

Financial Statements

Independent Auditor's Report®

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

1 Our Opinion is Unmodified

In our opinion:

- the financial statements of British American Tobacco p.l.c. give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023, and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 UK-adopted international accounting standards, 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.

What our opinion covers

We have audited the Group and Parent Company financial statements of British American Tobacco p.l.c. ("the Company") for the year ended 31 December 2023 ("2023") included in the Annual Report, which comprise:

Group	Parent Company (British American Tobacco p.l.c.)
Group Income Statement	Balance Sheet
Group Statement of Comprehensive Income	Statement of Changes in Equity
Group Statement of Changes in Equity	Notes to the Parent Company financial statements,
Group Balance Sheet	including the accounting policies in note 1.
Group Cash Flow Statement	
Notes to the Group financial statements,	
including the accounting policies in note 1.	

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 and matters included in this report are consistent with those discussed and included in our reporting to the Audit Committee.

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.

2 Overview of Our Audit

Factors driving our view of risks

As a result of the 2017 acquisition of Reynolds American Inc. ("Reynolds American"), the Group has goodwill, trademarks and similar intangibles with indefinite lives where a high degree of estimation uncertainty exists with regards to assumptions and estimates used in the Group's analysis of recoverable amount, which include projected net revenue, long-term growth rates including the assumption related to the estimated life for certain currently classified indefinite-lived trademarks, post-tax discount rates and the impact of the proposed menthol ban. The effect of these matters could result in a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. There is significant auditor judgement involved in evaluating these assumptions and our assessment of the risk associated with this Key Audit Matter has remained the same in the current year.

The Group is also 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 2023 audit, in our judgement, the most significant risk and area of uncertainty continues to relate to ongoing litigation in Canada. 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 and significant judgement was involved in auditing this determination. Our assessment of the risk associated with this Key Audit Matter remained the same in the current year.

Due to the materiality of investments in subsidiaries in the context of the Parent Company financial statements, investments in subsidiaries is considered to be an area that had the greatest effect on our overall Parent Company audit and our assessment of this Key Audit Matter has remained the same in the current year.

Key Audit Matters	Vs 2022	Item
Goodwill, trademarks, and similar intangibles with indefinite lives impairment analysis – arising from the Reynolds American Inc. acquisition in 2017	↔	4.1
Contingent liabilities arising from litigation in Canada	↔	4.2
Recoverability of Parent Company's investment in subsidiaries	↔	4.3

Audit Committee interaction

During the year, the Audit Committee met six times. KPMG were invited to attend all Audit Committee meetings and also used the opportunity provided at each meeting to meet with the Audit Committee in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the Audit Committee in section 4, including matters that required particular judgement for each.

The matters included in the Audit Committee report on page 161 are materially consistent with our observations of those meetings.

Our independence

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.

We have not performed any non-audit services during the financial year ended 31 December 2023 or subsequently which are prohibited by the FRC Ethical Standard.

We have identified that certain KPMG member firms had provided preparation of local financial statement services and, in some cases, foreign language translation services over the period 2015 to 2022 to Group entities, some of which are, and have been, in scope for the group audit. The services were administrative in nature and did not involve any management decision-making or bookkeeping. The work had no direct or indirect effect on British American Tobacco p.l.c.'s consolidated financial statements.

In our professional judgement, we confirm that based on our assessment of the breach, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of these services would not impair our integrity or objectivity for any of the impacted financial years. The Audit Committee concurred with this view.

We were first appointed as auditor by the Directors for the year ended 31 December 2015. The period of total uninterrupted engagement is for the 9 financial years ended 31 December 2023.

The Group engagement partner is required to rotate every 5 years. Philip Smart became the group engagement partner for the 2021 audit and will be required to rotate off the engagement following the 2025 audit.

The average tenure of partners responsible for component audits as set out in section 7 below is 3 years, with the shortest being 1 and the longest being 7.

Total audit fee	£20.8 m
Audit related fees (including interim review)	£7.1 m
Other services	£0.9 m
Non-audit fee as a % of total audit and audit related fee %	3.2%
Date first appointed	23 March 2015
Uninterrupted audit tenure	9 years
Next financial period which requires a tender	2035
Tenure of Group engagement partner	3 years
Average tenure of component signing partners	3 years

Materiality (item 6 below)

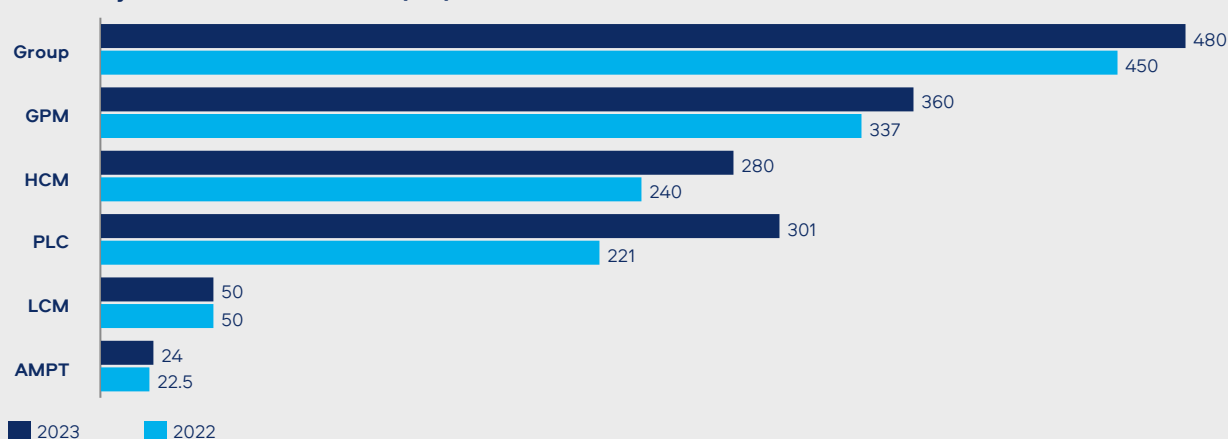
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

We have determined overall materiality for the Group financial statements as a whole at £480 million (2022: £450 million) and for the Parent Company financial statements as a whole at £301 million (2022: £221 million).

Consistent with 2022, materiality for the Group financial statements was determined with reference to a benchmark of Group profit before taxation, normalised to exclude costs that do not represent the normal, continuing operations of the Group. As such, our Group materiality represents 4.4% (2022: 4.8%) of Group profit before taxation.

Materiality for the Parent Company financial statements was determined with reference to a benchmark of Parent Company total assets of which it represents 0.76% (2022: 0.55%).

Materiality levels used in our audit (£m)



Group Group Materiality
GPM Group Performance Materiality
HCM Highest Component Materiality

PLC Parent Company Materiality
LCM Lowest Component Materiality
AMPT Audit Misstatement Posting Threshold

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Group scope (item 7 below)

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors around the world.

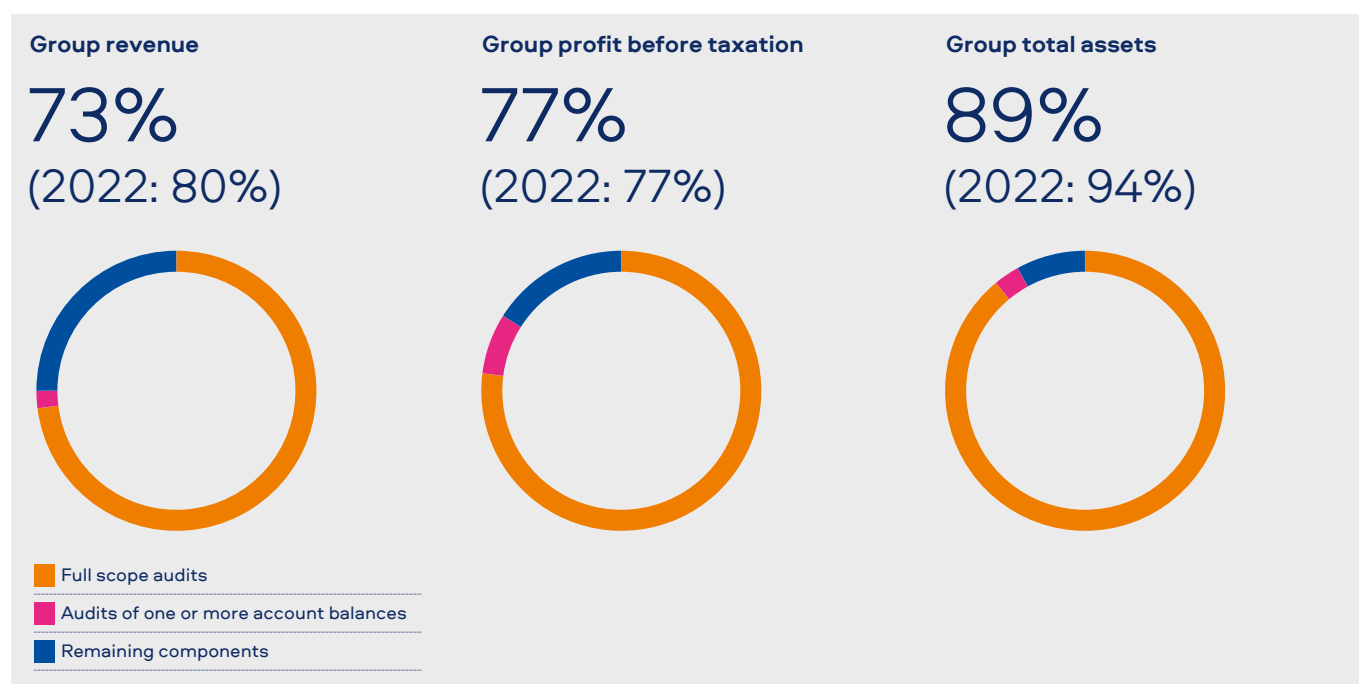
The Group has 23 (2022: 32) in-scope reporting components which we required procedures to be performed to provide us with the evidence we required in order to conclude on the Group financial statements as a whole. We performed full scope audits at 16 components (2022: 20), audits of one or more account balances at 5 components (2022: 10) and performed specified audit procedures at 2 components (2022: 2). The change in scoping compared to prior year is due to our refinement of risk assessment, incorporating our knowledge of the business as well as leveraging the results of our data analytics capabilities.

The components within the scope of our work accounted for the percentages illustrated on the right.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

The Group operates 3 finance shared service centres (2022: 3) in Romania, Malaysia and Costa Rica, and each of the shared service centres is subject to specified risk-focused testing of transaction processing and review controls.

The Group audit team has also performed testing of centrally managed controls (manual and automated) on behalf of the components. We consider the scope of our audit, as communicated to the Audit Committee, to be an appropriate basis for our audit opinion.



The impact of climate change on our audit

In planning our audit, we considered the impacts of climate change on the Group's business and its financial statements.

The Group has set its targets under the Paris Agreement in relation to 50% reduction in their scope 1 and 2 emissions and 50% reduction in scope 3 emissions by 2030, and to reach net zero emissions by 2050. Further information has been provided in the Group's Strategic Report on page 108. The Group continues to align its climate-related disclosures with the recommendations of the Task Force on Climate Related Financial Disclosure ("TCFD"). These disclosures are included on pages 102 to 116 of the Annual Report.

Climate change risk, emerging climate regulations and the Group's own decarbonisation strategy could have a significant impact on the Group's business and operations. There is a possibility that climate change risks, particularly emerging carbon and product regulations, as well as chronic and acute weather, could affect financial statement balances. This impact is expected to be most prevalent in accounting estimates such as forecast cashflows used in the impairment assessment of intangible assets.

As part of our audit we performed a risk assessment of the impact of climate change risk and the commitments made by the Group in respect of climate change on the financial statements and our audit approach. In preparing this assessment, we held discussions with our own climate change professionals to challenge our risk assessment. The focus of our risk assessment was the following:

- **Understanding the Group's processes:** we made enquiries to understand the Group's assessment of the potential impact of climate change risk on the Group's financial statements and the Group's preparedness for this. As a part of this we made enquiries to understand the Group's risk assessment process as it relates to possible effects of climate change on the Annual Report and Accounts, including how the Group identifies and complies with emerging climate regulations, such as the Extended Producer Responsibility product regulation in Europe.
- **Impairment assessment of intangible assets:** we assessed how the Group considers the impact of climate change risk when valuing intangible assets. The focus of our procedures was assessing the extent to which decarbonisation costs, such as investments in energy efficiency and renewable energy generation, are included in forecast cashflows underpinning the Reynolds American's trademarks and goodwill. We further sensitised the Group's value-in-use models for physical and transitional climate risks.
- **Annual report narrative:** We read the climate-related information in the front half of the Annual Report and Accounts and considered consistency with the financial statements and our audit knowledge.

On the basis of our risk assessment, we determined that while climate change poses a risk to the determination of future cash flows, the risk to this year's financial statements from climate change alone is not significant taking into account the magnitude of the financial impact of identified climate risks alone on the impairment assessment of Reynolds American's cash-generating unit and trademarks, relative to the materiality of the financial statements. The impact to non-US cash-generating units is also not considered significant taking into account the extent of headroom available on these assets. As such, there was no impact on our Key Audit Matter.

3 Going Concern, Viability and Principal Risks and Uncertainties

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent 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 twelve months from the date of approval of the financial statements ("the going concern period").

Going concern

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; and
- Product liability, regulatory or other significant cases (including investigations) may be lost or settled resulting in a material loss or other consequence.

We also considered less predictable but realistic second order impacts, such as 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.

Accordingly, based on those procedures, we found the Directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

Our conclusions

- 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 Parent 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 Parent 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 59 is materially consistent with the financial statements and our audit knowledge.

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

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 129 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 129 under the Listing Rules.

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 Parent Company's longer-term viability.

Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

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4 Key Audit Matters

What we mean

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 include below the Key Audit Matters in decreasing order of audit significance together with our key audit procedures to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 Goodwill, trademarks and similar intangibles with indefinite lives impairment analysis – arising from the Reynolds American Inc. acquisition in 2017 (Group)

Financial Statement Elements	Our assessment of risk vs 2022		Our results
	2023	2022	
Goodwill – arising from the Reynolds American Inc. acquisition	£30,938m	£37,181m	← → Our assessment is that the risk is similar to 2022. 2023: Acceptable 2022: Acceptable
Impairment charge – Goodwill	£4,299m	nil	
Trademarks and similar intangibles with indefinite lives – arising from the Reynolds American Inc. acquisition	£51,930m	£78,228m	
Impairment charge – trademarks and similar intangibles with indefinite lives	£22,992m	nil	

Description of the Key Audit Matter

Forecast-based assessment: As a result of the 2017 acquisition of Reynolds American Inc. ("Reynolds American"), the Group, as at 31 December 2023 has goodwill, trademarks and similar intangibles with indefinite lives of £30,938 million and £51,930 million respectively (2022: goodwill of £37,181 million and trademarks and similar intangibles with indefinite lives of £78,228 million). There is inherent uncertainty with regard to assumptions and estimates involved in the Group's forecast-based assessment of the recoverable amount of the trademarks and similar intangibles with indefinite lives and goodwill.

There is significant auditor judgement involved in evaluating the below assumptions:

- the projected net revenue, long-term growth rates including the assumptions related to the estimated life for certain currently classified indefinite-lived trademarks and post-tax discount rates used in the analysis of the recoverable amount of trademarks and similar intangibles and goodwill allocated to the Reynolds American cash-generating unit; and
- the impact of the proposed menthol ban on the assumptions listed above for the Newport and Camel currently classified indefinite-lived trademarks and similar intangibles and goodwill allocated to the Reynolds American cash-generating unit.

We also considered the risk of fraud in relation to the potential for management bias in the estimation of the recoverable amount of Reynolds American goodwill, trademarks and similar intangibles with indefinite lives. The risk of bias related to previous market communications as to the extent of and rationale for the impairment charge.

The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value-in-use calculations of both trademarks and similar intangibles with indefinite lives and goodwill had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

The financial statements (note 12) disclose the sensitivity of the recoverable amount of relevant trademarks and similar intangibles with indefinite lives and goodwill estimated by the Group.

Our response to the risk

Control design and operation: Evaluating the design and testing the operating effectiveness of certain internal controls within the goodwill, trademarks and similar intangibles with indefinite lives impairment testing process, including controls related to the development of the projected net revenue, and the Group's determination of the applicable long-term growth rates and post-tax discount rates;

Benchmarking and assessing assumptions: Assessing and challenging Reynolds American's projected net revenue and long-term growth rates including the assumptions related to the estimated life for certain currently classified indefinite-lived trademarks against externally derived publicly available data including broker and analyst reports, industry reports, media reports, macro-economic assumptions, academic and scientific studies, and regulatory changes;

Evaluating the competence and independence of a market research specialist engaged by the Group to develop the assumptions related to the estimated life for certain currently classified indefinite-lived trademarks by inspecting the engagement letter and correspondence between the Group and the specialist, assessing the assumptions and methods used by the specialist and evaluating the relevance and reasonableness of the specialist's findings against independent data sources;

Critically evaluating the Group's assessment of the potential impact of the proposed menthol ban by evaluating the updates to the FDA rulemaking process and recent litigations. In addition, assessing and challenging the impact of the proposed menthol ban on the projected net revenue, long-term growth rates and post-tax discount rates used in the value-in-use based assessment of the recoverable amount of the goodwill allocated to the Reynolds American cash-generating unit and the Newport and Camel currently classified indefinite-lived brands by comparing the Group's projected brand retention rates against actual brand retention rates in other countries and domestic regions where a menthol ban has been implemented;

Historical comparisons: Challenging the projected net revenue and long-term growth rates by comparing the historical projections to actual results to assess the Group's ability to accurately forecast;

Sensitivity analysis: Performing sensitivity analysis on the projected net revenue, long-term growth rates and post-tax discount rates to assess the impact of changes in these assumptions on the amount of impairment recorded for the Reynolds American goodwill, trademarks and similar intangibles with indefinite lives;

Our valuation expertise: Involving a valuation professional with specialised skills and knowledge, who assisted in independently developing a range of post-tax discount rates using publicly available market data for comparable companies and comparing these rates to those utilised by Reynolds American; and

Assessing transparency: Assessing whether the Group's disclosures detail the key estimates and sensitivities including any impact of changes to key assumptions used in the impairment testing of trademarks and similar intangibles with indefinite lives and the goodwill arising from the Reynolds American acquisition.

Communications with the British American Tobacco p.l.c.'s Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of trademarks and similar intangibles with indefinite lives and goodwill arising from the Reynolds American acquisition, including details of our planned substantive procedures and the extent of our control reliance;
- Our conclusions on the appropriateness of the Group's impairment assessment, including assumptions used by the Group in their value-in-use based assessment to calculate the recoverable amount of trademarks and similar intangibles with indefinite lives and goodwill and whether the projected net revenue, long-term growth rates and post-tax discount rates, the impact of the proposed menthol ban taken into account, by the Group were reasonable;
- The amount of impairment recognised for trademarks and similar intangibles with indefinite lives and goodwill based on the recoverable amount determined as part of the impairment assessment; and
- The adequacy of disclosures, particularly as it relates to the key estimates and sensitivities with regard to the impairment testing.

Areas of particular auditor judgement

The evaluation of the assumptions used by the Group in the analysis of the recoverable amount of trademarks and similar intangibles with indefinite lives and goodwill allocated to the Reynolds American cash-generating unit is an area requiring particular auditor judgement. These assumptions are the projected net revenue, long-term growth rates including the assumptions related to the estimated life for certain currently classified indefinite-lived trademarks, post-tax discount rates, and the impact of the proposed menthol ban for the Newport and Camel currently classified indefinite-lived trademarks.

Our results

We found the balances and the related impairment charge of trademarks and similar intangibles with indefinite lives and goodwill arising from the Reynolds American acquisition to be acceptable (2022: we found the conclusion that there was no impairment of trademarks and similar intangibles with indefinite lives and goodwill arising from the Reynolds American acquisition to be acceptable).

Further information in the Annual Report: See the Audit Committee Report on page 161 for details on how the Audit Committee considered goodwill, trademarks and similar intangibles with indefinite lives impairment analysis arising from the Reynolds American Inc. acquisition in 2017 as an area of significant attention, page 217 for the accounting policy on goodwill, and intangible assets other than goodwill, and pages 238 to 244 for the financial disclosures.

4.2 Contingent Liabilities arising from Litigation in Canada (Group)

Financial Statement Elements	Our assessment of risk vs 2022	Our results
Contingent liabilities disclosures	← → Our assessment is that the risk is similar to 2022.	2023: Acceptable 2022: Acceptable

Description of the Key Audit Matter

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 2023 audit, in our judgement, the most significant risk and area of uncertainty, continues to relate 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 response to the risk

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, including challenging that it is not possible to reliably estimate any potential liability based on the current status of the proceedings;

Assessing local legal precedents: 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; and

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Assessing transparency: Assessing whether the Group's disclosures in relation to the Canadian litigation adequately disclose the potential liabilities.

Communications with the British American Tobacco p.l.c.'s Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of contingent liabilities arising from ongoing litigation in Canada, including details of our planned substantive procedures and the extent of our control reliance;
- Our conclusion on the appropriateness of the Group's assessment to either disclose a contingent liability or to recognise a provision based on the latest developments associated with the litigation and whether it is in conformity with relevant accounting standards; and
- The adequacy of disclosures in the Contingent Liability Statement in relation to the Canadian litigation within the Annual Report.

Areas of particular auditor judgement

Our evaluation of 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, as well as 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 an area requiring particular auditor judgement.

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 (2022: acceptable).

Further information in the Annual Report: See the Audit Committee Report on page 161 for details on how the Audit Committee considered contingent liabilities arising from litigation in Canada as an area of significant attention, page 216 for the accounting policy on contingent liabilities and contingent assets, and pages 286 to 289 for the financial disclosures.

4.3 Recoverability of the Company's investment in subsidiaries (Parent Company)

Financial Statement Elements	Our assessment of risk vs 2022		Our results
	2023	2022	
Investment in subsidiaries	£27,747m	£27,798m	← → Our assessment is that the risk is similar to 2022. 2023: Acceptable 2022: Acceptable

Description of the Key Audit Matter

Low risk, high value: The carrying amount of the Parent Company's investments in subsidiaries is £27,747 million (2022: £27,798 million) which represents 70% (2022: 70%) 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 the area that had the greatest effect on our overall parent Company audit.

Our response to the risk

Tests of detail: Comparing the carrying amount of the parent Company's direct investments, representing 100% (2022: 100%) of the total investment balance with the relevant subsidiary's draft balance sheet to identify whether their net assets, approximating their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

We performed the tests above rather than seeking to rely on any of the Parent Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Communications with the British American Tobacco p.l.c.'s Audit Committee

Our discussions with and reporting to the Audit Committee included:

- Our approach to the audit of the Parent Company's investment in subsidiaries including details of our planned substantive procedures; and
- Our conclusion whether the carrying amount of the Parent Company's investment in subsidiaries remains recoverable based on our audit procedures.

Our results

We found the conclusion that there is no impairment of the investment in subsidiaries to be acceptable (2022: acceptable).

Further information in the Annual Report: See page 325 for the accounting policy on investments in Group companies, and page 326 for the financial disclosures.

5 Our Ability to Detect Irregularities, and our Response

Fraud - Identifying and responding to risks of material misstatement due to fraud

Fraud risk assessment

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 minutes of the Board of Directors, Audit Committee, Remuneration Committee, Nominations Committee, Transactions Committee and Corporate Committee.
- Considering the International Executive Incentive Scheme and performance targets for senior management.
- Using analytical procedures to identify any unusual or unexpected relationships.

Our forensic specialists assisted us in identifying key fraud risk factors. This included attending the Risk Assessment and Planning Discussion and participating in meetings with management, to discuss matters relating to ongoing investigations. With regards to

anti-bribery and corruption, they assisted us in developing our audit approach to address fraud risk factors and inspected reporting deliverables submitted by component audit teams that were scoped in for additional anti-bribery and corruption audit procedures.

Risk communications

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 requests to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

Fraud risks

As required by auditing standards, and taking into account possible pressures to meet profit targets, we performed 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 also considered the risk of fraud in relation to the potential for management bias in the estimation of the recoverable amount of Reynolds American goodwill, trademarks and similar intangibles with indefinite lives. The risk of bias related to previous market communications as to the extent of and rationale for the impairment charge. The risk relates to the particularly judgemental assumptions of discount rates, long-term growth rates, budgeted net revenue and menthol retention rates.

Link to KAM's

Further details in respect of impairment analysis of goodwill, trademarks and similar intangibles with indefinite lives is set out in the key audit matter disclosures in section 4.1 of this report.

Procedures to address 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 unexpected adjustments posted to revenue accounts, those posted to accounts that contain significant estimates, those posted or approved by an individual not authorised to post or approve and those posted to accounts which could drive certain key metrics such as the bonus calculation.
- Identifying journal entries to test for all components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management or Directors, those posted to an account that had one entry during the last two months of the year and those posted with an unusual account combination.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Laws and regulations - identifying and responding to risks of material misstatement relating to compliance with laws and regulations

Laws and regulations risk assessment

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.

Risk communications

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 the Group level.

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

Direct laws context and link to audit

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.

Most significant indirect law/ regulation areas

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.

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Known actual or suspected matters

In relation to the investigations into allegations of misconduct by the governmental authorities discussed in note 31, we, with the involvement of forensic specialists, performed inquiries, obtained legal confirmations, and assessed disclosures against our understanding from legal correspondence.

Context

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.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud 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 Our Determination of Materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

Materiality for the Group financial statements as a whole £480m (2022: £450m)

What we mean

A quantitative reference for the purpose of planning and performing our audit.

Basis for determining materiality and judgements applied

Materiality for the Group financial statements as a whole was set at £480 million (2022: £450 million). Consistent with 2022, the Group materiality was determined with reference to a benchmark of Group profit before taxation, normalised to exclude restructuring cost of the Group, charges in respect of the sale of the Group's operations in Russia and Belarus, impairment charges and other one-off litigation expenses (2022: restructuring cost of the Group, charges in respect of proposed sale of the Group's operations in Russia and Belarus, and other one-off litigation expenses), of £10,921 million (2022: £10,546 million). We adjusted for these items because they do not represent the normal, continuing operations of the Group.

Our Group materiality of £480 million was determined by applying a percentage to the Group profit before taxation, normalised to exclude items described above. KPMG's approach to determining materiality for listed or public interest entities considers a guideline range 3% to 5% of the benchmark. Our Group materiality represents 4.4% (2022: 4.8%) of the Group profit before taxation.

Materiality for the Parent Company financial statements as a whole was set at £301 million (2022: £221 million), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.76% (2022: 0.55%).

Performance materiality £360m (2022: £337m)

What we mean

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.

Basis for determining performance materiality and judgements applied

We have considered performance materiality at a level of 75% (2022: 75%) of materiality for British American Tobacco p.l.c. Group financial statements as a whole to be appropriate.

The Parent Company performance materiality was set at £225 million (2022: £165 million), which equates to 75% (2022: 75%) of materiality for the Parent Company financial statements as a whole.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

Audit misstatement posting threshold £24m (2022: £22.5m)

What we mean

This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud.

This is also the amount above which all misstatements identified are communicated to British American Tobacco p.l.c.'s Audit Committee.

Basis for determining the audit misstatement posting threshold and judgements applied

We set our audit misstatement posting threshold at 5% (2022: 5%) of our materiality for the Group financial statements. We also report to the Audit Committee any other identified misstatements that warrant reporting on qualitative grounds.

The overall materiality for the Group financial statements of £480 million (2022: £450 million) compares as follows to the main financial statement caption amounts:

	Total Group revenue		Group (loss)/profit before tax		Total Group Assets	
	2023	2022	2023	2022	2023	2022
Financial statement Caption	£27,283m	£27,655m	£(17,061)m	£9,324m	£118,716m	£153,546m
Group Materiality as % of caption	1.75%	1.63%	2.81%	4.83%	0.40%	0.29%

7 The Scope of our Audit

What we mean

How the Group audit team determined the procedures to be performed across the Group.

Group scope

The Group has 23 (2022: 32) in-scope reporting components. In order to determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance, those which were significant due to risk and those remaining components on which we required procedures to be performed to provide us with the evidence required in order to conclude on the Group financial statements as a whole.

We determined individually financially significant components as those contributing at least 3.5% (2022: 3% and 5%) of net revenue and profit before taxation, respectively. We selected net revenue and profit before taxation as these are the most representative of the relative size of the components.

We performed full scope audits for Group reporting purposes of 16 components (2022: 20). 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 £75 million to £280 million (2022: £65 million to £240 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 5 components (2022: 10), using a materiality ranging from £60 million to £120 million (2022: £50 million to £100 million) assigned by the Group audit team. Specified audit procedures have been performed at 2 components (2022: 2) using a materiality of £50 million (2022: £50 million). These 7 (2022: 12) 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 Group reporting work in order to provide further coverage over the Group's results. This is consistent with the approach that was adopted in 2022.

The work on 19 of the 23 components (2022: 28 of the 32 components) was performed by component auditors and the work on the remaining components as well as on the Parent Company, was performed by the Group team. For those items excluded to normalise Group profit before taxation, the component teams performed procedures on items relating to their components. The Group team performed procedures on the remaining excluded items.

The components within the scope of our work accounted for the following percentages of the Group's results, with the prior year comparatives indicated in brackets:

Component type	Work performed	Number of components	Percentage of Group:		
			Revenue	Profit before taxation	Total assets
Individually financially significant	Audit	2 (2022: 5)	47% (2022: 60%)	5% (2022: 41%)	32% (2022: 32%)
Other components on which work was performed	Audit	14 (2022: 15)	26% (2022: 15%)	72% (2022: 24%)	57% (2022: 60%)
	Audits of one or more account balances	5 (2022: 10)	2% (2022: 5%)	7% (2022: 12%)	3% (2022: 2%)
	Specific risk-focused audit procedures	2 (2022: 2)	0% (2022: 0%)	0% (2022: 0%)	0% (2022: 0%)
		23 (2022: 32)	75% (2022: 80%)	84% (2022: 77%)	92% (2022: 94%)
Total					

The remaining 25% (2022: 20%) of Group revenue, 16% (2022: 23%) of Group profit before taxation, and 8% (2022: 6%) of total Group assets is represented by 301 (2022: 348) reporting components, none of which individually represented more than 3% (2022: 4%) of any of total Group revenue, Group profit before taxation or total Group assets. For these 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 as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

We were able to rely upon the Group's internal control over financial reporting in all areas of our audit, and where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work.

The Group operates 3 finance shared service centres (2022: 3) 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. The Group team instructed auditors of the shared service centres to perform specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls, and the information to be reported back. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centres.

The Group audit team has also performed audit procedures on the following areas of behalf of the components:

- Testing of manual controls operated from the Group's shared service centres;
- Testing of automated controls and system generated information within centrally managed IT systems; and
- Testing of general IT controls over centrally managed IT systems.

These items were audited by the Group team because the processes and controls were operated and managed centrally at the Group level. The Group team communicated the results of these procedures to the component teams.

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Group audit team oversight

What we mean

The extent of the Group audit team's involvement in component audits.

The Group audit team visited in-person, 4 (2022: 4) components, 2 (2022: 2) finance shared service centres and 2 (2022: nil) out of scope end-markets for the purpose of business understanding, risk assessment and challenging the audit approach.

The Group audit team also held an audit risk planning and strategy global conference which in-scope component auditors attended. Online and/or telephone planning meetings were held with in-scope component audit teams to explain our audit instructions and to discuss the significant areas of the audit relevant to the components.

Further to these visits and conference, the Group team also performed detailed remote file reviews upon the completion of the component auditors' engagements. The findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

8 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.

All other information

Our responsibility

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.

Our reporting

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

Strategic report and Directors' report

Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

- 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

Our responsibility

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Our reporting

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

Corporate governance disclosures

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:

- 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.

Our reporting

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

We are also required to review the part of the 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 this respect.

Other matters on which we are required to report by exception

Our responsibility

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.

Our reporting

We have nothing to report in these respects.

9 Respective Responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 193, 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.

The Company is required to include these financial statements in an annual financial report prepared under Disclosure Guidance and Transparency Rule ("DTR") 4.1.17R and 4.1.18R. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

10 The Purpose of our Audit Work and to Whom We Owe our Responsibilities

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

Philip Smart (Senior Statutory Auditor)

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

15 Canada Square
London
E14 5GL

07 February 2024

Financial Statements

Report of Independent Registered Public Accounting Firm

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Group Income Statement

	Notes	For the years ended 31 December		
		2023 £m	2022 £m	2021 £m
Revenue¹	2	27,283	27,655	25,684
Raw materials and consumables used		(4,545)	(4,781)	(4,542)
Changes in inventories of finished goods and work in progress		(96)	227	160
Employee benefit costs	3	(2,664)	(2,972)	(2,717)
Depreciation, amortisation and impairment costs	4	(28,614)	(1,305)	(1,076)
Other operating income	5	432	722	196
Loss on reclassification from amortised cost to fair value		(9)	(5)	(3)
Other operating expenses	6	(7,538)	(9,018)	(7,468)
(Loss)/profit from operations	2	(15,751)	10,523	10,234
Net finance costs	8	(1,895)	(1,641)	(1,486)
Share of post-tax results of associates and joint ventures	2,9	585	442	415
(Loss)/profit before taxation		(17,061)	9,324	9,163
Taxation on ordinary activities	10	2,872	(2,478)	(2,189)
(Loss)/profit for the year		(14,189)	6,846	6,974
Attributable to:				
Owners of the parent		(14,367)	6,666	6,801
Non-controlling interests		178	180	173
		(14,189)	6,846	6,974
(Loss)/earnings per share				
Basic	11	(646.6)	293.3	296.9
Diluted	11	(646.6)	291.9	295.6

Note:

1. Revenue is net of duty, excise and other taxes of £36,917 million, £38,527 million and £38,595 million for the years ended 31 December 2023, 2022 and 2021, 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		
		2023 £m	2022 £m	2021 £m
(Loss)/profit for the year		(14,189)	6,846	6,974
Other comprehensive (expense)/income				
Items that may be reclassified subsequently to profit or loss:		(3,317)	8,506	509
Foreign currency translation and hedges of net investments in foreign operations				
– differences on exchange from translation of foreign operations		(4,049)	8,923	32
– reclassified and reported in profit for the year	22(c)	552	5	291
– net investment hedges - net fair value gains/(losses) on derivatives		236	(578)	75
– net investment hedges - differences on exchange on borrowings		9	(21)	24
Cash flow hedges				
– net fair value gains		59	81	95
– reclassified and reported in profit for the year		12	101	32
– tax on net fair value gains in respect of cash flow hedges	10(f)	(23)	(17)	(32)
Investments held at fair value				
– net fair value (losses)/gains	18	(6)	6	9
Associates – share of OCI, net of tax	9	(107)	6	(17)
Items that will not be reclassified subsequently to profit or loss:		(57)	201	313
Retirement benefit schemes				
– net actuarial (losses)/gains	15	(106)	316	382
– surplus recognition	15	24	(39)	(1)
– tax on actuarial losses/(gains) in respect of subsidiaries	10(f)	30	(95)	(82)
Associates – share of OCI, net of tax	9	(5)	19	14
Total other comprehensive (expense)/income for the year, net of tax		(3,374)	8,707	822
Total comprehensive (expense)/income for the year, net of tax		(17,563)	15,553	7,796
Attributable to:				
Owners of the parent		(17,699)	15,370	7,622
Non-controlling interests		136	183	174
		(17,563)	15,553	7,796

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

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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	In respect of assets held-for-sale £m	Total attributable to owners of parent £m	Perpetual hybrid bonds £m	Non-controlling interests £m	
Balance at 1 January 2023		614	26,628	2,655	44,081	(295)	73,683	1,685	342	75,710
Total comprehensive (expense)/income for the year comprising:		—	—	(3,281)	(14,418)	—	(17,699)	—	136	(17,563)
(Loss)/profit for the year		—	—	—	(14,367)	—	(14,367)	—	178	(14,189)
Other comprehensive expense for the year		—	—	(3,281)	(51)	—	(3,332)	—	(42)	(3,374)
Other changes in equity										
Cash flow hedges reclassified and reported in total assets		—	—	27	—	—	27	—	—	27
Employee share options										
– value of employee services	28	—	—	—	71	—	71	—	—	71
– proceeds from new shares issued		—	2	—	—	—	2	—	—	2
Dividends and other appropriations										
– ordinary shares	22(c),(f)	—	—	—	(5,071)	—	(5,071)	—	—	(5,071)
– to non-controlling interests		—	—	—	—	—	—	—	(110)	(110)
Purchase of own shares										
– held in employee share ownership trusts		—	—	—	(110)	—	(110)	—	—	(110)
Perpetual hybrid bonds										
– coupons paid		—	—	—	(58)	—	(58)	—	—	(58)
– tax on coupons paid		—	—	—	14	—	14	—	—	14
Reclassification of equity in respect of assets classified as held-for-sale	27(d)	—	—	(295)	—	295	—	—	—	—
Other movements		—	—	—	22	—	22	—	—	22
Balance at 31 December 2023		614	26,630	(894)	24,531	—	50,881	1,685	368	52,934

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

	Notes	Attributable to owners of the parent								
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	In respect of assets held-for- sale £m	Total attributable to owners of parent £m	Perpetual hybrid bonds £m	Non- controlling interests £m	Total equity £m
Balance at 1 January 2022		614	26,622	(6,032)	44,212	—	65,416	1,685	300	67,401
Total comprehensive income for the year comprising:		—	—	8,521	6,849	—	15,370	—	183	15,553
Profit for the year		—	—	—	6,666	—	6,666	—	180	6,846
Other comprehensive income for the year		—	—	8,521	183	—	8,704	—	3	8,707
Other changes in equity										
Cash flow hedges reclassified and reported in total assets		—	—	(129)	—	—	(129)	—	—	(129)
Employee share options										
– value of employee services	28	—	—	—	81	—	81	—	—	81
– proceeds from new shares issued		—	5	—	—	—	5	—	—	5
– treasury shares used for share option schemes		—	1	—	(1)	—	—	—	—	—
Dividends and other appropriations						—				
– ordinary shares	22(c),(f)	—	—	—	(4,915)	—	(4,915)	—	—	(4,915)
– to non-controlling interests		—	—	—	—	—	—	—	(141)	(141)
Purchase of own shares										
– held in employee share ownership trusts		—	—	—	(80)	—	(80)	—	—	(80)
– share buy-back programme	22(c)(vi)	—	—	—	(2,012)	—	(2,012)	—	—	(2,012)
Perpetual hybrid bonds										
– coupons paid		—	—	—	(59)	—	(59)	—	—	(59)
– tax on coupons paid		—	—	—	11	—	11	—	—	11
Non-controlling interests – acquisitions	27(b)	—	—	—	(1)	—	(1)	—	—	(1)
Reclassification of equity in respect of assets classified as held-for-sale	27(d)	—	—	295	—	(295)	—	—	—	—
Other movements		—	—	—	(4)	—	(4)	—	—	(4)
Balance at 31 December 2022		614	26,628	2,655	44,081	(295)	73,683	1,685	342	75,710

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

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Group Statement of Changes in Equity

Continued

	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	Perpetual hybrid bonds £m	Non-controlling interests £m	
Balance at 1 January 2021		614	26,618	(6,600)	42,041	62,673	—	282	62,955
Total comprehensive (expense)/income for the year comprising:		—	—	523	7,099	7,622	—	174	7,796
Profit for the year		—	—	—	6,801	6,801	—	173	6,974
Other comprehensive (expense)/income for the year		—	—	523	298	821	—	1	822
Other changes in equity									
Cash flow hedges reclassified and reported in total assets		—	—	45	—	45	—	—	45
Employee share options									
– value of employee services	28	—	—	—	76	76	—	—	76
– treasury shares used for share option schemes		—	4	—	(4)	—	—	—	—
Dividends and other appropriations									
– ordinary shares	22(c),(f)	—	—	—	(4,904)	(4,904)	—	—	(4,904)
– to non-controlling interests		—	—	—	—	—	—	(162)	(162)
Purchase of own shares									
– held in employee share ownership trusts		—	—	—	(82)	(82)	—	—	(82)
Perpetual hybrid bonds									
– proceeds, net of issuance fees		—	—	—	—	—	1,681	—	1,681
– tax on issuance fees		—	—	—	—	—	4	—	4
– coupons paid		—	—	—	(6)	(6)	—	—	(6)
– tax on coupons paid		—	—	—	1	1	—	—	1
Non-controlling interests - acquisitions		—	—	—	(5)	(5)	—	—	(5)
Other movements non-controlling interests	27(b)	—	—	—	—	—	—	6	6
Other movements		—	—	—	(4)	(4)	—	—	(4)
Balance at 31 December 2021		614	26,622	(6,032)	44,212	65,416	1,685	300	67,401

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

Group Balance Sheet

	Notes	31 December	
		2023 £m	2022 £m
Assets			
Intangible assets	12	95,562	129,075
Property, plant and equipment	13	4,583	4,867
Investments in associates and joint ventures	14	1,970	2,020
Retirement benefit assets	15	956	1,000
Deferred tax assets	16	911	682
Trade and other receivables	17	321	241
Investments held at fair value	18	118	121
Derivative financial instruments	19	109	131
Total non-current assets		104,530	138,137
Inventories	20	4,938	5,671
Income tax receivable		172	149
Trade and other receivables	17	3,621	4,367
Investments held at fair value	18	601	579
Derivative financial instruments	19	181	430
Cash and cash equivalents	21	4,659	3,446
		14,172	14,642
Assets classified as held-for-sale		14	767
Total current assets		14,186	15,409
Total assets		118,716	153,546
Equity – capital and reserves			
Share capital	22(a)	614	614
Share premium, capital redemption and merger reserves	22(b)	26,630	26,628
Other reserves	22(c)	(894)	2,655
Retained earnings	22(c)	24,531	44,081
In respect of assets held-for-sale	22(c)	—	(295)
Owners of the parent		50,881	73,683
Perpetual hybrid bonds	22(d)	1,685	1,685
Non-controlling interests	22(e)	368	342
Total equity		52,934	75,710
Liabilities			
Borrowings	23	35,406	38,726
Retirement benefit liabilities	15	881	949
Deferred tax liabilities	16	12,192	18,428
Other provisions for liabilities	24	531	434
Trade and other payables	25	893	944
Derivative financial instruments	19	206	502
Total non-current liabilities		50,109	59,983
Borrowings	23	4,324	4,413
Income tax payable		992	1,049
Other provisions for liabilities	24	468	1,087
Trade and other payables	25	9,700	10,449
Derivative financial instruments	19	189	427
		15,673	17,425
Liabilities associated with assets classified as held-for-sale		—	428
Total current liabilities		15,673	17,853
Total equity and liabilities		118,716	153,546

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

On behalf of the Board

Luc Jobin

Chair

07 February 2024

Financial Statements

Group Cash Flow Statement

	Notes	For the years ended 31 December		
		2023 £m	2022 £m	2021 £m
(Loss)/profit for the year		(14,189)	6,846	6,974
Taxation on ordinary activities		(2,872)	2,478	2,189
Share of post-tax results of associates and joint ventures		(585)	(442)	(415)
Net finance costs		1,895	1,641	1,486
(Loss)/profit from operations		(15,751)	10,523	10,234
Adjustments for				
– depreciation, amortisation and impairment costs	4	28,614	1,305	1,076
– decrease/(increase) in inventories		265	(246)	433
– increase in trade and other receivables		(487)	(42)	(393)
– decrease in Master Settlement Agreement payable	6	(287)	(145)	(36)
– increase in trade and other payables		640	3	183
– decrease in net retirement benefit liabilities		(111)	(110)	(104)
– (decrease)/increase in other provisions for liabilities		(489)	643	(145)
– other non-cash items	27(d)	436	606	430
Cash generated from operating activities		12,830	12,537	11,678
Dividends received from associates		506	394	353
Tax paid		(2,622)	(2,537)	(2,314)
Net cash generated from operating activities		10,714	10,394	9,717
Cash flows from investing activities				
Interest received		145	85	33
Purchases of property, plant and equipment		(460)	(523)	(527)
Proceeds on disposal of property, plant and equipment		54	31	31
Purchases of intangibles		(141)	(133)	(218)
Proceeds on disposals of intangibles		27	3	—
Purchases of investments	18	(448)	(257)	(369)
Proceeds on disposals of investments	18	405	128	141
Investment in associates and acquisitions of other subsidiaries net of cash acquired		(37)	(39)	(133)
Disposal of subsidiary, net of cash disposed of	27(d)	159	—	(98)
Net cash used in investing activities		(296)	(705)	(1,140)
Cash flows from financing activities				
Interest paid on borrowings and financing related activities		(1,682)	(1,578)	(1,479)
Interest element of lease liabilities		(30)	(25)	(23)
Capital element of lease liabilities		(162)	(161)	(154)
Proceeds from increases in and new borrowings		5,134	3,267	978
Reductions in and repayments of borrowings		(6,769)	(3,044)	(4,843)
(Outflows)/inflows relating to derivative financial instruments		(480)	(117)	229
Purchases of own shares - share buy-back programme	22(c)	—	(2,012)	—
Purchases of own shares held in employee share ownership trusts	22(c)	(110)	(80)	(82)
Proceeds from the issue of perpetual hybrid bonds, net of issuance costs	22(d)	—	—	1,681
Coupon paid on perpetual hybrid bonds		(59)	(60)	(6)
Dividends paid to owners of the parent		(5,055)	(4,915)	(4,904)
Capital injection from and purchases of non-controlling interests	30	—	(1)	1
Dividends paid to non-controlling interests		(105)	(158)	(150)
Other		4	6	3
Net cash used in financing activities		(9,314)	(8,878)	(8,749)
Net cash flows generated from/(used in) operating, investing and financing activities		1,104	811	(172)
Transferred from/(to) held-for-sale*		368	(368)	—
Differences on exchange		(292)	431	(253)
Increase/(decrease) in net cash and cash equivalents in the year		1,180	874	(425)
Net cash and cash equivalents at 1 January		3,337	2,463	2,888
Net cash and cash equivalents at 31 December	21	4,517	3,337	2,463

Note:

* Included in the transferred from held-for-sale in 2023 is £102 million of foreign exchange loss due to the devaluation of the Russian ruble, as explained in note 27(d)(i).

The accompanying notes are an integral part of these consolidated 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 UK-adopted international accounting standards[@], and in accordance with the provisions of the UK Companies Act 2006[@]. UK-adopted international accounting standards 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 covering a period of at least twelve months from the date of approval of the financial statements and including the Group's ability to fund its operations and generate cash to pay for debt as it falls due and takes into account the payments arising from the Master Settlement Agreement due in the U.S. in 2024 and other known liabilities or future payments (including interim dividends), as they fall due. This assessment includes consideration of geopolitical events in Europe and the general outlook in the global economy, as well as plausible downside scenarios after taking into account the Group's Principal Risks and how they could impact the Group's operations. Any mitigating actions, should they be required, are all within management's control and could include reductions in discretionary spending such as acquisitions and capital expenditure, or drawdowns on committed facilities. After reviewing the Group's annual budget, plans and financing arrangements, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing the Annual Report and Form 20-F.

In preparing the financial statements, Management has considered the impact of climate change[@], particularly in the context of the risks identified in the TCFD disclosure[@] and determined that the impact is not expected to be material:

- On the going concern [@]and viability[@] of the Group, [@]over the next three years[@];
- On the Group's assessment of future cash flows (including as related to the capital expenditure plans as related to the Group's Scope 1 and 2 GHG emission reduction commitments) as used in impairment assessments for the value in use of non-current assets including goodwill (note 12(b)); and
- In respect of factors including useful lives and residual values that determine the carrying value of non-financial current assets.

There has been no material impact identified on the financial reporting judgements and estimates. Management is aware that the risks related to climate change are developing and ever changing. Accordingly, these judgements and estimates will be kept under review as the future impacts of climate change on the Group's financial statements depend on environmental, regulatory and other factors outside of the Group's control which are not all currently known.

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 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, is explained in note 32;
- the determination as to whether the disposal of a business or businesses is significant enough to require disclosure in current and prior years as a discontinued operation;
- the review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on free access to foreign currency, or multiple exchange rates;
- 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 31. 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 perpetual hybrid bonds should be classified as equity instead of borrowings (note 22(d)); and
- the identification and quantification of adjusting items. These are separately disclosed as memorandum information as explained below, and the impact of these on the calculation of adjusted earnings per share is described in note 11.

The critical accounting estimates include:

- the review of asset values, including 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 12;
- 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 16, and a contingent tax asset is explained in note 10(b). Other provisions for liabilities and charges are as set out in note 24. Litigation related deposits are shown in note 17. 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 6(b); and
- 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 on a country-by-country basis, 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 analyses are described in note 15.

Financial Statements

Notes on Accounts Continued

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 7 February 2024.

With effect from 1 January 2023, the Group has adopted two Amendments to IAS 12 *Income Taxes*: in respect of deferred tax in relation to assets and liabilities arising from a single transaction; and in respect of exceptions from the recognition and disclosure of deferred tax related to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. The impact of applying these amendments was not material. In addition, an Amendment to IAS 1 *Presentation of Financial Statements* requires the disclosure of material accounting policy information as part of the Notes to the Accounts and these are set out below. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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. Non-controlling interests represent the share of earnings or equity in subsidiaries that is not attributable, directly or indirectly, to shareholders of the Group.

Identifiable assets and liabilities acquired in a business combination are measured at fair value at the date of acquiring control. Disposals of subsidiaries and businesses due to sale or market withdrawal are accounted for as disposals from the date of losing control and may be classified as held-for-sale disposal groups at the balance sheet date if specific tests under IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations* are met. Discontinued operations, where applicable, comprise material disposal groups representing a significant geographical area of operations or business activities.

Associates comprise investments in undertakings, which are not subsidiary undertakings or joint arrangements, where the Group exercises 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 ventures are accounted for using the equity method. The Group accounts for its share of the assets, liabilities, income and expenses of joint operations.

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 free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed.

The differences arising on the retranslation to sterling of Group undertakings with functional currencies other than sterling are presented as a separate component of equity in the Translation reserve within Other reserves, as shown in note 22. They are recognised in the income statement when the gain or loss on disposal of a Group undertaking is recognised.

Transactional foreign exchange gains and losses on the revaluation or settlement of receivables and payables are recognised in the income statement, except when deferred in equity on intercompany net investment loans, on qualifying net investment hedges, or as qualifying cash flow 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. The results and balance sheets of operations in hyperinflationary territories are translated at the period end rate.

Provisions, contingent liabilities and contingent assets

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.

Subsidiaries and associate companies are defendants in tobacco-related and other litigation. These exposures are regularly reviewed on an on-going basis and 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 17, 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.

Taxation

Tax is chargeable on the profits for the period, together with deferred tax. 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 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. 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.

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.

The Group has exposures in respect of the payment or recovery of taxes and the financial statements reflect the probable outcome with estimated amounts determined based on the most likely amount or the expected value, depending on which method is expected to better predict the resolution of the uncertainty.

Equity instruments

Instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements. Instruments that cannot be settled in the Group's own equity instruments and that include no contractual obligation to deliver cash or another financial asset are classified as equity. Equity instruments issued by the Group are recognised at the proceeds received, net of issuance costs.

Goodwill

Goodwill in respect of the acquisition of subsidiaries is included in intangible assets, net of impairment, where applicable. In respect of associates and joint ventures, goodwill is included in the carrying value of the investment in the associated company or joint venture.

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. With effect from 1 January 2024, the Group's indefinite-lived combustible trademarks and similar assets will be amortised on a straight-lined basis over periods not exceeding 30 years. The revision in useful economic life reflects the ongoing challenging macro-economic conditions and revised forecast in the U.S., with an expected increase in amortisation expense of £1.4 billion per annum. The Group's non-combustible trademarks will remain as indefinite-lived assets.

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. Historically, these assets were amortised on a straight-line basis over periods not exceeding 13 years. With effect from 1 January 2023, global software solutions are amortised on a straight-line basis over periods not exceeding 15 years. The revision in useful life is a result of ongoing use of Global software solutions due to the extension of third-party supplier support. The estimated impact of this change in accounting estimate is a reduction in annual amortisation expense of £16 million in 2023, with similar reductions expected in 2024 and 2025.

Property, plant and equipment

Purchased 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. Purchased 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.

No depreciation is provided on freehold land or assets classified as held-for-sale. Non-current assets are classified as held-for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use and if all of the conditions of IFRS 5 are met.

Leased assets and lease liabilities

The Group applies IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets. Right-of-use assets are included as part of property, plant and equipment in note 13, with the lease liabilities included as part of borrowings in note 23. 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. Lease liabilities are initially recognised at an amount equal to the present value of estimated contractual lease payments at the inception of the lease, discounted using the interest rate implicit in the lease if this can be readily determined, or the applicable incremental rate of borrowing, as appropriate.

The Group has adopted several practical expedients available under the Standard including not applying the requirements of IFRS 16 to leases of intangible assets, and not applying the recognition and measurement requirements of IFRS 16 to leases of less than 12 months maximum duration or to leases of low-value assets. Except for property-related leases, non-lease components have not been separated from lease components.

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.

Retirement benefit schemes

The Group's subsidiary undertakings operate various funded and unfunded defined benefit schemes, including pension and post-retirement healthcare schemes, as well as defined contribution schemes in various jurisdictions.

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. The net deficit or surplus for each defined benefit pension scheme is calculated 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.

Benefits provided through defined contribution schemes are charged as an expense as payments fall due.

Financial instruments

The Group's business model for managing financial assets aims: to protect against the loss of principal, 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 match the interest rate profile of external investments to that of debt maturities or fixings wherever practicable, 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.

Financial Statements

Notes on Accounts 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 are measured at amortised cost, using the effective interest rate method, and stated net of allowances for credit losses, and include trade and other receivables, and deposits with banks and other financial institutions which cannot be classified as cash and cash equivalents. In addition, as explained in note 17, 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.

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. Drawdowns and repayments of short-term borrowings which have a maturity period of three months or less are stated net in the cash flow statement; drawdowns and repayments on all other borrowings are stated gross in the cash flow statement. Current liabilities include amounts where the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. As shown in note 23, 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. Accumulated gains and losses are reclassified to the income statement in the same periods as the hedged item, unless the hedged item results in a non-financial asset where the accumulated gains and losses are included in the initial carrying value of the asset (basis adjustment);
- 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 demonstrate an assessment of the economic relationship between the item being hedged 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.

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.

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.

For the vast majority of the Group's sales, revenue is recognised when control of the goods is transferred to a customer at a point in time; 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. For certain e-commerce subscription sales, revenue is allocated to each component of the subscription, with revenue recognised as each component is delivered to the customer. These sales are not material to the Group's results.

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.

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. 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.

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 profit from operations and 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 profit from operations and diluted earnings per share@, cash conversion ratio and net cash generated from operating activities@.

Other accounting policies:

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

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.

Biological Assets

The investments in associates and joint ventures shown in the Group balance sheet include biological assets held by Organigram Holdings Inc. In accordance with IAS 41 *Agriculture*, the Group measures biological assets at fair value less costs to sell up to the point of harvest, at which point this becomes the basis for the cost of finished goods inventories after harvest with subsequent expenditures incurred on these being capitalised, where applicable, in accordance with IAS 2 *Inventories*. Unrealised fair value gains and losses arising during the growth of biological assets are recognised immediately in the income statement.

Dividends

The Company pays interim quarterly dividends, and the Group recognises the interim dividend 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.

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.

@ Denotes a phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

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2 Segmental analyses (revised)¹

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 on a geographic region basis, including the results of New Categories (comprising Vapour products, Heated Products and Modern Oral products), which are reported to the Management Board as part of the results of each geographic region. The Management Board also reviews, at constant currencies, revenues on a geographic region basis, which are included within adjusted profit from operations.

As part of plans to reduce complexity and drive efficiency in management structures and achieve a better balance in the scale of the Group's regions, the management structure was reduced from four regions to three regions, with the new organisational structures in place beginning April 2023 as follows:

- Americas and Europe (AME), comprising largely the former Europe region with the inclusion of the markets in Latin America and Canada that were part of the former AmSSA region;
- Asia-Pacific, Middle East and Africa (APMEA) comprising the former APME region with the inclusion of the markets in Sub-Saharan Africa, Armenia, Azerbaijan, Caucasus, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan and Uzbekistan that were part of the former Europe region are now included as part of APMEA; and
- the U.S. has remained unchanged.

The three 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. Net finance costs (comprising interest income and interest expense), share of post-tax results of associates and joint ventures and taxation are centrally managed, and accordingly, such items are not presented by segment as they are excluded from the measure of segment profitability.

Regional Directors are responsible for delivering the operating and financial results of their Region inclusive of all product categories. Therefore, the results of New Categories (comprising Vapour products, Heated 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 to disaggregate revenue based on product category to enable investors to better compare the Group's business performance across periods and by reference to the Group's investment activity.

In respect of the U.S. region, all financial statements and financial information provided by or with respect to the U.S. business or Reynolds American Inc. (RAI) (and/or RAI and its subsidiaries (collectively, the 'Reynolds Group')) are prepared on the basis of U.S. GAAP and constitute the primary financial statements or financial information of the U.S. 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 U.S. business or RAI (and/or the Reynolds Group), it is provided as an explanation of the U.S. business's or RAI's (and/or the Reynolds Group's) primary U.S. GAAP based financial statements and information.

The following table shows 2023 revenue at 2023 rates of exchange, and 2023 revenue translated using 2022 rates of exchange. The 2022 figures are stated at the 2022 rates of exchange.

			2023	2022
	Revenue constant rates £m	Translation exchange £m	Revenue current rates £m	Revenue current rates £m
U.S.	12,065	(71)	11,994	12,639
AME	9,989	(198)	9,791	9,287
APMEA	6,042	(544)	5,498	5,729
Revenue	28,096	(813)	27,283	27,655

Note:

1. Effective from 2023, the Group revised its regional structure from four regions to three, with the comparator data provided on this revised basis.

The following table shows 2022 revenue at 2022 rates of exchange, and 2022 revenue translated using 2021 rates of exchange. The 2021 figures are stated at the 2021 rates of exchange.

			2022	2021
	Revenue constant rates £m	Translation exchange £m	Revenue current rates £m	Revenue current rates £m
U.S.	11,358	1,281	12,639	11,691
AME	9,119	168	9,287	8,444
APMEA	5,796	(67)	5,729	5,549
Revenue	26,273	1,382	27,655	25,684

The following table shows 2023 loss from operations and adjusted profit from operations at 2023 rates of exchange, and 2023 adjusted profit from operations using 2022 rates of exchange.

					2023
	Adjusted* segment result constant rates £m	Translation exchange £m	Adjusted* segment result current rates £m	Adjusting* items £m	Segment result current rates £m
U.S.	6,863	(42)	6,821	(27,602)	(20,781)
AME	3,547	(87)	3,460	(266)	3,194
APMEA	2,379	(195)	2,184	(348)	1,836
Profit/(loss) from operations	12,789	(324)	12,465	(28,216)	(15,751)
Net finance costs					(1,895)
Share of post-tax results of associates and joint ventures					585
Loss before taxation					(17,061)
Taxation on ordinary activities					2,872
Loss for the year					(14,189)

Note:

* The adjustments to profit from operations are explained in notes 3, 4, 5(a), 6(d), 6(f), 6(h), 6(j) and 7.

The following table shows 2022 profit from operations and adjusted profit from operations at 2022 rates of exchange, and 2022 adjusted profit from operations using 2021 rates of exchange.

					2022
	Adjusted* segment result constant rates £m	Translation exchange £m	Adjusted* segment result current rates £m	Adjusting* items £m	Segment result current rates £m
U.S.	6,095	740	6,835	(630)	6,205
AME	3,268	80	3,348	(422)	2,926
APMEA	2,263	(38)	2,225	(833)	1,392
Profit from operations	11,626	782	12,408	(1,885)	10,523
Net finance costs					(1,641)
Share of post-tax results of associates and joint ventures					442
Profit before taxation					9,324
Taxation on ordinary activities					(2,478)
Profit for the year					6,846

Note:

* The adjustments to profit from operations are explained in notes 3, 4, 5(a), 6(d), 6(f), 6(h), 6(i), 6(j), and 7.

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The following table shows 2021 profit from operations and adjusted profit from operations at the 2021 rates of exchange.

	2021		
	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
U.S.	5,887	(321)	5,566
AME	3,059	(157)	2,902
APMEA	2,204	(438)	1,766
Profit from operations	11,150	(916)	10,234
Net finance costs			(1,486)
Share of post-tax results of associates and joint ventures			415
Profit before taxation			9,163
Taxation on ordinary activities			(2,189)
Profit for the year			6,974

Note:

* The adjustments to profit from operations are explained in notes 3, 4, 6(d), 6(f), 6(g) and 7.

Depreciation, amortisation and impairment charges

Adjusted profit from operations at constant rates of exchange of £12,789 million (2022 at constant rates: £11,626 million; 2021 at current rates: £11,150 million) excludes adjusting depreciation, amortisation and impairment charges as explained in notes 4 and 7. These are excluded from segmental adjusted profit from operations as per table below. 2023 and 2022 are disclosed at constant rates of exchange and 2021 is disclosed at current rate of exchange.

	2023				
	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
U.S.	218	—	218	27,518	27,736
AME	333	3	336	44	380
APMEA	218	(13)	205	293	498
	769	(10)	759	27,855	28,614

	2022				
	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
U.S.	221	16	237	322	559
AME	363	10	373	116	489
APMEA	186	4	190	67	257
	770	30	800	505	1,305

	2021		
	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m	Depreciation, amortisation and impairment £m
U.S.	203	276	479
AME	333	56	389
APMEA	188	20	208
	724	352	1,076

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:

	2023 £m	2022 £m	2021 £m
Revenue			
New Categories	3,347	2,894	2,054
Vapour	1,812	1,436	927
HP	996	1,060	853
Modern Oral	539	398	274
Traditional Oral	1,163	1,209	1,118
Combustibles	22,108	23,030	22,029
Other	665	522	483
Revenue	27,283	27,655	25,684

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		
	2023 £m	2022 £m	2021 £m	2023 £m	2022 £m	2021 £m	2023 £m	2022 £m	2021 £m
Revenue is based on location of sale									
External revenue	255	228	209	27,028	27,427	25,475	27,283	27,655	25,684

	United Kingdom		All foreign countries		Group	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Intangible assets	447	529	95,115	128,546	95,562	129,075
Property, plant and equipment	362	215	4,221	4,652	4,583	4,867
Investments in associates and joint ventures	—	—	1,970	2,020	1,970	2,020

The consolidated results of the Reynolds Group operating in the U.S. 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 2023, 2022 and 2021 was £11,985 million, £12,635 million and £11,707 million, respectively. The majority of sales are to customers based in the U.S. Non-current assets attributable to the operations of the Reynolds Group were £86,598 million (2022: £119,707 million).

The main acquisitions comprising the goodwill balance of £41,091 million (2022: £47,956 million), included in intangible assets, are provided in note 12. Included in investments in associates and joint ventures are amounts of £1,851 million (2022: £1,865 million) attributable to the investment in ITC Ltd. Further information is provided in notes 9 and 14.

3 Employee benefit costs

	Note	2023 £m	2022 £m	2021 £m
Wages and salaries		2,263	2,553	2,315
Social security costs		219	201	185
Other pension and retirement benefit costs	15	108	133	139
Share-based payments - equity and cash-settled	28	74	85	78
		2,664	2,972	2,717

Included within employee benefits costs is a credit in relation to the Group's restructuring and integration initiatives of £26 million (2022: £315 million charge; 2021: £160 million charge), as explained in note 7.

Following a partial buy-out in 2021, in 2022, a second partial buy-out was concluded in the U.S. with approximately US\$1.6 billion (£1.3 billion) (2021: US\$1.9 billion (£1.4 billion)) of plan liabilities being removed from the balance sheet, resulting in a settlement gain of £16 million (2021: £35 million), which was reported in the income statement, and recognised as an adjusting item.

4 Depreciation, amortisation and impairment costs

	2023 £m	2022 £m	2021 £m
Intangibles – amortisation and impairment of trademarks and similar intangibles	23,232	317	333
– amortisation and impairment of computer software	125	142	129
– impairment of goodwill	4,614	—	57
Property, plant and equipment - depreciation and impairment	643	846	557
	28,614	1,305	1,076

Enumerated below are movements in costs that have impacted depreciation, amortisation and impairment in 2023, 2022 and 2021. These include changes in the Group's underlying business performance, as well as impact of adjusting items, as defined in note 1.

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Intangibles – 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. As mentioned in note 12, the amortisation and impairment of these acquired trademarks and similar intangibles are charged to the income statement of which the adjusting element is £23,202 million (2022: £288 million; 2021: £306 million). In 2022, included under amortisation and impairment of trademarks and similar intangibles is a £3 million gain (2021: £nil million) related to a trademark disposal, which has been treated as adjusting.

Impairment of goodwill

The impairment of goodwill is charged to the income statement as adjusting.

During 2023, the Group impaired £4,614 million of goodwill in the U.S., South Africa and Peru, as explained in note 12(b).

During 2022, the Group made no impairments of goodwill.

During 2021, the Group impaired £3 million of goodwill held in Myanmar as a result of the decision to cease activities in the market. The Group also recognised a goodwill impairment charge of £54 million in 2021 due to continued difficult trading conditions in Peru as a consequence of the COVID-19 pandemic.

Property, plant and equipment – depreciation and impairment

The following items are included within depreciation and impairment of property, plant and equipment:

- Restructuring and integration related depreciation and impairment costs were a net charge of £39 million (2022: £220 million net cost; 2021: £11 million net credit) comprising an impairment of £46 million for machinery in Reynolds due to the adverse impact from macro-economic headwinds and industry volume declines in the U.S., as explained in note 12(b)(iv). This was partially offset by depreciation and impairment costs and reversals resulting from obsolete machines in relation to downsizing and factory rationalisation. These were treated as adjusting, as mentioned in note 7; and
- Gains and losses recognised on disposal of property, plant and equipment.

5 Other operating income

Other operating income of £432 million (2022: £722 million; 2021: £196 million) comprises income that is associated with the Group's normal activities, but which falls outside the definition of revenue and includes gain on one-off transactions, such as capital profits arising from the disposals of fixed assets, recoveries of indirect taxation and levies paid, and transfers of trademark rights.

(a) Brazil tax matters

In 2023, in Brazil, £150 million of income has been recognised in respect of excise on social contributions, as well as £19 million (2022: £472 million) in respect of historical VAT on social contributions in Brazil. In 2023 and 2022, such recognised income has been treated as an adjusting item.

In addition, in 2022, £78 million of the contingent asset in respect of historical VAT on social contributions claims was sold to financial institutions for £38 million.

In 2021, the Group recognised £5 million in respect of a tax case in Brazil and £130 million of the unrecognised contingent asset in respect of historical VAT on social contributions claims was sold to financial institutions for £45 million.

(b) Sale and leaseback

In 2023, the Group recognised £15 million of gains arising from a sale and leaseback transaction on excess warehousing capacity in Argentina.

(c) Reynolds

In 2021, R.J. Reynolds Tobacco Company (RJRT) reached an agreement with several Master Settlement Agreement (MSA) states to waive RJRT's claims under the MSA in connection with a settlement between those MSA states and a non-participating manufacturer, S&M Brands, Inc. (S&M Brands), under which the states released certain claims against S&M Brands in exchange for receiving a portion of the funds S&M Brands had deposited into escrow accounts in those states pursuant to the states' escrow statutes. In consideration for waiving claims, RJRT, together with Santa Fe Natural Tobacco Company, received approximately £40 million from the escrow funds paid to those MSA states under their settlement with S&M Brands.

(d) Other

In 2023, £85 million (2022: £27 million; 2021: £nil million) of income has been recognised in respect of the transfer of non-strategic trademark rights, which had not previously been capitalised, to third parties.

6 Other operating expenses

(a) Items included within other operating expenses

The following items are included within other operating expenses:

	Notes	2023 £m	2022 £m	2021 £m
Other operating expenses		7,538	9,018	7,468
The following items are included within other operating expenses:				
Master Settlement Agreement and State Settlement Agreements	6(b),(d)	2,023	2,387	2,486
Marketing costs in operating expenses	6(c)	1,152	1,160	1,242
Inventory write-offs	20	250	250	215
Research and development expenses (excluding employee benefit costs and depreciation)	6(e)	181	138	141
Loss/(gain) on disposal of businesses	6(f)	546	(6)	358
Excise, VAT and penalties in respect of disputes in Türkiye and South Korea	6(g)	—	—	26
Charges in respect of DOJ and OFAC investigation	6(h)	75	450	—
(Reversals)/charges in respect of assets held-for-sale	6(j)	(195)	612	—
Charges in respect of Nigerian FCCPC case	6(i)	—	79	—
Brazil other taxes	6(k)	49	12	—
Exchange differences		17	92	19
Hedge ineffectiveness within operating profit		(12)	36	(5)
Expenses relating to short-term leases		13	11	8
Expenses relating to leases of low-value assets		1	1	1
Auditor's remuneration	6(m)	29	29	27

(b) Master Settlement Agreement and State Settlement Agreements

In 1998, the major U.S. 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 U.S. states and territories. The MSA imposes a perpetual stream of future payment obligations on the major U.S. 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). The MSA has been subject to certain adjustments since 1998, including agreements related to the Non-Participating Manufacturer (NPM) adjustment under the MSA reached with various U.S. states between 2012 and 2023.

The amounts payable by Group companies under the arrangement accrue as and when shipments of tobacco products are made.

Adjustments to amounts due in relation to past payments are typically received in the form of credits offsettable only against current or future performance obligations. Unless credits have been realised by way of cash refund or by offset against liabilities due, they are treated as contingent assets until realised. 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 charge in each reporting period and the cashflow impact in the same period are not directly related, as the MSA is generally settled once a year in April of the following year.

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 2023 amounted to US\$2,516 million (2022: US\$2,951 million; 2021: US\$3,420 million) in respect of settlement expenses and US\$2,874 million (2022: US\$3,129 million; 2021: US\$3,744 million) in respect of settlement cash payments.

	Note	US\$m	2023 £m	US\$m	2022 £m	US\$m	2021 £m
Opening MSA liability	25	2,637	2,193	2,815	2,079	3,139	2,296
Settlement expense	31	2,516	2,023	2,951	2,387	3,420	2,486
Cash paid	31	(2,874)	(2,311)	(3,129)	(2,531)	(3,744)	(2,722)
Difference on exchange		—	(117)	—	258	—	19
Closing MSA liability	25	2,279	1,788	2,637	2,193	2,815	2,079

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Non-Participating Manufacturer adjustments

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. R.J. Reynolds Tobacco Company has received US\$61 million in credits through the 2020 fiscal year. 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. R.J. Reynolds Tobacco Company has received US\$182 million in credits for settled periods through 2017. Also, in 2018, one additional state agreed to settle NPM disputes related to claims for the period 2004 to 2024, subject to certain conditions. R.J. Reynolds Tobacco Company has received US\$205 million in credits for settled periods through 2022. In the first quarter of 2020, certain conditions set forth in the 2017 and 2018 agreements were met for those 10 states. In 2022, an additional state settled NPM disputes related to claims for the period 2005 to 2028. It is estimated that R.J. Reynolds Tobacco Company will receive a credit of US\$130 million for settled periods through 2018, which will be applied over a five-year period from 2022. In 2023, an additional state settled NPM disputes related to claims for the period 2005 to 2029. It is estimated that R.J. Reynolds Tobacco Company will receive a credit of US\$29 million for settled periods through 2018, which will be applied over a five-year period from 2024.

State Settlement Agreements

In 2020, R.J. Reynolds Tobacco Company recognised additional expenses 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. During 2021, an additional US\$17 million expense was recognised in relation to the final resolution of the Texas and Minnesota claims. Additional information related to the resolution of these claims is included in notes 6(d) and 31. In 2022, R.J. Reynolds Tobacco Company recognised US\$37 million in additional expenses related to a settlement with Philip Morris USA resolving prior operating profit disputes under the MSA related to the ITG Brands, LLC acquired brands.

(c) Marketing costs recognised as operating expenses

Certain marketing activities, such as discounts or allowances provided to customers, are required to be deducted from revenue as explained in note 1. Other marketing expenses, such as point of sale and promotional materials, media advertising and sponsorship, and consumer research, are reported as operating expenses and have been shown in the table above.

(d) Litigation costs

Litigation costs included within other operating expenses, and reported as an adjusting item, were £96 million (2022: £170 million; 2021: £54 million) predominantly related to litigation costs including Engle progeny and other health-related claims. Included in 2023 is an NPM credit of £6 million recognised for the settlement with the state of Iowa.

In 2022, the Group received £26 million of NPM credits related to a favourable resolution in respect of MSA litigation in the state of Illinois.

During 2021, a £12 million expense was recognised in relation to the final resolution of the Texas and Minnesota claims, under the state settlement agreements, for payment obligations related to brands previously sold to a third party.

(e) Research and development

Total research and development costs, including employee benefit costs and depreciation, are £408 million (2022: £323 million; 2021: £304 million).

(f) Loss on disposal of businesses

On 13 September 2023, the Group disposed of its Russian and Belarusian businesses in compliance with international and local laws. The Group had two subsidiaries in Russia ("BAT Russia"), being JSC British American Tobacco-SPb and JSC 'International Tobacco Marketing Services', and one subsidiary in Belarus, International Tobacco Marketing Services BY. As explained in note 27(d)(i), net held-for-sale assets of £770 million were disposed of for proceeds of £425 million, with an impairment charge of £345 million recorded at that time.

As discussed in note 6(j), the impairment charge recognised in 2022 of £554 million (net of £14 million utilised during the year) was reversed and offset by the above mentioned £345 million recorded at the date of sale, with a net reversal of impairment recognised of £195 million.

The loss on disposal of businesses included within other operating expenses and recognised as an adjusting item in 2023 is a charge of £548 million and includes £554 million of foreign exchange reclassified from other comprehensive income (note 22(c)(ii)) and associated costs of £3 million partially offset by a realised foreign exchange gain on the proceeds received of £9 million.

The total net impact after the partial reversal and loss on disposal recognised in 2023 was therefore £353 million.

On 6 August 2021, the Group disposed of its Iranian subsidiary, B.A.T. Pars Company PJSC (BAT Pars). Included within other operating expenses, and recognised as an adjusting item in 2021, was a charge of £358 million comprising £272 million of foreign exchange reclassified from other comprehensive income (note 22(c)(ii)) and an impairment charge and associated costs of £88 million. In 2022, as a result of the unwind of discounting on the deferred proceeds and a true-up on the completion of accounts, a credit of £6 million (2021: £2 million) was recognised. In 2023, a credit of £2 million arising from the revaluation of the receivable was recognised.

(g) Tax disputes in Türkiye and South Korea

The settlement of tax disputes in Türkiye and South Korea were recognised as adjusting items.

Türkiye

British American Tobacco Tutun Mamulleri Sanayi ve Ticaret Anonim Sirketi (BAT Tutun) was subject to a series of tax audits mainly on inventory movements for the years 2015, 2016 and 2019. In August 2021, BAT Tutun applied under the relevant tax amnesty law to settle its retrospective tax assessments. Based on the settlement through the tax amnesty procedure, in 2021, BAT Tutun agreed to pay £47 million in 18 instalments from 1 November 2021 until 31 July 2024. Of the £47 million, £30 million of excise and penalties were recognised and charged to operating profit, £11 million as interest in net finance costs (note 8(b)) and £6 million in taxation.

South Korea

As explained in note 31, on 16 September 2021, Rothmans Far East B.V. Korea Branch Office received £4 million in relation to a VAT case. In line with the treatment of the associated expense incurred in 2016, the cash received was recognised as an adjusting item in 2021.

(h) Charges in respect of DOJ and OFAC investigations

From time to time, the Group investigates, and becomes aware of governmental authorities' investigations into allegations of misconduct, including alleged breaches of sanctions and allegations of corruption, against Group companies. Some of these allegations are currently being investigated. The Group cooperates with the authorities, where appropriate.

On 25 April 2023, the Group announced that it had reached an agreement with the DOJ and OFAC to resolve previously disclosed investigations into suspicions of sanctions breaches. These concerned business activities relating to the Democratic People's Republic of Korea between 2007 and 2017. The Company entered into a three-year deferred prosecution agreement (DPA) with the DOJ and a civil settlement agreement with OFAC. The DOJ's charges against the Company – one count of conspiring to commit bank fraud and one count of conspiring to violate sanctions laws – were filed and will later be dismissed if the Company abides by the terms of the DPA. In addition, a BAT subsidiary in Singapore, British-American Tobacco Marketing (Singapore) Private Limited, pleaded guilty to the same charges. The total amount payable to the U.S. authorities is US\$635 million plus interest.

Having recognised an initial provision of £450 million (US\$540 million) in 2022, the Group has recognised an additional charge of £75 million in 2023. Refer to notes 24 and 25 for further details. Both charges are included within other operating expenses and recognised as an adjusting item in 2023 and 2022.

(i) Charges in respect of Nigerian FCCPC case

In 2022, a charge of £79 million was recognised within other operating expenses, and treated as an adjusting item, relating to the conclusion of the investigation into alleged violations of the Nigerian Competition and Consumer Protection Act and National Tobacco Control Act.

(j) Reversals/charges in respect of assets held-for-sale

On 11 March 2022, the Group announced the intention to transfer its Russian business in full compliance with international and local laws. At that time, the Group had two subsidiaries in Russia (BAT Russia), being JSC British American Tobacco-SPb and JSC International Tobacco Marketing Services. In September 2023, the Group formally entered into an agreement to sell the Group's Russian and Belarusian businesses to a consortium led by then members of BAT Russia's Management team, in compliance with local and international laws. As previously announced, due to operational dependencies between BAT Russia and the Group's subsidiary in Belarus (International Tobacco Marketing Services BY) (BAT Belarus), the Belarusian business was included in the sale. The transaction was completed on 13 September 2023 and, since completion, the buyer consortium has wholly owned both businesses. These businesses are now known as the ITMS Group.

In accordance with IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*, the assets and liabilities of these subsidiaries were classified as held-for-sale at 31 December 2022 and presented as such on the balance sheet at an estimated fair value less costs to sell. An impairment charge of £554 million (and associated costs of £58 million) was recognised in other operating expenses as adjusting items in 2022. During 2023, the previously recognised impairment was reversed (net of £14 million impairment utilised), offset by the net £345 million (being the impairment arising on disposal of £770 million net assets for sales proceeds of £425 million). This resulted in a net partial reversal of £195 million. This has been treated as a non-cash adjusting item. Further information on the sale of the Russian and Belarusian businesses can be found in note 6(f) and note 27(d)(i).

(k) Brazil other taxes

Since 2017, Souza Cruz LTDA (BAT Brazil) has been involved in a legal case over whether a 10% tax imposed on a tax benefit associated with investment grants by the Rio de Janeiro State was constitutional. In October 2023, the Supreme Court concluded on the leading case's trial, recognising that the tax was constitutional. This decision has binding effects on all taxpayers. BAT Brazil's individual lawsuit has not yet concluded. However, given the decision in the leading case, in 2023, £47 million was recognised in other operating expenses, as an adjusting item, to reflect the probability of an unfavourable decision. Out of the £47 million, £40 million was reported as provisions (note 24) and £7 million was reported as trade and other payables.

In addition, a charge of £2 million has been recognised in other operating expenses, as an adjusting item, in respect of social contributions relating to the Brazil excise case, as mentioned in note 5(a). In 2022, a charge of £12 million was recognised in other operating expenses, as an adjusting item, in respect of social contributions related to the Brazil VAT case, as mentioned in note 5(a).

(l) Sustainability costs

Included in other expenses are recycling costs in relation to our Take-Back schemes and waste collection costs mandated by Extended Producer Responsibility (EPR) schemes and similar schemes. EPR schemes are where the producer's responsibility for a product is extended to the post-consumer stage of a product's life cycle. In 2023, these costs amounted to £27 million. There are no meaningful comparative costs available for prior years.

Also included in other expenses are costs of £2 million in 2023 in relation to the purchase of renewable energy attribute certificates.

In 2023, an extreme weather event caused the destruction of a stock of tobacco leaves in a warehouse. The impact of the write-off of this inventory is £9 million.

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(m) Auditor's remuneration

	2023 £m	2022 £m	2021 £m
Auditor's remuneration			
Total expense for audit services pursuant to legislation:			
– fees to KPMG LLP for Parent Company and Group audit	11.4	9.4	8.7
– fees to KPMG LLP firms and associates for local statutory and Group reporting audits	9.4	11.0	9.5
Total audit fees expense - KPMG LLP firms and associates	20.8	20.4	18.2
Audit fees expense to other firms	0.2	0.2	0.2
Total audit fees expense	21.0	20.6	18.4
Fees to KPMG LLP firms and associates for other services:			
– audit-related assurance services	6.9	7.1	8.0
– other assurance services	0.9	0.9	0.3
– tax advisory services	—	—	—
– tax compliance	—	—	—
– audit of defined benefit schemes of the Company	0.2	0.2	0.4
– other non-audit services	—	—	—
	8.0	8.2	8.7

The total auditor's remuneration to KPMG firms and associates included above are £28.8 million (2022: £28.6 million; 2021: £26.9 million).

Under SEC regulations, the remuneration to KPMG firms and associates of £28.8 million in 2023 (2022: £28.6 million; 2021: £26.9 million) is required to be presented as follows: audit fees £27.7 million (2022: £27.5 million; 2021: £26.2 million), audit-related fees £0.2 million (2022: £0.2 million; 2021: £0.4 million), tax fees £nil million (2022: £nil million; 2021: £nil million) and all other fees £0.9 million (2022: £0.9 million; 2021: £0.3 million). Audit-related fees are in respect of services provided to associated pension schemes. All other fees are in respect of other assurance services, including those provided over information derived from the financial information systems subject to audit.

7 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 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. In 2022, these also included a review of the Group's manufacturing operations. No further Quantum restructuring charges were recognised as adjusting in 2023, following the completion of the Quantum programme.

The costs of the Group's initiatives are included in profit from operations under the following headings:

	Notes	2023 £m	2022 £m	2021 £m
Employee benefit costs	3	(26)	315	160
Depreciation, amortisation and impairment costs	4	39	220	(11)
Other operating income	5	—	(1)	—
Other operating expenses		(15)	237	1
		(2)	771	150

The adjusting charge in 2022 and 2021 related to the cost of employee packages in respect of Quantum and the ongoing costs associated with initiatives to improve the effectiveness and efficiency of the Group as a globally integrated organisation. In addition, Quantum initiatives in certain countries have resulted in the move to above market business models utilising local distributors as importers. As a consequence, with the cessation of a physical presence in these markets, foreign exchange previously recognised in other comprehensive income for these countries has been reclassified to the income statement and reported within other operating expenses (note 22(c)(i)).

In 2023, following the completion of the Quantum programme, a credit of £26 million has been recognised due to the reversal of restructuring provisions recognised in respect of employee packages. In addition, a credit of £7 million was recognised in relation to impairment reversals associated with the Quantum programme. Included in this is an impairment reversal of £4 million in relation to machinery in South Africa as the asset can be used by another market in the Group.

In addition, in 2023, an adjusting impairment charge of £46 million has been recognised for machinery in Reynolds due to the adverse impact from macro-economic headwinds and industry volume decline in the U.S., as explained in note 12(b)(iv).

The reversal recognised in other expenses of £15 million includes unutilised Quantum provisions along with £3 million relating to the release of a provision originally raised in 2007 relating to site clean up costs in Canada. As no further work is required on the site the remaining provision has been reversed.

The restructuring costs in 2022 include costs related to factory closures or rationalisation in APMEA, AME and the U.S. and costs recognised as part of the Group's announced exit from Egypt.

In 2021, included under the Quantum initiatives above is a charge of £27 million, including £4 million for foreign exchange reclassified from equity (note 22(c)(i)), related to the Group's withdrawal from Myanmar. In addition, as set out in note 4, goodwill in relation to Myanmar was impaired and charged to the income statement.

The depreciation, amortisation and impairment costs in 2021 included a credit of £25 million due to a partial reversal of previously estimated impairment following the revision of factory rationalisation initiatives.

Also, in 2021, included within other operating expenses is a credit of £59 million representing the release of an accrual on the successful conclusion of the dispute with former shareholders of Reynolds American, as explained in note 31.

8 Net finance costs

(a) Net finance costs/(income)

	2023 £m	2022 £m	2021 £m
Interest expense	1,786	1,602	1,436
Interest expense on lease liabilities	30	25	24
Facility fees	19	21	33
Impact of the early repurchase of bonds (note 8(b))	29	—	—
Interest related to adjusting tax payables (note 8(b))	71	36	31
Fair value changes on derivative financial instruments, hedged items and investments	599	(473)	252
Fair value change on other financial items (note 8(b))	(4)	(2)	24
Exchange differences	(449)	524	(279)
Finance costs	2,081	1,733	1,521
Interest income under the effective interest method	(186)	(92)	(35)
Finance income	(186)	(92)	(35)
Net finance costs	1,895	1,641	1,486

The Group manages foreign exchange gains and losses and fair value changes on a net basis excluding adjusting items, which are explained in note 8(b). The derivatives that generate the fair value changes are explained in note 19.

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

In August 2023, the Group completed a tender offer to repurchase sterling-equivalent £3,133 million of bonds, including £43 million of accrued interest. Further details on the tender offer are provided in note 26. Other net costs directly associated with the early repurchase of bonds were treated as adjusting items as detailed in note 8(b).

Finance income includes income on cash and cash equivalents of which £97 million (2022: £42 million) relates to restricted cash balances (see note 21).

(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 2023, in relation to the early repurchase of bonds, the Group incurred a fair value loss of £151 million on debt-related derivatives, realised a net gain of £129 million arising on the difference between the redemption value and the amortised cost of the bonds, and incurred other transaction costs of £7 million.

The Group recognised interest on adjusting tax payables of £71 million (2022: £36 million; 2021: £31 million), which included interest of £60 million (2022: £33 million; 2021: £20 million) in relation to the Franked Investment Income Group Litigation Order (FII GLO) (note 10(b)), interest of £16 million in relation to a tax provision in the Netherlands, a £3 million credit from the reversal of interest on a tax provision in relation to the factory closure in Switzerland and a £2 million credit from the reversal of interest on tax provisions related to Russia. In prior periods, the interest on adjusting tax payables also included £3 million in respect of a potential tax claw back due to the factory closure in Switzerland in 2022 and an amnesty tax payment of £11 million in Türkiye in 2021.

Included within fair value changes on other financial items are:

(i) In 2021, as part of the disposal of the Group's operations in Iran (note 27(d)), a provision of £24 million was charged to net finance costs against non-current investments held at fair value due to the uncertainty around recovery of these funds. In 2022, part of these funds were recovered and therefore a reversal of the provision of £17 million was recognised in net finance costs. In 2023, a further £4 million was recovered and recognised in net finance costs; and

(ii) In 2022, £15 million of foreign exchange loss was recognised in net finance costs, arising on the revaluation of foreign currency balances held in Russia that no longer qualified for hedge accounting due to the proposed sale of the Group's Russian business as detailed in note 27(d)(i).

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9 Associates and joint ventures

	2023		2022		2021	
	Total £m	Group's share £m	Total £m	Group's share £m	Total £m	Group's share £m
Revenue	9,412	2,630	9,486	2,675	7,668	2,164
Profit from operations	2,596	783	1,971	622	1,911	567
Net finance income	15	4	21	4	13	2
Profit on ordinary activities before taxation	2,611	787	1,992	626	1,924	569
Taxation on ordinary activities	(664)	(194)	(595)	(176)	(499)	(147)
Profit on ordinary activities after taxation	1,947	593	1,397	450	1,425	422
Non-controlling interests	(28)	(8)	(27)	(8)	(22)	(7)
Post-tax results of associates and joint ventures	1,919	585	1,370	442	1,403	415

Enumerated below are movements that have impacted the post-tax results of associates and joint ventures in 2023, 2022 and 2021. The amounts below were reported as adjusting items under the share of profit from associates in the income statement.

(a) Adjusting items

In 2023, the Group's interest in ITC Limited (ITC), an associate of the Group in India, decreased from 29.19% to 29.02% (2022: 29.38% to 29.19%; 2021: 29.42% to 29.38%) 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 £40 million (2022: £3 million loss; 2021: £6 million gain), which is treated as a deemed partial disposal and included in the income statement.

In 2023, ITC recognised a credit in respect of the proceeds received in partial settlement of the insurance claim towards the cost of leaf tobacco stocks destroyed in a third-party warehouse fire, the Group's share of which was £2 million.

During the year, the Group impaired the investment in Organigram by £34 million (2022: £59 million) (net of tax), driven primarily by the decrease in the company's share price.

As a result of the impairment, the balance relating to goodwill and acquired intangibles associated with the acquisition of Organigram in March 2021 was reduced to £nil million and therefore no further amortisation charge was incurred during the year (2022: £2 million; 2021: £2 million).

During 2022, the Group decided to cease business activities altogether in Yemen, including participating in the management of the Group's associates, due to the challenging operating environment in the country. This led to the full impairment of the investment in the Group's remaining associate in Yemen, United Industries Company Limited, with a charge of £18 million to the income statement.

In 2021, due to a challenging operating environment, the Group had already impaired the investment in Kamaran Industry & Investment Company, the Group's other associate in Yemen. This resulted in a charge of £18 million to the income statement.

Also, in 2021, as a result of the liquidation of Tisak d.d., the Group reclassified the foreign exchange previously recognised in other comprehensive income to the income statement. This resulted in a credit of £2 million to the income statement.

(b) Other financial information

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

	2023	2022	2021
	Group's share £m	Group's share £m	Group's share £m
Profit on ordinary activities after taxation			
– attributable to owners of the parent	585	442	415
Other comprehensive income:			
Items that may be reclassified to profit and loss	(107)	6	(17)
Items that will not be reclassified to profit and loss	(5)	19	14
Total comprehensive income	473	467	412

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

	2023		
	ITC £m	Others £m	Total £m
Revenue	6,805	2,607	9,412
Profit on ordinary activities before taxation	2,813	(202)	2,611
Post-tax results of associates and joint ventures	2,121	(202)	1,919
Other comprehensive income	(368)	(20)	(388)
Total comprehensive income	1,753	(222)	1,531

	2022		
	ITC £m	Others £m	Total £m
Revenue	7,126	2,360	9,486
Profit on ordinary activities before taxation	2,395	(403)	1,992
Post-tax results of associates and joint ventures	1,761	(391)	1,370
Other comprehensive income	56	32	88
Total comprehensive income	1,817	(359)	1,458

	2021		
	ITC £m	Others £m	Total £m
Revenue	5,312	2,356	7,668
Profit on ordinary activities before taxation	1,931	(7)	1,924
Post-tax results of associates and joint ventures	1,427	(24)	1,403
Other comprehensive income	(11)	—	(11)
Total comprehensive income	1,416	(24)	1,392

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10 Taxation on ordinary activities

(a) Summary of taxation on ordinary activities

	2023 £m	2022 £m	2021 £m
UK corporation tax	32	(3)	(25)
Comprising:			
– current year tax expense	20	2	1
– adjustments in respect of prior periods	12	(5)	(26)
Overseas tax	2,779	2,721	2,401
Comprising:			
– current year tax expense	2,804	2,675	2,418
– adjustments in respect of prior periods	(25)	46	(17)
Total current tax	2,811	2,718	2,376
Deferred tax	(5,683)	(240)	(187)
Comprising:			
– deferred tax relating to origination and reversal of temporary differences	(5,577)	(174)	(29)
– deferred tax relating to changes in tax rates	(106)	(66)	(158)
	(2,872)	2,478	2,189

(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 were 17 corporate groups in the FII GLO as at 31 December 2023. 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. In its application for permission HMRC sought to reverse established House of Lords' authorities on which those earlier judgments were based. They were granted permission to do so by the Supreme Court who divided the appeal into two hearings, the first on the issue of time limits and the second on the issue of interest and related topics. In November 2020, the Supreme Court handed down its judgment on the first stage of that appeal. The Supreme Court agreed to overturn its existing case law partially but introduced a new test for determining whether claims of this type are in time. The case was then remitted to the High Court to apply that new test to the facts. The judgment from the second hearing was handed down in July 2021. Applying that judgment reduces the value of BAT's FII claim to approximately £0.3 billion, mainly as the result of the application of simple interest and the limitation to claims for advance corporation tax offset against lawful corporation tax charges, which is subject to the determination of the remitted timing issue by the High Court and any subsequent appeal. The High Court hearing on time limits was heard in late November 2023 with judgment handed down in February 2024. The High Court determined that claims should have been filed within 6 years of June 2000 meaning that BAT's claims are in time. It is uncertain whether HMRC will appeal the judgment.

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 within trade and other payables as disclosed in note 25. Any future recognition as income will be treated as an adjusting item, due to the size of the amount, with interest of £60 million for the 12 months to 31 December 2023 (2022: £33 million; 2021: £20 million) accruing on the balance, which was also treated as an adjusting item.

The final resolution of all issues in the litigation is likely to take a number of years. The Group made interim repayments to HMRC of £50 million in 2023 and 2022, and intends to make further interim repayments in future periods.

(c) Factors affecting the taxation charge

The taxation charge differs from the standard rate of corporation tax in the UK of 23.5% for 2023, 19.0% for 2022 and 19.0% 2021. The major causes of this difference are listed below:

	2023		2022		2021	
	£m	%	£m	%	£m	%
(Loss)/Profit before tax	(17,061)		9,324		9,163	
Less: share of post-tax results of associates and joint ventures (see note 9)	(585)		(442)		(415)	
	(17,646)		8,882		8,748	
Tax at 23.5% (2022: 19% and 2021: 19%) on the above	(4,147)	23.5	1,688	19.0	1,662	19.0
Factors affecting the tax rate:						
Tax at standard rates other than UK corporation tax rate	619	(3.5)	397	4.5	319	3.6
Other national tax charges	310	(1.8)	244	2.7	184	2.1
Permanent differences	845	(4.8)	83	0.9	87	1.0
Overseas withholding taxes	179	(1.0)	156	1.8	189	2.2
Double taxation relief on UK profits	(46)	0.3	(26)	(0.3)	(23)	(0.3)
(Utilised)/unutilised tax losses	(15)	0.1	12	0.1	(10)	(0.1)
Adjustments in respect of prior periods	(13)	0.1	41	0.5	(43)	(0.5)
Deferred tax relating to changes in tax rates	(106)	0.6	(66)	(0.7)	(158)	(1.8)
Additional net deferred tax (credits)/charges	(498)	2.8	(51)	(0.6)	(18)	(0.2)
	(2,872)	16.3	2,478	27.9	2,189	25.0

The Group's reported 2023 tax rate is significantly impacted by the impairment of intangible assets as described in note 12.

- Permanent differences in 2023 consist mainly of the tax impact of the goodwill impairment (for which no tax relief is available).
- Additional net deferred tax (credits)/charges in 2023 consist mainly of the U.S. state deferred tax impact of the trademark impairment (please see further in note 16).

(d) Adjusting items included in taxation

In 2023, adjusting items in taxation included a net credit of £73 million relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017 due to changes in U.S. state tax rates, the reversal of provisions for Russia tax risks and a potential clawback of tax reliefs arising on the closure of the Group's factory in Switzerland offset by a provision for potential tax exposures in the Netherlands and the tax impact in Brazil of the legal case regarding Rio de Janeiro VAT incentives (described further in note 6(k)).

In 2022, adjusting items in taxation included a net credit of £27 million mainly relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017 due to changes in U.S. state tax rates and a potential clawback of tax reliefs arising on the closure of the Group's factory in Switzerland.

In 2021, adjusting items in taxation included a net credit of £91 million mainly relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017 due to changes in U.S. state tax rates.

(e) Tax on adjusting items

In addition, the tax on adjusting items, separated between the different categories, as per note 11, amounted to £5,415 million (2022: £176 million; 2021: £119 million). The adjustment to the adjusted earnings per share (note 11) also includes £1 million (2022: £5 million; 2021: £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

	2023 £m	2022 £m	2021 £m
Current tax	(5)	(6)	(4)
Deferred tax	12	(106)	(110)
(Charged)/credited to other comprehensive income	7	(112)	(114)

(g) Tax on items recognised directly in equity

In relation to the perpetual hybrid bonds issued on 27 September 2021 (note 22(d)), tax relief of £14 million (2022: £11 million; 2021: £5 million) has been recognised, principally in relation to the coupon incurred.

(h) Global minimum tax

In December 2021, the OECD released model rules for a new global minimum corporate tax framework applicable to multinational enterprise groups with global revenues of over €750 million ("Pillar Two" rules). The UK substantively enacted legislation implementing these rules on 20 June 2023 and the rules apply to the Group as of 1 January 2024. The Group is reviewing this legislation together with developing guidance. The Group is also monitoring the status of implementation of the model rules outside of the UK to assess the potential impact. Based on the information currently available, the impact of these rules on the Group tax position is not expected to be material.

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11 Earnings per share

Earnings used in the basic, diluted and headline earnings per share calculation represent the profit attributable to the ordinary equity shareholders after deducting amounts representing the coupon on perpetual hybrid bonds on a pro-rata basis regardless of whether coupons have been deferred or paid in the period. Below is a reconciliation of the earnings used to calculate earnings per share:

	2023 £m	2022 £m	2021 £m
(Loss)/earnings attributable to owners of the parent	(14,367)	6,666	6,801
Coupon on perpetual hybrid bonds	(59)	(60)	(15)
Tax on coupon on perpetual hybrid bonds	14	11	3
(Loss)/earnings	(14,412)	6,617	6,789

In 2023, the Group reported a loss for the year. Following the requirements of IAS 33 *Earnings per Share*, the impact of share options would be antidilutive and are excluded from the calculation of diluted earnings per share. Below is a reconciliation from basic to diluted earnings per share for 2022 and 2021:

	2023			2022			2021		
	Loss £m	Weighted average number of shares m	Loss 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 (loss)/earnings per share (ordinary shares of 25p each)	(14,412)	2,229	(646.6)	6,617	2,256	293.3	6,789	2,287	296.9
Share options	—	—	—	—	11	(1.4)	—	10	(1.3)
Diluted (loss)/ earnings per share*	(14,412)	2,229	(646.6)	6,617	2,267	291.9	6,789	2,297	295.6

Note:

* In 2023, the Group reported a loss for the year. Following the requirements of IAS 33, the impact of share options would be antidilutive and is therefore excluded, for 2023, from the calculation of diluted earnings per share, calculated in accordance with IFRS, for that year. For remuneration purposes, and reflective of the Group's positive earnings on an adjusted basis, management have included the dilutive effect of share options in calculating adjusted diluted earnings per share. There were 8 million share options on a weighted average basis in 2023.

Adjusted earnings per share calculation

Earnings have been affected by a number of adjusting items, which are described in notes 3 to 10. 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.

	Notes	2023		2022		Basic 2021	
		(Loss)/ earnings £m	(Loss)/ earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic (loss)/earnings per share		(14,412)	(646.6)	6,617	293.3	6,789	296.9
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	4	27,816	1,247.9	285	12.6	363	15.9
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles	10(e)	(5,390)	(241.8)	(67)	(3.0)	(71)	(3.1)
Net effect of excise and VAT cases	5(a),6(j), 6(k)	(167)	(7.5)	(460)	(20.4)	26	1.1
Tax on excise and VAT cases	10(e)	41	1.8	72	3.2	(3)	(0.1)
Effect of disposal of subsidiaries	6(f)	546	24.5	(6)	(0.3)	358	15.7
Effect of Brazil other taxes	6(k)	47	2.1	—	—	—	—
Tax on Brazil other taxes	10(e)	(16)	(0.7)	—	—	—	—
Effect of charges in respect of DOJ and OFAC investigations	6(h)	75	3.4	450	19.9	—	—
Effect of charges in respect of Nigerian FCCPC case	6(i)	—	—	79	3.5	—	—
Effect of planned disposal of subsidiaries	6(j)	(195)	(8.7)	612	27.2	—	—
Tax on planned disposal of subsidiaries	10(e)	—	—	(10)	(0.4)	—	—
Effect of restructuring and integration costs	7	(2)	(0.1)	771	34.2	150	6.5
Tax and non-controlling interests on restructuring and integration costs	10(d)(e)	(3)	(0.1)	(116)	(5.1)	(39)	(1.7)
Other adjusting items	3,6(d)	96	4.3	154	6.8	19	0.8
Tax effect on other adjusting items	10(e)	(22)	(1.0)	(37)	(1.6)	(5)	(0.2)
Effect of early repurchase of bonds	8(b)	29	1.3	—	—	—	—
Tax effect of early repurchase of bonds	10(e)	(8)	(0.4)	—	—	—	—
Effect of interest on FII GLO settlement and other	8(b)	67	3.0	34	1.5	55	2.4
Tax effect of interest on FII GLO settlement and other	10(e)	(18)	(0.8)	(6)	(0.3)	—	—
Effect of associates' adjusting items net of tax	9(a)	(8)	(0.4)	92	4.1	12	0.5
Deferred tax relating to changes in tax rates	10(d)	(97)	(4.4)	(44)	(2.0)	(98)	(4.3)
Adjusting items in tax	10(d)	24	1.2	—	—	—	—
Adjusted earnings per share (basic)		8,403	377.0	8,420	373.2	7,556	330.4

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	Notes	2023		2022		Diluted 2021	
		(Loss)/ earnings £m	(Loss)/ earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted (loss)/earnings per share		(14,412)	(646.6)	6,617	291.9	6,789	295.6
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	4	27,816	1,247.9	285	12.6	363	15.8
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles	10(e)	(5,390)	(241.8)	(67)	(3.0)	(71)	(3.1)
Net effect of excise and VAT cases	5(a),6(j), 6(k)	(167)	(7.5)	(460)	(20.3)	26	1.1
Tax on excise and VAT cases	10(e)	41	1.8	72	3.2	(3)	(0.1)
Effect of disposal of subsidiaries	6(f)	546	24.5	(6)	(0.3)	358	15.6
Effect of Brazil other taxes	6(k)	47	2.1	—	—	—	—
Tax on Brazil other taxes	10(e)	(16)	(0.7)	—	—	—	—
Effect of charges in respect of DOJ and OFAC investigations	6(h)	75	3.4	450	19.9	—	—
Effect of charges in respect of Nigerian FCCPC case	6(i)	—	—	79	3.5	—	—
Effect of planned disposal of subsidiaries	6(j)	(195)	(8.7)	612	26.8	—	—
Tax on planned disposal of subsidiaries	10(e)	—	—	(10)	(0.4)	—	—
Effect of restructuring and integration costs	7	(2)	(0.1)	771	34.0	150	6.6
Tax and non-controlling interests on restructuring and integration costs	10(d)(e)	(3)	(0.1)	(116)	(5.1)	(39)	(1.7)
Other adjusting items	3,6(d)	96	4.3	154	6.8	19	0.8
Tax effect on other adjusting items	10(e)	(22)	(1.0)	(37)	(1.6)	(5)	(0.2)
Effect of early repurchase of bonds	8(b)	29	1.3	—	—	—	—
Tax effect of early repurchase of bonds	10(e)	(8)	(0.4)	—	—	—	—
Effect of interest on FII GLO settlement and other	8(b)	67	3.0	34	1.5	55	2.4
Tax effect of interest on FII GLO settlement and other	10(e)	(18)	(0.8)	(6)	(0.3)	—	—
Effect of associates' adjusting items net of tax	9(a)	(8)	(0.4)	92	4.1	12	0.5
Deferred tax relating to changes in tax rates	10(d)	(97)	(4.4)	(44)	(1.9)	(98)	(4.3)
Adjusting items in tax	10(d)	24	1.2	—	—	—	—
Impact of dilution*		—	(1.4)				
Adjusted diluted earnings per share		8,403	375.6	8,420	371.4	7,556	329.0

Note:

* In 2023, the Group reported a loss for the year. Following the requirements of IAS 33, the impact of share options would be antidilutive and is therefore excluded, for 2023, from the calculation of diluted earnings per share, calculated in accordance with IFRS, for that year. For remuneration purposes, and reflective of the Group's positive earnings on an adjusted basis, management have included the dilutive effect of share options in calculating adjusted diluted earnings per share.

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 1/2023 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

	2023		2022		Basic 2021	
	(Loss)/ earnings £m	(Loss)/ earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic (loss)/earnings per share	(14,412)	(646.6)	6,617	293.3	6,789	296.9
Effect of impairment of intangibles, property, plant and equipment, associates and assets held-for-sale	27,800	1,247.2	429	19.0	138	6.0
Tax and non-controlling interests on intangibles, property, plant and equipment, associates and assets held-for-sale	(5,430)	(243.6)	(77)	(3.4)	(42)	(1.8)
Effect of gains on disposal of property, plant and equipment, trademarks, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	(125)	(5.6)	(21)	(0.9)	(10)	(0.4)
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	27	1.2	5	0.2	2	0.1
Effect of impairment of subsidiaries transferred to held-for-sale and associated costs	(203)	(9.1)	548	24.2	83	3.6
Tax on impairment of subsidiaries and associated costs	—	—	(10)	(0.4)	—	—
Effect of foreign exchange reclassification from reserves to the income statement						
- Subsidiaries	552	24.8	6	0.3	291	12.7
- Associates	—	—	(1)	—	(2)	(0.1)
Issue of shares and change in shareholding of an associate	(40)	(1.8)	3	0.1	(6)	(0.3)
Headline earnings per share (basic)	8,169	366.5	7,499	332.4	7,243	316.7

	2023		2022		Diluted 2021	
	(Loss)/ earnings £m	(Loss)/ earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted earnings per share	(14,412)	(646.6)	6,617	291.9	6,789	295.6
Effect of impairment of intangibles, property, plant and equipment, associates and assets held-for-sale	27,800	1,247.2	429	18.9	138	6.0
Tax and non-controlling interests on intangibles, property, plant and equipment, associates and assets held-for-sale	(5,430)	(243.6)	(77)	(3.4)	(42)	(1.8)
Effect of gains on disposal of property, plant and equipment, trademarks, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	(125)	(5.6)	(21)	(0.9)	(10)	(0.4)
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	27	1.2	5	0.2	2	0.1
Effect of impairment of subsidiaries transferred to held-for-sale and associated costs	(203)	(9.1)	548	24.1	83	3.6
Tax on impairment of subsidiaries and associated costs	—	—	(10)	(0.4)	—	—
Effect of foreign exchange reclassification from reserves to the income statement						
- Subsidiaries	552	24.8	6	0.3	291	12.6
- Associates	—	—	(1)	—	(2)	(0.1)
Issue of shares and change in shareholding of an associate	(40)	(1.8)	3	0.1	(6)	(0.3)
Headline earnings per share (diluted)	8,169	366.5	7,499	330.8	7,243	315.3

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(a) Overview of intangible assets

	2023				
	Trademarks and similar intangibles £m	Goodwill ² £m	Computer software £m	Assets in the course of development £m	Total ² £m
1 January					
Cost	83,454	48,488	1,379	153	133,474
Accumulated amortisation and impairment	(2,851)	(532)	(1,005)	(11)	(4,399)
Net book value at 1 January	80,603	47,956	374	142	129,075
Differences on exchange	(3,431)	(2,251)	(4)	1	(5,685)
Additions					
– internal development	—	—	—	75	75
– separately acquired	59	—	—	3	62
Reallocations	2	—	115	(111)	6
Amortisation charge	(237)	—	(120)	—	(357)
Impairment	(22,995)	(4,614)	(5)	—	(27,614)
31 December					
Cost	78,848	46,021	1,408	110	126,387
Accumulated amortisation and impairment	(24,847)	(4,930)	(1,048)	—	(30,825)
Net book value at 31 December	54,001	41,091	360	110	95,562

	2022				
	Trademarks and similar intangibles £m	Goodwill ² £m	Computer software £m	Assets in the course of development £m	Total ² £m
1 January					
Cost	74,227	43,715	1,266	156	119,364
Accumulated amortisation and impairment	(2,360)	(521)	(858)	—	(3,739)
Net book value at 1 January	71,867	43,194	408	156	115,625
Differences on exchange	9,033	4,762	5	2	13,802
Additions					
– internal development	—	—	—	37	37
– separately acquired	—	—	—	85	85
Reallocations	29	—	96	(125)	—
Amortisation charge	(309)	—	(128)	—	(437)
Impairment	(10)	—	(3)	(11)	(24)
Disposals	(7)	—	—	—	(7)
Held for sale	—	—	(4)	(2)	(6)
31 December					
Cost	83,454	48,488	1,379	153	133,474
Accumulated amortisation and impairment	(2,851)	(532)	(1,005)	(11)	(4,399)
Net book value at 31 December	80,603	47,956	374	142	129,075

Notes:

1. Effective from 2023, the Group revised its regional structure from four regions to three, with the comparator data provided on this revised basis.

2. The table above has been re-presented for both the current and the comparative period to give a more meaningful disclosure of the Group's accumulated impairment of goodwill, which was previously shown net in the opening and closing balances.

(b) Impairment testing**(i) Overview****a. 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-lived 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 Canadian and U.S. markets.

b. Impact of climate change

The impact of climate change has been considered in preparation of the financial statements. For impairment testing and valuation purposes, the Group have included certain climate-related costs within the discounted cash flow forecast for impairment assessment. The Group also completed scenario analyses of the potential impact of those climate change-related risks. This sensitised discounted cash flow included such items as product taxes and carbon taxes within the future cash flows and resulted in no material adverse impact to the impairment assessment.

(ii) Discount rates

Post-tax discount rates 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 relevant local (or comparable) government, adjusted for the Group's own credit market risk. Valuations derived from applying post-tax discount rates to post-tax cash flows are aligned to those that would arise from applying pre-tax discount rates to pre-tax cash flows. For ease of use and consistency in application, these results are periodically calibrated into bands based on internationally recognised credit ratings. This applies to all CGUs with the exception of Reynolds, which had its discount rate independently determined based on a weighted average cost of capital in respect of the U.S. and U.S. market-related premiums, and Malaysia where the discount rate reflects BAT Malaysia's weighted average cost of capital.

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 approved budget.

Please refer to the discount rates applied for intangible assets with indefinite lives in note 12(b)(iv) and for cash-generating units in note 12(b)(iii).

(iii) Impairment testing - summary

Total impairment charges of £27,614 million have been recognised in 2023, of which £27,291 million related to Reynolds American (being a charge against goodwill of £4,299 million and against trademarks of £22,992 million), £291 million related to South Africa goodwill, £24 million related to Peru goodwill and the remaining relating to other intangible assets.

a. Goodwill

Goodwill of £41,091 million (2022: £47,956 million) is included in intangible assets in the balance sheet of which the following are the significant acquisitions: Reynolds American £30,938 million (2022: 37,181 million); Rothmans Group £4,274 million (2022: £4,704 million); Imperial Tobacco Canada £2,386 million (2022: £2,460 million); ETI (Italy) £1,428 million (2022: £1,461 million) and ST (principally Scandinavia) £1,074 million (2022: £1,102 million). The principal allocations of goodwill in the Rothmans acquisition are to the cash-generating units of Europe and South Africa, with the remainder relating to operations in APMEA.

In 2023, goodwill was allocated for impairment testing purposes to 17 (2022: 17) individual cash-generating units (CGUs) – one in the U.S. (2022: one), nine in AME (2022: nine) and seven in APMEA (2022: seven).

For the purpose of impairment testing, goodwill has been attributed to the following cash-generating units:

	2023		2022	
	Carrying amount £m	Pre-tax discount rate %	Carrying amount £m	Pre-tax discount rate %
Cash-generating unit				
Reynolds American	30,938	9.6	37,181	8.8
Europe	5,596	6.6	5,670	7.5
Canada	2,386	20.3	2,460	19.4
Australia	717	7.3	755	8.2
South Africa	189	14.3	541	10.4
Singapore	382	7.4	398	7.9
GTR	253	7.6	264	7.6
Malaysia	217	10.2	240	11.4
Peru	73	12.4	103	7.5
Other	340	6.7	344	8.0
Total	41,091		47,956	

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

During 2023, the Group recognised a total impairment charge to goodwill of £4,614 million (2022: £nil million) related to South Africa and Peru as explained in note 12(b)(vi) and to Reynolds American as explained in note 12(b)(iv) below.

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b. Trademarks and similar intangibles with indefinite lives

The net book value of trademarks and similar intangibles with indefinite lives is £51,930 million (2022: £78,228 million) and relates to the acquisition of Reynolds American. The trademarks acquired, 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 U.S. 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 cash flow 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.

c. Trademarks and similar intangibles with definite lives

The majority of trademarks and similar intangibles with definite lives relate to trademarks acquired in previous years. These trademarks are amortised over their expected useful lives, which do not exceed 20 years. As discussed below in Note 12(b)(iv), with effect from 1 January 2024, this category will be amortised over periods not exceeding 30 years to accommodate the estimate of useful economic lives for Newport, Camel, Pall Mall and Natural American Spirit. Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Reynolds American £1,809 million (2022: £2,071 million).

The following disclosure will consider Reynolds American, Canada and the Rest of the World in turn.

(iv) Impairment testing – Reynolds American

Goodwill and the indefinite-lived brand intangibles relating to Reynolds American

Subsequent to the FDA announcement on 28 April 2022 of a proposed product standard to prohibit menthol as a characterising flavour in cigarettes, the FDA formally submitted the final product standard to the Office of Management and Budget on 18 October 2023. Management notes that the proposal of a product standard does not itself constitute a ban on menthol in cigarettes given the proposed standard is still required to go through the established comprehensive U.S. rule-making process, the timetable and outcome for which was, and remains, uncertain. Further to this, on 21 June 2022, the FDA announced plans to develop a proposed product standard that would establish a maximum nicotine level in cigarettes and certain other combustible tobacco products to reduce addictiveness. Management notes that the FDA announcement does not itself constitute restrictions on nicotine levels in cigarettes, and any proposed regulation of nicotine in cigarettes would need to be introduced through the established comprehensive U.S. rule-making process, the timetable and outcome for which was, and remains, uncertain. Management do not deem this to be a new development but rather a continuation of the rulemaking process that the FDA initiated in 2017 that was later put on hold.

In December 2022, the sale of most tobacco products with characterising flavours (including menthol) other than tobacco were banned in the state of California. The impact of the ban in California has been reflected in the cash flow forecasts used in the impairment model.

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.

In line with the approach used in 2022, the value-in-use calculations have been determined based on probability weighted scenarios to derive a risk-adjusted cash flow forecast applied within the valuations. These scenarios incorporate varying assumptions on potential timing for a final product standard to prohibit menthol as a characterising flavour in cigarettes becoming effective. However, the impact of the timing of any potential menthol ban was not deemed to be a key assumption.

Management note that the U.S. combustibles market has experienced substantial volatility since 2020. In the period immediately prior to the COVID-19 pandemic, U.S. combustibles industry volumes declined by c.5.0-5.5% per annum (2017-2019). During COVID-19, due to changes in consumer behaviour, industry volume was largely flat in 2020 (0.1% decline) with 2021 also declining by only 3.0%. However, in 2022, as the U.S. exited the pandemic combined with adverse impacts from the macro-economic headwinds, industry volume declined by 10.6%.

At the time, it was Management's assessment that the performance was a rebalancing and would return to a more consistent decline rate in future periods, supporting the judgement that it was not possible to reliably determine a definite useful life for the brands. Accordingly, an indefinite life continued to be applied and the brands were not amortised in 2022 or 2023.

During 2023, however, evolving insights indicated that the decline in industry volume would be higher than forecast due to the continued macro-economic headwinds in the U.S. combined with an acceleration of the vapour category growth. This growth is driven by combustible consumers turning to Vapour devices (specifically through the use of illicit single-use products) with this market segment growing by c.100% in the period.

Due to the continued challenging trading conditions in the U.S., a detailed external study was commissioned to assist Management with an independent view of the potential forecast performance for the market.

The study assessed the future industry size, based upon, among other things:

- Macro-economic factors;
- Pricing and elasticity; and
- Long term trend assumptions which themselves include category-specific consumption patterns in comparison to other categories.

This review assisted Management in preparing the Group's five-year forecast of the U.S. market, with further extrapolation based upon the estimated performance of the brands.

Following the review and as a result of the higher forecast combustibles market decline as described above, a total impairment of £27,291 million in respect of the U.S. CGU was identified. The impairment charge has been recognised using the exchange rate prevailing on the date of the impairment assessment of £1 : US\$1.213 as the underlying cash flows and net assets are US\$ denominated.

Impairment of trademarks and assessment of useful economic lives

Concurrent to the impairment assessment, and reflecting Management's revised volume projections, Management concluded that it was appropriate to redesignate Newport, Camel, Natural American Spirit and Pall Mall as definite-lived from 1 January 2024 (2023: indefinite-lived, 2022: indefinite-lived) with an estimated life of between 20-30 years.

It was also concluded that it remains appropriate to continue to recognise Grizzly and Camel snus as indefinite-lived brands given the expected continued performance of the traditional oral sector.

Corporate costs are allocated to the brand budgets based on either specific allocations, where appropriate, or based on revenue. 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 also been incorporated into the budget information used in the impairment testing of Reynolds American goodwill.

The value-in-use calculations for the Reynolds American cash-generating unit and the indefinite-lived brands have been prepared based on a five-year risk-adjusted cash flow forecast, incorporating the probability weighted scenarios above. After this forecast, for the Reynolds American cash-generating unit and for the indefinite-lived brands Grizzly and Camel Snus, a probability weighted growth rate of 1.0% (2022: 1.0%) is applied.

In order to support the long-term growth rates for Newport, Camel, Natural American Spirit and Pall Mall, a cash flow forecast has also been prepared on a discrete basis, reflecting the revised useful economic lives from 1 January 2024. The long-term growth rates implied by these value-in-use calculations with cash flows capped at 30 years or 20 years, as appropriate, are -4.7% (2022: 0.89%) for Newport, -7.4% (2022: 0.93%) for Camel, -1.15% (2022: 1.0%) for Natural American Spirit and -13.7% (2022: 1.0%) for Pall Mall.

As a result of the revised forecasts, an impairment charge of £22,992 million has been recognised in relation to the brands.

Management recognise that the date at which the redesignation to definite-lived is made is judgemental and have determined that amortisation will commence from 1 January 2024. From 2024, amortisation will be charged on a straight-line basis with the increase in annual amortisation expense expected to be £1.4 billion (US\$1.8 billion) per annum.

	2023			2022		
	Carrying amount £m	Volume 5 Year CAGR**	Pre-tax discount rate* %	Carrying amount £m	Volume 5 Year CAGR	Pre-tax discount rate %
Indefinite-lived intangibles						
Newport	20,753	(11.3)%	8.7	33,236	(6.7)%	9.2
Camel	7,822	(12.3)%	8.9	14,058	(6.4)%	8.9
Pall Mall	2,608	(18.8)%	9.4	6,252	(13.0)%	8.6
Natural American Spirit	10,439	(7.6)%	7.9	13,019	(2.5)%	8.6
Camel Snus	1,099	(5.4)%	7.8	1,355	(5.3)%	8.6
Grizzly	9,209	(3.9)%	7.8	10,308	(3.7)%	8.6
Total	51,930			78,228		

Notes:

* For the purpose of current year impairment assessment, the value-in-use calculations for the combustibles brands have been prepared based on a five-year risk adjusted cash flow forecast, supplemented by a forecast on a discrete period basis reflecting the revised useful economic life effective 1 January 2024 for the combustibles brands to support the long term growth rates. Following these updates, the Group has revisited the methodology by which the Tax Amortisation Benefit (TAB) included in the brand valuation is treated when determining the pre-tax discount rates. In the previous years, the Group had considered the pre-TAB value-in-use to derive the pre-tax discount rate, however, under the revised approach, the Group has considered the post-TAB value-in-use in deriving the pre-tax discount rates for disclosure purposes. If the revised methodology is applied to the year 2022, the pre-tax discount rate will result in 7.9% for Newport, 7.6% for Camel and 7.4% for Pall Mall, Natural American Spirit, Camel Snus and Grizzly. The revision of the pre-tax discount rates does not result in any change in the impairment assessment or the headroom calculated for each of the intangible assets in the year 2022. There are no other financial impacts on the financial statements for year-end 2022 as a result of this revision in methodology in the application of the TAB factor for deriving pre-tax discount rate for disclosure purposes. Valuations derived from applying post-tax discount rates to post-tax cash flows are aligned to those that would arise from applying pre-tax discount rates to pre-tax cash flows.

** Five year CAGR is calculated by reference to the first five years annual volumes in the value-in-use model against the 2023 baseline.

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The below table indicates the additional amount of impairment that would be required if the following individual changes were made to the key assumptions used in the impairment model:

	Newport £m	Camel £m	Pall Mall £m	Natural American Spirit £m	Grizzly £m	Camel Snus £m
Assumptions						
Volume decline by additional 1% year on year [*]	(1,135)	(427)	(142)	(572)	(559)	(68)
Decrease in long-term growth rate by 50bps	(560)	(163)	(32)	(467)	(593)	(70)
Increase in pre-tax discount rate by 75bps	(1,105)	(354)	(86)	(804)	(945)	(112)

Note:

^{*} Volume sensitivity results in a proportional reduction in both net revenue and direct costs with no impact to operating margin %. Fixed overhead cost allocations remain flat. This demonstrates a year-on-year decrease in operating cash flow for the discrete forecast years.

The volume decline assumption is based on the year on year decline rate increasing by an additional 1% each year in the five-year cash flow forecast without any future recovery and assumes that other assumptions are not changed. The above sensitivities have been translated using the exchange rate prevailing on the date of the impairment assessment of £1 : US\$1.213 as the underlying cash flows and net assets are US\$ denominated.

Impairment assessment of Reynolds American goodwill

As a consequence of the challenges in the U.S. market and the impact to the Group's ongoing financial forecast, and having recognised an impairment charge in respect of the trademarks referenced above, the Group has also recognised an additional impairment in respect of U.S. goodwill of £4,299 million (2022: £nil million).

The table below indicates the additional amount of impairment that would be required if the following individual changes were made to key assumptions within the value-in-use model and it has been translated using the exchange rate prevailing on the date of the impairment assessment of £1 : US\$1.213 as the underlying cash flows and net assets are US\$ denominated:

Reynolds American goodwill impairment charge for 2023 (£m)	Assumptions	Change in key assumption	Possible additional impairment (£m)
4,299	Pre-tax discount rate	Increase of 0.67%	(6,169)
	Long-term growth rates	Decrease of 0.50%	(4,962)

Note:

^{*} The sensitivity to increase the pre-tax discount rate for the Reynolds American goodwill has been considered in isolation without any uplift to the brands discount rate (impact of which is shown in the sensitivity table above). In the event of an increase to the brand's discount rate, any additional impairment to the Reynolds American goodwill will reduce by the respective amount due to the resulting reduction to its net assets.

Reynolds American Summary

The following is a summary table showing the movement of the Reynolds American goodwill and other intangible and similar assets in the U.S. during 2023

				2023
	Opening balance £m	Differences on exchange £m	Impairment £m	Closing balance £m
Reynolds American goodwill	37,181	(1,944)	(4,299)	30,938
Newport	33,236	(1,339)	(11,144)	20,753
Camel	14,058	(517)	(5,719)	7,822
Pall Mall	6,252	(187)	(3,457)	2,608
Natural American Spirit	13,019	(642)	(1,938)	10,439
Grizzly	10,308	(554)	(545)	9,209
Camel snus	1,355	(67)	(189)	1,099

(v) 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 creditor 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 -2.5% and a pre-tax discount rate of 20.3% (2022: 19.4%) have been assumed. Further information on the Quebec Class Actions and CCAA can be found in note 31.

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 risk of an impairment charge identified.

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.

	Canada goodwill %
Assumptions	
Decrease in revenue by*	17.4
Increase in pre-tax discount rate by	8.5

Note:

* Revenue sensitivities are performed in isolation and do not include the removal of the corresponding variable cost of sales. This demonstrates a decrease in revenue in each of the forecast years.

Below is the summary of ITCAN's income statement:

	2023 £m	2022 £m
Revenue	1,003	1,055
Profit from operations	600	589
Profit after tax	517	478

Please refer to note 32 for ITCAN's assets which are subject to restrictions.

The £2,386 million of goodwill relating to ITCAN on the Group's balance sheet at 31 December 2023 will continue to be reviewed on a regular basis. Any impairment charge would result in a non-cash charge to the income statement that will be treated as an adjusting item.

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(vi) Impairment testing – Goodwill and indefinite-lived brands (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% (2022: 3%) in years two to ten, after which a growth rate of 1% (2022: 1%) 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 the Malaysian cash-generating unit, as a result of regulatory and macro-economic conditions, the above assumptions were amended to reflect the short- to medium-term plans of the country or area management spanning a period of five years after which a long-term growth rate of 0% for New Categories and -0.9% for combustibles has been assumed. For the Malaysian cash-generating unit headroom to reduce to £nil, the forecasted cash flows would need to reduce by 30.7% in each discrete year in the five-year period or the pre-tax discount rate would have to increase by 5.5%, both of which Management does not consider to be reasonably possible. The Group will continue to monitor Malaysia's performance going forward to identify if any impairment triggers materialise.

Trading conditions have continued to be difficult in South Africa with the growth in illicit trade following the ban of the sale of tobacco products introduced during the COVID-19 pandemic becoming further entrenched and, as a result, the Group has recognised an impairment charge of £291 million.

Due to further market deterioration in Peru, which negatively impacts future forecasted operating cash flows for the CGU, the Group has recognised an impairment charge of £24 million.

Value-in-use calculations for both the South African CGU and the Peruvian CGU have been based on Management's five-year cash flow forecast, after which a long-term growth rate of 0% has been assumed.

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	Increase in discount rate* £m	Decrease in cash flows* £m	Decrease in terminal value* £m
	Change in headroom/impairment charge			
Cash-generating unit				
South Africa	189	(28)	(38)	(19)
Peru	73	(11)	(11)	(8)

Note:

* Sensitivities applied to key assumptions are a 100bps increase in the pre-tax discount rate, a 10% decrease in forecast cash flows reflecting a loss in volumes arising from difficult trading conditions and a 100bps decrease in terminal value growth rate.

With the exception of South African and Peruvian cash-generating units, following the application of a reasonable range of sensitivities to all cash-generating units, there was no reasonably possible scenario identified that would lead to a potential impairment charge.

(c) 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 £450 million (2022: £423 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 £2 million of future contractual commitments (2022: £1 million) related to intangible assets.

13 Property, plant and equipment

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

						2023
	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	1,475	940	5,962	362	767	9,506
Accumulated depreciation and impairment	(473)	(474)	(3,507)	(185)		(4,639)
Net book value at 1 January	1,002	466	2,455	177	767	4,867
Differences on exchange	(41)	(25)	(135)	(8)	(43)	(252)
Additions						
– right-of-use assets	—	112	—	84	—	196
– separately acquired	—	—	20	—	460	480
Reallocations	69	24	431	—	(524)	—
Depreciation	(34)	(102)	(293)	(77)	—	(506)
Impairment	—	(5)	(131)	(9)	(6)	(151)
Right-of-use assets – reassessments, modifications and terminations	—	(15)	—	(13)	—	(28)
Disposals	(1)	(3)	(5)	—	—	(9)
Net reclassifications as held-for-sale	(14)	—	—	—	—	(14)
31 December						
Cost	1,418	895	5,702	375	654	9,044
Accumulated depreciation and impairment	(437)	(443)	(3,360)	(221)		(4,461)
Net book value at 31 December	981	452	2,342	154	654	4,583
						2022
	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	1,421	847	5,750	247	706	8,971
Accumulated depreciation and impairment	(388)	(370)	(3,130)	(130)		(4,018)
Net book value at 1 January	1,033	477	2,620	117	706	4,953
Differences on exchange	68	30	164	9	48	319
Additions						
– right-of-use assets	—	117	—	117	—	234
– separately acquired	—	—	32	—	471	503
Reallocations	44	21	374	2	(441)	—
Depreciation	(36)	(112)	(323)	(68)	—	(539)
Impairment	(62)	(39)	(210)	(4)	(4)	(319)
Right-of-use assets – reassessments, modifications and terminations	—	(16)	—	4	—	(12)
Disposals	(4)	(2)	(15)	—	3	(18)
Net reclassifications as held-for-sale	(41)	(10)	(187)	—	(16)	(254)
31 December						
Cost	1,475	940	5,962	362	767	9,506
Accumulated depreciation and impairment	(473)	(474)	(3,507)	(185)		(4,639)
Net book value at 31 December	1,002	466	2,455	177	767	4,867

Refer to notes 4 and 7 for more information on property, plant and equipment impairments. In 2022, the £254 million of assets reclassified as held-for-sale primarily relates to the Group's businesses in Russia and Belarus.

As mentioned in note 5(b), the Group completed a sale and leaseback transaction in 2023. The cash flow effect of this transaction is £15 million.

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ESG Investments: Included in additions in 2023 is an amount of £34 million (2022: £27.1 million) related to investments directed towards equipment to drive energy efficiency and renewable energy generation, water recycling and efficiency projects, waste reduction, and product innovation-led specification improvements to drive recyclability and reduce waste.

The Group has £60 million of future contractual commitments (2022: £80 million) related to property, plant and equipment.

(b) Right-of-use assets

In accordance with IFRS 16 *Leases*, the right-of-use assets related to leased properties have been included in the asset class 'Leasehold Property' (note 13(c)) and other right-of-use assets have been reported under 'Plant, equipment and other leased'.

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 'plant, equipment and other' relate to leases of various assets including tobacco vending machines, industrial equipment and distribution vehicles in Brazil, China, Japan, Mexico, Pakistan, Poland, Romania, the U.S. and other countries.

(c) Leasehold property

As of 31 December 2023, the Group holds £147 million (2022: £152 million) of leasehold properties acquired and another £305 million (2022: £314 million) of right-of-use leased properties.

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 Bangladesh, Brazil, China, Germany, Japan, Poland, Romania, the UK and the U.S., amongst other countries. In addition, capitalised expenditure representing leasehold improvements is included in this asset class.

	2023 £m	2022 £m
Leasehold land and property comprises		
- net book value of long leasehold	18	15
- net book value of short leasehold	434	451
	452	466

	2023				
Leasehold property net book value movements for the year ended 31 December 2023	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 (IAS 16)	152	(10)	(12)	17	147
- Right-of-use properties (IFRS 16)	314	(15)	(95)	101	305
	466	(25)	(107)	118	452

	2022				
Leasehold property net book value movements for the year ended 31 December 2022	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 (IAS 16)	165	11	(41)	17	152
- Right-of-use properties (IFRS 16)	312	19	(110)	93	314
	477	30	(151)	110	466

Note:

* Property acquired (IAS 16 *Property, plant and equipment*) other net movements for leasehold improvements represent additions (directly acquired and/or transferred from assets in the course of construction) net of disposals, whereas other net movements for right-of-use properties (IFRS 16) relate to new leases net of reassessments, modifications and terminations as reported in the Property, plant and equipment movement table in note 13(a).

(d) Freehold property

As of 31 December 2023, the Group owns freehold property amounting to £981 million (2022: £1,002 million), representing factories, warehouses and office buildings together with adjoining land, mainly in the U.S., the UK, Bangladesh, Indonesia and Mexico.

	2023 £m	2022 £m
Cost of freehold land within freehold property on which no depreciation is provided	238	246

14 Investments in associates and joint ventures

	2023 £m	2022 £m
1 January	2,020	1,948
Total comprehensive income (note 9)	473	467
Dividends	(559)	(438)
Additions (note 27(c))	13	39
Other equity movements	23	4
31 December	1,970	2,020
Non-current assets	1,331	1,400
Current assets	1,168	1,138
Non-current liabilities	(78)	(75)
Current liabilities	(451)	(443)
	1,970	2,020
ITC Ltd. (Group's share of the market value is £15,767 million (2022: £12,059 million))	1,851	1,865
Other listed associates (Group's share of the market value is £175 million (2022: £206 million))	64	106
Unlisted associates	55	49
	1,970	2,020

The principal associate undertaking of the Group is ITC Ltd. (ITC). Included within the dividends amount of £559 million (2022: £438 million) are £545 million (2022: £427 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 29.02%.

ITC prepares accounts on a quarterly basis with a 31 March year-end. As permitted by IAS 28 *Investments in associates and joint ventures*, results up to 30 September 2023 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 2023.

	2023 £m	2022 £m
Non-current assets	4,261	4,402
Current assets	3,622	3,465
Non-current liabilities	(240)	(233)
Current liabilities	(1,267)	(1,244)
	6,376	6,390
Group's share of ITC Ltd. (2023: 29.02%; 2022: 29.19%)	1,851	1,865

On 24 July 2023, ITC announced a proposed demerger of its 'Hotels Business' under a scheme of arrangement by which 60% of the newly incorporated entity would be held directly by ITC's shareholders proportionate to their shareholding in ITC. On 14 August 2023, ITC's Board of Directors approved the scheme of arrangement subject to necessary regulatory approvals. The demerger is expected to complete by the end of 2024.

Organigram

On 11 March 2021, the Group announced a strategic collaboration agreement with Organigram Inc., a wholly owned subsidiary of publicly traded Organigram Holdings Inc. (collectively, Organigram). Under the terms of the transaction, a Group subsidiary acquired a 19.9% (2023: 18.79%; 2022: 19.4%) equity stake in Organigram Holdings Inc. (listed on both the Nasdaq and Toronto Stock Exchange under the symbol 'OGI') to become its largest shareholder.

The Group's share of the fair value of net assets acquired included £49 million of intangibles and £30 million of goodwill, representing a strategic premium to enter the legal cannabis market in North America.

During 2023 Management reassessed the carrying value of the Group's investment in Organigram Holdings Inc. due to a reduction in the entity's share price being identified as a trigger for a detailed impairment assessment to be undertaken. As part of this exercise, management took into consideration Organigram's share price, internal value-in-use calculations, external trading multiples and broker forecasts. As a result of this analysis, it was concluded that an impairment charge of £36 million (or £34 million net of tax) (2022: £65 million (or £59 million net of tax)), was required against the carrying value of the investment in associate, with the recoverable amount as at 31 December 2023 being £30 million (2022: £73 million). Management will continue to monitor the carrying value, in line with IAS 36, over the course of future periods.

In November 2023, the Group announced the signing of an agreement for a further investment in Organigram Holdings Inc. (Organigram). At 31 December 2023, the proposed investment of CAD\$125 million (approximately £74 million) was subject to customary conditions, including necessary approvals by the shareholders of Organigram, which was given on 18 January 2024. On 24 January 2024, BAT made the first tranche investment of CAD\$42 million (£24 million) acquiring a further 12,893,175 common shares of Organigram at a price of CAD\$3.22 per share. Subject to conditions, the remaining 25,786,350 shares subscribed for shall be issued at the same price in two further equal tranches by the end of August 2024 and February 2025, respectively. Based on Organigram's current outstanding share capital, this investment will increase the Group's equity position from c.19% to c.45% (restricted to 30% voting rights) once all three tranches have been completed.

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Charlotte's Web Holdings Inc.

In November 2022, the Group announced a £48 million investment in Charlotte's Web Holdings, Inc. (Charlotte's Web). Based in Colorado, USA, and listed on the Toronto Stock Exchange, Charlotte's Web holds a prominent position in innovative hemp extract wellness products. The Group's investment has been made via a seven-year convertible debenture which is convertible at the Group's discretion into a non-controlling equity stake in Charlotte's Web of around 19.9%. As part of the investment agreement, the Group has the right to appoint directors to the Board of Charlotte's Web. However, given the investment does not give the Group any current right to a share of the earnings or net assets of the investee, the investment has been classified as an investment at fair value through profit and loss (see note 18). On conversion of the loan note, the Group would equity account for its investment.

15 Retirement benefit schemes

The Group operates various funded and unfunded defined benefit schemes, including pension and post-retirement healthcare schemes, and defined contribution pension schemes through its subsidiary undertakings in multiple jurisdictions, with its most significant arrangements being in the U.S., the UK, Canada, Germany, Switzerland and the Netherlands. Together, schemes in these territories account for over 90% of the total underlying obligations of the Group's defined benefit arrangements and over 70% of the current service cost.

Pension 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 benefit schemes, of which the most significant are in the U.S. and Canada. The majority of defined benefit schemes allow for the future accrual of benefits. With the exception of arrangements required under local regulations, most of the Group's arrangements are closed to new entrants.

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.

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

- Asset volatility: The scheme liabilities are calculated using discount rates set by reference to bond yields. If scheme assets underperform this yield, e.g. due to stock market volatility, this may create a deficit. However, most funded 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. In addition, schemes in the UK and Canada have purchased insurance contracts which exactly match valuation volatility of all or part of the scheme liabilities.
- 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, 'buy-in' insurance assets 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.

The Group has an internal body, the Pensions Executive Committee (PEC), that is chaired by the Group Finance Director. The PEC sets and oversees a set of philosophies, policies and practices in respect of post-employment benefits including, but not limited to, design, funding, investment strategy, risk management and governance. It also reviews significant changes to defined benefit schemes in the countries with the most significant liabilities, and defined contribution schemes in the countries with the most significant costs. Significant changes to defined benefit arrangements include scheme closures to future accrual and risk management exercises such as the 'buy-in' and 'buy-out' transactions referred to below.

A 'buy-out' transaction is where a pension scheme derecognises all (or part) of its liabilities, removing it from the balance sheet, by permanently transferring those obligations from the sponsoring employer to a third-party provider and eliminating all further legal or constructive obligation to the pension scheme or to the sponsoring employer. By contrast, with a 'buy-in' transaction the scheme liabilities remain on the balance sheet and the sponsoring employer remains responsible for the fulfilment of the pension obligations. However, these obligations are de-risked through the purchase of an insurance product designed to match the underlying cash flows of the pension liability reducing the risks associated with improved longevity and interest and discount rate movements. The Group consequently benefits from the 'buy-in' as it reduces the individual scheme's reliance on the Group for future cash funding requirements.

All of the Group's 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. Responsibility for the governance of these schemes, including specific investment decisions and funding contribution schedules, generally lies with the trustees, or equivalent bodies, of each arrangement. The trustees will usually consist of representatives appointed by both the sponsoring company and the beneficiaries.

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 the Netherlands manage their bond portfolios to match the weighted average duration of scheme liabilities. In addition, as noted below, certain arrangements in the UK and Canada have been de-risked through the purchase of insurance policies. The majority of funded 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 defined benefit schemes in 2024 in total are expected to be £48 million compared to £64 million in 2023.

U.S.

In the U.S., the main funded pension plan is the Reynolds and Affiliates Pension Plan (RAPP) which was formed at the end of 2022 through a merger of the Reynolds American Retirement Plan (PEP) and the Retirement Income Plan for Certain RAI Affiliates (Affiliates). The only funded healthcare scheme is the Brown & Williamson Tobacco Corporation Welfare & Fringe Benefit Plan. Each of the above were established with corporate trustees that are required to run the plan in accordance with the plan's rules and to comply with all relevant legislation, including the Employee Retirement Income Security Act of 1974.

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. Contributions to the various funded plans 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 U.S. 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 remaining fully funded in the long-term. During 2023, the Group contributed £2 million to its funded pension and post-retirement plans in the U.S. but does not expect to do so in 2024.

For funded plans in the U.S., the trustees employ 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 primarily consists of extended duration fixed income holdings (typically U.S. Government and investment grade corporate bonds) and, to a lesser extent, derivatives used to match the majority 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.

On 7 October 2021, the Group concluded a transaction affecting portions of the membership of the former PEP and former Affiliates plans referred to above, allowing the Group to fully settle portions of its liability by transferring the obligations to the Metropolitan Tower Life Insurance Company in a buy-out. Approximately US\$1.9 billion (£1.4 billion) of plan liabilities were removed from the balance sheet, resulting in a settlement gain of £35 million. A further partial buy-out affecting portions of the membership of the former PEP and former Affiliates plans was concluded on 7 June 2022, with approximately US\$1.6 billion (£1.3 billion) of plan liabilities removed from the balance sheet, resulting in a settlement gain of £16 million.

At 31 December 2023, the Reynolds and Affiliates Pension Plan was reporting a surplus under IAS 19 in total of £516 million (2022: £567 million). Under the rules of this plan, after assuming the gradual settlement of the plan liabilities over the lives of the arrangements, 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 restriction has been recognised.

United Kingdom

In the UK, the main pension arrangement is the British American Tobacco UK Pension Fund (UKPF), which is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the UKPF'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, UKPF was closed to further accrual of benefits with all active members becoming deferred members.

The formal triennial actuarial valuation of the UKPF was last carried out with an effective date of 31 March 2023. This showed that UKPF had a surplus of £111 million on a Technical Provisions basis, in accordance with the statutory funding objective. Under IAS 19, this was reported as a net retirement benefit asset of £184 million (2022: £143 million). Under the UKPF scheme rules, the Trustee does not have a unilateral power to commence a wind up of UKPF, and the Group has recognised a surplus as an unconditional right to a refund assuming the gradual settlement of the UKPF liabilities over the life of the scheme with any future surplus returnable to the Group at the end of the life of the scheme.

Under an amendment to the Schedule of Contributions dated 8 August 2022, the Trustee and the Group agreed that the Group would make no contributions in 2022 but would commit to pay £36 million in July 2023. However, the Trustee retained the right to require an interim payment of up to £18 million at any time before 19 August 2023 should it consider this, in all the circumstances, to be necessary and appropriate. On 16 March 2023, the Schedule of Contributions was further amended to remove any funding commitment for the foreseeable future, which was reconfirmed in the current Schedule of Contributions dated 17 December 2023. Consequently, no contributions were made to UKPF in 2023 or 2022 and no contributions are expected in 2024.

On 26 October 2022, the Group entered into an agreement with the Trustee to provide a temporary liquidity facility capped at £40 million for up to two years. The facility provides short-term liquidity for UKPF, should this be necessary, in meeting capital calls in respect of the certain residual investments held by UKPF. Once borrowed and repaid, amounts cannot be redrawn. Interest will accrue on the amounts borrowed under the facility at SONIA plus 2.25% p.a. A commitment charge of 0.56% will be paid by the Trustee. As at 31 December 2022 and 31 December 2023 this facility was undrawn.

As part of its risk management strategy, on 31 May 2019, the UK Trustee entered into a buy-in agreement with Pension Insurance Corporation plc (PIC) to acquire an insurance policy with the intent of matching a specific part of UKPF's future cash flows arising from the accrued pension liabilities of retired and deferred members and improving the security to the UKPF and its members. On 19 May 2021, the Trustee entered into an agreement with PIC to acquire a second buy-in policy which involved the transfer of £383 million of assets held by UKPF to PIC, and on 26 October 2022, a third and final buy-in policy was acquired with PIC. £198 million of assets were transferred immediately with £35 million of the premium deferred and subsequently settled in 2023.

As a result of these transactions, approximately 92% of the assets held by UKPF (2022: 94%) are represented by the buy-in contracts, covering 100% of UKPF's retirement liabilities (2022: 100%). On an IAS 19 basis, the subsequent fair value of the insurance policies matches the present value of the liabilities being insured.

For the residual assets held by UKPF, the current allocation is broadly split as 65% in return seeking assets and 35% in liquid 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. The Trustee reviewed the investment strategy following the completion of the third and final buy-in contract with PIC in October 2022. The residual liquid assets were transferred to a Liquidity Fund to support the ongoing and anticipated expenses of the UKPF. The strategy remains consistent with their ultimate target to further reduce UKPF's exposure to asset volatility.

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Other territories

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 £19 million in 2024 and £38 million per annum for the four years after that. Contributions to pension schemes in Canada, Netherlands and Switzerland in total are anticipated to be around £12 million in 2024 and then also around £7 million per annum for the four years after that.

For schemes in the Netherlands reporting surpluses of £44 million (2022: £46 million), these surpluses have been recognised as an unconditional right to a refund assuming the gradual settlement of the pension liabilities over the life of the scheme, with any future surplus returnable to the Group at the end of the life of the scheme, and similarly for the surplus relating to schemes in Germany of £122 million (2022: £150 million). For schemes in surplus in Canada of £33 million (2022: £35 million), the economic benefit has been calculated as a combination of the expected level of administration expenses which may be charged to the plan assets in accordance with the plan rules, which economically represents a potential surplus refund, and the value of the employer reserve account as defined in legislation, which represents a potential reduction in contributions on an ongoing basis or a surplus refund at the end of the life of the scheme.

On 14 November 2023, the Group through its Canadian subsidiaries entered into a buy-in agreement with two insurers to acquire insurance policies that operate as assets of its second largest Canadian scheme, the Imperial Tobacco Corporate Pension Plan (Corporate Plan), by transferring plan assets of CAD\$194 million (£114 million). The transaction was met entirely from the pension plan assets with no further funding required from the Group. The buy-in covered all the Corporate Plan's liabilities in relation to pensioners and deferred members as well as the pensions accrued up to 31 December 2022 for active members. The Group consequently benefits from the buy-in as it reduces the Corporate Plan's reliance on the Group for future cash funding requirements. Previously, on 2 September 2021, the Group entered into a buy-in agreement in respect of its largest Canadian scheme, the Imasco Pension Fund Society Plan (Society Plan), by transferring plan assets of CAD\$766 million (£451 million). The buy-in covered all the Society Plan's liabilities in relation to pensioners and deferred members as well as the pensions accrued up to 31 December 2020 for active members.

Unfunded arrangements

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 pension schemes in the U.S. and UK, 50% of the liabilities reported at year-end are expected to be settled by the Group within 10 years, 29% between 10 and 20 years, 14% between 20 and 30 years, and 7% thereafter. For unfunded healthcare schemes in the U.S. and Canada, 70% of the liabilities reported at year-end are expected to be settled by the Group within 10 years, 24% between 10 and 20 years, 5% between 20 and 30 years, and 1% thereafter.

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

	Pension schemes		Healthcare schemes		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Present value of funded scheme liabilities	(6,267)	(6,310)	(150)	(205)	(6,417)	(6,515)
Fair value of funded scheme assets	7,172	7,271	145	153	7,317	7,424
	905	961	(5)	(52)	900	909
Unrecognised funded scheme surpluses	(40)	(61)	—	—	(40)	(61)
	865	900	(5)	(52)	860	848
Present value of unfunded scheme liabilities	(380)	(387)	(405)	(410)	(785)	(797)
	485	513	(410)	(462)	75	51

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

– retirement benefit scheme liabilities	(467)	(483)	(414)	(466)	(881)	(949)
– retirement benefit scheme assets	952	996	4	4	956	1,000
	485	513	(410)	(462)	75	51

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

	Liabilities		Assets		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
– U.S.	(1,439)	(1,552)	1,890	2,046	451	494
– UK	(2,132)	(2,114)	2,315	2,256	183	142
– Germany	(741)	(711)	863	861	122	150
– Canada	(556)	(574)	594	613	38	39
– Netherlands	(736)	(693)	780	739	44	46
– Switzerland	(273)	(279)	295	308	22	29
– Rest of Group	(390)	(387)	435	448	45	61
Funded schemes	(6,267)	(6,310)	7,172	7,271	905	961

Of the Group's unfunded pension schemes, 48% (2022: 47%) relate to arrangements in the UK and 38% (2022: 39%) relate to arrangements in the U.S., while 86% (2022: 86%) of the Group's unfunded healthcare arrangements relate to arrangements in the U.S.

The amounts recognised in the income statement are as follows:

	Pension schemes		Healthcare schemes		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Defined benefit schemes						
Service cost						
– current service cost	36	50	1	1	37	51
– past service (credit)/cost, curtailments and settlements	(7)	(14)	1	1	(6)	(13)
Net interest on the net defined benefit liability						
– interest on scheme liabilities	315	224	32	23	347	247
– interest on scheme assets	(345)	(240)	(9)	(6)	(354)	(246)
– interest on unrecognised funded scheme surpluses	4	1	—	—	4	1
	3	21	25	19	28	40
Defined contribution schemes	80	93	—	—	80	93
Total amount recognised in the income statement (note 3)	83	114	25	19	108	133

The above charges are recognised within employee benefit costs in note 3 and include a credit of £9 million in 2022 in respect of settlements, past service costs and defined contribution costs reported as part of the restructuring costs and other adjusting items charged in arriving at profit from operations (note 7). Included in current service cost in 2023 is £10 million (2022: £13 million) of administration costs. Current service cost is stated after netting employee contributions, where applicable.

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The movements in scheme liabilities are as follows:

	Pension schemes		Healthcare schemes		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Present value at 1 January	6,697	10,414	615	707	7,312	11,121
Differences on exchange	(153)	567	(34)	78	(187)	645
Current service cost	36	50	1	1	37	51
Past service (credit)/cost and settlements	(67)	(1,308)	1	1	(66)	(1,307)
Interest on scheme liabilities	315	224	32	23	347	247
Contributions by scheme members	2	3	—	—	2	3
Benefits paid	(484)	(586)	(52)	(59)	(536)	(645)
Actuarial (gains)/losses						
– arising from changes in demographic assumptions	(28)	(18)	—	—	(28)	(18)
– arising from changes in financial assumptions	268	(2,775)	9	(145)	277	(2,920)
Experience losses/(gains)	61	126	(17)	9	44	135
Present value at 31 December	6,647	6,697	555	615	7,202	7,312

Changes in financial assumptions principally relate to discount rate movements in both years, offset by changes in inflation. Experience losses/(gains) relates to variations from previous assumptions for inflationary increases for pensions-in-payment and deferred pensions as well as adjustments for membership data. Past service (credit)/cost and settlements in the table above includes amounts relating to the U.S. buy-out transaction in 2022.

Scheme liabilities by scheme membership:

	Pension schemes		Healthcare schemes		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Active members	656	756	23	31	679	787
Deferred members	1,025	1,055	1	1	1,026	1,056
Retired members	4,966	4,886	531	583	5,497	5,469
Present value at 31 December	6,647	6,697	555	615	7,202	7,312

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	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Fair value of scheme assets at 1 January	7,271	10,644	153	172	7,424	10,816
Differences on exchange	(182)	606	(10)	21	(192)	627
Settlements	(60)	(1,294)	—	—	(60)	(1,294)
Interest on scheme assets	345	240	9	6	354	246
Company contributions	64	74	—	—	64	74
Contributions by scheme members	2	3	—	—	2	3
Benefits paid	(448)	(546)	(14)	(15)	(462)	(561)
Actuarial gains/(losses)	180	(2,456)	7	(31)	187	(2,487)
Fair value of scheme assets at 31 December	7,172	7,271	145	153	7,317	7,424

The actuarial losses and gains in both years principally relate to movements in the fair values of scheme assets including revaluations on initial recognition and subsequent remeasurement of insurance assets acquired in the buy-in transactions referred to above. Actual returns are stated net of applicable taxes and fund management fees. Past service and settlements in the table above includes amounts relating to the U.S. buy-out transactions in 2022.

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.

	Pension schemes		Healthcare schemes		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Equities – listed	629	623	5	5	634	628
Equities – unlisted	675	756	49	50	724	806
Bonds – listed	1,139	1,167	17	18	1,156	1,185
Bonds – unlisted	803	768	58	64	861	832
Buy-in insurance policies	2,585	2,453	—	—	2,585	2,453
Other assets – listed	556	473	8	7	564	480
Other assets – unlisted	785	1,031	8	9	793	1,040
Fair value of scheme assets at 31 December	7,172	7,271	145	153	7,317	7,424

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. 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 insurance policies related to buy-in transactions in the UK and Canada were estimated as the present value of the underlying obligations covered by the insurance policy and consequently the valuation of these assets at each balance sheet date is subject to the same measurement uncertainty as for the related scheme liabilities.

The fair values of other unlisted assets were determined using an income approach that utilised cash flow models utilising observable inputs and comparing these valuations to benchmark valuations of similar assets. In addition, the fair value of a proportion of the unlisted bonds is estimated by reference to daily broker auctions.

In the U.S, 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 public equity, fixed income, real assets, private equity and hedge funds. The range of allowable investment types utilised for pension assets provides enhanced returns and more widely diversifies the plan.

As noted above, the UKPF Trustee has acquired insurance policies that operate as a UK Fund investment asset in a buy-in transaction. The residual assets of this fund of £184 million (2022: £143 million) now predominantly consist of cash and a proportion of illiquid investments, such as private equity and infrastructure investments, as well as certain liability-driven investments and absolute return funds.

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The recognition of retirement benefit surpluses on the balance sheet is restricted where the economic benefit, in the form of a potential refund or reduction in future contributions, has a present value which is less than the net assets of the scheme. The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes			Healthcare schemes			Total		
	2023 £m	2022 £m	2021 £m	2023 £m	2022 £m	2021 £m	2023 £m	2022 £m	2021 £m
Unrecognised funded scheme surpluses at 1 January	(60)	(16)	(16)	—	—	—	(60)	(16)	(16)
Differences on exchange	—	(4)	2	—	—	—	—	(4)	2
Interest on unrecognised funded scheme surpluses	(4)	(1)	(1)	—	—	—	(4)	(1)	(1)
Movement in year (note 22)	24	(39)	(1)	—	—	—	24	(39)	(1)
Unrecognised funded scheme surpluses at 31 December	(40)	(60)	(16)	—	—	—	(40)	(60)	(16)

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.

	2023						2022					
	U.S.	UK	Germany	Canada	Netherlands	Switzerland	U.S.	UK	Germany	Canada	Netherlands	Switzerland
Rate of increase in salaries (%)	3.3	Nil	2.5	2.5	1.4	2.0	3.3	Nil	2.5	2.5	1.4	1.5
Rate of increase in pensions in payment (%)	2.4	3.1	2.3	Nil	2.5	Nil	2.4	3.2	2.3	Nil	2.2	Nil
Rate of increase in deferred pensions (%)	0.1	2.5	2.3	Nil	2.5	—	0.1	2.8	2.3	Nil	2.2	—
Discount rate (%)	5.2	4.8	3.5	4.6	3.3	1.4	5.5	5.0	4.2	5.0	3.7	2.1
General inflation (%)	2.5	3.1	2.5	2.0	2.0	1.4	2.5	3.2	2.3	2.0	2.0	1.2

	2023						2022					
	U.S.	UK	Germany	Canada	Netherlands	Switzerland	U.S.	UK	Germany	Canada	Netherlands	Switzerland
Weighted average duration of liabilities (years)	10.2	12.2	10.6	9.0	15.0	10.8	10.7	12.4	10.9	9.0	14.4	10.2

For healthcare inflation in the U.S., the assumption is 7.5% for 2023 (2022: 7.5%) and in Canada, the assumption is 5.0% for both years.

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

U.S.	Pri-2012 mortality tables without collar or amount adjustments projected with MP-2021 generational projection except for a specific group of retired members for which the mortality assumption is 99.5% of the RP-2006 table with white collar adjustment, projected with MP-2021 generational projection (both years)
UK	S3NA (YOB) with the CMI (2022) improvement model (smoothing parameter of 7) and 25% weighting to the 2022 data with a 1.25% long-term improvement rate applied from 2020 onwards (2022: S3PA (YOB) with the CMI (2021) improvement model with a 1.25% long-term improvement rate)
Germany	RT Heubeck 2018 G (both years)
Canada	CPM-2014 Private Table (both years)
Netherlands	AG Prognosetafel 2022 (both years)
Switzerland	LPP/BVG 2020 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:

	U.S.		UK		Germany		Canada		Netherlands		Switzerland	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
31 December 2023												
Member age 65 (current life expectancy)	22.1	23.6	22.6	24.1	20.6	24.0	22.1	24.4	21.0	24.4	22.0	23.8
Member age 45 (life expectancy at age 65)	22.2	24.1	24.1	26.1	23.0	26.8	23.1	25.4	23.2	26.3	24.0	25.7
31 December 2022												
Member age 65 (current life expectancy)	22.1	23.6	22.9	24.2	20.6	24.0	22.0	24.4	21.0	24.4	22.0	23.7
Member age 45 (life expectancy at age 65)	22.2	24.1	24.5	26.0	23.4	26.3	23.0	25.3	23.2	26.3	23.9	25.6

For the remaining territories, typical assumptions are that real salary increases will be from 0% to 11.7% (2022: 0% to 8.0%) per annum and discount rates will be from 0% to 7.0% (2022: 0% to 7.5%) 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 2023 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 and pension 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	percentage increase £m	percentage decrease £m
Average life expectancy – increase/(decrease) of scheme liabilities	184	(185)		
Rate of inflation (+/- 25bps) – increase/(decrease) of scheme liabilities			95	(96)
Discount rate (+/- 50bps) – (decrease)/increase of scheme liabilities			(308)	336

A one percent increase in healthcare inflation would increase healthcare scheme liabilities by £20 million, and a one percent decrease would decrease liabilities by £18 million. The income statement effect of this change in assumption is not material.

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16 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 2023	30	(115)	210	(229)	38	(18,773)	1,093	(17,746)
Differences on exchange	2	26	1	12	1	798	(78)	762
(Charged)/credited to the income statement	(1)	72	153	(4)	(35)	5,384	8	5,577
Credited/(charged) relating to changes in tax rates	—	—	9	—	—	105	(8)	106
Credited/(charged) to other comprehensive income	—	—	—	—	35	—	(23)	12
Net reclassifications as held-for-sale	1	(4)	—	—	—	—	11	8
31 December 2023	32	(21)	373	(221)	39	(12,486)	1,003	(11,281)
1 January 2022	(4)	(151)	94	(221)	139	(16,779)	1,071	(15,851)
Differences on exchange	(8)	(20)	5	(8)	7	(2,109)	126	(2,007)
Credited/(charged) to the income statement	46	50	77	—	(18)	70	(51)	174
(Charged)/credited relating to changes in tax rates	—	(3)	34	—	(1)	45	(9)	66
Charged to other comprehensive income	—	—	—	—	(89)	—	(17)	(106)
Net reclassifications as held-for-sale	(4)	9	—	—	—	—	(27)	(22)
31 December 2022	30	(115)	210	(229)	38	(18,773)	1,093	(17,746)

The net deferred tax liabilities are reflected in the Group balance sheet as follows: deferred tax asset of £911 million and deferred tax liability of £12,192 million (2022: deferred tax asset of £682 million and deferred tax liability of £18,428 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.

The Group net deferred tax liability of £11,281 million includes a net deferred tax asset of £493 million in relation to UK Group companies, which relates mainly to tax losses (£363 million) and the excess of capital allowances over depreciation (£196 million). The tax losses are expected to be utilised in future periods as a result of increased profitability in UK Group companies which is expected follow from improved efficiency in the delivery of business activities. Based on current forecasts UK group companies are expected to generate taxable profits from 2026, from which time it is expected that the tax losses will start to reduce. The losses are forecast to be fully utilised within 6 years thereafter, accounting for a 10% increase or decrease in the total profits of UK group companies.

As disclosed in Note 1 *Accounting Policies*, the Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes in accordance with IAS12 *Income Taxes*.

At the balance sheet date, the Group has not recognised a deferred tax asset in respect of unused tax losses of £360 million (2022: £364 million) which have no expiry date and unused tax losses of £285 million (2022: £429 million) which will expire within the next 20 years.

In 2023 and 2022 the Group has not recognised any deferred tax asset in respect of deductible temporary differences which have no expiry date and has not recognised £25 million (2022: £41 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 (2022: £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 £1.1 billion (2022: £1.6 billion).

17 Trade and other receivables

	2023 £m	2022 £m
Trade receivables	2,887	2,609
Loans and other receivables	663	1,568
Prepayments and accrued income	392	431
	3,942	4,608
Current	3,621	4,367
Non-current	321	241
	3,942	4,608

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 2023, the value of trade receivables derecognised through the factoring arrangements where the Group acts as a collection agent was £545 million (2022: £533 million) and where the Group does not act as a collection agent was £16 million (2022: £22 million). Included in trade receivables above is £189 million (2022: £164 million) of trade debtor balances which were available for factoring under these arrangements. In addition, the Group participates in certain supply chain finance programmes utilised by our customers allowing us to receive payment for invoices earlier than the agreed due date at a discounted value. At 31 December 2023, the value of trade receivables derecognised through these arrangements was £141 million (2022: £81 million).

Included in loans and other receivables are £131 million of litigation related deposits (2022: £114 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 potentially payable should the appeal process fail. These deposits are held at the fair value of consideration transferred and are offset against provisions, if applicable, only once funds have transferred out from the deposit account. The effect of discounting would be immaterial.

In March 2017, the Brazilian Supreme Court ruled that for all taxpayers VAT should not be included in the calculation of social contribution taxes (PIS/Cofins) which are levied based on revenue. In August 2022, Souza Cruz achieved the favourable final and unappealable decision in its individual lawsuit in respect of overpaid taxes to the government. Accordingly, an asset was recognised in the amount of £624 million (principal amount plus interest). Furthermore, the Group had a right related to an earn-out linked to the timing of the credit compensation of £97 million. In 2023, Souza Cruz fully offset the tax credit receivable with ordinary federal taxes payable, as allowed by local legislation.

As explained in note 27(d)(ii), loans and other receivables include £56 million (2022: £56 million) in relation to outstanding proceeds from the sale of the Group's Iranian subsidiary in 2021 as a current receivable. Given the ongoing political situation, heightened sanctions and other uncertainties coupled with the passage of time the receivable has been outstanding, the Group has recognised an expected credit loss of £28 million at 31 December 2023.

Also included in loans and other receivables are deposits that do not meet the definition of cash and cash equivalents as well as loans provided to farmers. The cash flows arising from these transactions are included in investing activities and have been reconciled, in note 18, to the cash flow statement.

Prepayments and accrued income include £17 million (2022: £21 million) of accrued income primarily in relation to rebates.

Amounts receivable from related parties including associated undertakings are shown in note 30.

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

	2023 £m	2022 £m
Trade receivables – gross	2,957	2,660
Trade receivables – allowance	(70)	(51)
Loans and other receivables – gross	691	1,568
Loans and other receivables – allowance	(28)	—
Prepayments and accrued income	392	431
Net trade and other receivables per balance sheet	3,942	4,608

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The movements in the allowance account are as follows:

	2023			2022		
	Trade receivables £m	Loans and other receivables £m	Total £m	Trade receivables £m	Loans and other receivables £m	Total £m
1 January	51	—	51	37	—	37
Differences on exchange	2	—	2	2	—	2
Provided in the year	33	28	61	28	—	28
Released	(16)	—	(16)	(16)	—	(16)
31 December	70	28	98	51	—	51

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: 3.3% (2022: 1.9%), Euro: 6.6% (2022: 5.7%) and other currencies: 1.4% (2022: 2.4%).

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.

18 Investments held at fair value

	2023			2022		
	Fair value through P&L £m	Fair value through OCI £m	Total £m	Fair value through P&L £m	Fair value through OCI £m	Total £m
1 January	640	60	700	469	37	506
Difference on exchange	(52)	(1)	(53)	18	1	19
Additions	405	11	416	209	19	228
Disposals	(372)	—	(372)	(93)	(3)	(96)
Provisions	4	—	4	17	—	17
Reclassifications	(3)	3	—	—	—	—
Other fair value movements	30	(6)	24	20	6	26
31 December	652	67	719	640	60	700
Current	601	—	601	579	—	579
Non-current	51	67	118	61	60	121
	652	67	719	640	60	700

The Group's investments principally consist of non-derivative financial assets that cannot be classified as loans and other receivables or cash and cash equivalents, as well as investments made by the Group's corporate venture capital unit, Btomorrow Ventures, and other Group companies.

Investments held at fair value through profit and loss principally consist of government securities, indexed deposits, treasury bills or other treasury products with maturities of more than three months which, if held for less than 12 months, form part of the Group's definition of net debt. Investments held at fair value through profit and loss also includes the Group's investment in Charlotte's Web (see note 14). Investments held at fair value through other comprehensive income (OCI) include equity investments in various start-up businesses which are held for their strategic value.

Investments held at fair value through profit and loss above include restricted amounts of £446 million (2022: £396 million) due to investments held by subsidiaries in CCAA protection (note 32), as well as £89 million (2022: £78 million) subject to potential exchange control restrictions.

In 2021, as part of the disposal of the Group's operations in Iran (note 27(d)), a provision of £24 million against non-current investments held at fair value was charged to net finance costs as recoverability of these funds was not certain. During 2022, £17 million was recovered with some progress on resolving issues over the release of the remaining funds. During 2023, an additional £4 million was recovered.

Investments held at fair value are predominantly denominated in the functional currencies of subsidiary undertakings with less than 6% in other currencies (2022: less than 5% in other currencies). There is no material difference between the investments held at fair value and their gross contractual values.

The classification of these investments under the IFRS 13 *Fair Value Measurement* fair value hierarchy is given in note 26. 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, including discounted cash flow analyses and share of net assets. The fair value of the seven-year convertible debenture in Charlotte's Web has been determined using a binomial option pricing model.

Included in the values in the table above are £192 million (2022: £186 million) of level 3 assets. Movements in these assets in 2023 included £123 million (2022: £133 million) of additions, £90 million (2022: £82 million) of disposals and £27 million of net fair value loss (2022: £26 million net fair value gain).

Below is a reconciliation of the fair value investments cash flows to the cash flow statement – investing activities:

	2023 £m	2022 £m
Cash outflow from investments held at fair value	416	228
Cash outflow from loans and other receivables	32	29
Cash outflows from investments per cash flow statement	448	257
Cash inflow from investments held at fair value	(372)	(96)
Cash inflow from loans and other receivables	(33)	(32)
Cash inflows from investments per cash flow statement	(405)	(128)

19 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 26.

	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges				
– interest rate swaps	10	187	27	435
– cross-currency swaps	18	—	126	—
Cash flow hedges				
– interest rate swaps	—	—	5	—
– cross-currency swaps	97	13	127	121
– forward foreign currency contracts	48	55	70	71
Net investment hedges				
– forward foreign currency contracts	81	9	45	247
Held-for-trading*				
– interest rate swaps	—	—	12	14
– forward foreign currency contracts	36	131	149	41
Total	290	395	561	929
Current	181	189	430	427
Non-current	109	206	131	502
	290	395	561	929
Derivatives				
– in respect of net debt**	147	317	438	605
– other	143	78	123	324
	290	395	561	929

Notes:

* 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 liability position of £170 million as at 31 December 2023 (2022: net asset position of £167 million). The Group's net debt is presented in note 23.

For cash flow hedges, the timing of expected cash flows is as follows: assets of £144 million (2022: £202 million) of which £46 million (2022: £72 million) is expected within one year and £nil million (2022: £ nil million) beyond five years and liabilities of £68 million (2022: £192 million) of which £52 million (2022: £134 million) is expected within one year and £nil million (2022: £nil 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 23. 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 23.

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The table below sets out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates. The table has been re-presented for the comparative period to include interest rates swaps, based on the nature of the actual settlement. These cash flows are stated net in the cash flow statement.

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

	2023				2022			
	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	8,163	(8,006)	10,354	(10,549)	12,506	(12,249)	8,691	(9,049)
– interest rate swaps	—	—	124	(256)	132	(144)	152	(310)
– cross-currency swaps	34	(42)	6	(10)	731	(608)	689	(767)
Between one and two years								
– forward foreign currency contracts	171	(168)	182	(186)	199	(193)	243	(247)
– interest rate swaps	—	—	77	(151)	—	—	152	(283)
– cross-currency swaps	34	(35)	306	(316)	9	(15)	10	(17)
Between two and three years								
– interest rate swaps	—	—	77	(124)	—	—	103	(192)
– cross-currency swaps	34	(33)	—	—	9	(15)	460	(502)
Between three and four years								
– interest rate swaps	—	—	39	(31)	—	—	104	(169)
– cross-currency swaps	618	(488)	—	—	9	(15)	—	—
Between four and five years								
– interest rate swaps	—	—	—	—	—	—	52	(43)
– cross-currency swaps	26	(21)	—	—	756	(579)	—	—
Beyond five years								
– cross-currency swaps	458	(453)	—	—	—	—	—	—
	9,538	(9,246)	11,165	(11,623)	14,351	(13,818)	10,656	(11,579)

Group's net-settled derivative financial instruments are all due within one year with assets inflow of £10 million (2022: £7 million inflow) and liabilities outflow of £5 million (2022: £5 million outflow).

The items designated as hedging instruments are as follows:

	2023		2022	
	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	2,798	79	4,657	(417)
– cross-currency swaps	451	13	710	11
Cash flow hedges				
– interest rate swaps	—	—	1,247	(5)
– cross-currency swaps	859	(26)	1,825	60
Foreign currency risk exposure:				
Cash flow hedges				
– forward foreign currency contracts	2,807	(6)	3,695	(2)
Net investment hedges (derivative related)				
– forward foreign currency contracts	4,329	69	6,407	(208)
Net investment hedges (non-derivative related)				
– debt (carrying value) in borrowings designated as net investment hedges of net assets	380	9	389	21

20 Inventories

	2023 £m	2022 £m
Raw materials and consumables	2,198	2,370
Finished goods and work in progress	2,584	3,159
Goods purchased for resale	156	142
	4,938	5,671

Write-offs taken to other operating expenses in the Group income statement were £250 million (2022: £250 million; 2021: £215 million). As mentioned in note 6(l), this includes a write-off of stock of leaf following an extreme weather event. Goods purchased for resale include Group brands produced under third-party contract manufacturing arrangements.

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21 Cash and cash equivalents

	2023 £m	2022 £m
Cash and bank balances	3,247	3,116
Cash equivalents	1,412	330
	4,659	3,446

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:

	2023 £m	2022 £m
Functional currency	4,147	2,979
US dollar	373	207
Euro	81	129
Other currencies	58	131
	4,659	3,446

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

	2023 £m	2022 £m
Cash and cash equivalents as above	4,659	3,446
Less overdrafts and accrued interest	(142)	(109)
Net cash and cash equivalents	4,517	3,337

Cash and cash equivalents also include £38 million (2022: £34 million) of cash that is held as a hedging instrument.

Accrued interest of £39 million (2022: £3 million) is primarily due to high cash and cash equivalent balances in certain markets, including Brazil, where accumulated cash is temporarily higher than normal due to the recognition of tax credits, as explained in note 17, being offset against tax liabilities payable.

Restricted cash

Cash and cash equivalents include restricted amounts of £1,904 million (2022: £1,411 million) due to subsidiaries in CCAA protection (note 32), as well as £392 million (2022: £324 million) principally due to exchange control restrictions.

22 Capital and reserves

(a) Share capital

	Ordinary shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2023	2,456,867,420	614.21
Changes during the year		
– share option schemes	74,489	0.02
31 December 2023	2,456,941,909	614.23
Allotted and fully paid		
1 January 2022	2,456,617,788	614.15
Changes during the year		
– share option schemes	249,632	0.06
31 December 2022	2,456,867,420	614.21
Allotted and fully paid		
1 January 2021	2,456,591,597	614.14
Changes during the year		
– share option schemes	26,191	0.01
31 December 2021	2,456,617,788	614.15

Share capital

The Company's ordinary shares are fully paid and no further contribution of capital may be required by the Company from the shareholders. All ordinary shares rank equally with regard to participation in dividends and to share in the proceeds of the Company's residual assets upon a winding up of the Company. Shareholders may, by ordinary resolution, declare final dividends, but not in excess of the amount recommended by the Directors. Holders of ordinary shares have no pre-emptive rights.

On a show of hands every shareholder who is present in person at a general meeting is entitled to one vote regardless of the number of shares held by the shareholder, unless a poll is demanded. On a poll, every shareholder who is present in person or by proxy has one vote for every share held by the shareholder. The Company's Annual General Meeting voting is undertaken by way of a poll.

All rights attached to the Company's shares held by the Group as treasury shares are suspended until those shares are reissued.

(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 2023	115	101	26,414	26,630
31 December 2022	113	101	26,414	26,628
31 December 2021	107	101	26,414	26,622

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 (2022: £5 million; 2021: £nil million) in respect of ordinary shares issued under the Company's share option schemes. A further £nil million (2022: £1 million; 2021: £4 million) 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.

Merger reserve account

The merger reserve comprises:

- 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
- 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.

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

							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 2023	2,200	(327)	30	179	573	2,655	(7,116)	51,197
Comprehensive income and expense								
Loss for the year	—	—	—	—	—	—	—	(14,367)
Foreign currency translation and hedges of net investments in foreign operations								
– differences on exchange from translation of foreign operations	(4,007)	—	—	—	—	(4,007)	—	—
– reclassified and reported in profit for the year	552	—	—	—	—	552	—	—
– net investment hedges – net fair value gains on derivatives	236	—	—	—	—	236	—	—
– net investment hedges – differences on exchange on borrowings	9	—	—	—	—	9	—	—
Cash flow hedges								
– net fair value gains	—	59	—	—	—	59	—	—
– reclassified and reported in profit for the year	—	12	—	—	—	12	—	—
– tax on net fair value gains in respect of cash flow hedges (note 10(f))	—	(23)	—	—	—	(23)	—	—
Investments held at fair value								
– net fair value losses	—	—	(6)	—	—	(6)	—	—
Associates – share of OCI, net of tax (note 9)	(165)	58	—	—	—	(107)	—	—
Retirement benefit schemes								
– net actuarial losses (note 15)	—	—	—	—	—	—	—	(106)
– surplus recognition (note 15)	—	—	—	—	—	—	—	24
– tax on actuarial losses in respect of subsidiaries (note 10(f))	—	—	—	—	—	—	—	30
Associates – share of OCI, net of tax (note 9)	—	—	(6)	—	—	(6)	—	1
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	—	27	—	—	—	27	—	—
Employee share options								
– value of employee services	—	—	—	—	—	—	—	71
– treasury shares used for share option schemes	—	—	—	—	—	—	14	(14)
Dividends and other appropriations								
– ordinary shares	—	—	—	—	—	—	—	(5,071)
Purchase of own shares								
– held in employee share ownership trusts	—	—	—	—	—	—	(110)	—
Perpetual hybrid bonds								
– coupons paid	—	—	—	—	—	—	—	(58)
– tax on coupons paid	—	—	—	—	—	—	—	14
Reclassification of equity related to assets held-for-sale	(295)	—	—	—	—	(295)	—	—
Other movements	—	—	—	—	—	—	116	(94)
31 December 2023	(1,470)	(194)	18	179	573	(894)	(7,096)	31,627

							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 2022	(6,427)	(363)	6	179	573	(6,032)	(5,122)	49,334
Comprehensive income and expense								
Profit for the year	—	—	—	—	—	—	—	6,666
Foreign currency translation and hedges of net investments in foreign operations								
– differences on exchange from translation of foreign operations	8,920	—	—	—	—	8,920	—	—
– reclassified and reported in profit for the year	5	—	—	—	—	5	—	—
– net investment hedges – net fair value gains on derivatives	(578)	—	—	—	—	(578)	—	—
– net investment hedges – differences on exchange on borrowings	(21)	—	—	—	—	(21)	—	—
Cash flow hedges								
– net fair value gains	—	81	—	—	—	81	—	—
– reclassified and reported in profit for the year	—	101	—	—	—	101	—	—
– tax on net fair value gains in respect of cash flow hedges (note 10(f))	—	(17)	—	—	—	(17)	—	—
Investments held at fair value								
– net fair value gains	—	—	6	—	—	6	—	—
Associates – share of OCI, net of tax (note 9)	6	—	—	—	—	6	—	—
Retirement benefit schemes								
– net actuarial gains (note 15)	—	—	—	—	—	—	—	316
– surplus recognition (note 15)	—	—	—	—	—	—	—	(39)
– tax on actuarial gains in respect of subsidiaries (note 10(f))	—	—	—	—	—	—	—	(95)
Associates – share of OCI, net of tax (note 9)	—	—	18	—	—	18	—	1
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	—	(129)	—	—	—	(129)	—	—
Employee share options								
– value of employee services	—	—	—	—	—	—	—	81
– treasury shares used for share option schemes	—	—	—	—	—	—	14	(15)
Dividends and other appropriations								
– ordinary shares	—	—	—	—	—	—	—	(4,915)
Purchase of own shares								
– held in employee share ownership trusts	—	—	—	—	—	—	(80)	—
– share buy-back programme	—	—	—	—	—	—	(2,012)	—
Perpetual hybrid bonds								
– coupons paid	—	—	—	—	—	—	—	(59)
– tax on coupons paid	—	—	—	—	—	—	—	11
Non-controlling interests – acquisitions (note 27(b))	—	—	—	—	—	—	—	(1)
Reclassification of equity in respect of assets classified as held-for-sale	295	—	—	—	—	295	—	—
Other movements	—	—	—	—	—	—	84	(88)
31 December 2022	2,200	(327)	30	179	573	2,655	(7,116)	51,197

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						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 2021	(6,830)	(504)	(18)	179	573	(6,600)	(5,150)	47,191
Comprehensive income and expense								
Loss for the year	—	—	—	—	—	—	—	6,801
Foreign currency translation and hedges of net investments in foreign operations								
– differences on exchange from translation of foreign operations	31	—	—	—	—	31	—	—
– reclassified and reported in profit for the year	291	—	—	—	—	291	—	—
– net investment hedges – net fair value gain on derivatives	75	—	—	—	—	75	—	—
– net investment hedges – differences on exchange on borrowings	24	—	—	—	—	24	—	—
Cash flow hedges								
– net fair value gains	—	95	—	—	—	95	—	—
– reclassified and reported in profit for the year	—	32	—	—	—	32	—	—
– tax on net fair value gains in respect of cash flow hedges (note 10(f))	—	(32)	—	—	—	(32)	—	—
Investments held at fair value								
– net fair value gains	—	—	9	—	—	9	—	—
Associates – share of OCI, net of tax (note 9)	(18)	1	—	—	—	(17)	—	—
Retirement benefit schemes								
– net actuarial gains (note 15)	—	—	—	—	—	—	—	382
– surplus recognition (note 15)	—	—	—	—	—	—	—	(1)
– tax on actuarial gains in respect of subsidiaries (note 10(f))	—	—	—	—	—	—	—	(82)
Associates - share of OCI, net of tax (note 9)	—	—	15	—	—	15	—	(1)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	—	45	—	—	—	45	—	—
Employee share options								
– value of employee services	—	—	—	—	—	—	—	76
– treasury shares used for share option schemes	—	—	—	—	—	—	13	(17)
Dividends and other appropriations								
– ordinary shares	—	—	—	—	—	—	—	(4,904)
Purchase of own shares								
– held in employee share ownership trusts	—	—	—	—	—	—	(82)	—
Perpetual hybrid bonds								
– coupons paid	—	—	—	—	—	—	—	(6)
– tax on coupons paid	—	—	—	—	—	—	—	1
Non-controlling interests – acquisitions (note 27(b))	—	—	—	—	—	—	—	(5)
Other movements	—	—	—	—	—	—	97	(101)
31 December 2021	(6,427)	(363)	6	179	573	(6,032)	(5,122)	49,334

(i) Translation reserve:

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

In 2023, included within the differences on exchange from translation of foreign operations is £552 million (2022: £5 million; 2021: £291 million) which has been reclassified from reserves to the income statement and recognised in other operating expenses as an adjusting item. In 2023, this amount includes £554 million in respect of the sale of the Russian and Belarusian subsidiaries. In 2022, £4 million was in respect of the exit from Egypt and, in 2021, £272 million was in respect of the disposal of BAT Pars.

In certain markets, the Group has moved to above market business models utilising local distributors as importers. As a consequence, with the cessation of a physical presence in these markets, foreign exchange previously recognised in other comprehensive income for these entities has been reclassified to the income statement. In 2023, a loss of £2 million was recognised in reserves in relation to the move to above market business models. In 2022 and 2021, a gain of £2 million and £19 million, respectively, was recognised in relation to the move to above market business models and Quantum-related initiatives.

Also, in 2022, as a result of the liquidation of Yemen, the Group reclassified to the income statement the foreign exchange previously recognised in associates other comprehensive income. This resulted in a credit of £1 million to the income statement.

(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 loss of £51 million (2022: £16 million loss; 2021: £29 million loss) and a loss of £4 million (2022: £2 million loss; 2021: £6 million gain) were reported within revenue and raw materials and consumables, respectively, together with a loss of £17 million (2022: £46 million gain; 2021: £4 million loss) reported in other operating expenses, and a gain of £84 million (2022: £73 million gain; 2021: £59 million gain) 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 cash flows as a component of the associated interest expense. The basis spreads are included within hedging reserves as they are not material. Included within the balance of hedging reserves at 31 December 2023 is an accumulated loss of £6 million (2022: £5 million gain; 2021: £4 million gain) 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 £6,807 million (2022: £6,821 million; 2021: £4,823 million) for shares repurchased and not cancelled and £289 million (2022: £295 million;

2021: £299 million) in respect of the cost of own shares held in employee share ownership trusts.

On 10 February 2022, the Board approved a proposed £2 billion share buy-back programme for 2022. The previous share buy-back programme was suspended from 30 July 2014. As at 31 December 2023, treasury shares include 5,951,979 (2022: 5,920,638; 2021: 6,269,959) shares held in trust and 220,533,855 (2022: 221,000,192; 2021: 161,930,217) 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.

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(d) Perpetual hybrid bonds

On 27 September 2021, the Group issued two €1 billion perpetual hybrid bonds amounting to £1,703 million, which have been classified as equity. Issuance costs of these bonds, amounting to €26 million (£22 million), have been recognised within equity.

These bonds include redemption options exercisable at the Group's discretion from September 2026 to December 2026 (the 3% perpetual hybrid bond) and June 2029 to September 2029 (the 3.75% perpetual hybrid bond), on specified dates thereafter, or in the event of specific circumstances (such as a change in IFRS or tax regime) as set out in the individual terms of each issue.

The coupons associated with these perpetual hybrid bonds are fixed at 3% until 2026 and 3.75% until 2029, respectively, and would reset to rates determined by the contractual terms of each instrument on certain dates thereafter. The bonds are perpetual in nature and do not have maturity dates for the repayment of principal. The contractual terms of the perpetual hybrid bonds allow the Group to defer coupon payments, however certain contingent events could trigger mandatory payments of such deferred coupons, including the payment of dividends on, and the repurchase of, ordinary shares, subject to certain exceptions in each case. The full terms and conditions of such events can be found in the prospectus dated 27 September 2021 which is available under the debt facilities section of the Group's debt microsite (bat.com/debt).

As the Group has the unconditional right to avoid transferring cash or another financial asset in relation to these bonds, they are classified as equity instruments in the consolidated financial statements.

During the year, the Group did not defer any eligible coupon payments and paid a coupon of £33 million in September 2023 (September 2022: £33 million) on the 3.75% September 2029 bond and £26 million in December 2023 (December 2022: £27 million) on the 3% December 2026 bond which has been recognised within equity.

Differences between the coupon recognised in the capital and reserves statement and the coupon paid on perpetual hybrid bonds in the cash flow statement are due to foreign exchange arising on short timing differences between recognition and settlement.

The fair value of these bonds at 31 December 2023 is £1,512 million (2022: £1,331 million).

(e) 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 32.

(f) Dividends and other appropriations

The interim quarterly dividend payment for the year ended 31 December 2022 of 230.9p per ordinary share (31 December 2021: 217.8p per ordinary share) was payable in four equal instalments: amounts payable in May 2023 of £1,282 million (May 2022: £1,239 million), August 2023 of £1,284 million (August 2022: £1,223 million), November 2023 of £1,293 million (November 2022: £1,219 million) and £1,287 million in February 2024 (February 2023: £1,211 million), respectively. The total dividends recognised as an appropriation from reserves in 2023 was £5,071 million (2022: £4,915 million; 2021: £4,904 million).

The Board has declared an interim dividend of 235.5p per ordinary share of 25p, for the year ended 31 December 2023, payable in four equal quarterly instalments of 58.9p per ordinary share in May 2024, August 2024, November 2024 and February 2025. These payments will be recognised as appropriations from reserves in 2024 and 2025. The total amount payable is estimated to be £5,267 million based on the number of shares outstanding at the date of these accounts.

23 Borrowings

	Currency	Maturity dates	Interest rates	2023 £m	2022 £m
Eurobonds	Euro	2024 to 2045	1.3% to 5.4%	5,569	7,149
	UK sterling	2024 to 2055	2.1% to 7.3%	3,097	3,884
	Swiss franc	2026	1.4%	234	226
Bonds issued pursuant to Rules under the U.S. Securities Act (as amended)	US dollar	2024 to 2053	1.7% to 8.1%	29,913	30,152
Bonds and notes				38,813	41,411
Commercial paper				—	27
Other loans				100	875
Bank loans				216	203
Bank overdrafts				103	106
Lease liabilities				498	517
				39,730	43,139

Perpetual hybrid bonds issued by the Group have been classified as equity (note 22(d)) and are therefore excluded from borrowings.

Other loans comprise £100 million (2022: £875 million) relating to a bilateral facility. 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 £573 million at 31 December 2023 (2022: £524 million). Included within borrowings are £5,935 million (2022: £9,223 million) of borrowings subject to fair value hedges where their amortised cost has been decreased by £110 million (2022: £355 million decrease).

The fair value of borrowings is estimated to be £36,000 million (2022: £37,170 million) of which £35,083 million (2022: £35,440 million) has been calculated using quoted market prices and is within level 1 of the fair value hierarchy and £917 million (2022: £1,730 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 2023 are £nil million (2022: £9 million). The majority of lease liabilities are also secured against the associated assets.

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2023 £m	2022 £m	2023 £m	2022 £m
Within one year	4,324	4,413	5,359	5,426
Between one and two years	3,319	4,253	4,784	5,763
Between two and three years	2,558	4,406	3,920	5,673
Between three and four years	2,947	3,013	4,393	4,141
Between four and five years	3,410	4,077	4,600	5,494
Beyond five years	23,172	22,977	35,163	33,806
	39,730	43,139	58,219	60,303

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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	U.S. dollar £m	UK sterling £m	Euro £m	Other currencies £m	Total £m
31 December 2023						
Total borrowings	32,215	3,656	302	3,301	256	39,730
Effect of derivative financial instruments						
– cross-currency swaps	1,214	(451)	(300)	(559)	—	(96)
– forward foreign currency contracts	(57)	(892)	—	537	414	2
	33,372	2,313	2	3,279	670	39,636
31 December 2022						
Total borrowings	33,438	3,383	452	5,579	287	43,139
Effect of derivative financial instruments						
– cross-currency swaps	2,356	—	(450)	(2,085)	—	(179)
– forward foreign currency contracts	(40)	(998)	—	590	454	6
	35,754	2,385	2	4,084	741	42,966

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 2023							
Total borrowings	4,324	3,319	2,558	2,947	3,410	23,172	39,730
Effect of derivative financial instruments							
– interest rate swaps	2,798	(229)	(786)	—	(1,783)	—	—
– cross-currency swaps	448	—	6	—	(98)	(452)	(96)
	7,570	3,090	1,778	2,947	1,529	22,720	39,634
31 December 2022							
Total borrowings	4,398	4,246	4,407	3,013	4,077	22,998	43,139
Effect of derivative financial instruments							
– interest rate swaps	4,657	(500)	(1,247)	—	(2,910)	—	—
– cross-currency swaps	(77)	—	36	—	(138)	—	(179)
	8,978	3,746	3,196	3,013	1,029	22,998	42,960

Lease liabilities are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2023 £m	2022 £m	2023 £m	2022 £m
Within one year	131	142	155	161
Between one and two years	103	109	122	122
Between two and three years	77	76	91	85
Between three and four years	59	58	70	65
Between four and five years	29	50	38	54
Beyond five years	99	82	140	112
	498	517	616	599

For more information on leasing arrangements, refer to note 13(b).

As at 31 December 2023, the Group's undrawn committed borrowing facilities (note 26) amount to £7,923 million (2022: £7,828 million) with £5,077 million maturing within one year (2022: £4,828 million maturing within one year), £154 million maturing between one and two years (2022: £nil million maturing between one and two years), £154 million maturing between two and three years (2022: £150 million maturing between two and three years), £2,538 million maturing between three and four years (2022: £350 million maturing between three and four years) and £nil maturing between four and five years (2022: £2,500 million maturing between four and five years).

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

							2023 £m
	Notes	Opening balance	Cash flow	Foreign exchange	Fair value, accrued interest and other	Held for Sale	Closing balance
Borrowings (excluding lease liabilities)*		42,622	(1,638)	(1,956)	204	—	39,232
Lease liabilities		517	(162)	(25)	168	—	498
Derivatives in respect of net debt	19	167	(238)	564	(323)	—	170
Cash and cash equivalents	21	(3,446)	(1,101)	30	226	(368)	(4,659)
Current investments held at fair value	18	(579)	(22)	49	(49)	—	(601)
		39,281	(3,161)	(1,338)	226	(368)	34,640

							2022 £m
	Notes	Opening balance	Cash flow	Foreign exchange	Fair value, accrued interest and other	Held for Sale	Closing balance
Borrowings (excluding lease liabilities)*		39,212	(17)	3,881	(454)	—	42,622
Lease liabilities		446	(161)	30	218	(16)	517
Derivatives in respect of net debt	19	(91)	348	(435)	345	—	167
Cash and cash equivalents	21	(2,809)	(571)	(431)	(3)	368	(3,446)
Current investments held at fair value	18	(456)	(86)	(15)	(22)	—	(579)
		36,302	(487)	3,030	84	352	39,281

Note:

* Borrowings as at 31 December 2023 include £700 million (2022: £798 million) in respect of the purchase price adjustments relating to the acquisition of Reynolds American.

In the table above, movements in accrued interest relate to the net movement year on year and cash flows related to interest payments are not included.

'Fair value, accrued interest and other' movements in lease liabilities in 2023 mainly comprise additions of £168 million (2022: £218 million) (net of reassessments, modifications and terminations), see note 13(a). The movement of £49 million (2022: £22 million) in current investments held at fair value represents the fair value gains for these investments.

	2023 £m	2022 £m
Cash flows per net debt statement	(3,161)	(487)
Non-financing cash flows included in net debt	1,126	897
Interest paid	(1,682)	(1,578)
Interest element of lease liabilities	(30)	(25)
Remaining cash flows relating to derivative financial instruments	(242)	(465)
Purchases of own shares held in employee share ownership trusts	(110)	(80)
Purchase of own shares	—	(2,012)
Coupon paid on perpetual hybrid bonds	(59)	(60)
Dividends paid to owners of the parent	(5,055)	(4,915)
Capital injection from and purchase of non-controlling interests	—	(1)
Dividends paid to non-controlling interests	(105)	(158)
Other	4	6
Net cash used in financing activities per cash flow statement	(9,314)	(8,878)

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24 Provisions for liabilities

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	DOJ and OFAC investigations £m	Other provisions £m	Total £m
1 January 2023	297	44	54	450	676	1,521
Differences on exchange	(32)	(4)	—	—	(46)	(82)
Provided in respect of the year (*)	(21)	13	—	(450)	240	(218)
Utilised during the year	(105)	(11)	(10)	—	(96)	(222)
31 December 2023	139	42	44	—	774	999
Analysed on the balance sheet as						
– current	96	13	3	—	356	468
– non-current	43	29	41	—	418	531
	139	42	44	—	774	999

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	DOJ and OFAC investigations £m	Other provisions £m	Total £m
1 January 2022	179	41	62	—	571	853
Differences on exchange	9	2	—	—	15	26
Provided in respect of the year (*)	198	10	—	450	187	845
Transferred to liabilities associated with assets held for sale	(20)	—	—	—	(6)	(26)
Utilised during the year	(69)	(9)	(8)	—	(91)	(177)
31 December 2022	297	44	54	450	676	1,521
Analysed on the balance sheet as						
– current	240	14	10	450	373	1,087
– non-current	57	30	44	—	303	434
	297	44	54	450	676	1,521

Note:

* Amounts provided above are shown net of reversals of unused provisions which include reversals of £42 million (2022: £35 million) for restructuring of existing businesses, £14 million (2022: £10 million) for employee benefits and £128 million (2022: £225 million) for other provisions. For DOJ and OFAC investigations, £450 million that were provided in 2022 were reclassified to trade and other payables in 2023.

Restructuring of existing businesses

The restructuring provisions relate to the restructuring and integration costs incurred and are reported as adjusting items. The principal restructuring activities in 2022 are as described in note 7 and primarily include the cost of employee packages and long-term social plans associated with redundancy programmes from previous years, mainly in relation to Quantum. No further Quantum restructuring charges were recognised as adjusting in 2023, following the completion of the Quantum programme. Provisions associated with redundancy packages are determined based on termination packages offered in each country. The long-term social plans primarily relate to social plans in Germany, which span over several years and are based on actuarial calculations. These are discounted to present value using Central Bank rates. We do not consider the effect of discounting to be material. The provisions for long-term social plans include future payments related to contracts that are already fixed. Given that there is little or no variability expected in the timing and amount of the payments, no additional risk has been incorporated in the discounting. While some elements of the non-current provisions of £43 million will unwind over several years, as termination payments are made over extended periods in some countries, it is estimated that approximately 97% of these non-current provisions will unwind within five years.

Employee-related benefits

Employee-related benefits mainly relate to employee benefits other than post-employment benefits. The principal components of these provisions are gratuity and termination awards, 'jubilee' payments due after a certain service period and expected payments associated with long-term disability. The majority of these provisions are calculated by actuaries. It is estimated that approximately 67% of the non-current provisions of £29 million will unwind within five years.

Fox River

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 31. This agreement led to payments of £nil million in 2023 (2022: £1 million). In addition, the Group incurred legal costs of £10 million (2022: £7 million), which were also charged against the provision. It is expected that the non-current provision will unwind within five years.

DOJ/OFAC investigations

As discussed earlier (in note 6(h)), on 25 April 2023, the Group announced that it had reached an agreement with the DOJ and OFAC for a total amount payable to the U.S. authorities of US\$635 million plus interest. Having recognised an initial provision of £450 million (US\$540 million), in 2022, the Group has recognised an additional charge of £75 million in 2023. During 2023, as a result of payment terms being finalised, the provision was reversed and the liability was transferred to sundry payables where US\$5 million (£4 million) was paid in April, US\$321 million (£258 million) including interest was paid in September and US\$326 million (£263 million) including interest will be paid in the first half of 2024.

Other

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.

In accordance with IFRS 15 *Revenue from Contracts with Customers*, sales return provisions are recognised based on a reasonable estimate of likely returns. In 2023, the sales return provision, included in other provisions, was £55 million (2022: £62 million).

Included within other provisions there is a provision for interest of £244 million (2022: £183 million) in relation to the Franked Investment Income Group Litigation Order (FII GLO), as mentioned in notes 8(b) and 10(b). The provision is calculated based on the UK central bank base rate plus 2% and has been charged to net finance costs. As there is uncertainty over the potential timing of the utilisation, as explained in note 10(b), the provision has been reported as a non-current provision.

Other provisions also include a provision of £89 million in relation to litigation-related deposits as explained in note 17. In addition, BAT Brazil has recognised a provision of £40 million in relation to a legal case over whether a 10% tax imposed on a tax benefit associated with investment grants by the Rio de Janeiro State was constitutional (as explained in note 6(k)).

25 Trade and other payables

	2023 £m	2022 £m
Trade payables	1,707	1,862
Master settlement agreement (U.S.)	1,788	2,193
Duty, excise and other taxes	2,994	3,104
Accrued charges and deferred income	2,608	2,713
FII GLO (note 10(b))	863	913
Social security and other taxation	46	61
Sundry payables	587	547
	10,593	11,393
Current	9,700	10,449
Non-current	893	944
	10,593	11,393

As explained in note 17, 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 £138 million (2022: £119 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 2023, the value of amounts payable under the SCF programmes was £201 million (2022: £257 million). The cash outflows in respect of these arrangements have been recognised within operating cash flows. Included in this amount is £110 million (2022: £161 million) of leaf payables where the standard payment terms with the vendor is 150 days, consistent with credit terms normally available in certain markets.

In 2023, the Group announced that it had reached an agreement with the DOJ and OFAC to resolve previously disclosed investigations into historical sanctions breaches. Included within sundry payables is US\$326 million (£263 million) plus interest representing the third and final payment due in the first half of 2024. Refer to note 24 for more information.

In 2022, following an investigation by the Nigerian Federal Competition and Consumer Protection Commission (FCCPC) into alleged violations of the Nigerian Competition and Consumer Protection Act and National Tobacco Control Act, a consent order was entered into between the FCCPC and British American Tobacco (Holdings) Limited, British American Tobacco (Nigeria) Limited and British American Tobacco Marketing (Nigeria) Limited, terminating the investigation and associated proceedings. A penalty equivalent to US\$110 million was accrued for with the resulting payments (equivalent to £59 million) made during 2023, among other measures.

Accrued charges and deferred income include £18 million of deferred income (2022: £20 million) relating to certain customer deposits in advance of shipments and £82 million (2022: £66 million) in respect of interest payable mainly related to tax matters. FII GLO of £863 million (2022: £913 million) relates to receipts in 2015, in respect of the Franked Investment Income Government Litigation Order (note 10(b)). Amounts payable to related parties including associated undertakings are shown in note 30.

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 10% in other currencies (2022: less than 7% in other currencies).

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26 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 23) and equity (note 22). 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 2023 is 5.2% (2022: 4.0%).

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 2023, the average centrally managed debt maturity was 10.5 years (2022: 9.9 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 15.7% (2022: 18.6%). Perpetual hybrid bonds are treated as equity (note 22(d)) and therefore not included within the debt maturity analysis.

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 @ (Baa1/BBB+/BBB+)@. Moody's, S&P's and Fitch's current ratings for the Group are Baa2 (positive outlook), BBB+ (negative outlook) and BBB (positive outlook), respectively. 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 2023, the Group had £173 million invested in money market funds (2022: £nil million).

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 17 and note 25.

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.

Available facilities in current year:

It is Group policy that short-term sources of funds (including drawings under both the Group US\$4 billion U.S. commercial paper (U.S. 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 2023, commercial paper of £nil million was outstanding (2022: £27 million). Cash flows relating to commercial paper that have maturity periods of three months or less are presented on a net basis in the Group's cash flow statement.

At 31 December 2023, the Group had access to a £5.4 billion revolving credit facility. In March 2023, the Group refinanced the £2.7 billion 364-day tranche of the revolving credit facility at the reduced amount of £2.5 billion, maturing in March 2024 with two one-year extension options, and a one-year term out option. Additionally, £2.85 billion of the five-year tranche remains available until March 2025, with £2.7 billion extended to March 2026 and £2.5 billion extended to March 2027.

During 2023, the Group extended short-term bilateral facilities totalling £2.65 billion. As at 31 December 2023, £100 million was drawn on a short-term basis with £2.55 billion undrawn and still available under such bilateral facilities. Cash flows relating to bilateral facilities that have maturity periods of three months or less are presented on a net basis in the Group's cash flow statement.

Issuance, drawdowns and repayments in current year:

- In January 2023, the Group repaid a €750 million bond at maturity;
- In February 2023, the Group accessed the Euro market under its EMTN Programme, raising a total of €800 million;
- In May 2023, the Group repaid a total of US\$48 million of bonds at maturity;
- Given the refinancing levels in the medium term and to reduce near term refinancing risks, in August 2023, the Group accessed the US dollar market under its SEC Shelf Programme, raising a total of US\$5 billion across five tranches whilst also announcing a concurrent capped debt tender offer, targeting a series of GBP-, EUR- and USD-denominated bonds maturing between 2024 and 2027. Pursuant to this tender offer, BAT repurchased bonds prior to their maturity in a principal amount of £3.1 billion; and
- In September, October and November 2023, the Group repaid US\$550 million, €800 million and €750 million of bonds at maturity, respectively.

Available facilities in prior year:

At 31 December 2022, the Group had access to a £5.69 billion revolving credit facility. This facility was undrawn at 31 December 2022.

During 2022, the Group extended short-term bilateral facilities totalling £3.0 billion. As at 31 December 2022, £875 million was drawn on a short-term basis.

Issuance, drawdowns and repayments in prior year:

- In March 2022, the Group accessed the US dollar market under its SEC Shelf Programme, raising a total of US\$2.5 billion across three tranches;
- In May 2022, the Group repaid a €600 million bond at maturity;
- In June 2022, the Group repaid US\$419 million and £180 million bonds at maturity;
- In August 2022, the Group repaid US\$750 million and US\$601 million bonds at maturity; and
- In October 2022, the Group raised US\$600 million in the US dollar market under its SEC Shelf Programme.

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, euro, Canadian dollar, Australian dollar, Indian rupee, South African rand, Danish krone, Indonesian rupiah, Brazilian real, Singaporean dollar and Swiss franc. 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 2023, the currency profile of the Group's gross debt, after taking into account derivative contracts, was 72% US dollar (2022: 71%), 14% euro (2022: 13%), 9% sterling (2022: 12%) and 5% other currencies (2022: 4%).

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 *Financial Instruments: Disclosures* 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 (2022: £49 million lower; 2021: £53 million lower) and items recognised directly in other comprehensive income being £273 million higher (2022: £445 million higher; 2021: £144 million higher). A 10% weakening of functional currencies against non-functional currencies would result in pre-tax profit being £72 million higher (2022: £60 million higher; 2021: £65 million higher) and items recognised directly in other comprehensive income being £333 million lower (2022: £543 million lower; 2021: £177 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.

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.

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. 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 included in net debt are considered to offset floating rate debt and are taken into account in determining the net interest rate exposure. At 31 December 2023, the relevant ratio of floating to fixed rate borrowings after the impact of derivatives was 10:90 (2022: 12:88). On a net debt basis, after offsetting liquid assets and excluding cash and other liquid assets in Canada, which are subject to certain restrictions under CCAA protection, the ratio of floating to fixed rate borrowings was 2:98 (2022: 7:93).

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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 £5 million lower (2022: £50 million lower; 2021: £44 million lower). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being £5 million higher (2022: £50 million higher; 2021: £47 million higher). The effect of these interest rate changes on items recognised directly in other comprehensive income is not material in either year.

Following the decision taken by global regulators in 2018 to replace Interbank Offered Rates with alternative nearly risk-free rates, such benchmark rates were expected to be largely discontinued after 2021. Following announcements by the respective regulators, EURIBOR is expected to continue for the foreseeable future, with USD LIBOR rates discontinued (other than on a synthetic basis) from June 2023.

The Group is party to the ISDA fallback protocol and in January 2022, it automatically replaced the GBP LIBOR with economically equivalent interest rate derivatives referencing SONIA on their reset date. The four impacted derivatives (cross currency interest rate swaps) with nominal values totalling €800 million (£672 million) matured in October 2023 and were in fair value hedge relationships which were indexed to GBP LIBOR interest rates. As of 31 December 2023, the Group does not have any outstanding financial instruments using the historical benchmarks that are no longer available.

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 £51 million (2022: £90 million). In addition, the Group has entered into a guarantee arrangement to support a short-term bank credit facility with a supply chain partner. The maximum exposure under the arrangement would be £1 million (2022: £1 million).

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

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

		2023				2022			
	Notes	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	18	527	—	192	719	514	—	186	700
Derivatives relating to									
– interest rate swaps	19	—	10	—	10	—	43	—	43
– cross-currency swaps	19	—	115	—	115	—	254	—	254
– forward foreign currency contracts	19	—	165	—	165	—	264	—	264
Assets at fair value		527	290	192	1,009	514	561	186	1,261
Liabilities at fair value									
Derivatives relating to									
– interest rate swaps	19	—	187	—	187	—	450	—	450
– cross-currency swaps	19	—	13	—	13	—	121	—	121
– forward foreign currency contracts	19	—	195	—	195	—	358	—	358
Liabilities at fair value		—	395	—	395	—	929	—	929

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.

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:

	2023			2022		
	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 19)	290	(199)	91	561	(405)	156
Financial liabilities						
– Derivative financial instruments (note 19)	(395)	199	(196)	(929)	405	(524)
	(105)	—	(105)	(368)	—	(368)

Note:

* 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.

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The hedged items by risk category are presented below:

					2023
	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)	5,935	110	Borrowings	(81)	
Cash flow hedges					
Interest rate risk					
– borrowings (liabilities)	858		Borrowings	26	(362)
					2022
	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)	9,223	(355)	Borrowings	399	
Cash flow hedges					
Interest rate risk					
– borrowings (liabilities)	1,824		Borrowings	(55)	(464)

£380 million (2022: £389 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. The change in the value used for calculating hedge ineffectiveness for hedged items designated under net investment hedge relationships is £9 million (2022: £21 million).

As at 31 December 2023, the accumulated balance of the cash flow hedge reserve was a loss of £194 million (2022: loss of £327 million) including an accumulated loss of £362 million (2022: loss of £464 million) in relation to interest rate exposure and foreign currency exposure arising from borrowings held by the Group, and an accumulated gain of £77 million (2022: gain of £99 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 22(c)(ii)).

27 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 30 September 2019, the Group acquired control of **Twisp Proprietary Limited**, a South African e-cigarette/nicotine Vapour company for a purchase price of £25 million of which £6 million was deferred and contingent upon future performance in the market. The final payment of deferred consideration of £3 million was paid in 2021.

(b) Non-controlling interests

During 2023, the Group acquired a further 1.31% in **Hrvatski Duhani d.d.**, at a cost of less than £1 million, following the acquisitions in 2022 (3.3% at a cost of £1 million) and 2021 (2.7% at a cost of £1 million).

In 2021, the Group made a capital contribution to **Brascuba Cigarrillos S.A.** at a cost of £6 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.

Also in 2021, as part of a Voluntary Tender Offer for the non-controlling interests of the Group's Indonesian subsidiary, the Group acquired 0.2% additional shares at a cost of £4 million as explained in note 30.

(c) Other transactions

(i) Organigram

On 11 March 2021, the Group announced a strategic collaboration agreement with Organigram Inc., a wholly owned subsidiary of publicly traded Organigram Holdings Inc. (collectively, Organigram). Under the terms of the transaction, a Group subsidiary acquired a 19.9% equity stake in Organigram Holdings Inc. to become its largest shareholder, with the ability to appoint two directors to Organigram Holdings Inc.'s board of directors and representation on its investment committee. The Group accounts for the investment as an associate.

The Group's initial investment of £129 million was allocated against the Group's share of Organigram's net assets, including the recognition of £49 million of intangibles, and goodwill of £30 million, which represents a strategic premium to enter the legal cannabis market in North America.

As a result of certain acquisitions made by Organigram during 2021, the Group's shareholding was reduced to 18.8%. In 2022, the Group exercised its top-up rights and invested a further £4 million to maintain its ownership stake.

In November 2023, the Group announced the signing of an agreement for a further investment in Organigram. At 31 December 2023, the proposed investment of CAD\$125 million (approximately £74 million) was subject to customary conditions, including necessary approvals by the shareholders of Organigram, which was given on 18 January 2024. On 24 January 2024, BAT made the first tranche investment of CAD\$42 million (£24 million) acquiring a further 12,893,175 common shares of Organigram at a price of CAD\$3.22 per share. Subject to certain conditions, the remaining 25,786,350 shares subscribed for shall be issued at the same price in two further equal tranches by the end of August 2024 and February 2025, respectively. Based on Organigram's outstanding share capital at the end of 2023, this investment will increase the Group's equity position from c.19% to c.45% (restricted to 30% voting rights) once all three tranches have been completed.

(ii) Other transactions and announcements

In April 2023, the Group announced a strategic joint venture agreement between a Group subsidiary, **AJNA BioSciences PBC**, and **Charlotte's Web**. Under the terms of the transaction, a Group subsidiary acquired a 20% stake in the new entity, **DeFloria LLC**, at a cost of £8 million (US\$10 million).

On 24 July 2023, ITC Limited (ITC), an associate of the Group in India, announced a proposed demerger of its 'Hotels Business' under a scheme of arrangement by which 60% of the newly incorporated entity would be held directly by ITC's shareholders proportionate to their shareholding in ITC. On 14 August 2023, ITC's Board of Directors approved the scheme of arrangement subject to necessary regulatory approvals. The demerger is expected to complete by the end of 2024.

On 26 September 2022, the Group announced a £32 million investment in exchange for 16% of **Sanity Group GmbH** (Sanity Group), a German based cannabis company which has a well-established product portfolio of CBD consumer brands and medical cannabis brands and is actively engaged in the research, development, and marketing of cannabis products. The Group's investment was part of a series-B investment round. As part of the investment agreement, the Group has the right to nominate directors to the Sanity Group's board and accounts for the investment as an associate. The Group's investment was allocated against the Group's share of Sanity Group's net assets, including the recognition of £4 million of intangibles, and goodwill of £28 million, which represents a strategic premium in expectation of the legalisation of cannabis in Germany and elsewhere in Europe.

In November 2022, the Group announced that it had invested in **Charlotte's Web Holdings, Inc.** (Charlotte's Web), via a convertible debenture of £48 million. Charlotte's Web is based in Colorado, USA, listed on the Toronto Stock Exchange, and holds a prominent position in innovative hemp extract wellness products across major retail channels, including food/drug/mass retail, and natural grocery and vitamin retailers. Their product formats include tinctures, capsules, chews and topicals. The debenture is currently convertible into a non-controlling equity stake in Charlotte's Web of approximately 19.9% and is convertible at BAT's discretion. Given that the nature of the investment as a convertible loan note does not give the Group any current right to a share of the earnings or net assets of the investee, despite the ability to appoint directors, the investment will be recognised at fair value through profit and loss with fair value changes in the investment recognised in net finance costs. On conversion of the loan note, the Group will equity account for its investment.

During 2022, the Group increased its ownership of a wholesale producer and distributor operating in the agriculture sector based in Uzbekistan, **FE 'Samfruit' JSC** by 2.8% to 45.4%, for £1 million. In 2021, the ownership was increased by 4%, for £1 million. The Group accounts for the investment as an associate.

In addition, during 2022, the Group made a non-controlling investment in Steady State LLC (trading as Open Book Extracts), a U.S. based cGMP certified manufacturer and distributor of cannabinoid ingredients, food products and nutraceuticals, for £4 million. A second investment of £4 million was made in May 2023. The Group accounts for the investment as an associate. A further investment of £8 million was made in October 2023 by way of a convertible loan note, which will be accounted for as an investment at fair value through profit and loss until such time as it is converted into shares and accumulated into the investment in the associate.

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(d) Assets held for sale and business disposals**(i) BAT Russia and BAT Belarus**

On 11 March 2022, the Group announced the intention to transfer its Russian business in full compliance with international and local laws. At that time, the Group had two subsidiaries in Russia (BAT Russia), being **JSC British American Tobacco-SPb** and **JSC International Tobacco Marketing Services**. In September 2023, the Group formally entered into an agreement to sell the Group's Russian and Belarusian businesses to a consortium led by then members of BAT Russia's Management team, in compliance with local and international laws. As previously announced, due to operational dependencies between BAT Russia and the Group's subsidiary in Belarus (International Tobacco Marketing Services BY) (BAT Belarus), the Belarusian business was included in the sale. The transaction was completed on 13 September 2023 and, since completion, the buyer consortium has wholly owned both businesses. These businesses are now known as the ITMS Group.

In accordance with IFRS, the assets and liabilities of the subsidiaries comprising BAT Russia and BAT Belarus were classified as held-for-sale as of 31 December 2022 and presented as such on the balance sheet at an estimated recoverable value. Impairment charges of £554 million and associated costs of £58 million were recognised in 2022 as adjusting items.

Upon completion, the businesses were deconsolidated from the Group's balance sheet. This included assets primarily comprised of £177 million of property, plant and equipment and other non-current assets, £342 million of trade and other receivables, £266 million of cash and cash equivalents and £211 million of other current assets principally relating to inventories. In addition, liabilities primarily composed of £7 million of borrowings and £219 million of trade creditors and other current liabilities were deconsolidated, resulting in a net asset position of £770 million.

Proceeds of £425 million were received in 2023, resulting in a partial reversal of £195 million of the previously recognised impairment. In addition to this, £554 million of foreign exchange previously recognised in the statement of other comprehensive income has been reclassified to the income statement upon completion of the transaction, which has been treated as a non-cash adjusting item. This resulted in a net charge to the income statement of £353 million which includes disposal-related costs of £3 million and £9 million of foreign exchange gains on proceeds received.

As part of the disposal agreements, the Group holds call options to reacquire the ITMS Group entities. No value has been ascribed to these options as they cannot be sold or transferred outside the BAT Group, they expire within two years of the completion of the transaction, and current sanctions and counter sanctions would restrict the ability of the Group to exercise these options. In addition, no value has been ascribed to the options the Group holds to reacquire certain trademarks and brands utilised by the ITMS businesses which only expire after 100 years. The likelihood of exercise of these options within the foreseeable future is remote, and assuming the higher returns that any market participant would require given the perceived risk of investing in Russia going forwards, and a consequent high discount rate, any value associated with exercising the options would be immaterial.

Judgement is required to determine whether or not the disposal of any particular product, business or end market from the Group would be significant enough to be classified as a discontinued operation. The Group has established criteria as to what would meet such a definition, including: the disposal of an entire geographic segment as currently disclosed within note 2; the disposal of a significant portion of the same region as part of a unified plan; the disposal of any individual business unit representing more than 10% of Group revenue or 10% of Group profit from operations; and the withdrawal from a product category. Management have concluded that the disposal of the Russian and Belarusian businesses does not qualify to be presented as discontinued operations.

(ii) B.A.T. Pars Company PJSC (BAT Pars)

On 25 June 2021, the Group agreed to dispose of its Iranian subsidiary, **BAT Pars** to DTM ME FZE LLC. Completion took place on 6 August 2021. £272 million in respect of foreign exchange previously recognised in other comprehensive income was reclassified to the income statement and an impairment charge and associated costs of £88 million was recognised in the income statement and treated as an adjusting item.

The value of the consideration (€64 million) remains outstanding at 31 December 2023, and £56 million (2022: £56 million) is recognised as a current receivable. Given the ongoing political situation, heightened sanctions and other uncertainties coupled with the passage of time the receivable has been outstanding, the Group has recognised an expected credit loss of £28 million at 31 December 2023. In 2022, as a result of the unwind of discounting on the deferred proceeds and a true-up on the completion of accounts, a credit of £6 million (2021: £2 million) was recognised. The discount was unwound in full in 2022.

In addition, in 2021, £24 million of related investments held at fair value were provided against as a charge to net finance costs given uncertainties regarding recovery of these funds. During 2023, £4 million (2022: £17 million) was recovered in respect of these funds.

28 Share-based payments

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

Performance Share Plan (PSP):

Since 2020, performance-related conditional awards under which shares are released automatically following a three-year vesting period (five-year period for the Executive Directors). Awards granted up to 2019 are nil-cost options exercisable after three years from date of grant (five years for Executive Directors) with a contractual life of 10 years.

For awards granted in 2021, 2020 and 2019, vesting is subject to performance conditions measured over a three-year period (for all awards), 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). Total shareholder return combines the share price and dividend performance of the Company by reference to a comparator group.

For 2022 and 2023 awards, the performance conditions are based on earnings per share (30% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant), net turnover (15% of the grant) and New Categories revenue growth (15% of the grant).

Participants are not entitled to dividends prior to the vesting or exercise of the awards. A cash equivalent dividend accrues through the vesting period (other than for the Executive Directors where additional shares are delivered in lieu of cash) and is paid on vesting. Both equity and cash-settled PSP awards are granted in March each year.

In the U.S., PSP awards are made over BAT American Depository Shares (ADSs).

Restricted Share Plan (RSP):

Introduced in 2020, conditional awards under which shares are released three years from date of grant, subject to a continuous employment condition during the three-year vesting period. Participants are not entitled to dividends prior to shares vesting. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash settled RSP awards are granted in March or September.

In the U.S., RSP awards are made over BAT American Depository Shares (ADSs).

Deferred Share Bonus Scheme (DSBS):

Granted in connection with annual bonuses, conditional awards under which shares are released three years from date of grant subject to a continuous employment condition during the three-year vesting period. A cash equivalent dividend accrues through the vesting period and is paid quarterly (other than for the Executive Directors where additional shares are delivered in lieu of cash). Both equity and cash-settled DSBS awards 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 are granted in March each year by invitation at a 20% discount to the market price. Options under 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)

Free shares are granted in April each year (up to an equivalent of £3,600 in any year) under the equity-settled schemes and are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares. The shares are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

International Share Reward Scheme (ISRS)

Conditional shares are granted in April each year (up to an equivalent of £3,600 in any year) subject to a three-year vesting period. Dividend equivalents accrue through the vesting period and additional shares are delivered at vesting. Awards may be equity or cash-settled.

Partnership Share Scheme

Employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c. (maximum £1,800 in any 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.

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

	Notes	2023		2022		2021	
		Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m
PSP & RSP	28(a)	27	2	38	1	30	—
DSBS	28(b)	38	1	36	3	39	2
Other schemes		6	—	7	—	7	—
Total recognised in the income statement	3	71	3	81	4	76	2

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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 2023 and 2022:

	2023		2022	
	Vested £m	Unvested £m	Vested £m*	Unvested £m
PSP & RSP	(0.4)	0.8	(0.3)	1.9
DSBS	—	3.1	0.5	6.6
Total liability	(0.4)	3.9	0.2	8.5

Note:

* The reduction in the liabilities for vested LTIPs was due to shares being exercised at prices lower than the share price at date of grant.

(a) PSP & RSP

Details of the movements for the equity- and cash-settled LTI schemes during the years ended 31 December 2023 and 31 December 2022, were as follows:

	2023		2022	
	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	8,960	196	9,891	243
Granted during the period	3,379	94	2,927	58
Exercised during the period	(2,401)	(51)	(1,606)	(58)
Forfeited during the period	(2,132)	(41)	(2,252)	(47)
Outstanding at end of year	7,806	198	8,960	196
Exercisable at end of year	513	24	661	40

As at 31 December 2023, the Group has 7,806,000 shares (2022: 8,960,000 shares) outstanding which includes 1,527,898 shares (2022: 1,749,762 shares) which are related to Reynolds American LTI awards from which nil shares (2022: nil 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 £27.65 (2022: £32.84; 2021: £27.67) for equity-settled and £25.85 (2022: £33.01; 2021: £27.59) 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\$39.39 (2022: US\$38.37; 2021: US\$35.93).

The outstanding shares for the year ended 31 December 2023 had a weighted average remaining contractual life of 1.5 years (2022: 1.8 years; 2021: 3.7 years) for the equity-settled scheme, 1.8 years for Reynolds American equity-settled scheme (2022: 1.80 years; 2021: 1.70 years) and 1.5 years (2022: 1.7 years; 2021: 4.1 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 2023 and 31 December 2022, were as follows:

	2023		2022	
	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	4,015	141	4,141	223
Granted during the period	1,675	211	1,616	85
Exercised during the period	(1,743)	(81)	(1,609)	(159)
Forfeited during the period	(96)	(10)	(133)	(8)
Outstanding at end of year	3,851	261	4,015	141
Exercisable at end of year	—	1	1	14

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 £27.39 (2022: £32.20; 2021: £27.58) for equity-settled and £25.56 (2022: £32.50; 2021: £27.70) for cash-settled options.

The outstanding shares for the year ended 31 December 2023 had a weighted average remaining contractual life of 1.3 years (2022: 1.3 years; 2021: 1.3 years) for the equity-settled scheme and 1.3 years (2022: 1.1 years; 2021: 1.3 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:

	2023		2022	
	PSP & RSP	DSBS	PSP & RSP	DSBS
Expected volatility (%)	27.0	27.0	27.0	27.0
Average expected term to exercise (years)	3.0	3.0	3.0	3.0
Risk-free rate (%)	3.5	3.5	1.4	1.4
Expected dividend yield (%)	7.7	7.7	6.8	6.8
Share price at date of grant (£)	29.71	29.71	32.18	32.18
Fair value at grant date (£)*	23.15 / 23.61	23.61	27.46/26.28	26.28
Fair value at grant date (£)* - Management Board	20.46 / 23.61	23.61	24.8/26.28	26.28

Note:

* 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 PSP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2023 PSP	2022 PSP
Average share price volatility FMCG comparator group (%)	24	23
Average correlation FMCG comparator group (%)	29	31

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, LTI 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 payout calculation is based on expectations published in analysts' forecasts.

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The average number of persons employed by the Group and its associates during the year, including Directors, was 75,452 (2022: 77,951).

	2023 Number	2022 Number
U.S.	3,861	4,274
AME	32,948	34,162
APMEA	13,030	13,641
Subsidiary undertakings	49,839	52,077
Associates	25,613	25,874
	75,452	77,951

Note:

1. Effective from 2023, the Group revised its regional structure from four regions to three, with the comparator data provided on this revised basis.

Included within the employee numbers for AME 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.

30 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.

Intercompany transactions and balances are eliminated on consolidation and therefore are not disclosed.

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 income in the table below, was £559 million (2022: £438 million; 2021: £392 million).

	2023 £m	2022 £m	2021 £m
Transactions			
– revenue	523	494	524
– purchases	(178)	(190)	(123)
– other income	560	441	393
– other expenses	(6)	(1)	(6)
Amounts receivable at 31 December	48	51	48
Amounts payable at 31 December	(4)	(4)	(3)

In November 2023, the Group announced the signing of an agreement for a further investment in Organigram. At 31 December 2023, the proposed investment of CAD\$125 million (approximately £74 million) was subject to customary conditions, including necessary approvals by the shareholders of Organigram, which was given on 18 January 2024. On 24 January 2024, BAT made the first tranche investment of CAD\$42 million (£24 million), acquiring a further 12,893,175 common shares of Organigram at a price of CAD\$3.22 per share. Subject to certain conditions, the remaining 25,786,350 shares subscribed for shall be issued at the same price in two further equal tranches by the end of August 2024 and February 2025, respectively. Based on Organigram's outstanding share capital at the end of 2023, this investment will increase the Group's equity position from c.19% to c.45% (restricted to 30% voting rights) once all three tranches have been completed.

In addition, as mentioned in note 27, in 2023, the Group also acquired 20% of DeFloria for £8 million and increased its ownership in Steady State LLC (trading as Open Book Extracts) from 5.76% to 10.8% for £4 million. In October 2023, a further investment of £8 million was made in Steady State LLC by way of a convertible loan note.

During 2023, the Group acquired a further 1.31% in Hrvatski Duhani d.d., at a cost of less than £1 million, following the acquisitions in 2022 (3.3% at a cost of £1 million) and 2021 (2.7% at a cost of £1 million).

In 2022, as mentioned in note 27, the Group made a £32 million investment in exchange for 16% of Sanity Group GmbH and made a non-controlling investment in Steady State LLC for £4 million.

During 2022, the Group increased its ownership of a wholesale producer and distributor operating in the agriculture sector based in Uzbekistan, FE 'Samfruit' JSC to 45.40% for £1 million. In 2021, the Group increased its ownership to 42.61%, for £1 million.

In November 2022, the Group invested in Charlotte's Web via a convertible debenture of £48 million which is currently convertible into a non-controlling equity stake of approximately 19.9% (as explained in note 27(c)).

In 2021, the Group made a capital contribution in Brascuba Cigarrillos S.A. at a cost of £6 million. There was a capital reduction in CTBAT International Limited of approximately US\$171 million with funds remitted prorata to investors in 2021.

On 5 October 2021, PT Bentoel Internasional Investama Tbk (Bentoel) announced its intention to delist from the Indonesia Stock Exchange and go private by conducting a Voluntary Tender Offer (VTO). As part of this, in two phases in November and December 2021, the Group acquired an additional 0.2% of shares in Bentoel from independent shareholders at a cost of £4 million and terminated the total return swap (as explained in note 32).

As explained in note 15, in 2022 the Group provided a temporary liquidity facility to the main UK pension fund. As at 31 December 2023 this facility was undrawn.

The Group and Organigram also entered into a Product Development Collaboration Agreement following which a Centre of Excellence has been established to focus on developing the next generation of cannabis products with an initial focus on cannabidiol (CBD).

As a result of the implementation of the EU Single-Use Plastic Directive in certain EU countries, the Group, along with other tobacco manufacturers, established Producer Responsibility Organisations for the management of the Extended Producer Responsibility obligations relating to tobacco product butt filter waste collection. The costs incurred by the Group in relation to this waste disposal is included in note 6(l).

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.

	2023 £m	2022 £m	2021 £m
The total compensation for key management personnel, including Directors, was:			
– salaries and other short-term employee benefits	17	19	18
– post-employment benefits	1	1	1
– share-based payments	13	17	16
	31	37	35

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

	Executive Directors			Chair			Non-Executive Directors			Total		
	2023 £'000	2022 £'000	2021 £'000	2023 £'000	2022 £'000	2021 £'000	2023 £'000	2022 £'000	2021 £'000	2023 £'000	2022 £'000	2021 £'000
Salary; fees; benefits; incentives												
– salary	1,644	2,129	2,119							1,644	2,129	2,119
– fees				688	670	727	1,059	1,027	1,045	1,747	1,697	1,772
– taxable benefits	395	449	420	17	59	55	31	78	2	443	586	477
– short-term incentives	1,650	3,761	4,128							1,650	3,761	4,128
– long-term incentives	1,371	7,888	3,399							1,371	7,888	3,399
Sub-total	5,060	14,227	10,066	705	729	782	1,090	1,105	1,047	6,855	16,061	11,895
Pension; other emoluments												
– pension	248	320	318							248	320	318
– other emoluments	2	6	6							2	6	6
Sub-total	250	326	324							250	326	324
Total emoluments	5,310	14,553	10,390	705	729	782	1,090	1,105	1,047	7,105	16,387	12,219

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31 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.

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. The Group has successfully managed tobacco-related litigation, and a very high percentage of the tobacco-related litigation claims brought against Group companies, 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.
8. It is the policy of the Group to defend tobacco-related litigation claims vigorously; generally, Group companies do not settle such claims. However, Group companies may enter into settlement discussions in certain cases, if they believe it is in their best interests to do so. Exceptions to this 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 39 below), the funding by various tobacco companies of a US\$5.2 billion (approximately £4.1 billion) trust fund contemplated by the Master Settlement Agreement (as described in paragraph 39 below) to benefit tobacco growers, the original *Broin* flight attendant case (as described in paragraph 38, note 31(o) below), and most of the *Engle* progeny cases pending in U.S. federal court (as described in paragraph 27 et seq. below), 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.
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 at 31 December 2023 and the increase or decrease from the number of cases pending against Group companies as at 31 December 2022. 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 U.S. 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 31, paragraph 81, et seq.

Case Type	Notes	Case Numbers as at 31 December 2023 (note 31(a))	Case Numbers as at 31 December 2022 (note 31(a))	Change in Number Increase/(decrease)
U.S. tobacco-related actions				
Medical reimbursement cases	31(b)	2	2	No change
Class actions	31(c)	19	20	(1)
Individual smoking and health cases	31(d)	202	206	(4)
<i>Engle</i> Progeny Cases	31(e)	305	665	(360)
<i>Broin II</i> Cases	31(f)	1,171	1,183	(12)
Filter Cases	31(g)	35	46	(11)
State Settlement Agreements – Enforcement and Validity	31(h)	4	1	3
Non-U.S. tobacco-related actions				
Medical reimbursement cases		18	18	No change
Class actions	31(i)	12	12	No change
Individual smoking and health cases	31(j)	54	51	3

(Note 31(a)) This includes cases to which the Reynolds American Inc. (Reynolds American) group companies were a party at such date.

(Note 31(b)) This category of cases includes the Department of Justice action. See note 31, paragraphs 20-23.

(Note 31(c)) See note 31, paragraphs 24-36.

(Note 31(d)) See note 31, paragraphs 37-38.

(Note 31(e)) See note 31, paragraphs 27-36.

(Note 31(f)) See note 31, paragraph 38.

(Note 31(g)) See note 31, paragraph 38.

(Note 31(h)) See note 31, paragraphs 39-54.

(Note 31(i)) Outside the United States, there were 12 class actions being brought against Group companies as at 31 December 2023. These include class actions in the following jurisdictions: Canada (11) and Venezuela (one). For a description of the Group companies' non-U.S. class actions, see note 31, paragraphs 67-79. For a description of the Quebec Class Actions, see note 31, paragraph 73. All of the class actions in Canada are currently stayed pursuant to a court order. See note 31, paragraph 57.

(Note 31(j)) As at 31 December 2023, the jurisdictions with the most active individual cases against Group companies were, in descending order: Chile (17), Brazil (15), Italy (eight), Canada (five), Argentina (five) and Ireland (two). There were a further two jurisdictions with one active case only. For further information, see note 31, paragraph 80.

11. Certain terms and phrases used in this note 31 may require some explanation.

- '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.
- '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.
- 'Settlement' refers to certain types of cases in which cigarette manufacturers, including R. J. Reynolds Tobacco Co. (RJRT), Brown & Williamson Tobacco Corporation (now known as Brown & Williamson Holdings, Inc.) (B&W), and Lorillard Tobacco Company (Lorillard Tobacco), have agreed to resolve disputes with certain plaintiffs without resolving the cases through trial.
- All sums set out in note 31 have been converted to GBP and US\$ using the following end closing rates applicable for 31 December 2023, which differ from the rates at the time any related provision was recorded on the balance sheet: GBP 1 to US\$ 1.2748, GBP 1 to CAD\$ 1.6810, GBP 1 to EGP (Egyptian Pound) 39.4232, GBP 1 to EUR 1.1540, GBP 1 to BRL 6.1925 (Brazilian Real), GBP 1 to AOA 1,072.9660 (Angolan Kwanza), GBP 1 to ARS 1,030.6707 (Argentine Peso), GBP 1 to MZN 81.4087 (Mozambican Metical), GBP 1 to NGN 1,144.1330 (Nigerian Naira), GBP 1 to KRW 1,641.8100 (South Korean Won), GBP 1 to HRK 8.6950 (Croatian Kuna), GBP 1 to JPY 179.7213 (Japanese Yen), GBP 1 to SAR 4.7805 (Saudi Riyal), and GBP 1 to TRY 37.6499 (Turkish Lira). In addition, due to the adoption of the euro by the Croatian State, the European Central Bank has set a conversion rate of EUR to HRK on 1 January 2023 as 1 EUR to HRK 7.5345 (Croatian Kuna).

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U.S. 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 U.S. tobacco product liability cases pending as at 31 December 2023 involving RJRT, B&W and/or Lorillard Tobacco was approximately 1,748.
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 U.S., there are 44 cases, exclusive of *Engle* progeny cases, scheduled for trial as at 31 December 2023 through 31 December 2024, for the Reynolds Defendants: 33 individual smoking and health cases, nine Filter Cases, one class action case and one other case. There are also approximately 28 *Engle* progeny cases against RJRT (individually and as successor to Lorillard Tobacco) and B&W scheduled for trial through 31 December 2024. It is not known how many of these cases will actually be tried.
17. Trial results. From 1 January 2021 through 31 December 2023, 58 trials occurred in individual smoking and health, *Engle* progeny, and patent cases in which the Reynolds Defendants were defendants, including 11 where mistrials were declared. Verdicts in favour of the Reynolds Defendants and, in some cases, other defendants, were returned in 15 cases, tried in Florida (eight), Oregon (one), Massachusetts (four), Illinois (one) and District of Columbia (one). Verdicts in favour of the plaintiffs were returned in 32 cases, tried in Florida (23), Massachusetts (three), New Mexico (two), Oregon (two), Virginia (one) and North Carolina (one). Two of the cases (in Florida) were dismissed during trial. One of the cases (in Florida) was a punitive damages re-trial that was retried twice (the first retrial resulted in a plaintiff verdict; the second retrial resulted in a defense verdict).

(a) Medical Reimbursement Cases

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. As at 31 December 2023, one U.S. medical reimbursement suit (*Crow Creek Sioux Tribe v. American Tobacco Co.*, filed in 1997) 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. There has been no recent activity in this case, and no other medical reimbursement suits are pending against these companies by county or other political subdivisions of the states.

U.S. Department of Justice Action

20. On 22 September 1999, the U.S. Department of Justice (DOJ) brought an action in the U.S. 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 DOJ initially sought (i) recovery of certain federal funds expended in providing health care to smokers who developed alleged smoking-related diseases and (ii) equitable relief under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO), including (a) disgorgement of roughly US\$280 billion (approximately £219.6 billion) in profits allegedly earned from a purported racketeering 'enterprise' - a remedy the U.S. Court of Appeals for the DC Circuit ruled in February 2005 was not available - and (b) certain 'corrective communications'. In September 2000, the district court dismissed Industries for lack of personal jurisdiction and dismissed the health care cost recovery claims.
21. After a roughly nine-month non-jury trial of the remaining RICO claims, the district court issued its Final Judgment and Remedial Order (the Remedial Order) on 17 August 2006. That order found certain defendants, including RJRT, B&W, Lorillard Tobacco and Investments, had violated RICO, imposed financial penalties and 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 Remedial Order also required 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.

22. The parties appealed and cross-appealed and, on 22 May 2009, the DC Circuit affirmed the district court's RICO liability judgment but vacated the Remedial Order in part 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 DC Circuit also remanded 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 U.S. Supreme Court denied the parties' petitions for further review.
23. On 22 December 2010, the district court dismissed B&W from the litigation. Due to intervening changes in controlling law, on 28 March 2011, the district court ruled that the 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. In November 2012, the district 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 district court in October 2017 ordered RJRT and the other U.S. tobacco company defendants to fund the publication of compelled public statements in various U.S. media outlets, including in newspapers, on television, on the companies' websites, and in onsets on cigarette packaging. The compelled public statements in newspapers and on television were completed in 2018 and in package onsets in mid-2020. The compelled public statements now also appear on RJRT websites. The final issue regarding corrective statements was their display at retail point of sale. On 6 December 2022, the district court entered a consent order requiring the tobacco company defendants to have the compelled public statements posted at retail point of sale. Installation of the statements began in July 2023, and the statements will remain in stores through June 2025.

(b) Class Actions

24. As at 31 December 2023, RJRT, B&W and Lorillard Tobacco were named as defendants in one action asserting claims on behalf of putative classes of persons allegedly injured or financially impacted by their smoking, and Reynolds American, RJRT, and SFNTC (a subsidiary of Reynolds American) were named in 17 putative class actions relating to the use of the words 'natural', '100% additive-free' or 'organic' in Natural American Spirit (NAS) brand 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, 16 specified the amount of the claim in the complaint and alleged that the plaintiffs were seeking in excess of US\$5 million (approximately £3.9 million) and one alleged that the plaintiffs were seeking less than US\$75,000 (approximately £58,823) per class member plus unspecified punitive damages.

No Additive/Natural/Organic Claim Cases

25. A total of 17 pending putative class actions were filed in nine U.S. federal district courts against Reynolds American, RJRT, and SFNTC, 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 NAS brand cigarettes. In these actions, the plaintiffs allege that the use of these terms suggests that NAS 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, the U.S. Judicial Panel on Multidistrict Litigation (JPML) consolidated the 16 cases pending at that time for pre-trial purposes before a federal district court in New Mexico, and a later-filed case was transferred there for pre-trial purposes in 2018. 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 of expert opinion testimony in December 2020. On 1 September 2023, the district court entered an order certifying a subset of the plaintiffs' proposed classes covering purchasers of NAS menthol cigarettes in six states and declining to certify the other proposed classes. The defendants and plaintiffs both appealed from that order to the U.S. Court of Appeals for the Tenth Circuit. Briefing in that court is scheduled to be completed in July 2024.

Other Putative Class Actions

26. *Young v. American Tobacco Co.* is a putative class action filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana against various U.S. cigarette manufacturers, including RJRT, B&W, Lorillard Tobacco and certain parent companies. This 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. The action 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.*

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Continued**Engle Class Action and Engle Progeny Cases (Florida)**

27. 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 U.S. cigarette manufacturers, including RJRT, B&W, Lorillard Tobacco and Lorillard Inc. 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, Lorillard Inc. and the other defendants on common issues relating to the defendants' conduct, general causation, the addictiveness of cigarettes, and entitlement to punitive damages.
28. In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £113.7 billion) in punitive damages, apportioned US\$36.3 billion (approximately £28.5 billion) to RJRT, US\$17.6 billion (approximately £13.8 billion) to B&W, and US\$16.3 billion (approximately £12.8 billion) to Lorillard Tobacco and Lorillard Inc. The three class representatives in the *Engle* class action were awarded US\$13 million (approximately £10.2 million) in compensatory damages.
29. 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).
30. 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 £78.4 million) divided as follows: RJRT US\$42.5 million (approximately £33.3 million); PM USA US\$42.5 million (approximately £33.3 million); and Lorillard Tobacco US\$15 million (approximately £11.8 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.
31. As at 31 December 2023, there were approximately 305 *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 380 plaintiffs. In addition, as at 31 December 2023, RJRT was aware of five 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 and/or RJRT's affiliates and indemnitees. An offer of judgment, if rejected by the plaintiff, preserves the offering party's right to seek attorneys' fees under Florida law in the event of a favourable verdict. Such offers are sometimes made through court-ordered mediations.
32. 35 trials occurred in *Engle* progeny cases in Florida state and federal courts against RJRT, B&W and/or Lorillard Tobacco from 1 January 2021 through 31 December 2023, and additional state court trials are scheduled for 2024.
33. The following chart identifies the number of trials in *Engle* progeny cases as at 31 December 2023 and additional information about the adverse judgments entered:

Trials/verdicts/judgments of individual *Engle* progeny cases from 1 January 2021 through 31 December 2023:

Total number of trials	35
Number of trials resulting in plaintiffs' verdicts	20*
Total damages awarded in final judgments against RJRT	US\$81,492,000 (approximately £64 million)
Amount of overall damages comprising 'compensatory damages' (approximately)	US\$58,427,000 (of overall US\$81,492,000) (approximately £46 million of £64 million)
Amount of overall damages comprising 'punitive damages' (approximately)	US\$23,065,000 (of overall US\$81,492,000) (approximately £18 million of £64 million)

Note:

* Of the 20 trials resulting in plaintiffs' verdicts 1 January 2021 to 31 December 2023 (note 31(k)):

Number of adverse judgments appealed by RJRT (note 31(l))	14
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	6

(Note 31(k)) The 35 trials include two cases that were tried twice (*Rutkowski v. R. J. Reynolds Tobacco Co.* and *Miller v R. J. Reynolds Tobacco Co.*). In each case, the first trial resulted in mistrial, while the second resulted in a verdict for the plaintiff. The 35 trials also include one trial that resulted in a plaintiff verdict and a new trial was ordered, but the case was resolved and later dismissed (*Leidinger v. R. J. Reynolds Tobacco Co.*), and two punitive damages retrials for the same case (*Ledo v R. J. Reynolds Tobacco Co.*).

(Note 31(l)) Of the 14 adverse verdicts appealed by RJRT as a result of judgments arising in the period 1 January 2021 to 31 December 2023:

- six appeals remain undecided in the District Courts of Appeal;
- two judgments were affirmed and paid;
- one judgment was reversed and remanded for new trial on the plaintiff's entitlement to punitive damages;
- one judgment was affirmed and review of the Florida Supreme Court not sought; and
- there were four appeals in which the cases were resolved and the appeals dismissed.

34. By statute, Florida applies a US\$200 million (approximately £156.9 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 at 31 December 2023.
35. In 2023, RJRT paid judgments in eight *Engle* progeny cases. Those payments totalled approximately US\$38.5 million (approximately £30.2 million) in compensatory or punitive damages. Additional costs were paid in respect of attorneys' fees and statutory interest.
36. In addition, accruals for damages and attorneys' fees and statutory interest for three cases (*Konzelman v. R. J. Reynolds Tobacco Co.*, *Blackwood v. R. J. Reynolds Tobacco Co.*, *Spurlock v. R. J. Reynolds Tobacco Co.*), four resolution bundles and interest and attorneys' fees in the *John Long v. R. J. Reynolds Tobacco Co.* case were recorded in Reynolds American's consolidated balance sheet as at 31 December 2023 to the value of approximately US\$22.9 million (approximately £18.0 million).

(c) Individual Cases

37. As at 31 December 2023, 202 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 in tort, design defect, failure to warn, fraud, misrepresentation, breach of express or implied warranty, violations of state deceptive trade practices or consumer protection statutes, and conspiracy. 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. Two of the individual cases are brought by or on behalf of an individual or his/her survivors alleging personal injury as a result of exposure to Environmental Tobacco Smoke (ETS).
38. The following chart identifies the number of individual cases pending as at 31 December 2023 as against the number pending as at 31 December 2022, along with the number of *Engle* progeny cases, *Broin* II cases, and Filter Cases, which are discussed further below.

Case Type	U.S. Case Numbers 31 December 2023	U.S. Case Numbers 31 December 2022	Change in Number Increase / (Decrease)
Individual Smoking and Health Cases (note 31(m))	202	206	(4)
<i>Engle</i> Progeny Cases (Number of Plaintiffs) (note 31(n))	305 (380)	665 (838)	(360) (458)
<i>Broin</i> II Cases (note 31(o))	1,171	1,183	(12)
Filter Cases (note 31(p))	35	46	(11)

(Note 31(m)) Out of the 202 pending individual smoking and health cases, five 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\$248.7 million (approximately £195.1 million), of which \$200 million (approximately £157 million) is the result of the jury's verdict in the *Treniece Jones v. R. J. Reynolds Tobacco Co.* case, from which RJRT will have the right to appeal following post-trial motions.

(Note 31(n)) 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 33.

(Note 31(o)) *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 £235 million) in three annual US\$100 million (approximately £78.4 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 £38.4 million) for the plaintiffs' counsel's fees and expenses. RJRT's portion of these payments was approximately US\$86 million (approximately £67.5 million); B&W's was approximately US\$57 million (approximately £44.7 million); and Lorillard Tobacco's was approximately US\$31 million (approximately £24.3 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 31(p)) 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 60 years ago. Pursuant to 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 at 31 December 2023, Lorillard Tobacco and/or Lorillard Inc. was a defendant in 35 Filter Cases. Since 1 January 2021, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$21.5 million (approximately £17 million) in settlements to resolve 88 Filter Cases.

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(d) State Settlement Agreements

39. In November 1998, the major U.S. cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, entered into the Master Settlement Agreement (MSA) with attorneys general representing 46 U.S. states, the District of Columbia and certain U.S. 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').
40. These State Settlement Agreements settled all health care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the defending major U.S. 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 U.S. 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 £4.1 billion) trust fund to be used to address the possible adverse economic impact of the MSA on tobacco growers.
41. 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 2020, 2021, 2022 and 2023 and the projected expenses and payments for 2024 and onwards are set forth below (in millions of US dollars):

	2020	2021	2022	2023	2024	2025 and thereafter
Settlement expenses	\$3,572	\$3,420	\$2,951	\$2,516		
Settlement cash payments	\$2,848	\$3,744	\$3,129	\$2,874		
Projected settlement expenses					>\$2,100	>\$2,100
Projected settlement cash payments					>\$2,500	>\$2,100

Note:

- * 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.

42. 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 U.S. 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.
43. 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.
44. 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.
45. RJRT, Lorillard Tobacco and SFNTC are or were involved in the NPM Adjustment proceedings concerning the years 2003 to 2020. In 2012, RJRT, Lorillard Tobacco, and SFNTC entered into an agreement (the Term Sheet) with certain settling states that resolved accrued and future NPM adjustments. 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 12 states have joined. The arbitration panels ruled in September 2021 that two states had not diligently enforced their qualifying statutes in the year 2004. In September 2022, a panel ruled that an additional state, New Mexico, had not diligently enforced its qualifying statute in the year 2004. On 30 August, 2023, the New Mexico District Court vacated this decision. A notice of appeal was filed on 27 September 2023. In December 2023, a panel ruled that an additional state had not diligently enforced its qualifying statute in the years 2005, 2006 and 2007. NPM proceedings are ongoing and could result in further reductions of the companies' MSA-related payments.
46. 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 £35.3 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, 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 £23.5 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. By order dated 30 March 2017, ITG was joined into the enforcement action. 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 improperly shifted settlement payment obligations to PM USA.

47. After a bench trial, on 27 December 2017 the court entered an order holding RJRT (not ITG) liable for annual settlement payments for the Acquired Brands, finding that ITG did not assume liability for annual settlement payments related to the Acquired Brands under the terms of the asset purchase agreement relating to the Divestiture. The court declined to enter final judgment until after resolution of the dispute between RJRT and PM USA regarding PM USA's assertion that the 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 the Final 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. These appeals were consolidated pursuant to RJRT's motion on 1 October 2018. On 29 July 2020, Florida's Fourth District Court of Appeal affirmed the Final Judgment. On 12 August 2020, RJRT filed a motion for rehearing or for certification to the Florida Supreme Court of the 29 July 2020 decision. RJRT posted a total bond in the amount of US\$187.8 million (approximately £147.3 million) for its appeal. 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\$193 million (approximately £151 million) and paid approximately US\$3.2 million (approximately £2.5 million) of Florida's attorneys' fees. RJRT's appellate bonds were released to RJRT by order dated 5 November 2020. As explained below, RJRT has secured an order in the Delaware action requiring ITG to indemnify it for amounts paid under the Final Judgment.
48. On 17 February 2017, ITG filed an action in the Delaware Court of Chancery seeking declaratory relief against Reynolds American and RJRT on various matters related to its rights and obligations under the asset purchase agreement (and related documents) relating to the Divestiture with respect to the subject of the Florida enforcement litigation described above. Reynolds American and RJRT filed counterclaims on the same issues. As a result of multiple rounds of cross-motions for judgment on the pleadings, the Delaware court ruled (i) 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; (ii) that the asset purchase agreement does not entitle ITG to a unique protection from an equity-free law that does not yet exist in a previously settled State; and (iii) that it would defer until after it received evidence related to the parties' intent in the asset purchase agreement, its determination of whether, to the extent RJRT is held liable for any settlement payments based on ITG's post-closing sales of the Acquired Brands, ITG assumed this liability. After discovery was completed in March 2022, the parties briefed cross-motions for summary judgment on that third issue. On 30 September 2022, the court granted summary judgment for Reynolds American and RJRT, holding that ITG assumed the liability that the Final Judgment imposed on RJRT for settlement payments to the State of Florida based on ITG's post-closing sales of the Acquired Brands. The parties then engaged in a second round of summary judgment briefing on the amount of indemnifiable damages. On 2 October 2023, the court partially granted summary judgment for Reynolds American and RJRT, holding that they are entitled to indemnification of the principal amounts that RJRT paid to Florida and the interest it paid to Florida on those payments. The court deferred to trial the question whether ITG's indemnification obligation should be reduced to account for how net operating profit adjustment payments would have been allocated if ITG had joined the Florida Settlement. Trial is scheduled for 8 to 9 July 2024. ITG has agreed, subsequent to the Chancery Court's decision on past payments, that it will indemnify every settlement payment that RJRT makes in the future to Florida based on ITG's sales of Acquired Brands cigarettes (subject to the issues reserved for trial and to its right to appeal).
49. In June 2015, ITG joined the Mississippi State Settlement Agreement. On 26 December 2018, PM USA filed a motion to enforce the 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 £4.7 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, originally scheduled for 3-6 May 2021, was adjourned on consent of the parties to 11-12 August 2021. On 8 June 2021, PM USA and RJRT entered into a settlement agreement resolving the outstanding payment calculation issues. On 11 June 2021, the Mississippi Chancery Court entered an order withdrawing PM USA's motion to enforce. On 14 June 2021, RJRT made a payment of US\$5.1 million (approximately £4.0 million) to PM USA. 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 £3.9 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 occurred on 6-7 October 2021. On 10 June 2022, the Mississippi Chancery Court granted the State's motion to enforce, finding 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. RJRT will appeal the motion to enforce. On 29 July 2022, the parties each submitted a supplemental briefing on damages, including interest and attorneys' fees. A hearing on damages, originally scheduled for 7 December 2022, took place on 14 March 2023; a decision is pending.
50. In January 2021, RJRT reached an agreement with several MSA states to waive RJRT's claims under the MSA in connection with a settlement between those MSA states and a non-participating manufacturer, S&M Brands, Inc. (S&M Brands), under which the states released certain claims against S&M Brands in exchange for receiving a portion of the funds S&M Brands had deposited into escrow accounts in those states pursuant to the states' escrow statutes. In consideration for waiving claims, RJRT, together with SFNTC, received approximately US\$55.4 million (approximately £43.5 million) from the escrow funds paid to those MSA states under their settlement with S&M Brands.
51. On 27 May 2022, PM USA filed a motion to compel arbitration under the MSA against RJRT and ITG in North Carolina Superior Court claiming RJRT and ITG inaccurately calculated the base year net operating profits for the Acquired Brands and this improperly shifted approximately US\$80 million (approximately £62.7 million) in MSA payment obligations from RJRT to PM USA, to date. On 7 June 2022, RJRT and PM USA negotiated a resolution of the MSA claims, in which RJRT agreed to, among other things, pay PM USA the sum of approximately US\$37 million (approximately £29.0 million).

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52. On 28 July 2022, the State of Iowa filed a motion to enforce the Consent Decree and MSA against the PMs asserting, among other things, claims for breach of contract and violations of the Iowa False Claims Act. Iowa sought over US\$130 million (approximately £102.0 million) in damages, as well as treble damages. The PMs filed their resistance to Iowa's motion and a motion to compel arbitration on 26 September 2022. Iowa filed its resistance to the PMs' motion to compel arbitration on 6 October 2022, and the PMs filed their reply on 31 October 2022. A hearing on the motion was held on 21 December 2022. On 9 February 2023, the Iowa District Court granted the PMs' motion to compel arbitration, stayed the State's motion to enforce pending the arbitration, and ordered a status conference for 9 February 2024. On 7 March 2023, Iowa filed a withdrawal of its motion to enforce.
53. On 29 November 2022, the State of New Mexico filed a complaint, or in the alternative, a motion to enforce the Consent Decree and MSA against the PMs asserting, among other things, claims for breach of contract and violations of New Mexico's Unfair Practices Act. New Mexico seeks compensatory damages in an amount to be determined at trial, as well as treble damages, punitive damages, and declaratory and injunctive relief. The PMs' deadline to answer or respond was 29 December 2022. On 15 December 2022, the PMs filed an opposed motion for an extension of deadlines and pages to file their response on 10 February 2023. New Mexico filed its response to the motion on 20 December 2022 and the PMs filed their reply on 30 December 2022. On 13 January 2023, the court granted the PMs' motion to extend their deadline to file their response to 10 February 2023. On 10 February 2023, the PMs filed a motion to compel arbitration or, in the alternative, motion to dismiss New Mexico's complaint and alternative motion to enforce. The State's response to the PMs' motion to compel was filed on 27 March 2023, and the PMs' reply was filed on 14 April 2023; a hearing was held on 30 October 2023. On 29 December 2023, the New Mexico District Court granted the PMs' motion to compel arbitration.
54. On 2 March 2023, the State of Texas issued a demand letter to RJRT, PM USA and ITG, pursuant to the Texas Tobacco Settlement Agreement, for underpaid sums owed to Texas for years 2019 through 2022 and a change in the calculation going forward, asserting that RJRT, PM USA and ITG issued payments to Texas that were based on unauthorized changes to the base year 1997 net operating profit by incorporating into their calculations the lower federal corporate tax rate enacted in 2018. The State seeks damages in the amount of at least US\$114 million (approximately £89.4 million) cumulative for 2019 through 2022 (the last year for which there was a calculation at the time of the demand). In addition, in a letter to the independent accounting firm retained by the parties to calculate settlement payments due under the previously settled State Settlement Agreements, PricewaterhouseCoopers LLC (PwC LLC) dated 3 March 2023, Texas requested that PwC LLC's calculation of the net operating profit adjustment due to Texas for 2022 be based on the value fixed in the Mississippi decision (discussed above) that found 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. On 13 March 2023, the parties entered into an agreement tolling the statute of limitations for the State to file a motion to enforce on these issues until 15 May 2023. On 24 March 2023, PwC LLC's calculation of the net operating profit adjustment due to Texas for 2022 did not use the value fixed in the Mississippi decision. On 8 May 2023, PM USA and RJRT filed a motion to enforce the settlement agreement. On 22 May 2023, Texas filed its opposition and cross-motion to enforce the settlement agreement. On 30 May 2023, PM USA and RJRT filed a combined opposition to the cross-motion and reply in further support of the motion. On 6 June 2023, Texas

filed a reply in support of its cross motion to enforce the settlement agreement. On 13 June 2023, PM USA and RJRT filed a sur-reply in response to the State's reply in support of cross-motion to enforce the settlement agreement. The motion and cross-motion are fully submitted.

Tobacco-Related Litigation Outside the U.S.

55. As at 31 December 2023:

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

(a) Medical reimbursement cases**Angola**

56. In 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 AOA800,000,000 (approximately £745,597) 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 5 December 2016. The case remains pending.

Canada

57. 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 £5.5 billion). As a result of this judgment, there were attempts by the Quebec plaintiffs to obtain payment out of the CAD\$758 million (approximately £451 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 29 March 2024. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to Imperial, certain of its subsidiaries or any other Group company. The parties continue to work towards a plan of arrangement or compromise in a confidential mediation (by order of the Court) as part of the CCAA process. The length and ultimate outcome of the CCAA process, including the resolution of the underlying legal proceedings, remain uncertain.

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

58. 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.

59. 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.

Canadian province: British Columbia

Act pursuant to which Claim was brought: Tobacco Damages and Health Care Costs Recovery Act 2000

Companies named as Defendants: Imperial, Investments, Industries, Carreras Rothmans Limited, the RJR Companies and other former Rothmans Group companies have been named as defendants and served.

Current stage: 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 £70.2 billion). No trial date has been set. The federal government is seeking CAD\$5 million (approximately £3.0 million) jointly from all the defendants in respect of costs pertaining to the third-party claim, now dismissed.

Canadian province: New Brunswick

Act pursuant to which Claim was brought: Tobacco Damages and Health Care Costs Recovery Act 2006

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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 £6.6 billion) and CAD\$23.2 billion (approximately £13.8 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.

Canadian province: Ontario

Act pursuant to which Claim was brought: Tobacco Damages and Health Care Costs Recovery Act 2009

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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 £167 billion) – CAD\$630 billion (approximately £375 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 £196.3 billion). On 31 January 2019, the Province delivered a further expert report claiming an additional amount between CAD\$9.4 billion (approximately £5.6 billion) and CAD\$10.9 billion in damages (approximately £6.5 billion) in respect of ETS. No trial date has been set.

Canadian province: Newfoundland and Labrador

Act pursuant to which Claim was brought: Tobacco Health Care Costs Recovery Act 2001

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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 began its document production in March 2018. Damages have not been quantified by the Province. No trial date has been set.

Canadian province: Saskatchewan

Act pursuant to which Claim was brought: Tobacco Damages and Health Care Costs Recovery Act 2007

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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.

Canadian province: Manitoba

Act pursuant to which Claim was brought: Tobacco Damages Health Care Costs Recovery Act 2006

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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.

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Canadian province: Alberta

Act pursuant to which Claim was brought: Crown's Right of Recovery Act 2009

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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 £5.9 billion). No trial date has been set.

Canadian province: Quebec

Act pursuant to which Claim was brought: Tobacco Related Damages and Health Care Costs Recovery Act 2009

Companies named as Defendants: Imperial, Investments, Industries, the RJR Companies and Carreras Rothmans Limited have been named as defendants and served.

Current stage: This 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 £35.7 billion). No trial date has been set.

Canadian province: Prince Edward Island

Act pursuant to which Claim was brought: Tobacco Damages and Health Care Costs Recovery Act 2009

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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.

Canadian province: Nova Scotia

Act pursuant to which Claim was brought: Tobacco Health Care Costs Recovery Act 2005

Companies named as Defendants: Imperial, the UK Companies and the RJR Companies have been named as defendants and served.

Current stage: 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

60. 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 NGN10.6 trillion (approximately £9.3 billion) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.

61. 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.
62. 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

63. 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 KRW54 billion (approximately £32.9 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. Appellate proceedings commenced in June 2021 and remain ongoing.

Brazil

64. 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 (collectively, PMB), 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 from the filing date 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.
65. 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 do so. On 7 August 2019, Souza Cruz was served with the complaint. Following further proceedings in 2019 and 2020 in both the trial and appellate courts challenging the issue of service on the Company, the court ruled that service of the Company via its Brazilian subsidiary Souza Cruz constituted proper service, and ordered that defences be filed. Souza Cruz and the Company filed their respective defences on 12 May 2020.

66. On 19 February 2021, the Associação de Controle do Tabagismo, Promoção da Saúde (ACT) filed a petition seeking to intervene in the case as amicus curiae. Souza Cruz, PMB and the Company filed responses (on 25 March 2021, 26 March 2021 and 20 August 2021, respectively) asserting that ACT's request should be rejected and/or in the alternative that the scope of ACT's intervention rights should be limited. On 13 May 2022, the trial court ordered the AGU to reply to the defences within 30 business days, and also permitted the ACT to intervene, limiting ACT's rights as amicus curiae to presenting technical and scientific opinions and participating in court hearings. The AGU submitted its reply on 5 July 2022. Souza Cruz, PMB and the Company submitted responses to the AGU's reply on 26 August 2022. On 19 May 2020, 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, via its response filed on 10 July 2020, declined to join the action as party, but will act as an 'inspector of the law', which enables MPF to express its opinion on case matters. On 10 October 2022, the MPF submitted an opinion on preliminary issues and evidence, which called for rejection of the defendants' preliminary defences and the majority of the evidence requested by AGU and defendants. Defendants Philip Morris International (PMI), PMB, the Company and Souza Cruz filed responses to the MPF's opinion on 14 November 2022, 18 November 2022, 2 March 2023 and 3 March 2023, respectively. On 6 December 2023, the Fundação Oswaldo Cruz (FIOCRUZ), a research and development arm of the Brazilian Ministry of Health, filed a petition seeking to intervene in the case as amicus curiae. PMB and Souza Cruz filed responses on 8 January 2024 and 24 January 2024, respectively, asserting that the FIOCRUZ petition should be rejected or in the alternative that any intervention rights should be limited.

(b) Class Actions Canada

67. As described in paragraph 57, the Canadian tobacco litigation is currently stayed subject to court-ordered stays of proceeding (the Stays). The Stays are currently in place until 29 March 2024. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to Imperial, certain of its subsidiaries or any other Group company. The parties continue to work towards a plan of arrangement or compromise in a confidential mediation (by order of the Court) as part of the CCAA process. The length and ultimate outcome of the CCAA process, including the resolution of the underlying legal proceedings, remains uncertain.

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

69. There are 11 class actions being brought in Canada against Group companies.

70. *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.

71. 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 £3.0 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.

72. *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 132-133). The plaintiffs seek damages in the amount of CAD\$50 million (approximately £29.7 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.

73. *Quebec Class Actions*: there are currently two smoking and health class actions in Quebec, certified by the Quebec Superior Court on 21 February 2005 against Imperial and two other domestic manufacturers. Judgment was rendered against the defendants on 27 May 2015. 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 £9.3 billion), most of which was on a joint and several basis, of which Imperial's share was CAD\$10.4 billion (approximately £6.2 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 £673 million), of which Imperial's share was approximately CAD\$742 million (approximately £441 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 £3.0 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 for the judgment in the amount of CAD\$984 million (approximately £585 million), of which Imperial's share was CAD\$758 million (approximately £450.9 million) which amounts have been paid into court. Imperial's share was later recalculated by the Court of Appeal as CAD\$759 million (approximately £451.5 million). 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 £8.1 billion) as at 1 March 2019, with Imperial's share being reduced to approximately CAD\$9.2 billion (approximately £5.5 billion).

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74. *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).
75. 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 Ryeseeks p.l.c. have been released from Adams, and the RJR Companies have brought a motion challenging the jurisdiction of the court. There are service issues in relation to Imperial and the UK Companies in Alberta and in relation to the UK Companies in Manitoba. The plaintiffs did not serve their certification motion materials and no dates for certification motions were set.
76. In June 2010, two further smoking and health class actions were filed in British Columbia (Bourassa and McDermid) against various Canadian and non-Canadian tobacco-related entities, including Imperial, the UK Companies and the RJR Companies. The UK Companies, Imperial, the RJR Companies and other defendants objected to jurisdiction. Subsequently, the Company, Carreras Rothmans Limited and Ryeseeks p.l.c. were released from the actions. Imperial, Industries, Investments and the RJR Companies remain as defendants in both actions. The plaintiffs did not serve their certification motion materials and no dates for certification motions were set.
77. 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.
78. A proposed national class action was filed in the British Columbia Supreme Court by Danver Bauman (via his litigation guardian) on 21 December 2023 against Imperial Tobacco Company Ltd., ITCAN, and Nicoventures Trading Limited (Nicoventures) alleging numerous statutory and common law causes of action in connection with the design, marketing and sale of Zonnica. The action was issued in violation of the CCAA Stay, is subject to the CCAA Stay, and has not been served.

Venezuela

79. 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 Sucrs. (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

80. As at 31 December 2023, the jurisdictions with the most active individual cases against Group companies were, in descending order: Chile (17), Brazil (15), Italy (eight), Canada (five), Argentina (five) and Ireland (two). There were a further two jurisdictions with one active case only. Out of these 54 active individual cases, as at 31 December 2023 there were two cases in Argentina that have resulted in pending unfavourable judgments. In one case, damages were awarded totalling ARS685,976 (approximately £665) in compensatory damages and ARS2,500,000 (approximately £2,425) in punitive damages, plus post-judgment interest. This judgment was reversed via an appellate court ruling issued 19 September 2023. The plaintiff's petition for leave to appeal to the Argentina Supreme Court was denied on 29 November 2023. The plaintiff filed an extraordinary appeal to the Argentina Supreme Court on 7 December 2023, which appeal remains pending. In the other case, compensatory damages were awarded totalling ARS2,850,000 (approximately £2,765), with post-judgment interest totalling approximately ARS195,588,410 (approximately £189,767). This judgment is currently on appeal. In addition, on 25 August 2023, an adverse judgment was served in an individual action in Türkiye awarding TRY10,000 (approximately £265) in compensatory damages. The judgment is under appeal.

Non-Tobacco-Related Litigation

Vuse Litigation

81. 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 5 August 2020, the Judicial Panel on Multidistrict Litigation entered a conditional transfer order transferring the case to the Northern District of California for pretrial proceedings as part of the JUUL multidistrict litigation (MDL). On 1 December 2023, the plaintiff dismissed the action against RJR Vapor and Reynolds American with prejudice.
82. On 11 January 2023, Camellia Chastain filed a putative class action complaint in the Middle District of Florida against RJR Vapor. The complaint sought damages arising from alleged discoloration and/or a burnt taste in Vuse Alto Golden Tobacco pods based on several theories, including state consumer protection statutes, false and misleading advertising, breach of warranty, negligent misrepresentation, fraud, and unjust enrichment. The complaint sought to certify two classes, including a Florida class and a multi-state class from the states of North Carolina, South Carolina, Georgia, Alabama, and Mississippi. On 15 March 2023, the court granted the plaintiff's notice of voluntary dismissal and dismissed the case with prejudice.

Croatian Distributor Dispute

83. 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 HRK408,000,000 (approximately €54 million / £47 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 HRK408,000,000 (approximately €54 million / £47 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. After the two hearings have been held, the Municipal Court of Zagreb has appointed the court financial and auditing appraisal to determine the value of Mr Perica's claim.

Florence Proceedings

84. British American Tobacco Italia SpA has been charged with administrative offences in Florence, Italy in a case against a large number of individual and corporate defendants. This relates to potential allegations of failure to supervise or take appropriate steps to prevent alleged corruption by two (now former) employees. Any financial penalty is not thought likely to be material.

Patents and Trademark Litigation

85. 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.

86. On 22 June 2018, an affiliate of 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 JPY100 million (approximately £556,418). 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. On 30 November 2022, the Tokyo District Court dismissed both of the above claims of the PMI affiliate on the grounds that both of the above two PMI affiliate's Japanese patents lack inventive step and would be invalidated by a patent invalidation trial. The PMI affiliate has appealed against this judgment. The Intellectual Property High Court upheld this judgment and dismissed the appeal of the PMI affiliate on 28 November 2023. The PMI affiliate filed a final appeal and a petition for acceptance of final appeal against the judgment of the Intellectual Property High Court.

87. On 11 February 2022, Nicoventures commenced an action in the England and Wales High Court (Patents Court) against Philip Morris Products S.A. (PMP) for revocation against one of PMP's patents (a further divisional patent in the same family was added into the revocation action on 27 May 2022). On 22 August 2022, PMP counterclaimed for patent infringement against Nicoventures and Investments concerning certain 'glo' tobacco heating devices that comprise two inductive heating coils and their corresponding consumables. (PMP later abandoned its counterclaim in respect of one of the patents but maintained its counterclaim in respect of the other.) PMP sought an injunction and damages (plus interest thereon). The trial was heard in March 2023. On 18 April 2023 the England and Wales High Court (Patents Court) handed down its judgment finding that the PMP patents were valid but one of them is not infringed (the counterclaim in respect of the other patent having been abandoned). Thus, PMP's counterclaim for patent infringement against Nicoventures and Investments failed. Both parties have permission to appeal the decision, which will be heard by the Court of Appeal on 19 and 20 March 2024.

88. On 28 May 2020, Altria Client Services LLC and U.S. Smokeless Tobacco Company LLC commenced proceedings against RJR Vapor before the U.S. 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 adding Modoral Brands Inc. as a defendant with respect to the Velo product claims. A claim construction hearing was held on 28 April 2021, and the court issued its claim construction ruling on 12 May 2021. All asserted patent claims against Vibe and Velo as well as one of the four patents asserted against Alto were dropped prior to trial, leaving three patents asserted against Alto for trial. Trial was held from 29 August 2022 to 7 September 2022. The jury found infringement by all accused products and awarded approximately US\$95 million (approximately £74.5 million) in damages. On 27 January 2023, the court rejected Altria's request to double the jury's awarded royalty rate for post-trial sales and set the royalty rate applicable to post-trial sales to the jury's awarded rate of 5.25%. Altria did not request entry of an injunction and has stipulated it will not enforce the monetary judgment until appeals are exhausted. On 10 February 2023, RJR Vapor noticed its appeal to the United States Court of Appeals for the Federal Circuit. Appellate briefing has been completed. The Federal Circuit has not scheduled a date for oral argument.

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89. On 9 April 2020, RAI Strategic Holdings, Inc. and RJR Vapor commenced an action in the U.S. District Court for the Eastern District of Virginia against Altria Client Services LLC, PM USA, 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 commercialization within the United States of IQOS. On 8 May 2020 and 12 June 2020, Philip Morris filed Inter Partes Review (IPR) petitions in the U.S. 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 U.S. Patent Office regarding whether to proceed with the IPRs. Trial on the Altria and Philip Morris patents began on 8 June 2022. Shortly before trial, Philip Morris dropped its claims to one patent and the Altria entities dismissed their claims relating to two patents, which left two Philip Morris patents at issue in the trial. On 15 June 2022, the jury found that RJR Vapor's Alto product infringed two claims in one patent and that its Solo product infringed three claims of the other patent. The jury awarded damages of US\$10,759,755 (approximately £8,439,023), which was supplemented by the Court to a total of US\$14,062,742 (approximately £11,029,601) to account for additional sales of Solo and Alto through the date of judgment and interest. Philip Morris requested entry of a permanent injunction barring sale of the Alto and Solo products. On 30 March 2023, the court denied Philip Morris's request for a permanent injunction and ordered ongoing royalty rates of 1.8% of net sales of Alto cartridges and 2.2% of net sales of Solo G2 cartridges. On 1 May 2023, the court granted RJR Vapor's motion for entry of judgment under Fed. R. Civ. P. 54(b) and denied Philip Morris's cross motion to lift the stay as to RJR Vapor's offensive patent case. The RJR Vapor offensive patent case remains stayed pending (i) an appeal by Philip Morris to the Federal Circuit in relation an exclusion order granted against Philip Morris by the International Trade Commission based on the relevant patents, which exclusion order was affirmed by the United States Court of Appeals for the Federal Circuit on 31 March 2023, and (ii) the decisions in IPRs commenced by Philip Morris against the relevant patents at the U.S. Patent Office. On 1 May 2023, RJR Vapor noticed an appeal to the United States Court of Appeals for the Federal Circuit. On 10 May 2023, Philip Morris noticed a cross-appeal relating to the denial of its request for a permanent injunction and the 17 August 2023 amended judgment on the verdict. RJR Vapor and Philip Morris's appeals have been consolidated. Briefing is ongoing.
90. 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 trials of this action took place on 15 June 2021 and 9 November 2021. A decision on the matter was promulgated on 30 November 2021. The decision dismissed the complaint in its entirety. On 28 December 2021, Philip Morris lodged an appeal against this decision before the Higher Regional Court Karlsruhe. A date has not yet been set for the appeal hearing.
91. 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 the 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. The trial of this action took place on 30 November 2021. The court promulgated its decision on 21 December 2021 and decided that the above-mentioned products infringe the patent. The decision was appealed by BAT Germany on 21 December 2021 to the Higher Regional Court Dusseldorf. The oral hearing of these appeal proceedings took place on 24 November 2022. On 15 December 2022, the Higher Regional Court Dusseldorf reversed the trial court decision and dismissed Philip Morris's complaint in its entirety. In addition, the Higher Regional Court Dusseldorf did not grant a further appeal to the German Supreme Court (*Bundesgerichtshof* (BGH)). PMI filed a motion for leave of appeal with the BGH, which is why the decision of the Higher Regional Court Dusseldorf is not yet final. Pursuant to a global settlement agreement between Nicoventures and PMP, dated 1 February 2024 that resolves all ongoing patent infringement litigation between the parties related to the Group's Heated Tobacco and Vapour products, the parties will cause the proceedings set out in this item 91 and at paragraphs 86, 87, 89, and 90 to be dismissed.
92. On 14 December 2020, Modoral Brands Inc. (Modoral) filed a complaint in the U.S. District Court for the District of Delaware against Pinkerton Tobacco Co., LP, Swedish Match North America LLC, and NYZ AB (collectively Swedish Match) seeking a declaratory judgment that the importation, manufacture, use, and/or sale of certain Modoral Velo products that Modoral acquired from Dryft Sciences does not infringe a Swedish Match patent or its trade secrets. On 3 June 2021, the case was transferred to the U.S. District Court for the Central District of California. On 13 July 2021, Swedish Match and Helix Innovations GmbH filed counterclaims against Modoral for infringement of the patent and misappropriation of trade secrets arising out of the manufacture, use, and sale of Modoral's Velo product. On 15 December 2021, the court entered a Markman Order finding that the patent distinguishes a nicotine complex from the claimed 'nicotine salt,' and more specifically, affirmatively excluding the nicotine polacrilex complex used in the accused Velo product from the claimed invention because it is 'not a nicotine salt'. Swedish Match agreed to a joint stipulation and request for entry of judgment of non-infringement for all of the asserted claims of the '908 patent, which the Court granted on 19 January 2022. The case has been resolved, and the court entered an order granting the parties' joint stipulation of dismissal on 9 February 2023.
93. On 20 September 2023, Healthier Choices Management Corp. (HCMC) commenced proceedings against RJR Vapor before the U.S. District Court for the Middle District of North Carolina against the Vapour product Vuse Alto alleging infringement of U.S. Patent 9,538,788. On 17 November 2023, RJR Vapor filed a motion to dismiss the action in its entirety. Briefing on that motion is complete, and it is pending a decision.

Mozambican IP Litigation

94. 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 MZN46,811,700 (approximately £575,018) 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 of approximately MZN14.5 billion (approximately £178 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 SAT's 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 GST'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. SAT was notified in December 2021 that the trial of the counterclaim was to take place on 24 February 2022. SAT subsequently submitted a complaint related to that trial to the court, on the basis that prior to any further step being taken in relation to the trial the process should be submitted to the superior court for analysis, as per the appeals previously submitted in the proceedings. SAT's complaint has been appreciated favourably and the process will be remitted to the superior court. Trial has not taken place.

Malawi Group Action

95. 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 defendants had an application to strike out the claims dismissed in a judgment dated 25 June 2021. In January 2022, the Company and GLP were served with a similar claim by around a further 3,500 claimants. The Company and GLP intend vigorously to defend the claims.

Middle East Litigation

96. 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 SAR2,105,356,121 (approximately £440.4 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. On 20 April 2021, Al Naghi filed a new claim in the Jeddah Commercial Court against B.A.T. (U.K. and Export) Limited (BAT UKE) demanding that BAT UKE reimburse Al Naghi in the amount of SAR2,105,356,121 allegedly paid by Al Naghi to the customs authorities in customs dues. On 16 June 2021, the Court of First Instance issued a judgment dismissing the claim against BAT UKE on the ground that BAT UKE lacks legal standing to be sued. On 22 August 2021, Al Naghi filed an appeal against the Court of First Instance judgment. On 15 November 2021, the Appellate Court remanded the case to the lower Court in order for the lower Court to join BAT entities in Bahrain and UAE, which Al Naghi had wrongly claimed on appeal to be branches of BAT UKE. The lower Court tried to summon the Bahrain and UAE BAT entities to obtain clarifications about their status; however, said entities were not properly notified and did not appear. On 2 August 2022, the Court reversed its decision to seek clarifications from the BAT entities in Bahrain and UAE and dismissed the claim against BAT UKE for lack of legal capacity. On 29 August 2022, Al Naghi filed an appeal against the Court of First Instance judgment. On 5 December 2022, the Court of Appeal issued a judgment affirming the preliminary court's ruling dismissing Al Naghi's claim against BAT UKE. On 27 December 2022, Al Naghi filed an appeal before the Supreme Court. On 15 May 2023, the Supreme Court issued a judgment dismissing Al Naghi's appeal. The dismissal is final in respect of Al Naghi's claim against BAT UKE.

97. On 6 November 2023, Al Naghi filed a claim in the Commercial Court in Jeddah, Saudi Arabia, seeking SAR2,105,356,121 (approximately £440.4 million) for reimbursement of funds allegedly due under contract. The claim named British American Tobacco Middle East W.L.L. as the defendant. The court has ordered the exchange of memoranda. The next hearing is scheduled for 21 February 2024.

98. In late December 2023, BAT UKE received a request for arbitration proceedings from a customer/distributor in the Middle East, seeking damages of approximately US\$116 million (approximately £91 million). BAT UKE has submitted its response to the claim.

Asbestos Litigation

99. As at 31 December 2022, there were four active asbestos personal injury cases against BATUS Holdings Inc. and various other defendants. During the financial year 2023, BATUS Holdings Inc. was served with 17 new asbestos personal injury cases, and BATUS Holdings Inc. was dismissed from eight asbestos personal injury cases (including *Stuck* and *Mannooch*) by court order for lack of personal jurisdiction or by voluntary dismissal. Consequently, as of 31 December 2023, there are 13 active cases. The plaintiffs in each case allege exposure to the defendants' asbestos and asbestos-containing talcum powder and cosmetics products, and assert claims under state law, including for negligence, breach of warranty, strict liability, conspiracy, fraud and wrongful death. The plaintiffs seek unspecified compensatory and punitive damages. Of the 13 active cases, 10 cases (*Lowis, Phillips, Cooke, Dove, Gibbs, Westropp, Knight, Steggles, Doonan, and Oakenfold*) are filed in the Supreme Court of the State of New York (New York County), two cases (*Weber and Redgewell*) are filed in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida, and one case (*Caswell*) is filed in the Superior Court of the State of California (*Alameda County*). In all of these pending cases, BATUS Holdings Inc. has filed motions to dismiss for lack of personal jurisdiction.

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Cigarette Filter Litter Litigation

100. On 21 November 2022, the Mayor and City Council of Baltimore, Maryland, filed a lawsuit in the Circuit Court for Baltimore City naming the Company and RJRT, as well as PM USA, Altria Group, Liggett Group LLC and a Maryland-based distributor, as defendants. RJRT was served on 13 December 2022, and the Company received the complaint on 18 January 2023. The plaintiff, a municipality, alleges that the defendants manufactured, distributed and sold non-biodegradable cigarette filters with knowledge that consumers would discard used filters on public property owned by the plaintiff, and further alleges that the defendants failed to warn consumers of the alleged environmental impacts of littered filters. The plaintiff asserts causes of action for alleged violation of state and municipal civil and criminal anti-littering and dumping laws, trespass, strict liability and negligent design defect, public nuisance, and strict liability and negligent failure to warn. The plaintiff seeks, among other relief, unspecified damages (including punitive damages) for costs allegedly incurred removing discarded cigarette filters from public property, and for alleged damage to land and natural resources and property value diminution, along with fines under state and municipal laws. On 3 February 2023, PM USA filed a notice of removal of the litigation to the Federal District Court in Baltimore, Maryland. The plaintiff moved to remand the action back to the Circuit Court for Baltimore City on 20 March 2023. The federal court, following briefing on the motion, issued an order on 19 January 2024 remanding the action back to the Circuit Court for Baltimore City.

U.S. Securities Putative Class Action

101. On 24 January 2024, Gary David, a purported holder of Company securities, initiated a putative class action in the United States District Court for the Eastern District of New York on behalf of all purchasers of publicly traded Company securities between 9 February 2023 and 6 December 2023. The complaint names the Company and certain of its current and former officers as defendants, and alleges that during the class period the defendants made false or misleading public statements regarding the risks and potential likelihood of an impairment charge to the value of the Reynolds cash-generating units or its brand intangibles. The complaint does not quantify the claimed damages.

Fox River

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

102. U.S. authorities identified potentially responsible parties (PRPs), including NCR Corporation (NCR), to fund the clean-up of polluted sediments in the Lower Fox River, Wisconsin. Discharges of Polychlorinated Biphenyls (PCBs) from paper mills and other facilities operating close to the river caused that pollution. Industries' involvement with the environmental liabilities arises out of (i) indemnity arrangements which it became party to due to various transactions that took place from the late-1970s onwards and (ii) subsequent litigation brought by NCR against Industries and Appvion Inc. (Appvion) (a former Group subsidiary) in relation to those arrangements.
103. Following substantial litigation in the United States regarding the responsibility for the costs of the clean-up operations, and enforcement proceedings brought by the U.S. Government against NCR and Appvion to ensure compliance with regulatory orders made relating to the Fox River clean-up, the District Court of Wisconsin approved (on 23 August 2017) a form of settlement with the U.S. Government known as a Consent Decree.
104. A key term of that Consent Decree is that NCR was obliged to perform and fund all of the remaining Fox River remediation work by itself.

105. A cost breakdown filed in support of the motion to approve the Consent Decree estimates the total Fox River clean-up costs (including natural resource damages) to be US\$1,346 million (approximately £1,055.6 million).

106. A further Consent Decree between the U.S. Government, P.H. Glatfelter Company and Georgia-Pacific Consumer Products LP (Georgia-Pacific), approved by the Wisconsin District Court on 14 March 2019, concluded all remaining litigation relating to the Fox River. In November 2019, an arbitral tribunal awarded approximately US\$10 million (approximately £7.8 million) to the remediation contractor engaged by a limited liability company formed by NCR and Appvion to perform the Fox River clean-up operation. NCR has stated (in its 2021 Annual Report on Form 10-K) that its indemnitors and co-obligors were responsible for the majority of the award, with its own share being approximately 25%.

107. On 3 October 2022, the United States Environmental Protection Agency issued a Certificate of Completion in respect of remedial action for the Lower Fox River.

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

108. NCR's position is that, under the terms of a 1998 Settlement Agreement between it, Appvion and Industries, and a 2005 arbitration award, Industries and Appvion 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.

109. Until May 2012, Appvion and Windward Prospects Limited (Windward) (another former Group subsidiary) paid a 60% share of the clean-up costs incurred by NCR. Industries was never required to contribute. Around that time, Appvion refused to continue to pay clean-up costs, NCR therefore demanded that Industries pay a 60% share of those costs. Industries resisted NCR's demand and commenced proceedings against Windward and Appvion seeking confirmation of indemnities provided to Industries 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

110. 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 related counterclaim) and NCR-Appvion arbitration were discontinued;
 - the parties agreed a framework through which they would together fund the ongoing costs of the Fox River clean-up; and
 - NCR 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 (if any) 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).
111. Additionally, Windward has contributed US\$10 million (approximately £7.8 million) of funding. Appvion has contributed US\$25 million (approximately £19.6 million) for Fox River and agreed to contribute US\$25 million (approximately £19.6 million) for the Kalamazoo River (see further below). Appvion entered Chapter 11 bankruptcy protection on 1 October 2017.

112. 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 S.A. (Sequana) and the former Windward directors (the Windward Dividend Claim), assigned to BTI under the Funding Agreement, and which relates to dividend payments made by Windward to Sequana of around €443 million (approximately £384 million) in 2008 and €135 million (approximately £117.0 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).
113. Pursuant to a judgment of the High Court handed down on 11 July 2016, the court upheld the BAT section 423 Claim. By way of a consequential judgment dated 10 February 2017, the High Court ordered that Sequana pay to BTI an amount up to the full value of the 2009 Dividend plus interest, equating to around US\$185 million (approximately £145.1 million). The Court dismissed the Windward Dividend Claim.
114. The parties pursued cross-appeals on the judgment and payments in respect of the judgment were stayed. 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 remains liable to pay approximately US\$185 million (approximately £145.1 million) and around £10 million in costs to Industries.
115. On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings. To date, Sequana has made no payments to Industries. Because of Sequana's ongoing insolvency process, execution of that judgment is stayed.
116. BTI subsequently appealed to the Supreme Court in respect of the Windward Dividend Claims. On 5 October 2022, the Supreme Court handed down its judgment, dismissing BTI's appeal.
117. BTI has brought claims against certain of Windward's former advisers, including Windward's auditors at the time of the dividend payments, PricewaterhouseCoopers LLP (PwC) (which claims were also assigned to BTI under the Funding Agreement). BTI's claim against PwC is progressing in the High Court and the trial is scheduled to take place in the summer of 2024. An agreed stay is in place in respect of BTI's separate assigned claim against Freshfields Bruckhaus Deringer.
118. The sums Industries has paid under the Funding Agreement are subject to the reservation as set out in paragraphs 110-111 above and ongoing adjustment. Clean-up costs can only be estimated in advance of the work being carried out and certain sums payable are the subject of ongoing U.S. litigation. In 2019, Industries paid £32 million in respect of clean-up costs. In 2020, Industries paid £2 million in respect of clean-up costs. In 2021, Industries paid a further £2 million in respect of clean-up costs. In 2022, Industries has paid an additional £1 million in respect of clean-up costs. Industries is potentially liable for further costs associated with the clean-up. Industries has a provision of £44 million which represents the current best estimate of its exposure – see note 24.
120. Following further litigation, on 11 December 2019, NCR announced that it had entered into a Consent Decree with the U.S. Government and the State of Michigan (subsequently approved by the Michigan Court on 2 December 2020), pursuant to which it assumed liability for certain remediation work at the Kalamazoo River. The payments to be made on the face of the Consent Decree in respect of such work total approximately US\$245 million (approximately £192 million). The Consent Decree also provides for the payment by NCR of an outstanding judgment against it of approximately US\$20 million (approximately £15.7 million) to Georgia-Pacific.
121. The quantum of the clean-up costs for the Kalamazoo River is presently unclear. It seems likely to exceed the amounts payable on the face of the Consent Decree.
122. On 10 February 2023, NCR filed a complaint in the United States District Court for the Southern District of New York against Industries, seeking a declaration that Industries must compensate NCR for 60% of costs NCR incurred and incurs relating to the Kalamazoo River site on the asserted basis that the Kalamazoo River constitutes a 'Future Site' for the purposes of the Settlement Agreement. The Funding Agreement described above does not resolve any such claims. On 23 June 2023, Industries filed its defence and counterclaims in the proceedings. On 2 October 2023, NCR filed a motion for declaratory judgment on its complaint and to strike out Industries' defences and counterclaims. Industries has filed its reply to this motion. The motion is expected to be heard in February 2024.
123. Industries also anticipates that NCR will seek to recover from Appvion (subject to a cap of US\$25 million (approximately £19.6 million)) for 'Future Sites' under the Funding Agreement. The effect of Appvion's Chapter 11 bankruptcy proceedings on its liability for Future Sites payments under the Funding Agreement is currently uncertain. NCR has indicated that if it is unable to obtain recovery from Appvion then it will seek to recover such from Industries as part of the 60% referred to in paragraph 122 above.
124. In summary, Industries is and has been taking active steps to protect its interests. These include preparation of all its defences and counterclaims, 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

125. 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.

Kalamazoo

119. Georgia-Pacific, a designated PRP in respect of the Kalamazoo River in Michigan, also pursued NCR in relation to remediation costs caused by PCBs released into that river. On 26 September 2013, the United States District Court, Michigan 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).

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Investigations

126. From time to time, the Group investigates, and becomes aware of governmental authorities' investigations into allegations of misconduct, including alleged breaches of sanctions and allegations of corruption at Group companies. Some of these allegations are currently being investigated. The Group cooperates with the authorities, where appropriate.
127. On 25 April 2023, the Group announced that it had reached agreement with DOJ and the United States Department of the Treasury's Office of Foreign Assets Controls (OFAC) to resolve previously disclosed investigations into suspicions of sanctions breaches. These concerned business activities relating to the Democratic People's Republic of Korea between 2007 and 2017. British American Tobacco p.l.c. entered into a three-year deferred prosecution agreement (DPA) with DOJ and a civil settlement agreement with OFAC. DOJ's charges against the Company—one count of conspiring to commit bank fraud and one count of conspiring to violate sanctions laws—were filed and will later be dismissed if the Company abides by the terms of the DPA. In addition, a BAT subsidiary in Singapore, British-American Tobacco Marketing (Singapore) Private Limited, pleaded guilty to the same charges. The total amount payable to the U.S. authorities is approximately US\$635 million plus interest, which is being paid by British American Tobacco p.l.c.

Closed litigation matters

128. The following matters on which the Company reported in the contingent liabilities and financial commitments note 31 to the Company's 2022 financial statements have been dismissed, concluded or resolved as noted below:

Matter	Jurisdiction	Companies named as Defendants	Description	Disposition
Distributor Customs Dispute	Qatar	British American Tobacco Middle East S.P.C.	Indemnity Litigation	Resolved
Carlson/Alloway/Wolfe asbestos litigation	U.S.	BATUS Holdings Inc	Personal Injury	Voluntary dismissal by plaintiffs
Philip Morris Products S.A. EP (UK) patent counterclaim ('Glo' tobacco heating devices)	UK	Nicoventures Trading Limited, British American Tobacco (Investments) Limited	IP	Court judgment of dismissal in favour of Defendants
Jones v American Tobacco Co	Missouri	RJRT, B&W, Lorillard Tobacco and certain parent companies	Class action	Closed by court as an inactive file

General Litigation Conclusion

129. 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.
130. 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, and did not displace the order of the Court that previously required the defendants to post security deposits in the amount of CAD\$1.1 billion (approximately £654.4 million). This is the only executory aspect of the judgment. In these circumstances the Board of Directors of Imperial reassessed the recoverability of the litigation-related deposit, and accordingly, the Group recognised a charge against the income statement of CAD\$758 million (approximately £450.9 million), the amount of the initial deposit paid into court, and 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 receivables) against the current estimate of the liability and both the provision and litigation-related deposit were reduced accordingly. 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.

131. Having regard to all these matters, with the exception of the Quebec Class Actions and Fox River, 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. In addition, the Group accrues for damages, attorneys' fees and/or statutory interest, including in respect of certain *Engle Progeny* cases, certain U.S. individual smoking and health cases, the DOJ medical reimbursement/corrective statement case and the DOJ and OFAC investigations.

Other contingencies

132. *JTI Indemnities*. By a purchase agreement dated 9 March 1999, amended and restated as at 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.

133. 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.

134. *ITG Indemnity*. In the purchase agreement relating to the Divestiture as amended, 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 2025, 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 2025, 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.

135. *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.

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136. *SFRTI Indemnity.* In connection with the 13 January 2016 sale by Reynolds American of the international rights to the NAS 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 NAS brand products consumed or intended to be consumed outside of the United States and (d) that the NAS brand product is natural, organic, or additive-free. Under the terms of this indemnity, JTI Holding 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. These claims settled for a total of US\$4,653,009 (approximately £3,649,418) in taxes and interest.
137. *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.
138. 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.
139. *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 the Netherlands and Nigeria. In regards to the previously disclosed investigation by the Nigerian Federal Competition and Consumer Protection Commission (FCCPC) into alleged violations of the Nigerian Competition and Consumer Protection Act and National Tobacco Control Act, a consent order was entered into between the FCCPC and British American Tobacco (Holdings) Limited, British American Tobacco (Nigeria) Limited and British American Tobacco Marketing (Nigeria) Limited in December 2022 terminating the investigation and associated proceedings, replacing the previous final order. Amongst other measures, the final order includes provision for the payment in Naira of a penalty equivalent to US\$110 million and the Group's Nigerian subsidiaries will be subject to a two-year period of monitoring.

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**

Profits of overseas subsidiaries. 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 BRL1,750 million (£283 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. In October 2023, the administrative courts issued their judgments on all of the remaining cases from 2007 to 2012. In three of the four cases (2009-2012) the court decision was tied, with five judges each siding for the tax authority and for the taxpayer. In these circumstances the tax authorities are presumed to prevail but potential penalties are reduced. The procedural appeal regarding 2007 and 2008 was rejected. All judgments will be appealed to the judicial courts.

Rio de Janeiro VAT Incentives. The Brazilian Federal Tax authority has challenged the treatment of Rio de Janeiro VAT incentives. In October 2021, in respect of the 2016-2021 calendar years, the authorities position was upheld at the lower Judicial Court. Souza Cruz has appealed in full against the Judgment. The maximum exposure from 2016-2023 is BRL1,152 million (£186 million) including potential interest and penalties, and reflecting a recent binding Supreme Court decision which reduces the value of these incentives by 10% (as described in note 6(k)).

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 potential liability across these periods of £1,148 million covering tax, interest and penalties. The Group appealed against the assessments in full.

In relation to the periods from 2003-2007 (with an aggregate potential net liability of £7 million), the District Court of North Holland issued judgments on 3rd March 2021. The appeal against the assessments was upheld, with the court finding for the Group. The Dutch tax authority have appealed to the High Court.

In relation to the periods from 2008-2013 (with an aggregate potential net liability of £182 million), the District Court of North Holland issued judgments on 17th October 2022, resulting in findings against the Group on a number of issues. These judgments have been appealed to the High Court.

On the 15th December 2023 the Dutch District Court issued its judgement covering the period 2014-2016 (with an aggregate potential net liability of £959 million). On the issue of mark to market losses on external bonds of British American Tobacco Holdings (The Netherlands) B.V., the appeal against the assessments was upheld in full, with the court finding for the Group. In relation to other intra-group transactions, including the termination of licence rights, the court found against the Group. Both the Group and Dutch tax authorities have appealed items lost to the High Court.

Having considered the judgment and the Dutch judicial and international proceedings available to it, the Group has recognised a further adjusting charge of £70 million in 2023, with a total provision of £145 million recognised at 31 December 2023.

As part of the 15th December 2023 judgement the assessed fine of £108 million for the filing of an intentionally incorrect tax return was upheld but reduced to £92 million. The Group has appealed in full to the High Court and considers no provision is appropriate.

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. With the exception of the Netherlands, 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

In January 2019, a competitor filed a writ petition against the government and the National Board of Revenue (NBR) by which it initially challenged the failure of Government to implement the closing budget speech of the Honourable Finance Minister dated 27 June 2018 and reserving low segment for local brands. Thereafter, the competitor instead challenged the exclusion of protection given to local brands of cigarette manufactured by local manufacturers and sought a direction to continue the protection so granted to the local manufacturers of cigarettes in pursuance of a 2017 Special Order. The competitor further challenged the legality of a 2018 Special Order of the NBR through which the said protection was revoked. British American Tobacco Bangladesh Company Limited (BAT Bangladesh) was initially not a party to the writ petition, subsequently it became a party through an addition of party application. Upon hearing on multiple occasions, the High Court passed judgment in the matter on 21 September 2020. BAT Bangladesh filed an appeal against the High Court order and obtained a stay on 4 October 2020. By holding the prospective portion of the 2018 Special Order legal, the Court did not allow the discriminatory regime to continue. However, by holding illegal the retrospective portion of the 2018 Special Order, the Court revived the discriminatory regime for only one year, that is from 1 June 2017 to 6 June 2018 and held that any shortfall of revenue under the 2017 Special Order may be recovered from any party or manufacturer during the period of 1 June 2017 to 6 June 2018. Subsequently, the Large Taxpayers' Unit (LTU) VAT issued a show cause notice dated 24 September 2020 following the High Court judgment claiming unpaid VAT & Supplementary Duty (SD) of BDT24,371 million (£174 million) from 1 June 2017 to 6 June 2018. BAT Bangladesh appealed against the High Court judgment before the Appellate Division and obtained an order of stay. Since the High Court judgment is stayed, the LTU proceeding shall also be deemed to have been stayed.

In addition, BAT Bangladesh has received a memo from the NBR claiming BDT20,540 million (£147 million). This claim is related to VAT and SD allegedly owed by BAT Bangladesh due to the production of an extra 18 billion cigarettes. The allegation is based on an undisclosed purchase of local leaf, which is apparently inferred from a discrepancy found in BAT Bangladesh's 2016 Annual Report and VAT-1 records. NBR has reopened the matter and sent a memo to LTU cancelling the earlier order of the LTU Commissioner which was in favour of BAT Bangladesh and directing LTU to make the demand to BAT Bangladesh claiming the above-mentioned VAT and SD. Subsequently, BAT Bangladesh has received an official demand for payment related to this claim from LTU. BAT Bangladesh has challenged the memo of NBR and obtained a Rule in this regard. It has also challenged the demand letter of LTU and prayed for issuance of a supplementary rule and stayed the demand letter. The matter is currently pending before the High Court.

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 KRW80.7 billion (approximately £49 million) charge by Group subsidiaries, 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 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 KRW6.7 billion (approximately £4 million), the VAT portion of the assessment. The Korean government appealed the ruling on 16 September 2019. On 16 April 2021 the Court of Appeals affirmed the ruling of the Trial Court. The government immediately appealed to the Supreme Court and the Supreme Court also affirmed the ruling of the Appeals Court on 26 August 2021. On 16 September 2021, Rothmans Far East B.V. Korea Branch Office duly received the amount litigated (VAT portion) including statutory interests (note 6(g)).

On 9 September 2023, the trial court ruled in favour of the Korean government on national excise and local excise portion of the assessment. The Management of the British American Tobacco Korea Manufacturing Ltd. lodged an appeal to the Supreme Court on 30 October 2023.

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Closed cases

In the contingent liabilities and financial commitments note 31 to the Company's 2022 financial statements, an indirect and other taxes case in Egypt was disclosed. This case was closed in 2022.

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:

	2023 £m	2022 £m
Service contracts		
Within one year	41	45
Between one and five years	46	66
Beyond five years	—	—
	87	111

Financial commitments arising from short-term leases and leases of low-value assets that are not capitalised under IFRS 16 Leases are £26 million (2022: £30 million) for property and £9 million (2022: £50 million) for plant, equipment and other assets.

32 Interests in subsidiaries

Subsidiaries with material non-controlling interests

Non-controlling interests principally arise from the Group's listed investment in Bangladesh (British American Tobacco Bangladesh Company Limited) where the Group held 72.91% in 2023, 2022 and 2021. Summarised financial information for Bangladesh is shown below as required by IFRS 12 *Disclosure of interest in other entities*. 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	2023 £m	2022 £m	2021 £m
Revenue	680	732	640
Profit for the year	133	153	127
– Attributable to non-controlling interests	36	41	34
Total comprehensive income	91	132	127
– Attributable to non-controlling interests	25	36	34
Dividends paid and other appropriations made to non-controlling interests	(11)	(32)	(28)
Summary net assets:			
Non-current assets	299	322	303
Current assets	437	253	345
Non-current liabilities	71	78	70
Current liabilities	284	166	262
Total equity at the end of the year	381	331	316
– Attributable to non-controlling interests	103	90	86
Net cash generated from operating activities	167	164	52
Net cash used in investing activities	(51)	(46)	(26)
Net cash used in financing activities	(41)	(147)	(55)
Differences on exchange	1	4	—
Increase/(decrease) in net cash and cash equivalents	76	(25)	(29)
Net cash and cash equivalents at 1 January	(24)	1	30
Net cash and cash equivalents at 31 December	52	(24)	1

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	2023 £m	2022 £m
Non-current assets	2,471	2,554
Current assets	2,621	2,193
Non-current liabilities	(103)	(114)
Current liabilities	(494)	(526)
	4,495	4,107

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 non-current assets for 2023 and 2022 is goodwill of £2.4 billion subject to impairment reviews (note 12). Included in current liabilities are trade and other payables of £333 million (2022: £391 million), the majority of which are amounts payable in respect of duties and excise and accrued charges. A breakdown of current assets has been provided below.

	2023 £m	2022 £m
Cash and cash equivalents*	2,042	1,569
Inventory	103	182
Investments held at fair value	446	396
Other	30	46
	2,621	2,193

Note:

* Cash and cash equivalents above include £1,904 million (2022: £1,411 million) of restricted cash and cash equivalents. The Group defines restricted cash and cash equivalents as where there are significant restrictions on its ability to access or use the assets and settle the liabilities of the Group, but excludes cash and cash equivalents where there are also outstanding local currency borrowings or where there is an outstanding excise liability. In addition, dividends payable would also be excluded from restricted cash and cash equivalents if the dividend has been approved by the necessary regulatory channels.

Refer to note 31 for information on the Quebec Class Actions.

Other shareholdings

At 31 December 2023, the Group holds almost 100% (2022: almost 100%; 2021: 99%) of the equity shares of PT Bentoel Internasional Investama Tbk (Bentoel). Between 2011 and 2021, the Group was party to a total return swap on approximately 7% of Bentoel's issued capital. While the Group did not have legal ownership of these shares in this period, it retained the risks and rewards associated with them which resulted in the Group continuing to recognise an effective interest in 99% of Bentoel's net assets and results. In 2021, the Group terminated the total return swap as part of its intention to delist from the Indonesia Stock Exchange and go private by conducting a Voluntary Tender Offer (VTO), as a result of which the Group acquired 0.2% additional shares at a cost of £4 million. Shares from over one thousand individual shareholders who could not be contacted were transferred to a courts-approved Public Trustee during 2023 and the company was subsequently delisted on 16 January 2024.

33 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:

- US\$9.10 billion of outstanding bonds issued by B.A.T Capital Corporation (BATCAP) in connection with the acquisition of Reynolds American Inc. (Reynolds American), including registered bonds issued in exchange for the initially issued bonds (the 2017 Bonds);
- US\$12.15 billion of outstanding bonds issued by BATCAP pursuant to the Shelf Registration Statement on Form F-3 filed on July 17, 2019, and US\$4.6 billion of outstanding bonds issued by BATCAP pursuant to the Shelf Registration Statement on Form F-3 filed on July 1, 2022 pursuant to which BATCAP, BATIF or the Company may issue an indefinite amount of debt securities; and
- US\$2.50 billion of outstanding bonds issued by BATIF pursuant to the Shelf Registration Statement on Form F-3 filed on July 17, 2019, and US\$1 billion of outstanding bonds issued by BATIF pursuant to the Shelf Registration Statement on Form F-3 filed on July 1, 2022 pursuant to which BATCAP, BATIF or the Company 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\$6.7 billion (2022: US\$7.7 billion) of Reynolds American unsecured notes and US\$22.1 million (2022: US\$40.9 million) of Lorillard unsecured notes. As such, no summarised financial information is provided with respect to these securities.

As described below, 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 American 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 U.S. region, all financial statements and financial information provided by or with respect to the U.S. business or RAI (and/or RAI and its subsidiaries (collectively, the Reynolds Group)) are prepared on the basis of U.S. GAAP and constitute the primary financial statements or financial information of the U.S. 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 U.S. business or RAI (and/or the Reynolds Group), it is provided as an explanation of the U.S. business's or RAI's (and/or the Reynolds Group's) primary U.S. GAAP based financial statements and information.

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The subsidiaries disclosed below are wholly-owned and the guarantees provided are full and unconditional, and joint and several:

- a. British American Tobacco p.l.c. (as the parent guarantor), referred to as 'BAT p.l.c.' in the financials below;
- b. 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;
- c. 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;
- d. B.A.T. Netherlands Finance B.V. (as a subsidiary guarantor), referred to as 'BATNF' in the financials below;
- e. Reynolds American Inc. (as a subsidiary guarantor), referred to as 'RAI' in the financials below; and
- f. 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.

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.

Year ended 31 December 2023	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Income Statement						
Revenue	—	—	—	—	—	—
(Loss)/profit from operations	(642)	3	4	—	—	5
Dividend income	4,950	—	1	—	5,234	424
Net finance income/(costs)	488	(204)	857	1	(538)	—
Profit/(loss) before taxation	4,796	(201)	862	1	4,696	429
Taxation on ordinary activities	(25)	22	17	—	127	(1)
Profit/(loss) for the year	4,771	(179)	879	1	4,823	428
Intercompany Transactions – Income Statement						
Transactions with non-issuer/non-guarantor subsidiaries (expense)/income	(120)	(1)	—	—	30	—
Transactions with non-issuer/non-guarantor subsidiaries net finance income	293	768	1,445	—	26	—
Dividend income from non-issuer/non-guarantor subsidiaries	4,950	—	—	—	5,234	424

Year ended 31 December 2022	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Income Statement						
Revenue	—	—	—	—	—	—
(Loss)/profit from operations	(115)	(1)	(2)	—	5	1
Dividend income	7,515	—	—	—	4,835	148
Net finance income/(costs)	264	(52)	187	—	(500)	—
Profit/(loss) before taxation	7,664	(53)	185	—	4,340	149
Taxation on ordinary activities	(10)	(9)	(21)	—	110	—
Profit/(loss) for the year	7,654	(62)	164	—	4,450	149
Intercompany Transactions – Income Statement						
Transactions with non-issuer/non-guarantor subsidiaries (expense)/income	(116)	(1)	(2)	—	47	—
Transactions with non-issuer/non-guarantor subsidiaries net finance income	52	815	732	—	25	—
Dividend income from non-issuer/non-guarantor subsidiaries	7,515	—	—	—	4,835	148

As at 31 December 2023	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Balance Sheet						
Non-current assets	1,917	20,691	2,238	1,422	318	43
Current assets	9,128	12,739	43,431	790	942	10
Non-current liabilities	1,580	18,266	12,901	1,422	9,163	11
Non-current borrowings	1,571	18,101	12,662	1,422	9,113	—
Other non-current liabilities	9	165	239	—	50	11
Current liabilities	339	15,137	30,091	789	1,301	4
Current borrowings	39	15,102	29,512	788	597	2
Other current liabilities	300	35	579	1	704	2
Intercompany Transactions – Balance Sheet						
Amounts due from non-issuer/non-guarantor subsidiaries	9,074	16,837	43,279	—	1,229	10
Amounts due to non-issuer/non-guarantor subsidiaries	—	3,735	25,686	—	18	1
Investment in subsidiaries (that are not issuers or guarantors)	27,234	—	718	—	25,185	1,537

As at 31 December 2022	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Balance Sheet						
Non-current assets	1,917	20,962	2,480	1,500	405	45
Current assets	9,166	7,947	42,748	22	1,135	8
Non-current liabilities	1,580	20,018	14,058	1,500	10,094	12
Non-current borrowings	1,572	19,762	13,510	1,500	10,033	—
Other non-current liabilities	8	256	548	—	61	12
Current liabilities	55	8,749	29,379	21	1,011	1
Current borrowings	23	8,657	28,525	21	568	1
Other current liabilities	32	92	854	—	443	—
Intercompany Transactions - Balance Sheet						
Amounts due from non-issuer/non-guarantor subsidiaries	9,117	17,003	42,752	—	700	8
Amounts due to non-issuer/non-guarantor subsidiaries	5	3,890	22,702	—	34	1
Investment in subsidiaries (that are not issuers or guarantors)	27,234	—	718	—	26,690	1,573

Perpetual hybrid bonds

BAT p.l.c. has issued two €1 billion of perpetual hybrid bonds which have been classified as equity as there is no contractual obligation to either repay the principal or make payments of interest (note 22(d)).

BAT p.l.c.'s unconsolidated contribution to the Group's consolidated equity results is shown below:

BAT p.l.c.

As at 31 December	2023 £m	2022 £m
Total equity	36,360	36,682
Share capital	614	614
Share premium	112	113
Perpetual hybrid bonds	1,685	1,685
Other equity	33,949	34,270

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 2023 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 91% of the Group revenue in 2023.

Subsidiary Undertaking	
Albania	
Rruga e Kavajes, Ish Kombinati Ushqimor, Tirana, Albania	
British American Tobacco - Albania SH.P.K.	
Algeria	
Zone d'activité El Omran, Route de Ouled Fayet, Ilot 789- Lot 04, Cheraga, Alger, Algeria	
British American Tobacco (Algérie) S.P.A. (51%) ⁴	
Angola	
Viana Park, Polo Industrial, Viana, Luanda, Angola	
British American Tobacco - B.A.T. Angola, Limitada	
Sociedade Industrial Tabacos Angola LDA (71.60%)	
Sociedade Unificada Tabacos Angola LDA (62.67%)	
Argentina	
San Martín 140, Floor 14, City of Buenos Aires, Argentina	
BAT Operaciones S.A.U.	
British American Tobacco Argentina S.A.I.C.y F. (99.43%)	
Australia	
Level 25, 210 George Street, Sydney, NSW 2000	
BAT Australasia Ltd	
BAT Australia Ltd	
BAT Australia Overseas Pty Ltd	
BAT Australia Services Ltd	
BAT South Pty Ltd	
Rothmans Asia Pacific Limited [#]	
The Benson & Hedges Company Pty. Limited	
W.D. & H.O. Wills Holdings Limited	
Austria	
Dr.-Karl-Lueger-Platz 5, 1010, Wien, Austria	
British American Tobacco (Austria) GmbH	
Bahrain	
Flat 2115, Building 2504, Road 2832, Block 428 Al Seef Area, Kingdom of Bahrain	
British American Tobacco Middle East W.L.L.	
Bangladesh	
New DOHS Road, Mohakhali, Dhaka 1206, Bangladesh	
British American Tobacco Bangladesh Company Limited (72.91%)	
Barbados	
Chancery Chambers, Chancery House, High Street, Bridgetown, Barbados	
Southward Insurance Ltd.	
Belgium	
Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom	
British American Tobacco Holdings Belgium N.V.	
Nieuwe Gentsesteenweg 21, 1702 Groot-Bijgaarden, Belgium	
British American Tobacco Belgium N.V.	
Benin	
Ilôt: 202, Quartier: Sèdjro St Michel, Parcelle: D, Maison: COMTEL IMMEUBLE	
British American Tobacco Benin SA (In Liquidation)	
Bolivia	
Av. Ballivián entre calles 11 y 12 No. 555, Edificio El Dorial, Piso 19, Oficina E, zona de Calacoto, La Paz, Bolivia	
BAT Bolivia S.R.L.	
Bosnia and Herzegovina	
Fra Dominka Mandića 24A, 88220 Široki Brijeg, Bosnia and Herzegovina	
IPRESS d.o.o.	
Ul. Fra Andela Zvizdovica 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.	
Botswana	
Plot 20774 Broadhurst Industrial Estate, Gaborone, Botswana	
British American Tobacco Botswana (Pty) Limited	
Business Venture Investments Botswana 6773 (Pty) Ltd. (In Liquidation)	
Brazil	
Avenida República do Chile, nº 330, Bloco 1, Torre Leste, 30º andar, Centro, Rio de Janeiro/RJ - CEP 20.031-170, Brazil	
Instituto Souza Cruz ^{# 11}	
Souza Cruz LTDA	
Yolanda Participacoes S.A.	

Bulgaria
115 M, Tsarigradsko Shose Blvd., Building D, Floor 5, Sofia, Mladost Municipality, 1784, Bulgaria
British American Tobacco Trading EOOD
Cambodia
1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia
British American Tobacco (Cambodge) International Limited
516, National Road No. 2, Phum Prek Ta Nu, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia
British American Tobacco (Cambodia) Limited (71%)
Cameroon
BP 259 Douala 620, Rue du Gouverneur Carras (1064), Immeubles Grassfield 9ème Etage, Douala- Bonanjo
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 Corporation ^{#2}
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
Avenida Isidora Goyenechea 3000, Piso 19, Las Condes, Santiago, Chile
British American Tobacco Chile Operaciones S.A. (99.51%)
Inversiones Casablanca S.A.
Avenida Suiza 244, Cerrillos, Santiago, Chile
BAT Chile S.A.

China (People's Republic of)
Room 3101, Tower A, Gemdale Viseen Tower, No. 16, Gaoxin South 10th Road, High-tech Park, Nanshan District, Shenzhen, People's Republic of China
Nicoventures Technical (Shenzhen) Co., Ltd.
Room 436, No. 1000, Zhenchen 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) Co., Ltd ⁸
Colombia
Av. Cra. 72 # 80-94 Piso 10. Bogotá, Colombia
British American Tobacco Colombia S.A.S.
Congo (Democratic Republic of)
1er étage, Immeuble du Centenaire, Gombe, Kinshasa, Democratic Republic of Congo
British American Tobacco Congo SARL (In Liquidation)
1st floor Immeuble L'horizon sis avenue Colonel Lukusa n°50, Gombe, Kinshasa, Democratic Republic of Congo
British American Tobacco Import SARL
British American Tobacco Services Congo SARL
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.
Croatia
Avenija Dubrovnik 16, 10000 Zagreb, Croatia
BAT HRVATSKA d.o.o. u likvidaciji (In Liquidation)
Draškovićeva 27, 10000 Zagreb, Croatia
iNovine d.d. (93.42%)
Obala V. Nazora 1, 52210 Rovinj, Croatia
TDR d.o.o.
Osječka 2, 33000 Virovitica, Croatia
Hrvatski Duhani d.d.
Cuba
Parcela n° 2 a noroeste do terminal de contêineres de Mariel, a 2,2 km do vértice n° 4, Município de Mariel, Província de Artemisa, Republic of Cuba
Brascuba Cigarillos 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.

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Group Companies and Undertakings
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Subsidiary Undertaking continued	
Denmark	
Bernstorffsgade 50, 1577 Copenhagen, Denmark	
British American Tobacco Denmark A/S (House of Prince A/S)	
Precis (1789) Denmark A/S	
Djibouti	
Rue de Magadiscio, Lot No. 133, Djibouti City, Djibouti	
British American Tobacco Djibouti SARL (In Liquidation)	
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 (In Liquidation)	
English American Company for Importation and Trade L.L.C (In Liquidation)	
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 (In Liquidation)	
Central Manufacturing Company Pte Limited	
Rothmans of Pall Mall (Fiji) Pte Limited	
Finland	
c/o Retail24, Olarinluoma 7, 02200 Espoo, Finland	
British American Tobacco Finland Oy	
France	
111 Avenue Victor Hugo, 75016 Paris, France	
Carreras France SAS	
Tour Légende, 20 place de la Défense, CS 80289, 92050 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	
Schutterwälder Straße. 23, 01458 Ottendorf-Okrilla, Germany	
Quantus Beteiligungs-und Beratungsgesellschaft mbH i.L (In Liquidation)	
Ghana	
4th Floor, Volta Place, Airport Residential Area, Patrice Lumumba Street, 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	
P.O. Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 4ET, 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, China	
British American Tobacco China Investments Limited	
Lehman, Lee & XU Corporate Services, Suite 3313, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, China	
Reynolds Asia-Pacific Limited	
Level 30, 3 Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong, China	
BAT Global Travel Retail Limited	
British American Tobacco Asia-Pacific Region Limited	
British-American Tobacco Company (Hong Kong) Limited	
Nicoventures Business Consulting (Hong Kong) Co., Ltd.	
Hungary	
HU 1117 Budapest, Alíz utca 3. 6. floor	
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 (99.96%)	
Jl. Raya Karanglo, 1 Desa Banjararum, Kecamatan Singosari, Jawa Timur 65153, Indonesia	
PT Bentoel Prima (99.99%)(99.96%) ^{^ 4}	
Jl. Susanto No. 2B, Ciptomulyo, Sukun, Malang, Jawa Timur 65148, Indonesia	
PT Bentoel Distribusi Utama (100%) (99.96%) [^]	
Iraq	
Empire Business Tower, Building C5, 2nd floor, 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 Limited	
Rothmans of Pall Mall (Ireland) Limited ^{#5}	
Isle of Man	
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
Località Bagnoli della Rosandra, snc, 34018 San Dorligo della Valle (TS), Italy
BAT Trieste S.p.A.
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
Jamaica
13A Ripon Road, Kingston 5, Jamaica
Carreras Limited (50.40%) ¹³
Sans Souci Development Limited (100%) (50.40%) (In Liquidation) ¹³
Sans Souci Limited (100%) (50.40%) (In Liquidation) ¹³
Japan
Midtown Tower 20F, 9-7-1 Akasaka, Minato-ku, Tokyo, Japan
British American Tobacco Japan, Ltd. ¹⁰
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 Limited
Kazakhstan
240G, Nursultan Nazarbayev Avenue, A26F8D4 Almaty, Republic of Kazakhstan
British American Tobacco Kazakhstan Trading LLP ¹
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 (60%) (In Liquidation)
Korea, Republic of
141, Gongdan1-ro, Sanam-Myun, Sacheon City, Kyungsangnamdo, Korea (the Republic of)
British American Tobacco Korea Manufacturing Limited
22nd FL. West Tower, MiraeAssetCENTER1, 26, Eulji-ro 5-gil, Jung-gu, Seoul, Korea (the Republic of)
British American Tobacco Korea Limited

Kosovo, Republic of
Llaplaselle p.n., 10500 Gracanice, Republic of Kosovo
British American Tobacco Kosovo SH.P.K.
Kuwait
Unit 21, 35th Floor, Al Hamra Tower, Al Shuhada St. Kuwait City, Kuwait
BAT Kuwait for Wholesale and Retail Trading Company (S.P.C)
Latvia
Mukusalas iela 101, Riga LV-1004, Latvia
British American Tobacco Latvia SIA
Lesotho
Mohokare Industrial Estate, Florida Area Extension, Ha Hoohle, Maseru, 100, Lesotho
British American Tobacco Lesotho (Pty) Ltd
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) Berhad (50%)
British American Tobacco Malaysia Foundation ¹¹
Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%) [^]
Tobacco Importers and Manufacturers Sdn. Bhd. (100%) (50%) [^]
Mali
Djelibougoud-Immeuble Bassaro BP 2065, Bamako, Mali
British American Tobacco (Mali) Sarl
Malta
PM Building, Level 2, Bone Street, Zone 1, Central Business District, Birkirkara, CBD 1060, Malta
British American Tobacco (Malta) Limited
Central Cigarette Company Limited
Rothmans of Pall Mall (Malta) Limited

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Group Companies and Undertakings
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Subsidiary Undertaking continued	
Mexico	
Constitucion 411, piso 22, 23 y 24, Colonia Centro, Monterrey, Nuevo Leon, C.P. 64000, Mexico	
BAT DBS Mexico S.A De C.V. ⁴	
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.	
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%)	
Rio Missouri 555, Colonia del Valle, San Pedro Garza García, Nuevo León, C.P. 66220, México	
British American Tobacco Servicios S.A. de C.V.	
Mozambique	
2289 Avenida de Angola, Maputo, Mozambique	
British American Tobacco Mozambique 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%) (In Liquidation) ¹³	
British American Tobacco Myanmar Services Limited (In Liquidation) ¹³	
Namibia	
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. Nederland 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.	
Molensteegh Invest B.V.	
Precis (1790) B.V.	
Rothmans Far East B.V.	
Rothmans International Holdings B.V.	
Rothmans Tobacco Investments B.V.	
Rothmans UK Holdings B.V.	
New Zealand	
2 Watt Street, Parnell, Auckland, 1052, New Zealand	
BAT (New Zealand) Limited	
BAT Holdings (New Zealand) Limited	
Mint Advisory Limited, Suite 6, 8 Turua Street, St Heliers, Auckland, 1071, New Zealand	
New Zealand (UK Finance) Limited [#]	
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 (80%)	
British American Tobacco Nigeria Foundation (Limited by Guarantee) ¹¹	
North Macedonia, Republic of	
Blvd. 8-mi SEPTMVRI No. 18, 1000 Skopje, Republic of North Macedonia	
TDR SKOPJE DOOEL Skopje	
Norway	
Dronning Eufemias gate 42. 0191 Oslo, Norway	
British American Tobacco Norway AS	
Pakistan	
Bun Khurma Chichian Road, Mirpur Azad Jammu & Kashmir, Pakistan	
Phoenix (Private) Limited (100%) (94.65%) [^]	
First Floor, 26-FCC, Syed Maratab Ali Road, Gulberg IV, Lahore, Pakistan	
British American Tobacco SAA Services (Private) Limited	
Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan	
Pakistan Tobacco Company Limited (94.65%)	
Panama	
Calle 54, Obarrio, PH Twist Tower, Piso 22, Oficina E-22, Corregimiento Bella Vista, Ciudad de Panamá, Panama	
British American Tobacco Central America S.A. (87.65%)	
British American Tobacco Panama S.A.	
Tabacalera Istmeña S.A.	
Vía Fernández de Córdoba, Corregimiento of Pueblo Nuevo, Panama City, Panama	
BAT Caribbean, S.A.	
Papua 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	
Rothmans of Pall Mall (P.N.G.) Limited	
Paraguay	
Roque Centurion Miranda 1635, AYMAG II, Piso 2, Asunción, Paraguay	
British American Tobacco Productora de Cigarrillos S.A.	

Peru
Av. El Derby N° 055, Torre 3, Oficinas 405-406-407-408, Urb. Lima Polo and Hunt Club, Santiago de Surco, Lima, Peru
British American Tobacco del Peru Holdings S.A. (98.55%) ^{#6}
British American Tobacco del Peru, S.A.C.
Philippines
31 Tayuman Street, Tonda, Manila, Philippines
Alhambra Industries Inc. [#]
Poland
Aleja Wojska Polskiego 23c, 63-500, Ostrzeszow, Poland
CHIC sp. z o.o.
ESMOKING LIQUIDS SP. Z O.O.
Krakowiakow 48, 02-255, Warszawa, Poland
British American Tobacco Polska Trading sp. zo.o.
Puławska 180, 02-670, Warszawa, Poland
BAT DBS Poland sp. Z.o.o.
Rubiez 46, 61-612, Poznan, Poland
eSMOKING INSTITUTE sp. z o.o.
ul. Ł.ŻECKA 26E, 02-135WARSZAWA, Poland
Nicoventures Poland sp. Z.o.o. (In Liquidation)
Ul. Tytoniowa 16, 16-300, Augustow, Poland
British-American Tobacco Polska S.A.
Portugal
Edifício 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 (76.40%)
Qatar
61 Al Funduq St., Al Dafna, 8th floor – AL Fardan Office Tower, P.O Box 31316, Doha, Qatar
BAT Gulf for Trading LLC
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 Réunion 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.
Bucharest Business Park, Building A (3rd floor) and Building B2 (floors 3-4), 1A Bucuresti - Ploiesti (DN1) Road, Sector 1, Bucharest 013681, Romania
British American Tobacco (Romania) Trading SRL
Ploiesti, 17-19 Laboratorului Street, Prahova County, Romania
British-American Tobacco (Romania) Investment S.R.L.

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) Ltd.
Samoa
Vaitele Estate, Vaitele, Samoa
British American Tobacco Company (Samoa) Limited
Saudi Arabia, Kingdom of
Building No:7051 Al Amir Sultan-Al Salamah District, Zahran Business Cente 13th Floor, Unit 1302. Jeddah 23525 - 2661, Saudi Arabia
BAT Arabia for Trading
BAT Saudia for Trading
Office Pending
Regional HQ of British American Tobacco Middle East - Single Person Company
Serbia
Bulevar Milutina Milankovića 1ž, Belgrade, 11070, Serbia
British American Tobacco South-East Europe d.o.o. Beograd
Kralja Stefana Provenčanog 209, Vranje, 17500, Serbia
British American Tobacco Vranje a.d. Vranje
Singapore
15 Senoko Loop, 758168, Singapore
British-American Tobacco (Singapore) Private Limited
8 Marina Boulevard, #10-01 Marina Bay Financial Centre Tower 1, Singapore 018981
British American Tobacco Sales & Marketing Singapore Pte. Ltd.
British-American Tobacco Marketing (Singapore) Private Limited
Shenton Way, #33-00 OUE Downtown, 068809, Singapore
RHL Investments Pte Limited (In Liquidation) [#]
Solomon Islands
Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands
Solomon Islands Tobacco Company Limited

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Group Companies and Undertakings
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Subsidiary Undertaking continued	
South Africa	
Waterway House South, 3 Dock Road, V&A Waterfront, Cape Town, Western Cape 8002, South Africa	
Agrega EEMEA (Pty) Ltd (In Liquidation)	
Amalgamated Tobacco Corporation (South Africa) (Pty) Ltd (In Liquidation)	
American Cigarette Company (Overseas) (Pty) Ltd	
Benson and Hedges (Pty) Ltd (In Liquidation)	
British American Shared Services Africa Middle East (Pty) Ltd (In Liquidation)	
British American Tobacco GSD (South Africa) (Pty) Ltd (In Liquidation)	
British American Tobacco Holdings South Africa (Pty) Ltd [#]	
British American Tobacco Properties South Africa (Pty) Ltd.	
British American Tobacco Services South Africa (Pty) Ltd	
British American Tobacco South Africa (Pty) Ltd	
British American Tobacco Sub-Saharan Africa (Pty) Ltd	
Brown & Williamson Tobacco Corporation (Pty) Ltd (In Liquidation)	
Business Venture Investments No 216 (Pty) Ltd (In Liquidation)	
Rothmans of Pall Mall London (Pty) Ltd (In Liquidation)	
St Regis Tobacco Corporation (Pty) Ltd (In Liquidation)	
Tobacco Research and Development Institute (Pty) Ltd	
Twisp (Pty) Ltd	
Westminster Tobacco Company (Cape Town and London) (Pty) Ltd (In Liquidation)	
Winfield Tobacco Corporation (Pty) Ltd (In Liquidation)	
Spain	
Torreo 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 11111, P.O Box 1381, Khartoum, Sudan	
Blue Nile Cigarette Company Limited	
Swaziland	
213 King Mswati III Avenue West, Matsapha Industrial Site, Matsapha, Swaziland	
British American Tobacco Swaziland (Pty) Limited	
Sweden	
Hyllie Boulevard 32, 215 32 Malmö, Sweden	
Niconovum AB	
Stenåldersgatan 23, 213 76 Malmö, Sweden	
Fiedler & Lundgren AB	
Västra Trädgårdsgatan 15, 11153 Stockholm, Sweden	
British American Tobacco Sweden AB	
Switzerland	
c/o Bright Law AG, Bundesplatz 9, 6302 Zug, Switzerland	
British American Tobacco International Limited (In Liquidation)	
c/o British American Tobacco Switzerland S.A., Route de France 17, 2926 Boncourt, Switzerland	
American-Cigarette Company (Overseas) Limited	
BAT Switzerland Vending SA	
Rothmans of Pall Mall Limited	
c/o NBA Fiduciaire S.A., Route de la Glâne 107, 1752 Villars-sur-Glâne, Switzerland	
Intertab S.A. (50%)	
Route de France 17, 2926 Boncourt, Switzerland	
British American Tobacco Switzerland S.A.	
Nicoventures Communications (Switzerland) SA	
Tanzania	
Acacia Estate Building, Kinondoni Road, P.O Box 288, Dar es Salaam, Tanzania	
BAT Distribution Tanzania Limited	
British American Tobacco (Tanzania) Limited (In Liquidation)	
International Cigarette Distributors Limited (99%) (In Liquidation)	
Zanzibar Distribution Company Limited (99%) (In Liquidation)	
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%)	
Türkiye	
Orjin Maslak İş Merkezi, Eski Büyükdere Caddesi, Kat 9-10, Maslak, Sarıyer, İstanbul	
British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Sirketi	
Uganda	
10th Floor, Lotis 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" ^{#1}	
21 Nezalezhnosti Str, Chernihiv Oblast, Prylucky, 17502, Ukraine	
PJSC "A/T B.A.T. – Prilucky Tobacco Company"	
United Arab Emirates	
2302-08, Smart Heights, Al Thanyah First, Dubai, United Arab Emirates	
BAT Middle East For Trading L.L.C.	
Jumeirah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates	
British American Tobacco GCC DMCC	
Jumeirah Business Centre 3, 38th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates	
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

Ryeseeks P.L.C. (50%) (In Liquidation)

Building 7, Chiswick Business Park, 566 Chiswick High Road, London, W4 5YG, United Kingdom

10 Motives Limited

British American Tobacco UK Limited

Nicoventures Retail (UK) Limited

Ten Motives Limited

Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom

Advanced Technologies (Cambridge) Limited (In Liquidation)

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 (In Liquidation)

B.A.T Far East Leaf Limited (In Liquidation)

B.A.T Services Limited

B.A.T Uzbekistan (Investments) Limited

B.A.T Vietnam Limited

B.A.T. (Westminster House) Limited (In Liquidation)

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 (In Liquidation)

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 (In Liquidation)

British American Tobacco Italy Limited (In Liquidation)

British American Tobacco Korea (Investments) Limited

British American Tobacco Malaysia (Investments) Limited (In Liquidation)

British American Tobacco Peru Holdings Limited

British American Tobacco UK Pension Fund Trustee Limited¹³

British-American Tobacco (Mauritius) p.l.c.

Carreras Rothmans Limited[#]

Chelwood Trading & Investment Company Limited

East African Tobacco Company (U.K.) Limited (In Liquidation)

KBio Holdings Limited

Lord Extra Limited (In Liquidation)

Myddleton Investment Company Limited

Nicovations Limited

Nicoventures Holdings Limited

Nicoventures Trading Limited

Powhattan Limited

Precis (2396) Limited (In Liquidation)

Ridirectors Limited

Rothmans Exports Limited

Rothmans International Limited

Rothmans International Services Limited (In Liquidation)

Rothmans International Tobacco (UK) Limited

Rothmans of Pall Mall (Overseas) Limited (In Liquidation)

Rothmans Trading Limited (In Liquidation)

Ryservs (1995) Limited

Ryservs (No.3) Limited

The Water Street Collective 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 (In Liquidation)

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

BATMark Limited *

BATLaw Limited

BATS Limited

Benson & Hedges (Overseas) Limited

British American Global Shared Services Limited

British American Tobacco (1998) Limited *

British American Tobacco (2009 PCA) Limited

British American Tobacco (2009) 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

Financial Statements

Group Companies and Undertakings
Continued

Subsidiary Undertaking continued	
United Kingdom continued	
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 (In Liquidation)	
The London Tobacco Company Limited	
Tobacco Insurance Company Limited (In Liquidation)	
Weston (2009) Limited	
Weston Investment Company Limited [#]	
United States	
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.	
BT DE Investments Inc.	
BTI 2014 LLC ^{#1}	
BTomorrow Services Inc.	
Imasco Holdings Group, Inc.	
Imasco Holdings, Inc.	
ITL (USA) Limited	
Louisville Corporate Services, Inc.	
Nicoventures U.S. Limited	
3700 Airpark Dr., Owensboro, KY 42301, United States	
KBio Inc.	
401 N. Main Street, Winston-Salem, NC 27101, United States	
Conwood Holdings, Inc.	
EXP Homes, LLC ^{#1}	
Lorillard Licensing Company LLC ^{#1}	
Lorillard, LLC ^{#1}	
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.	
Reynolds American Inc.	
Reynolds Brands Inc.	
Reynolds Marketing Services Company	
Reynolds Technologies, Inc.	
RJR Realty Relocation Services, Inc.	
RJR Vapor Co., LLC ^{#1}	
Rosswil LLC ^{#1}	
S.F. Imports, Inc.	
Santa Fe Natural Tobacco Company, Inc.	
Spot You More, Inc.	
The Water Street Collective LLC ^{#1}	
Vuse Stores LLC ^{#1}	
4583 Guthrie Hwy, Clarksville, TN 37040, United States	
American Snuff Company, LLC ^{#1}	
CSC-Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento CA 95833-3505, United States	
Genstar Pacific Corporation	
Farmers Bank Building, Suite 1402, 301 N. Market Street, Wilmington, DE 19801, United States	
Reynolds Finance Company	
Uruguay	
Juncal 1392, Montevideo, Uruguay	
Kellian S.A.	
Uzbekistan	
77 Minor Passage, Tashkent, 100084, Uzbekistan	
JSC JV "UZBAT A.O." (97.38%)	
Venezuela	
Avenida Francisco de Miranda, Edif. Torre Chacao 1902, Piso PB, Of. PB, Urb. Chacao, Caracas - Estado Miranda, 1060, Venezuela	
Proyectos de Inversion BAT 1902 C.A.	
Avenida Francisco de Miranda, Edificio Bigott, Los Ruices, Caracas - Estado Miranda, 1070, Venezuela	
Agrobigott, C.A.	
Compania Anonima Cigarrera Bigott Sucesores	
Distribuidora Bigott, C.A.	
Fundacion Bigott ^{#11}	
Calle del Centro, Edif. Torre Mega IV, Piso 9, Of. A y B, Urb. Los Dos Caminos, Caracas - Estado Miranda, 1071, Venezuela	
Agrega de Venezuela, Agreven, C.A. (50%) (In Liquidation)	
Vietnam	
20/F MPlaza Saigon, 39 Le Duan Street, Ben Nghe ward, District 1, Ho Chi Minh City, Vietnam	
East Asia Area Services Company Limited ⁸	
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 (75%)	
Zimbabwe	
Manchester Road 1, Southerton, Harare, Zimbabwe	
American-Cigarette Company (Overseas) (Private) Ltd	
British American Tobacco Zimbabwe (Holdings) Limited (42.98%)	
Rothmans Limited (In Liquidation)	

Associated Undertakings and Joint Ventures**Canada**

2800 Park Place, 666 Burrard Street, Vancouver, BC, V6C 2Z7, Canada

Charlotte's Web Holdings, Inc. (19.90%) ^{17, 18}

35 English Drive, Moncton, New Brunswick, E1E 3X3, Canada

Organigram Holdings Inc. (18.79%) ¹⁵

Czech Republic

Na strži 1702/65, Nusle, 140 00 Praha 4, Czech Republic

NEVAJGLUJ a.s. (28%) ^{4, 9, 18}

Finland

c/o YTL-Palvelu Oy Eteläranta 10 00130 Helsinki

Suomen SUP-Tuottajayhteisö Oy (Finnish SUP Producer Group Ltd) (20%) ^{9, 18}

88 Avenue des Ternes, 75017, Paris, France

Alcome SAS (24%) ^{9, 18}

Germany

Jägerstraße 28-31, 10117 Berlin, Germany

Sanity Group GmbH (16.30%) ^{# 12}

Greece

Vrana 25, 115 25, Athens, Greece

Alternative Management of Tobacco Products Filters Societe Anonyme (17.50%) ^{9, 15, 18}

Hungary

H-6800 Hódmezővásárhely, Erzsébeti út 5/b, Hungary

Országos Dohányboltellátó Korlátolt Felelősségű Társaság (49%) ⁹

India

1-7-1063/1065, Azamabad, Andhra Pradesh, Hyderabad, 500 020, India

VST Industries Limited (32.16%) ¹³

Virginia House, 37, J.L. Nehru Road, Kolkata, 700071, India

ITC Limited (29.01%) ¹³

Italy

Via Messina 38 20154 Milano (MI), Italy

Erion Care (25%) ^{9, 15, 18}

Slovakia

Vajnorská 10645/100, 831 04 Bratislava - mestská časť - Nové Mesto, Slovenská republika

SPAK-EKO, a.s. ^{9, 18}

Sweden

c/o JTI Sweden AB Sveavägen 53 113 60 Stockholm

SUP Filter Producentansvar Sverige AB (33%) ^{9, 18}

United Kingdom

4a Station Parade, Uxbridge Road, London, W5 3LD, United Kingdom

AYR Limited (13.14%) ¹⁴

United States

12 Timber Creek Land, Newark, Delaware, 19711, United States

Steady State LLC (10.80%) ^{# 12}

11760 Sorrento Valley Road, Suite A, San Diego, CA 92121

ZabBio, Inc (49%) ^{# 7}

8022 Southpark Circle Suite 500, Littleton, CO 80120, United States

DeFloria LLC (20%) ^{# 12}

Uzbekistan

Gulobod Village, Samarkand Region, 140100, Uzbekistan

FE "Samfruit" JSC (45.40%)

Yemen

P.O. Box 14, Sanna, Yemen

Kamaran Industry and Investment Company (31%) ¹⁷

P.O. Box 5302, Hoban, Taiz, Yemen

United Industries Company Limited (32%) ¹⁷

Joint Operations**Hong Kong**

29/F, Oxford House, 979 King's Road, Taikoo Place, Quarry Bay, Hong Kong, China

CTBAT International Co. Limited (50%)

Notes:

1. Ownership held in Membership Interest.
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 Ordinary and Investment Shares.
7. Ownership held in 49% Share Capital and 39% Voting Rights.
8. Ownership held in Registered Capital.
9. Ownership held in Voting Shares.
10. Ownership held in Equity Units.
11. Entity type: Foundation, Non-Profit or Limited by Guarantee.
12. Ownership held in Preferred shares.
13. 31 March year-end.
14. 31 May year-end.
15. 30 September year-end.
16. 16 July year-end.
17. Refer to Accounting Note 14: Investments in associates and joint ventures.
18. Accounted for as an investment at fair value through profit and loss.

Financial Statements

Balance Sheet[®]

British American Tobacco p.l.c. – at 31 December

	Notes	2023 £m	2022 £m
Assets			
Fixed assets			
Investments in Group undertakings	2	27,747	27,798
Current assets			
Debtors	3	11,986	12,135
Cash at bank and in hand		5	5
Total current assets		11,991	12,140
Total assets		39,738	39,938
Equity			
Capital and reserves			
Called up share capital	4a	614	614
Share premium account, capital redemption and merger reserves	4b	23,333	23,331
Other reserves	4c	90	90
Profit and loss account	4d	10,950	11,302
Total shareholders' funds		34,987	35,337
Perpetual hybrid bonds	4e	1,685	1,685
Total equity	4	36,672	37,022
Liabilities			
Creditors	5	3,060	2,916
Derivative financial instruments liabilities		6	—
Total liabilities		3,066	2,916
Total equity and liabilities		39,738	39,938

The accompanying Notes on the Accounts are an integral part of the Parent Company financial statements.

On behalf of the Board

Luc Jobin

Chair

7 February 2024

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, Capital redemption and Merger Reserve £m	Other Reserves £m	Profit and loss account £m	Total Shareholders' funds £m	Perpetual hybrid bonds £m	Total Equity £m
1 January 2023	614	23,331	90	11,302	35,337	1,685	37,022
Increase in share capital - share options	—	2	—	—	2	—	2
Profit for the financial year	—	—	—	4,803	4,803	—	4,803
Dividends – declared on equity shares	—	—	—	(5,071)	(5,071)	—	(5,071)
Consideration paid for share buy-back programme	—	—	—	—	—	—	—
Consideration paid for purchase of own shares held in Employee Share Ownership Trusts	—	—	—	(105)	(105)	—	(105)
Perpetual hybrid bonds	—	—	—	—	—	—	—
Coupons paid (net of tax)	—	—	—	(44)	(44)	—	(44)
Other movements*	—	—	—	65	65	—	65
31 December 2023	614	23,333	90	10,950	34,987	1,685	36,672

	Called up share capital £m	Share premium account, Capital redemption and Merger Reserve £m	Other Reserves £m	Profit and loss account £m	Total Shareholders' funds £m	Perpetual hybrid bonds £m	Total Equity £m
1 January 2022	614	23,325	90	10,597	34,626	1,685	36,311
Increase in share capital - share options	—	6	—	—	6	—	6
Profit for the financial year	—	—	—	7,675	7,675	—	7,675
Dividends - declared on equity shares	—	—	—	(4,915)	(4,915)	—	(4,915)
Consideration paid for share buy-back programme	—	—	—	(2,012)	(2,012)	—	(2,012)
Consideration paid for purchase of own shares held in Employee Share Ownership Trusts	—	—	—	(76)	(76)	—	(76)
Perpetual hybrid bonds	—	—	—	—	—	—	—
Coupons paid (net of tax)	—	—	—	(48)	(48)	—	(48)
Other movements*	—	—	—	81	81	—	81
31 December 2022	614	23,331	90	11,302	35,337	1,685	37,022

Note:

* 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 £7,086 million at 31 December 2023 (31 December 2022: £7,106 million).

[®] 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.

Notes on 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 UK-adopted international accounting standards, 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 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. After reviewing the annual budget, plans and financing arrangements, the Directors consider that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing the financial statements, and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

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 determination as to whether the issue of perpetual hybrid bonds should be classified as equity instead of borrowings (see note 4) and 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.

There are no critical accounting estimates which would have a significant risk of a material adjustment within the next financial year.

As permitted by Section 408 of the Act, 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).

With effect from 1 January 2023, the Company has adopted an Amendment to IAS 12 *Income Taxes* in respect of exceptions from the recognition and disclosure of deferred tax related to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. The impact of applying this Amendment was not material.

In addition, an Amendment to IAS 1 *Presentation of Financial Statements* requires the disclosure of material accounting policy information as part of the Notes to the Accounts and these are set out below. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Equity Instruments

Instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements. Instruments that cannot be settled in the Company's own equity instruments and that include no contractual obligation to deliver cash or another financial asset are classified as equity. Equity instruments issued by the Company are recognised at the proceeds received, net of issuance costs.

On 27 September 2021, the Company issued two €1 billion perpetual hybrid bonds. As the Company has the unconditional right to avoid transferring cash or another financial asset in relation to these bonds, they are classified as equity instruments in the financial statements.

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.

Dividends declared

The Company recognises the interim dividend as an appropriation of reserves in the period in which it is paid.

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.

The Company has accounted 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).

Provisions and contingent liability

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. Potential exposures, including litigation and performance guarantees are regularly reviewed on an on-going basis and provision for these exposures (including legal costs) would be made at such time as an unfavourable outcome becomes probable and the amount can be reasonably estimated.

Foreign currencies

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange prevailing at the end of the financial year. All exchange differences are taken to the profit and loss account in the year. Amounts recognised in equity are not retranslated.

Investments in Group companies

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

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.

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.

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.

Other accounting policies:

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.

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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 from page 312 of the Group's financial statements.

Movements in investments relate to Group share-scheme costs net of recharges to subsidiaries as well as amounts recognised in relation to financial guarantees issued by the Company on behalf of Group subsidiaries.

As shown in the Group Financial Statements, significant impairment charges have been recognised in 2023 in relation to goodwill and trademarks associated with Reynolds American, an indirectly held subsidiary of the Company. These non-cash charges are not expected to impact the ability of the Company's direct subsidiaries to declare and remit dividends.

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

	2023 £m	2022 £m
1 January	27,798	27,809
Movements	(51)	(11)
31 December	27,747	27,798

[@] Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

3 Debtors

	2023 £m	2022 £m
Amounts due from Group undertakings	11,986	12,135
Current	9,273	9,339
Non-current	2,748	2,834
Allowance account	(35)	(38)
31 December	11,986	12,135

	2023 £m	2022 £m
Allowance account		
1 January	38	51
Provided in year		2
Released during the year	(1)	(20)
Foreign exchange	(2)	5
31 December	35	38
Current	35	38
Non-current	—	
31 December	35	38

Included within amounts due from Group undertakings is an amount of £9,067 million (2022: £9,094 million) which is unsecured, interest-bearing and repayable on demand. The receivable falls under the standard lending agreements within the Group which were revised to take account of global benchmark interest rate reform. Prior to 1 August 2021 the applicable rate was based on the London InterBank Interest Rate (LIBOR) and with effect from this date it is based on the Sterling Overnight Index Average (SONIA). Management consider the replacement rates in the revised intercompany agreement to be economically equivalent to those used previously.

Amounts due from Group undertakings also include £1,251 million (2022: £1,364 million) representing the discounted value of the fees receivable from the parental guarantees issued by the Company, of which £184 million (2022: £211 million) is due within one year and £1,067 million (2022: £1,153 million) is due after more than one year.

Other amounts due from Group undertakings include:

- a balance of £841 million (2022: £841 million) which is unsecured, interest bearing and repayable in 2026, with an interest rate based on SONIA + 1.070%; and
- a balance of £841 million (2022: £841 million) which is unsecured, interest bearing and repayable in 2029, with an interest rate based on SONIA + 1.340%.

All other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

4 Total Equity

(a) Called up Share Capital

Called up Share Capital	Ordinary Shares of £0.25 each Number of shares	£m
Allotted and fully paid		
1 January 2023	2,456,867,420	614.21
Changes during the year		
– share option schemes	74,489	0.02
31 December 2023	2,456,941,909	614.23

Called up Share Capital	Ordinary Shares of £0.25 each Number of shares	£m
Allotted and fully paid		
1 January 2022	2,456,617,788	614.15
Changes during the year		
– share option schemes	249,632	0.06
31 December 2022	2,456,867,420	614.21

The Company's ordinary shares are fully paid and no further contribution of capital may be required by the Company from the shareholders. All ordinary shares rank equally with regard to participation in dividends and to share in the proceeds of the Company's residual assets upon a winding up of the Company. Shareholders may, by ordinary resolution, declare final dividends, but not in excess of the amount recommended by the Directors. Holders of ordinary shares have no pre-emptive rights.

On a show of hands every shareholder who is present in person at a general meeting is entitled to one vote regardless of the number of shares held by the shareholder, unless a poll is demanded. On a poll, every shareholder who is present in person or by proxy has one vote for every share held by the shareholder. The Company's Annual General Meeting voting is undertaken by way of a poll. All rights attached to the Company's shares held by the Group as Treasury shares are suspended until those shares are reissued.

Please refer to page 396 for further detail of the provisions contained within the Articles of Association.

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

	Share premium account £m	Capital redemption reserves £m	Merger reserves £m	Total £m
31 December 2023	116	101	23,116	23,333
31 December 2022	114	101	23,116	23,331
31 December 2021	108	101	23,116	23,325

Share premium

£2 million (2022: £5 million) of the increase in share premium relates to ordinary shares issued under the Company's share option schemes. These schemes are described in the Remuneration Report. A further £nil million (2022: £1 million) 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 share over the original weighted average cost of shares.

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 previous share buy-back programme from 30 July 2014. On 10 February 2022, the Board approved a £2 billion share buy-back programme for 2022, which was concluded on 14 December 2022. Shares purchased under this programme have not been cancelled.

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.

(c) 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.

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(d) 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 2023 was £4,803 million (2022: £7,675 million).

As disclosed in note 6 to the Group Financial Statements, on 25 April 2023, the Group announced that it had reached an agreement with the U.S. Department of Justice (DOJ) and Department of the Treasury's Office of Foreign Assets Control (OFAC) for a total amount payable to the U.S. authorities of US\$635 million plus interest. The Company recognised a charge of £511 million (US\$635 million) and interest of £14 million (US\$17 million). An amount of £4 million (US\$5 million) was paid in April 2023, an amount of £258 million (US\$321 million including interest) was paid in September 2023 and £263 million (US\$326 million including interest) will be paid in the first half of 2024.

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 Directors' remuneration, share options and retirement benefits are given in the Remuneration Report in the Group Annual Report and Accounts. Details of key management compensation are included in note 30 of the Group financial statements. The Company had one employee at 31 December 2023 (2022: two). This employee is Tadeu Marroco (2022: Jack Bowles and Tadeu Marroco). The details of their remuneration are shown on page 175 of the Group's Annual Report and Accounts for the year ended 31 December 2023. The costs of these employees are borne by another Group company.

Shareholders' funds are stated after deducting the cost of treasury shares which include £6,807 million (2022: £6,821 million) for shares repurchased and not cancelled and £277 million (2022: £285 million) in respect of the cost of own shares held in Employee Share Ownership Trusts.

As at 31 December 2023 treasury shares include 5,613,369 (2022: 5,621,012) of shares held in trust and 220,533,855 (2022: 221,000,192) of shares repurchased and not cancelled as part of the company's share buy-back programme which was relaunched in 2022. 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 relate to the recognition of share-based payments and the release of treasury shares as a result of the exercise of share options.

(e) Perpetual hybrid bonds

On 27 September 2021, the Company issued two €1 billion perpetual hybrid bonds, which have been classified as equity. Issuance costs of these bonds, amounting to €26 million (£22 million), have been recognised in equity, net of tax of £4 million. These bonds include redemption options exercisable at the Company's discretion from September 2026 to December 2026 (the 3% perpetual hybrid bond) and June 2029 to September 2029 (the 3.75% perpetual hybrid bond), on specified dates thereafter, or in the event of specific circumstances (such as a change in IFRS or tax regime) as set out in the individual terms of each issue.

The coupons associated with these perpetual bonds are fixed at 3% until 2026 and 3.75% until 2029, respectively, and would reset to rates determined by the contractual terms of each instrument on certain dates thereafter. The bonds are perpetual in nature and do not have maturity dates for the repayment of principal. The contractual terms of the perpetual hybrid bonds allow the Company to defer coupon payments, however certain contingent events could trigger mandatory payments of such deferred coupons, including the payment of dividends on and repurchase of ordinary shares, subject to certain exceptions in each case. As the Company has the unconditional right to avoid transferring cash or another financial asset in relation to these bonds, they are classified as equity instruments in these financial statements. The Company has not deferred any eligible coupon payments to date.

During the year, the Company did not defer any eligible coupon payments and paid a coupon of £33 million in September 2023 (September 2022: £33 million) on the 3.75% September 2029 bond and £26 million in December 2023 (December 2022: £27 million) on the 3% December 2026 bond which has been recognised within equity. The fair value of these bonds at 31 December 2023 is £1,512 million (2022: £1,331 million).

5 Creditors

	2023 £m	2022 £m
Amounts due to Group undertakings	38	28
Loans due to Group undertakings	1,571	1,571
Other creditors	1,443	1,310
Deferred income	7	7
	3,059	2,916
Current	453	208
Non-current	2,607	2,708
	3,060	2,916

Amounts due to Group undertaking of £38 million (2022: £28 million) are unsecured, interest free and repayable on demand. Loans due to Group undertakings of £1,571 million (2022: £1,571 million) are unsecured, bear interest at rates based on SONIA between 3.43% and 5.19% (2022: 0.19% and 3.42%, based on LIBOR), and are repayable in 2027. Included in other creditors are amounts in respect of subsidiary undertaking borrowings guaranteed by the Company of £1,154 million (2022: £1,274 million). Out of this amount, a total of £124 million (2022: £146 million) represents amounts to be released within one year.

In 2023, the Company reached an agreement with the DOJ and OFAC to resolve previously disclosed investigations into suspicions of sanctions breaches. Included within sundry payables is £263 million representing the third and final payment due in the first half of 2024.

6 Audit Fees

	2023	2022
Fees payable to KPMG		
– Audit fees (borne by another Group Company)	£ 30,000	£ 30,000

7 Contingent Liabilities

British American Tobacco p.l.c. has guaranteed borrowings by subsidiary undertakings of £47.9 billion (2022: £40.7 billion) and total borrowing facilities of £56.1 billion (2022: £55.7 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 2023 of £111 million on a Technical Provisions basis, in accordance with the statutory funding objective. On an IAS 19 basis, the Fund had a surplus at 31 December 2023 of £184 million (2022: £143 million). No contributions are expected to be made by the principal employer to the Fund in 2024.

The Company has provided certain guarantees to other Group entities or in respect of certain of their obligations.

In addition, there are contingent liabilities in respect of litigation in various countries (note 31 in the Notes on the Accounts).

8 Post Balance Sheet Events

On 01 February 2024, the fourth quarterly interim dividend of 57.72p (£1,287 million) declared by the Directors in February 2023, and reconfirmed to the market prior to 31 December 2023, was paid to shareholders. The impact of this on the Company was to reduce the level of profit and loss reserve from £10,950 million to £9,663 million.

In addition, on 7 February 2024, the Board declared an interim dividend of 235.5p per ordinary share of 25p for the year ended 31 December 2023, payable in four equal quarterly instalments of 58.88p per ordinary share in May, August, November 2024 and February 2025. These payments will be recognised as appropriations from reserves in 2024 and 2025. The total amount payable is estimated to be £5,267 million based on the number of shares outstanding at the date of these accounts.

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