funds

Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the profit and loss of the Company has not been presented in these Financial Statements. The profit for the year ended 31 December 2020 was £5,304 million (2019: £6,106 million).

Dividend distributions to the Company's shareholders are recognised in the period in which these are paid. The Company makes four interim quarterly dividend payments.

Details of the Directors' remuneration, share options and retirement benefits are given in the Remuneration Report in the Group's Annual Report and Accounts. Details of key management compensation are included in note 26 of the Group financial statements. The Company had two employees at 31 December 2020 (2019: two). These two employees are Jack Bowles and Tadeu Marroco. The details of their remuneration are shown on page 125 of the Group's Annual Report and Accounts for the year ended 31 December 2020. The costs of these employees are borne by another Group company.

Shareholders' funds are stated after deducting the cost of treasury shares which include £4,836 million (2019: £4,845 million) for shares repurchased and not cancelled and £302 million (2019: £402 million) in respect of the cost of own shares held in Employee Share Ownership Trusts. In 2020, the value of shares repurchased and not cancelled has decreased by £9 million as compared to previous year, representing the value of shares that have been transferred from the Company to other Group undertakings to be granted to employees on vesting of awards.

As at 31 December 2020, treasury shares include 5,787,154 (2019: 8,049,187) of shares held in trust and 162,347,246 (2019: 162,645,590) of shares repurchased and not cancelled as part of the Company's share buy-back programme (which was suspended in 2014). From March 2020, the Company has utilised shares acquired in the share buy-back programme to satisfy share-based payment awards made to certain employees.

Other movements in shareholders' funds principally relate to the recognition of share-based payments and the release of treasury shares as a result of the exercise of share options.

4 Shareholders' Funds Continued

Called up Share Capital

Called up Share Capital	Ordinary Shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2020	2,456,520,738	614.12
Changes during the year		
– share option schemes	70,859	0.02
31 December 2020	2,456,591,597	614.14

Called up Share Capital	Ordinary Shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2019	2,456,415,884	614.09
Changes during the year		
– share option schemes	104,854	0.03
31 December 2019	2,456,520,738	614.12

Merger reserve

In 2017, the Company announced the completion of the acquisition of the remaining 57.8% of Reynolds American Inc. it did not already own. Pursuant to the Merger Agreement, the Company, on behalf of its indirect subsidiary BATUS Holdings Inc ('BATUS'), agreed to issue new shares, represented by American Depositary Shares, for the benefit of Reynolds American Inc. shareholders. In consideration for the Company issuing new shares, BATUS agreed to issue to the Company an assignable obligation owed by BATUS to issue shares to the holder of that obligation. As a consequence, the Company issued 429,045,762 new shares with a nominal value of £107,261,441.

In accordance with Section 612 of the Companies Act 2006, the excess of the fair value of the shares issued over the nominal value of the shares has been treated as a merger reserve.

Capital redemption reserve

On the purchase of own shares, as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of the shares purchased. The Company suspended its share buy-back programme from 30 July 2014.

Other reserves

As part consideration for the acquisition of Rothmans International BV in 1999, convertible redeemable preference shares were issued by the Company. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The balance of £90 million in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

Share premium

The share premium increase includes £2 million (2019: £3 million) in respect of ordinary shares issued under the Company's share option schemes. These schemes are described in the Remuneration Report. A further £7 million (2019: £nil) increase in share premium is related to shares repurchased and not cancelled that have been transferred from the Company to other Group undertakings, to be granted to employees on vesting of awards, and represents the excess of transfer price of the shares over the original weighted average cost of shares.

Financial Statements

Notes to the Accounts[®]

Continued

5 Creditors

	2020 £m	2019 £m
Amounts due to Group undertakings	11	114
Loans due to Group undertakings	1,571	1,571
Other creditors	1,495	1,327
Deferred income	8	8
	3,085	3,020
Current	202	282
Non-current	2,883	2,738
	3,085	3,020

Amounts due to Group undertaking of £11 million (2019: £114 million) are unsecured, interest free and repayable on demand.

Loans due to Group undertakings of £1,571 million (2019: £1,571 million) are unsecured, bear interest at rates between 1.51% and 2.19% (2019: 1.51% and 2.38%), and are repayable in 2022.

Included in other creditors is a provision of £1,453 million (2019: £1,301 million) in respect of subsidiary undertaking borrowings guaranteed by the Company. Out of this amount, a total of £150 million (2019: £144 million) represents amounts to be settled within one year.

6 Audit Fees

	2020	2019
Fees payable to KPMG		
– Audit fees	£30,000	£30,000
– Fees paid for other services	£nil	£nil

The audit fees are borne by another Group Company.

7 Contingent Liabilities

British American Tobacco p.l.c. has guaranteed borrowings by subsidiary undertakings of £43.1 billion (2019: £43.0 billion) and total borrowing facilities of £58.4 billion (2019: £48.7 billion).

The Company has cross-guaranteed the liabilities of the British American Tobacco UK Pension Fund (“Fund”) which had a surplus according to the last formal triennial valuation in March 2020 of £139 million on a Technical Provisions basis, in accordance with the statutory funding objective. The Trustee of the Fund also has a Long-Term Funding Target to be fully funded on a Solvency Liabilities basis by 2026, and on this basis the Fund had a surplus of £7 million at the valuation date. On an IAS 19 basis, the Fund had a surplus at 31 December 2020 of £389 million (2019: £326 million).

In addition, there are contingent liabilities in respect of litigation in various countries (note 27 to the Group financial statements).

8 Post Balance Sheet Events

On 3 February 2021, the fourth quarterly interim dividend of 52.6p (£1,203 million) declared by the Directors in February 2020, and reconfirmed to the market prior to 31 December 2020, was paid to shareholders. The impact of this on the Company was to reduce the level of profit and loss reserve from £9,263 million to £8,060 million.

In addition, on 16 February 2021, the Board declared an interim dividend of 215.6p per ordinary share of 25p for the year ended 31 December 2020, payable in four equal quarterly instalments of 53.9p per ordinary share in May 2021, August 2021, November 2021 and February 2022. These payments will be recognised as appropriations from reserves in 2021 and 2022. The total amount payable is estimated to be £4,946 million based on the number of shares outstanding at the date of these accounts.