

B.A.T. Operating Finance Limited

**2021
Annual Report**

B.A.T. Operating Finance Limited

ANNUAL REPORT 31 December 2021

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Secretary and Registered Office

Ruth Wilson
Globe House
4 Temple Place
London WC2R 2PG

Registered Number 11996422

Auditors

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

Strategic Report

The Directors present their Strategic Report on B.A.T. Operating Finance Limited (the “Company”) for the year ended 31 December 2021.

Principal Activities

The Company provides finance to fellow subsidiary companies in the British American Tobacco p.l.c. Group (“BAT Group”). It is intended that the Company will continue to undertake business relating to these activities.

Review of the year ended 31 December 2021

Profit for the financial year amounted to **£124 million** (2020: £87 million profit).

Principal risks and uncertainties

The principal risks and uncertainties of the Company, including financial risk management, are integrated with the principal risks of the BAT Group and are monitored by audit committees to provide a framework for identifying, evaluating and managing risks faced by BAT Group. Accordingly, the key BAT Group risk factors that may be relevant to the Company are disclosed in the Annual Report and Form 20-F of British American Tobacco p.l.c. (“BAT ARA & 20-F”) and do not form part of this report.

Key performance indicators

Given the nature of the Company’s activities, the Company’s Directors consider that key performance indicators based solely on the Company’s results are not necessary or appropriate for an understanding of the Company’s specific development, performance or position of its business. However, key performance indicators, relevant to the Group, which may be relevant to the Company, are disclosed in the Strategic Report in the BAT ARA & 20-F and do not form part of this report.

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

UK Companies Act: Section 172(1) Statement

The Company is part of the BAT Group and is ultimately owned by British American Tobacco p.l.c.. As set out above, the Company’s principal activities comprise the operational financing activities and management of cash resources for the Group.

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

The Company’s key external stakeholders are the financial institutions it engages with in relation to the Company’s financial activities. Primary ways in which the Company engages with financial institutions are through regular meetings, ongoing dialogue and relationship management conducted by the Group’s Treasury and Finance teams. The Company’s key internal stakeholders are those members of the Group to which it provides finance-related services. There is regular engagement within the Group on finance-related matters, which is taken into account in the Company’s decision-making. The Company does not have any employees, customers or other suppliers outside the Group.

Where the Directors do not engage directly with the Company’s stakeholders, they are kept updated on stakeholder perspectives, the impact of decisions on relevant stakeholders and engagement conducted with stakeholders, where applicable, including, through the use of management reporting, and board notes relating to matters presented to the Board during the year. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making.

In accordance with the Group’s overall governance and internal controls framework and in support of the Company’s purpose as part of the BAT Group, the Company applies and the Directors have due regard to all applicable Group policies and procedures, including the Group Statement of Delegated Authorities (“SoDA”), and the Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out on pages 48 and 73 of the BAT ARA & 20-F. As a BAT Group company, the Company acts in accordance with the Group’s policies in relation to the safeguarding of human rights and community relationships, which are set out on page 48 of the BAT ARA & 20-F. Certain authorities for decision-making are delegated to management under the SoDA, part of the Group’s governance and internal controls framework through which robust corporate governance, risk management and internal control are promoted within the Group. Application of the SoDA does not derogate from any requirement for Board review, oversight or approval in relation to the Company’s activities.

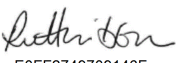
Strategic Report continued

UK Companies Act: Section 172(1) Statement continued

The Directors receive training in relation to their role and duties as a director on a periodic basis. All newly appointed Directors receive an induction and training in respect of their role and duties on appointment, including on directors' duties under Section 172 of the UK Companies Act 2006. Director training is provided through the Company Secretary.

The principal decisions made by the Directors during the year included provision and renewal of various inter-company overdrafts, term loans and in-house cash facilities to other Group companies, and renewal of the multi-currency revolving credit facility provided by B.A.T. International Finance p.l.c. (referred to in the Notes on the Accounts below). In making these decisions the Directors considered, amongst other relevant factors, the Company's capital and cash positions, the Company's actual and contingent liabilities and its ability to pay its debts as they fell due, and the interests of its shareholder and applicable financial institutions. Principal decisions are those decisions and discussions by the Board that are strategic or material to the Company and those of significance to any of Company's key stakeholders.

By Order of the Board

DocuSigned by:

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Ruth Wilson, Secretary
10 February 2022

Directors' Report

Introduction

The Directors present their report and the audited financial statements for the Company for the year ended 31 December 2021.

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2021 to the date of this report are as follows:

Andrew James Barrett (resigned on 26 November 2021)
David Patrick Ian Booth
Paul McCrory
Neil Arthur Wadey
Steven Glyn Dale
Pablo Daniel Sconfianza (appointed on 26 November 2021)

Dividends

The Directors do not recommend the payment of a dividend for the year (2020: £nil).

Employees

The average number of employees employed by the Company during the year was nil (2020: nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Research and development

No research & development expenditure has been incurred during the year (2020: £nil).

Directors' responsibilities Statement

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

Applicable law requires the Directors to prepare financial statements for each financial year. 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').

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' declaration in relation to relevant audit information

Having made appropriate enquiries, each of the Directors who held office at the date of approval of this Annual Report confirms that:

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

Directors' Report continued


Going concern

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

Auditor

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

By Order of the Board

DocuSigned by:

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Neil Arthur Wadey, Director
10 February 2022

B.A.T. Operating Finance Limited
Globe House
4 Temple Place
London WC2R 2PG
Registered Number 1199422

Profit and Loss Account for the year ended 31 December 2021

	2021	2020
	£m	£m
Interest receivable and similar income (note 2)	643	622
Interest payable and similar charges (note 3)	(514)	(530)
Net finance income	129	92
Other operating expenses (note 4)	(5)	(3)
Profit before taxation	124	89
Taxation on profit on ordinary activities (note 5)	-	(2)
Profit for the financial year	124	87

Statement of Changes in Equity for the year ended 31 December 2021

	2021	2020
	£m	£m
At 1 January	80	(7)
Profit for the financial year	124	87
At 31 December (note 11)	204	80

All activities during the year are in respect of continuing operations.

The Company has no recognised profit and losses other than the profit above and, therefore, no separate statement of other comprehensive income has been presented.


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

Balance Sheet – B.A.T. Operating Finance Limited
as at 31 December 2021
Registered Number 11996422

	2021 £m	2020 £m
<i>Assets</i>		
Fixed assets		
Loans due from fellow subsidiaries (note 6)	28,725	23,784
Current assets		
Amounts due on demand from fellow subsidiaries (note 7)	35,796	28,217
Cash and cash equivalents	55	97
Other receivables	5	-
Total assets	64,581	52,098
<i>Liabilities</i>		
Amounts repayable on demand to parent undertaking (note 8a)	8,396	7,024
Amounts repayable on demand to fellow subsidiaries (note 8b)	31,131	23,407
Term deposits repayable to fellow subsidiaries (note 9)	24,848	21,587
Other payables	2	-
	64,377	52,018
<i>Equity</i>		
Called up share capital (note 10)	1	1
Profit and loss account (note 11)	203	79
Total shareholders' funds (note 11)	204	80
Total equity and liabilities	64,581	52,098

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

The financial statements on pages 6 to 12 were approved by the Board and signed on its behalf by

DocuSigned by:

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Neil Arthur Wade
Director
10 February 2022

Notes on the Accounts

1. Accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 ('the Act') and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ('FRS 101').

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 consolidated financial statements.

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 where advantage of certain disclosure exemptions available under FRS 101 have been taken, including those relating to:

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

Foreign currencies

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

Accounting for income

The Company's primary source of income is in respect of interest on loans to fellow subsidiaries in the British American Tobacco p.l.c. Group ("BAT Group"). Interest income is recognised using the effective interest rate method. Interest income is only recognised to the extent that it is considered to be collectable.

Taxation

Taxation is that chargeable on the profits for the year, together with deferred taxation. Income tax charges, where applicable, are calculated on the basis of tax laws enacted or substantially enacted at the balance sheet date.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

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

Cash flow

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

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 the BAT Group.

Loans and receivables

These are 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 primarily include loans from fellow BAT Group subsidiaries and are measured at amortised cost using the effective interest rate method.

All loans and receivables in the Company are held to maturity with fixed or determinable payments that are solely payments of principal and interest on the principal amount outstanding, which are primarily held in order to collect contractual cash flows and therefore measured at amortised cost.

The credit risk on these financial assets have not increased significantly since initial recognition, and therefore the Company has measured the loss allowance for financial instruments at an amount equal to the 12-month expected credit loss, whether or not any actual losses have been recognised. The effective interest rate is based on gross (pre-impairment) assets.

Notes on the Accounts

1. Accounting policies continued

Loans and receivables continued

During the year, the standard lending agreements within the BAT Group were revised to take account of the global benchmark interest rate reform and certain GBP and CHF loans entered during the year are based on Sterling Overnight Index Average (SONIA) and Swiss Average Rate Overnight (SARON) respectively. Intercompany loans in currencies where LIBOR rates are available will continue to apply these until they are no longer available. Management considers the replacement rates in the revised intercompany agreement to be economically equivalent to those used previously and impact of the change in rates will not be significant to the Company.

Further details on these balances are disclosed in note 6 and note 9.

During the course of the year, interest rates on in-house balances, where interest accrues on a daily basis, have been transitioned from LIBOR to alternative risk-free rates.

2. Interest receivable and similar income

	2021 £m	2020 £m
Interest receivable from fellow subsidiaries	<u>643</u>	<u>622</u>

3. Interest payable and similar charges

	2021 £m	2020 £m
Interest payable to fellow subsidiaries	503	507
Interest payable to parent undertaking	-	5
Commitment fee payable to fellow subsidiary	11	18
	<u>514</u>	<u>530</u>

4. Other operating expenses

The Company has no directly employed employees (2020: none) and utilises the services of a number of employees, whose contracts of service are with a fellow subsidiary of BAT Group and their remuneration is included in that company's financial statements.

Auditors' fees, amounting to **£24,000** (2020: £24,000) were payable to KPMG LLP for the audit of the Company's annual financial statements.

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

Operating charges includes **£5 million** (2020: £3 million) of expected credit loss on loans and receivables.

Notes on the Accounts

5. Taxation on profit on ordinary activities

a) Summary of tax

	2021 £m	2020 £m
UK corporation tax		
Comprising:		
Current tax at 19% (2020: 19%)	-	2
Double tax relief	-	(2)
Overseas tax comprising:		
Tax on current income	-	2
Total taxation charge for the year	<u>-</u>	<u>2</u>

b) Factors affecting the tax charge

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2020: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2021 £m	2020 £m
Profit/(Loss) on ordinary activities before taxation	124	89
UK corporation tax at 19% (2020: 19%)	24	17
Factors affecting the tax rate:		
Expenses not deductible	1	1
BAT Group loss relief claimed for no consideration	(25)	(16)
Total current taxation	<u>-</u>	<u>2</u>

Notes on the Accounts

6. Loans due from fellow subsidiaries

At 31 December 2021, **£2,062 million** (2020: £ 21,598 million) of the total balance of loans owed by fellow subsidiaries of BAT Group were due within one year and are expected to be renewed upon maturity and accordingly, are classified as fixed assets in the Company balance sheet. The remaining amount of **£26,663 million** (2020: £ 2,186 million) fall due beyond one year.

Included in the balance is interest receivable of **£130 million** (2020: £317 million).

From 31 December 2021, the publication of certain LIBOR settings has ceased. The above balance includes **£6,930** maturing after 1 January 2022, which bears interest at floating rates that are based on the London InterBank Interest Rate (“LIBOR”). Included within this balance are **£6,850 million** of LIBOR related loans that will be reset to alternative rates in 2022 before their maturity dates and the remaining loans will continue to apply LIBOR until it ceases and will thereafter utilise alternative reference. The Group does not expect any significant impact from this transition as the alternative rates will be economically equivalent to the LIBOR rates.

Loans owed by BAT Group fellow subsidiaries are measured at amortised cost as they are held to maturity. The balance is net of expected credit losses of **£21 million** (2020: £16 million).

7. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries of BAT Group comprise of unsecured current accounts and cash pooling accounts referred to as In-House Cash (“IHC”) accounts.

The balance includes **£nil** interest receivable from B.A.T. International Finance p.l.c. (2020: £11 million).

The balance is measured at amortised cost with an immaterial impact of expected credit loss.

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

8a. Amounts repayable on demand to parent undertaking

Amounts repayable on demand to the parent undertaking at 31 December 2021 of **£8,396 million** (2020: £7,024 million) are unsecured and comprise current account borrowings. These are primarily denominated in Sterling. There is no accrued interest repayable in the current year (2020: £nil).

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

8b. Amounts repayable on demand to fellow subsidiaries

Amounts repayable on demand to fellow subsidiaries of BAT Group comprise current accounts and cash pooling accounts.

The balance includes interest payable to B.A.T. International Finance p.l.c. of **£23 million** (2020: £ nil).

There is no material difference between the book value and fair value for amounts repayable on demand to fellow subsidiaries of BAT Group as determined using discounted cash flow analysis.

9. Term deposits repayable to fellow subsidiaries

Term deposits are fully repayable to B.A.T. International Financial p.l.c. (a fellow subsidiary) and include **£102 million** of interest payable at 31 December 2021 (2019: £307 million).

From 31 December 2021, the publication of certain LIBOR settings has ceased. The balance includes **£317 million** maturing after 1 January 2022, which bears interest at floating rates that are based on the London InterBank Interest Rate (“LIBOR”) in currencies where rates have not yet ceased. The interest rate to be applied in future will be in accordance with the changes to the BAT Group’s intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 *Financial Instruments* at that time, as required. The Company does not believe that it would be materially adversely affected by these changes.

Notes on the Accounts

10. Called up share capital

	2021	2020
Allotted, called up and fully paid		
Ordinary shares of £1 each - value	£ 1,000,000	£ 1,000,000
Ordinary shares of £1 each - number	1,000,000	1,000,000

The Ordinary shares of £1 each and the Ordinary shares of £1 each rank pari passu in all respects.

11. Equity

	Share capital	Profit and loss account	Total
	£m	£m	£m
1 January 2021	1	79	80
Profit for the financial year	-	124	124
31 December 2021	1	203	204

	Share Capital	Profit and loss account	Total
	£m	£m	£m
1 January 2020	1	(8)	(7)
Profit for the financial year	-	87	87
31 December 2020	1	79	80

12. Management of financial risks

Given the nature of the Company's activities, the Company is managed in accordance with the BAT Group Treasury policies and procedures. Lending and borrowing activities with fellow BAT Group subsidiaries are usually in the currency of the counter party resulting in primary balance sheet translation exposure to various currencies. The Company hedges its financial currency exposure not denominated in the functional currency either economically or through use of derivative contracts.

13. Related parties

As explained in the accounting policies in note 1, the Company has taken advantage of the exemption under FRS 101 from disclosing transactions with related parties that are wholly-owned subsidiaries of the BAT Group. As at 31 December 2021, there are no balances and transactions (2020: £nil) with subsidiaries that are not wholly-owned by the BAT Group.

14. Parent undertaking

The Company's immediate parent undertaking British American Tobacco (2012) Limited, is incorporated in the United Kingdom and registered in England and Wales. Its ultimate parent undertaking and ultimate controlling party British American Tobacco p.l.c., is incorporated in the United Kingdom and registered in England and Wales and registered as an external company in the Republic of South Africa. Consolidated group accounts are prepared by both entities and BAT group accounts are publicly available. The British American Tobacco p.l.c. annual report may be obtained from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG.

Independent Auditor's Report to the members of B.A.T. Operating Finance Limited

Opinion

We have audited the financial statements of B.A.T. Operating Finance Limited ("the company") for the year ended 31 December 2021 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

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 company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We did not identify any additional fraud risks.

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

We also performed procedures including:

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

Independent Auditor's Report to the members of B.A.T. Operating Finance Limited Continued

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

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

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

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

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

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

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

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

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the 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.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for 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 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 company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the members of B.A.T. Operating Finance Limited Continued

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 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.

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Anthony Withers (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

10 February 2022