

Louisville Securities Limited

Registered number 03015916

Annual report and financial statements

For the year ended 31 December 2021

Contents

Strategic Report.....	2
Directors' Report.....	4
Independent auditor's report to the members of Louisville Securities Limited.....	6
Profit and loss account and statement of comprehensive income and changes in equity for the year ended 31 December	10
Balance sheet as at 31 December	11
Notes to the financial statements for the year ended 31 December 2021	12

Strategic Report

The Directors present their Strategic Report on Louisville Securities Limited (the “Company”) for the year ended 31 December 2021.

Principal activities

The Company acts as an investment holding company in associated undertakings of the British American Tobacco p.l.c. group of companies (the “Group”) which are active in the tobacco industry.

Review of the year ended 31 December 2021

The profit for the financial year attributable to the Company’s shareholder after deduction of all charges and the provision of taxation amounted to £3,289,345,000(2020: £3,085,482,000).

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

Going concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate. As a result of the Company being partially financed by short term intragroup borrowings at the end of the reporting year the Company’s current borrowing exceeded its cash and current assets balances. Historically these borrowings have always been extended. Whilst some of the borrowings have been extended subsequent to the reporting period they are still short term as the extension of the borrowing resulting in extending the maturity date in January 2022 to January 2023. Also, in line with prior years, we expect the all the borrowings with maturity date in September 2022 and January 2023 to be extended nearer to the maturity date.

The counterparty to the borrowings has indicated that it does not intend to seek repayment of these amounts during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Key performance indicators

Given the nature of the Company’s activities, the Company’s Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company’s specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in British American Tobacco p.l.c.’s 2021 Annual Report and Form 20-F (“BAT ARA & 20-F”) and do not form part of this report.

Principal risks and uncertainties

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

UK Companies Act 2006: Section 172(1) Statement

The Company is part of the Group and is ultimately owned by British American Tobacco p.l.c.. As set out above in the Company’s Strategic Report, the Company’s principal activity is to act as an investment holding company in associated undertakings of the Group which are active in the tobacco industry.

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 the 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.

Strategic report (continued)

UK Companies Act: Section 172 (1) Statement (continued)

The Company's key stakeholders are the Company's shareholder and other Group undertakings. The Company does not have any employees, or customers or suppliers outside of the Group.

Primary ways in which the Group engages with Group undertakings and its shareholder are through regular meetings, intra-group management activities and ongoing dialogue. There is also regular engagement within the Group on finance-related matters which is taken into account in the Company's decision-making.

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 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 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.

The Directors receive training in relation to their role and duties as a director on a periodic basis and all newly appointed Directors receive training in respect of their roles 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 the payment of an interim dividend to its shareholder as set out in the Directors' Report below. In this context, the Board considered, amongst other relevant factors, the Company's capital position, the amount of its distributable reserves, its cash position, and the Company's actual and contingent liabilities and its ability to pay its debts as they fell due.

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 the Company's stakeholders.

By Order of the Board

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Ms S. Mehta
Secretary

28 June 2022

Directors' Report

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

Dividends

During the year the Company paid dividends amounting to £3,105,000,000 (2020: £2,830,000,000).

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:

Steven Glyn Dale
Andrew James Barrett
Neil Arthur Wadey
Ridirectors Limited
Ruth Wilson
Anthony Michael Hardy Cohn (Appointed:13 July 2020)

Research and development

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

Political contributions

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

Employees

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Financial risk management

The Company's operations expose it to currency risk as its income from shares in Group undertakings is denominated in foreign currencies other than Sterling. The exposure is hedged with forward foreign exchange contracts.

Statement of Directors' responsibilities

The Directors are responsible for preparing the 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. Under applicable law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Directors' report (continued)

Statement of Directors' responsibilities (continued)

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable 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:

- (a) to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all steps that a Director might reasonably be expected to have taken in order to make themselves aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board

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Ms S. Mehta
Secretary

28 June 2022

Independent Auditor's Report to the members of Louisville Securities Limited

Opinion

We have audited the financial statements of Louisville Securities Limited ("the Company") for the year ended 31 December 2021 which comprise the Profit and Loss Account, Statement of other comprehensive income, Statement of changes in equity, Balance sheet 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 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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:

Independent Auditor's Report to the members of Louisville Securities Limited (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

- Enquiring of directors and inspection of policy documentation as to the Company's policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that 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 because there are no revenue transactions. The recognition criteria for income from shares in Group undertakings are not considered complex and no material estimation or manual intervention is required. We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by an individual not authorised to approve postings and those posted to accounts that contain significant estimates and period-end adjustments.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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

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 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.

Independent Auditor's Report to the members of Louisville Securities Limited (continued)

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

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

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 pages 4 and 5, 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 Louisville Securities 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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Natalia Bottomley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, United Kingdom.
E14 5GL

Date:

Profit and loss account for the year ended 31 December

Continuing operations	Note	2021 £'000	2020 £'000
Other operating income	2	-	19
Operating profit		-	19
Income from shares in Group undertakings	3	3,372,423	3,205,142
Interest receivable and similar income	4	22,471	37,455
Interest payable and similar expenses	5	(105,549)	(157,134)
Profit before taxation		3,289,345	3,085,482
Tax on profit	6	-	-
Profit for the financial year		3,289,345	3,085,482

Statement of comprehensive income for the year ended 31 December

	2021 £'000	2020 £'000
Profit for the financial year	3,289,345	3,085,482
Other comprehensive income		
Effective portion of changes in fair value of cash flow hedges, net of tax	(240,110)	75,313
Total of other comprehensive income for the year	(240,110)	75,313
Total comprehensive income for the year	3,049,235	3,160,795

Statement of changes in equity for the year ended 31 December

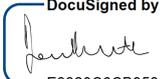
	Called up share capital £'000	Share premium £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Equity £'000
1 January 2020	3,814,006	23,223,433	105,774	1,312,175	28,455,388
Profit for the financial year	-	-	-	3,085,482	3,085,482
Dividends paid	-	-	-	(2,830,000)	(2,830,000)
	3,814,006	23,223,433	105,774	1,567,657	28,710,870
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges	-	-	75,313	-	75,313
31 December 2020	3,814,006	23,223,433	181,087	1,567,657	28,786,183
Profit for the financial year	-	-	-	3,289,345	3,289,345
Dividends paid	-	-	-	(3,105,000)	(3,105,000)
	3,814,006	23,223,433	181,087	1,752,002	28,970,528
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges	-	-	(240,110)	-	(240,110)
31 December 2021	3,814,006	23,223,433	(59,023)	1,752,002	28,730,418

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

Balance sheet as at 31 December

		31 December 2021	31 December 2020
	Note	£'000	£'000
Fixed assets			
Investments in subsidiaries	7	32,941,336	32,926,186
		32,941,336	32,926,186
Current assets			
Derivative financial instruments – current assets	11	8,774	191,335
Debtors: amounts falling due within one year	8a	2,480,116	1,184,185
Derivative financial instruments – non current assets	11	4,579	7,210
Debtors: amounts falling due after one year	8b	-	1,109,770
		2,493,469	2,492,500
Creditors: amounts falling due within one year	9a	(6,632,011)	(1,945,312)
Derivative financial instruments - liabilities - current	11	(72,376)	(17,458)
Net current assets		(4,210,918)	529,730
Total assets less current liabilities		28,730,418	33,455,916
Creditors: amounts falling due after more than one year	9b	-	(4,669,733)
Derivative financial instruments – liabilities – non current		-	-
Net assets		28,730,418	28,786,183
Capital and reserves			
Called up share capital	10	3,814,006	3,814,006
Share premium account	10	23,223,433	23,223,433
Cash flow hedge reserve	11	(59,023)	181,087
Profit and loss account	10	1,752,002	1,567,657
Total shareholders' funds		28,730,418	28,786,183

The financial statements on pages 9 to 21 were approved by the Directors on 28 June 2022 and signed on behalf of the Board.

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Mr. D.P.I. Booth
 For and on behalf of Ridirectors Limited, Director

Registered number 03015916

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies

Basis of accounting

Louisville Securities Limited (the “Company”) is a private company incorporated, domiciled and registered in England and Wales in the UK. The registered number is 03015916 and the registered address is Globe House 4 Temple Place, London, WC2R 2PG.

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (“FRS 102”).

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statement on a going concern basis.

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

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.

As a result of the Company being partially financed by short term intragroup borrowings at the end of the reporting year the Company’s current borrowing exceeded its cash and current assets balances. Historically these borrowings have always been extended. Whilst some of the borrowings have been extended subsequent to the reporting period, they are still short term as the extension of the borrowing resulting in extending the maturity date in January 2022 to January 2023. Also, in line with prior years, we expect the all the borrowings with maturity date in September 2022 and January 2023 to be extended nearer to the maturity date.

The counterparty to the borrowings has indicated that it does not intend to seek repayment of these amounts during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Company is included in the consolidated financial statements of British American Tobacco p.l.c. which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The accounting policies set out below, have unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Cash flow statement

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 102.

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. Monetary 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 except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Income

Income is recognised in the profit and loss account when all contractual or other applicable conditions for recognition have been met.

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies (continued)

Taxation

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

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date.

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

The Company has exposures in respect of the payment or recovery of a number of taxes. Liabilities or assets for these payments or recoveries are recognised at such time as an outcome becomes probable and when the amount can reasonably be estimated.

As a UK resident wholly-owned subsidiary of the British American Tobacco Group of companies, 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 Group policy that tax losses are surrendered unless the entity generating the losses has a particular requirement to carry the losses forward. It is also Group policy not to reimburse entities for Group Relief surrendered unless, on a stand-alone basis and assuming the entity were not in the Group, those losses are judged to have value to the entity generating the loss.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, and adjustments for the effect of fair value hedges where appropriate.

Financial instruments

The Company has complied with the requirements of section 11 (basic financial instruments) and section 12 (other financial instruments) of FRS 102.

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

As noted previously, investments in subsidiaries and associates are stated at cost. Other non-derivative financial assets are classified on initial recognition as loans and receivables or cash and cash equivalents as follows:

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

Cash and cash equivalents: include cash in hand and deposits held on call, together with other short-term highly liquid investments including investments in certain money market funds. Cash equivalents normally comprise instruments with maturities of three months or less at date of acquisition.

Non-derivative financial assets are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. These estimates for irrecoverable amounts are recognised when there is objective evidence that the full amount receivable will not be collected according to the original terms of the asset.

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

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies (continued)

Financial instruments (continued)

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

- where a derivative financial instrument or another financial instrument is designated as a fair value hedge, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged and any gains or losses on re-measurement are recognised immediately in the income statement;
- 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 profit and loss account. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset and recognised in the profit and loss account in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the profit and loss account in the same periods as the hedged item;
- 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 profit and loss account in the period in which they arise.

In order to qualify for hedge accounting, the Company is required to document prospectively the relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is 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 profit and loss account 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 profit and loss account.

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

Preference shares and similar financial instruments are classified as liabilities if they do not represent a residual interest in the net assets of the entity.

Where interest bearing receivables and payables have their floating rates based on benchmark rates, such as LIBOR, the Company accounted for the application of replacement benchmark rates in accordance with the Amendments to International Financial Reporting Standard (“IFRS”) 9 *Financial Instruments* published in 2019 (phase 1) and 2020 (phase 2) when applicable. The replacement rate (SONIA) has been applied since August 2021.

Operating expenses

Operating expenses are recorded in period they relate to and are generated in the normal business operations of the Company.

Notes to the financial statements for the year ended 31 December 2021

2 Other operating income

	2021 £'000	2020 £'000
Fair value gain on derivatives	-	19
	-	19

Auditor's fees of £5,000 were borne by a fellow Group undertaking (2020: £5,000).

None of the Directors received any remuneration in respect of their services to the Company during the year (2020: £nil). The Company considers that there is no practicable method to allocate a portion of the emoluments the Directors receive from their respective Group company employer for any qualifying services in respect of the Company, as these are considered to be incidental and part of Directors overall management responsibilities within the Group.

There were no employees (2020: none) and no staff costs during the year (2020: £nil).

3 Income from shares in Group undertakings

	2021 £'000	2020 £'000
Income from shares in Group undertakings	3,372,423	3,205,142

Income from shares in Group undertakings represent dividends received from BATUS Holdings Inc..

4 Interest receivable and similar income

	2021 £'000	2020 £'000
Fair value gain on derivatives	336	1,090
Interest receivable from Group undertakings	22,135	36,365
	22,471	37,455

5 Interest payable and similar expenses

	2021 £'000	2020 £'000
Interest payable to Group undertakings	105,693	151,967
Exchange (gain)/losses	(144)	5,167
	105,549	157,134

A total amount of £15,154,000 exchange loss on the revaluation of the borrowings and £15,150,000 exchange gain on the revaluation of the investment in subsidiaries and net impact of £4,000 loss, included in the above are the effects of foreign exchange risk being hedged in relation to investments in subsidiaries (note 7) being financed by foreign currency creditors falling due after more than one year (note 9b). Included in exchange gain above there are also an amount of £10,241,000 exchange gain on the revaluation of the borrowings and £10,241,000 exchange loss on the revaluation of the loan presented in note 8 (a) and a net impact of £148,000 gain on the revaluation of other amounts owed by Group undertakings.

Notes to the financial statements for the year ended 31 December 2021

6 Taxation

Factors affecting the taxation 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	2020
	£'000	£'000
Profit for the year	3,289,345	3,085,482
Total tax expense	-	-
Profit excluding taxation	3,289,345	3,085,482
Tax using the UK corporation tax rate of 19% (2020: 19%)	624,976	586,241
Non-deductible expenses	-	278
Income not taxable	(640,760)	(609,257)
Group relief surrendered for nil consideration	15,793	22,747
Transfer pricing adjustments	(9)	(9)
Total tax for the year	-	-

Notes to the financial statements for the year ended 31 December 2021

7 Investments

(1) Shares in Group undertakings

Company	Share Class	Direct Subsidiary Attributable		
		interest	Interest	Interest
Japan				
<i>Midtown Tower 20F, 9-7-1 Akasaka, Minato-ku, Tokyo, Japan</i>				
British American Tobacco Japan, Ltd	Equity units	0.00	100.00	100.00
Republic of Korea				
<i>42FI Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Korea (the Republic of)</i>				
British American Tobacco Korea Limited	Ordinary	0.00	100.00	100.00
United Kingdom				
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
BATUS Limited	Ordinary	0.00	100.00	100.00
United States				
<i>251 Little Falls Drive, Wilmington, DE 19808, United States</i>				
B.A.T Capital Corporation	Ordinary	0.00	100.00	100.00
BATUS Holdings Inc.	Ordinary	100.00	0.00	100.00
BATUS Japan, Inc.	Ordinary	0.00	100.00	100.00
BATUS Retail Services, Inc.	Ordinary	0.00	100.00	100.00
British American Tobacco (Brands) Inc.	Ordinary	0.00	100.00	100.00
Brown & Williamson Holdings, Inc.	Ordinary	0.00	100.00	100.00
Louisville Corporate Services, Inc.	Ordinary	0.00	100.00	100.00
<i>3220 Knotts Grove Rd., Oxford, NC 27565</i>				
Santa Fe Natural Tobacco Company, Inc.	Common Stock	0.00	100.00	100.00
<i>3700 Airpark Dr., Owensboro, KY 42301</i>				
KBio Processing Limited	Common Stock	0.00	100.00	100.00
<i>401 N. Main Street, Winston-Salem, NC 27101</i>				
Reynolds Marketing Services Company	Common Stock	0.00	100.00	100.00
Vuse Stores LLC	Membership Interest	0.00	100.00	100.00
EXP Homes, LLC	Membership Interest	0.00	100.00	100.00
Lorillard Licensing Company LLC	Membership Interest	0.00	100.00	100.00
Lorillard, LLC	Membership Interest	0.00	100.00	100.00
Modoral Brands, Inc.	Common Stock	0.00	100.00	100.00
Northern Brands International, Inc.	Common Stock	0.00	100.00	100.00
R. J. Reynolds Global Products, Inc.	Common Stock	0.00	100.00	100.00
R. J. Reynolds Tobacco Company	Common Stock	0.00	100.00	100.00
R. J. Reynolds Tobacco International, Inc.	Common Stock	0.00	100.00	100.00
R. J. Reynolds Vapor Company	Common Stock	0.00	100.00	100.00

Notes to the financial statements for the year ended 31 December 2021

7 Investments (continued)

(1) Shares in Group undertakings (continued)

Company	Share Class	Direct Subsidiary Attributable		
		interest	Interest	Interest
R.J. Reynolds Tobacco Co.	Common Stock	0.00	100.00	100.00
R.J. Reynolds Tobacco Holdings, Inc.	Common Stock	0.00	100.00	100.00
RAI Innovations Company	Common Stock	0.00	100.00	100.00
RAI International, Inc.	Common Stock	0.00	100.00	100.00
RAI Services Company	Common Stock	0.00	100.00	100.00
RAI Strategic Holdings, Inc.	Common Stock	0.00	100.00	100.00
RAI Trade Marketing Services Company	Common Stock	0.00	100.00	100.00
Reynolds Brands Inc.	Common Stock	0.00	100.00	100.00
Reynolds Technologies, Inc.	Common Stock	0.00	100.00	100.00
RJR Realty Relocation Services, Inc.	Common Stock	0.00	100.00	100.00
RJR Vapor Co., LLC	Common Stock	0.00	100.00	100.00
Rosswil LLC	Membership Interest	0.00	100.00	100.00
S.F. Imports, Inc.	Common Stock	0.00	100.00	100.00
Spot You More, Inc.	Common Stock	0.00	100.00	100.00
<i>5106 Tradeport Dr., Memphis, TN 38141</i>				
American Snuff Company, LLC	Membership Interest	0.00	100.00	100.00
<i>Farmers Bank Building, Suite 1402, 301 N. Market Street, Wilmington, DE 19801</i>				
Reynolds Finance Company	Common Stock	0.00	100.00	100.00
Cayman Islands				
<i>Trident Trust Company (Cayman) Ltd., One Capital Place, PO Box 847, Grand Cayman, KY1-1103, Cayman Islands</i>				
R.J. Reynolds Tobacco (CI), Co.	Ordinary	0.00	100.00	100.00
Hong Kong				
<i>LEHMAN, LEE & XU CORPORATE SERVICES, Suite 3313, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong</i>				
Reynolds Asia-Pacific Limited	Ordinary	0.00	100.00	100.00

Notes to the financial statements for the year ended 31 December 2021

7 Investments (continued)

(2) Investments in Group undertakings

Investments in Group undertakings

	Investments in Group undertakings £'000
1 January 2021	32,926,186
Effect of fair value hedge: exchange loss on revaluation of investment (note 5)	15,150
31 December 2021	32,941,336

Net book value

1 January 2021	32,926,186
31 December 2021	32,941,336

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

8 Debtors

(a) Amounts falling due within one year

	2021 £'000	2020 £'000
Prepayment	17	-
Amounts owed by Group undertakings	2,480,099	1,184,185
	2,480,116	1,184,185

An amount of £1,354,537,000 (2020: £1,178,252,000) is unsecured, interest bearing and repayable on demand. Included in Amounts owed by Group undertakings is an amount of £1,120,012,000 ((USD: USD:1,517,000,000) (2020: nil ((USD: nil) classified under amounts falling within one year)) which is interest bearing and repayable in September 2022. The Company has amounts receivable from fellow Group subsidiaries where the variable interest rate is in accordance with the Group's intercompany lending agreements. During 2021, the standard lending agreements within the Group 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. The impact of the change in rates was not significant to the Company. Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand. Prepayments are unsecured and non-interest bearing.

(b) Amounts falling due after more than one year

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	-	1,109,770
	-	1,109,770

Included in Amounts owed by Group undertakings is an amount of £nil ((USD: nil) (2020: 1,109,770,000 ((USD:1,517,000,000) classified under amounts falling within one year)) which is interest bearing and repayable in September 2022.

Notes to the financial statements for the year ended 31 December 2021

9 Creditors

(a) Amounts falling due within one year

	2021 £'000	2020 £'000
Amounts owed to Group undertakings	<u>6,632,011</u>	1,945,312
	6,632,011	1,945,312

Amounts owed to Group undertakings include £2,777,215,000 (USD 3,761,600,000) (2020: 2,751,820,000 (USD 3,761,600,000)) which are unsecured, interest bearing and repayable in September 2022. Amounts owed to Group undertakings also include 1,917,913,000 GBP which are unsecured, interest bearing and repayable in 2022. Included in balance above there is also 1,917,913,000 GBP subsequently approved to be extended till January 2023. During 2021, the standard lending agreements within the Group 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. The impact of the change in rates was not significant to the Company.

(b) Amounts falling due after more than one year

	2021 £'000	2020 £'000
Amounts owed to Group undertakings	-	4,669,733

10 Capital and reserves

Called up share capital

The called up share capital account records the nominal value of shares issued.

Ordinary shares of 0.01 each	2021	2020
Allotted, called up and fully paid		
- value	£ 3,814,006,331	£ 3,814,006,331
- number	<u>381,400,633,140</u>	<u>381,400,633,140</u>

Share premium

	2021	2020
Allotted, called up and fully paid		
- value	<u>£ 23,223,433,252</u>	<u>£ 23,223,433,252</u>

Profit and loss account

This includes all current and prior period retained profits and losses. All reserves in respect of profit and loss are distributable reserves.

Notes to the financial statements for the year ended 31 December 2021

11 Financial instruments

Derivative financial instruments

	2021	2021	2020	2020
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Cash flow hedges				
- Forward foreign exchange contracts	13,353	(72,376)	198,545	(17,458)
Current	8,774	(72,376)	191,335	(17,458)
Non-current	4,579	-	7,210	-

The Company's operations expose it to currency risk as income from shares in Group undertakings is denominated in foreign currencies other than Sterling. The exposure is hedged with forward foreign exchange contracts. The effective portion of cash flow hedges as at 31 December 2021 amounted to £59,023,000 loss(2020: £181,087,000 gain).

12 Events subsequent to the year end

In January 2022, the GBP 1,917,913,000 Term loan dated on 24 July 2017, received from British American Tobacco (2009) Limited and due for payment on 16 January 2022 was approved to be renewed, having a proposed maturity date on 16 January 2023.

13 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under section 33 of FRS 102 from disclosing transactions with wholly owned subsidiary undertakings of the British American Tobacco p.l.c. Group.

14 Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is British-American Tobacco (Holdings) Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

The Company Secretary
 Globe House
 4 Temple Place
 London
 WC2R 2PG