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

2006
Report and Accounts

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

REPORT AND ACCOUNTS 31 DECEMBER 2006

Contents

Notice of meeting

Notice is hereby given that the Annual General Meeting of B A T International Finance p l c will be held at Globe House, 4 Temple Place, London, WC2R 2PG on 17 July 2007 for the transaction of the following business

1 To receive the accounts for the year ended 31 December 2006 and the reports of the Directors and the Auditors thereon

2 To reappoint Directors

3 To reappoint the Auditors

4 To authorise the Directors to determine the Auditors' remuneration

By order of the Board

A C Girling, Assistant Secretary
14 June 2007

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

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

Registered Number 1060930

Registered Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London

Directors' Report for the year ended 31 December 2006

Introduction
The Directors present their report and the audited financial statements for B A T International Finance Plc, ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2006

Board of Directors
The names of the persons who served as Directors of the Company during the period 1 January 2006 to the date of this report are as follows

Paul Ashley Rayner
Kenneth John Hardman
David Cameron Potter
David Andrew Swann
Brian Christopher Barrow
Dante Joao Letti (appointed 3 October 2006)

In accordance with the Articles of Association, Mr D J Letti, having been appointed since the date of the last Annual General Meeting, resigns from the Board at the forthcoming Annual General Meeting, and, together with Messrs Barrow and Swann, who are subject to retirement by rotation, and, each being eligible, offer themselves for reappointment

Business Review for the year to 31 December 2006
The profit for the year amounted to **£131.7 million** (2005 £44 3m) Total equity has reduced by **£20 8 million** (2005 increased by £164 2 million) The Directors do not recommend payment of a dividend for the year (2005 £nil)

The Company is a guarantor and borrower under the BAT Group central banking facility During 2006, this central banking facility at £1 75 billion was extended on existing terms under a one year bank extension option to a term of five years (with a further one year bank extension option remaining)

In September 2006, an entity within the BAT Group novated a £217 million bond maturing in 2008 and a €500 million bond maturing in November 2006 to the Company No bonds were issued by the Company or any of its subisidiaries in 2006 In 2005, the Company issued one bond, maturing in 2012, which raised €750 million

Principal risks and uncertainties
The role of the Group is to raise finance for the British American Tobacco p l c Group ('BAT Group'), managing the financial risks arising from underlying operations and managing BAT Group's cash resources All these activities are carried out under defined policies, procedures and limits The Company acts as the entity hosting the BAT Group European and Asia Pacific Treasury Service Centres It is intended that that Group will continue to undertake business relating to these activities

Given the nature of the Group's activities, the Company's directors consider that key performance indicators based solely on the Group's results are not necessary or appropriate for an understanding of the Group's specific development, performance or position of its business However, key performance indicators relevant to the BAT Group which may be relevant to the Group are disclosed in the Operating and Financial Review in the Annual Review of British American Tobacco p l c and do not form part of this report

The Board of British American Tobacco p l c reviews and agrees the overall treasury policies and procedures, delegating appropriate authority to the Company The British American Tobacco p l c Finance Director is a member of the Board of the Company and any significant departure from agreed policies is subject to prior approval by the Board of British American Tobacco p l c

Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group Such instruments are only transacted if they relate to an underlying exposure, speculative transactions are expressly forbidden under the Group's treasury policy The Group's treasury position is monitored by the BAT Group Treasury Committee, which meets regularly and is chaired by the British American Tobacco p l c Finance Director Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and audits, both internal and external

The Group's treasury operations and management of financial risks are more fully described on pages 19-20 note 11

Post balance sheet events

On 12 June 2007, BNP Paribas announced an offer to purchase for cash a target amount of €750 0m of the outstanding €1,700 0m 4 875 per cent Eurobond due in 2009 issued by the Company The offer is subject to a target acceptance amount of €750 0m subject to the right to amend such amount at any time On the same day, the Company announced its intention to issue one or more series of fixed or floating-rate notes, part consideration for which will take the form of the Eurobond purchased in the offer above This is expected to reduce the Company's refinancing risk by allowing it to take advantage of current favourable market conditions and to lengthen its debt maturity profile The transaction will also impact the ratio of floating to fixed rate gross issued debt

At the time of the approval of the financial statements, the tender process was still open It is therefore not possible to quantify the exact impact this transaction will have

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation Tax will reduce from 30 percent to 28 percent As the change in rates has not been substantively enacted at the balance sheet date, this change in the tax rate is a non-adjusting post balance sheet event The change in the corporation tax rate will not have a material effect on the results or position of the Group

Accounting policies

From 1 January 2005, the Group has prepared its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and implemented in the UK

Directors' indemnities

As at the date of this report, an indemnity is in force under which Mr P A Rayner, as a Director of the Company, is, to the extent permitted by law, indemnified in respect of all costs, charges, expenses or liabilities which he may incur in or about the execution of his duties to the Company or as a result of things done by him as a Director on behalf of the Company

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and the parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period

In preparing those financial statements, the directors are required to

- select appropriate accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

Directors' Report continued

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' declaration in relation to relevant audit information
Having made enquiries of fellow Directors, each of the Directors confirms that

(1) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and

(2) he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of the relevant audit information and to establish that the Company's auditors are aware of that information

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

On behalf of the Board

A C Girling, Assistant Secretary
14 June 2007

Group Income Statement

for the year ended 31 December

	2006	2005
	£m	£m
Interest ıncome (note 3)	**596 8**	521 1
Interest expense (note 4)	**(553.3)**	(502 9)
Net gaıns/(losses) on faır value of derıvatıves and exchange dıfferences (note 5)	**96.7**	36 8
Net finance ıncome	**140 2**	55 0
Other operatıng charges (note 6)	**(1 5)**	(2 3)
Profit before taxatıon	**138.7**	52 7
Tax expense (note 7)	**(7.0)**	(8 4)
Retaıned profit for the year	**131.7**	44 3

All the actıvıtıes durıng both years are ın respect of contınuıng operatıons

Group Statement of Changes in Total Equity

for the year ended 31 December

	2006	2005
	£m	£m
Dıfferences on exchange	**(189 8)**	137 5
Cash flow hedges		
- net faır value losses	**(11.8)**	(6 2)
- reclassıfied and reported ın net profit	**11.3**	(0 3)
Net ınvestment hedges		
- net faır value gaıns/(losses)	**37.8**	(11 1)
Net (losses)/gaıns recognısed dırectly ın equıty	**(152.5)**	119 9
Profit for the year	**131.7**	44 3
Total recognısed (losses)/ıncome for the year	**(20.8)**	164 2
Balance 1 January (note 14)	**264.3**	133 3
Change ın accountıng polıcy	**-**	(33 2)
Balance 31 December (note 14)	**243.5**	264 3

The accountıng polıcy change ın 2005 reflected the applıcatıon of IAS32 and IAS39 on financıal ınstruments from 1 January 2005 The £33 2m charge reflected the recognıtıon of derıvatıve financıal ınstruments and derecognıtıon of deferred losses on derıvatıves

Notes are shown on pages 8 to 28

Group Balance Sheet

31 December

	2006 £m	2005 £m
Assets		
Cash and cash equivalents (note 8)	**326 0**	505 2
Amounts due on demand from fellow subsidiaries (note 9)	**652 2**	812 5
Derivative financial instruments (note 10)	**238.1**	198 6
Other receivables (note 12)	**2 7**	3 0
Loans to parent (note 13a)	**2,056.9**	2,055 7
Loans to fellow subsidiaries (note 13b)	**8,656.0**	8,007 1
Total assets	**11,931 9**	11,582 1
Shareholders' equity		
Share capital (note 14)	**1 0**	1 0
Hedging reserve (note 14)	**(7 0)**	(6 5)
Translation reserve (note 14)	**(97.7)**	54 3
Retained earnings (note 14)	**347.2**	215 5
Total shareholders' equity	**243.5**	264 3
Liabilities		
Bank overdrafts (note 15)	**77.8**	28 7
Amounts payable on demand to parent (note 16a)	**547 9**	393 3
Amounts payable on demand to fellow subsidiaries (note 16b)	**4,869 4**	4,814 4
Derivative financial instruments (note 10)	**128.9**	212 6
Other payables (note 17)	**3 7**	1 5
Borrowings from fellow subsidiaries (note 18)	**2,632 0**	2,522 4
Issued debt (note 15)	**3,428 7**	3,344 9
Total liabilities	**11,688 4**	11,317 8
Total funds employed	**11,931.9**	11,582 1

On behalf of the Board

D J Letti
14 June 2007

Notes are shown on pages 8 to 28

Group Cash Flow Statement

for the year ended 31 December

	2006 £m	2005 £m
Cash flows from operating activities		
Interest receipts	**245.7**	157 6
Interest payments	**(231.9)**	(245 3)
Cash payments to suppliers	**(0 1)**	(1 8)
	13.7	(89 5)
Increase / (decrease) in operating assets and liabilities		
Short term funds advanced to fellow subsidiaries and parent	**392 9**	245 8
Proceeds from issued debt	-	497 2
Proceeds from novated debt	**555.3**	-
Repayment of issued debt	**(336 8)**	(235 5)
Novation of issued debt	-	(1,021 1)
Movements relating to derivative financial instruments	**177.2**	(15 4)
Net cash (out)/inflow on loans to fellow subsidiaries	**(1,361.9)**	41 7
Net cash inflow on borrowings from fellow subsidiaries	**325.0**	688 3
Net cash (out)/inflow from operating activities	**(234.6)**	111 5
Effects of exchange rate changes on cash and cash equivalents	**6.4**	13 2
Net (decrease)/increase in cash and cash equivalents	**(228.2)**	124 7
Net cash and cash equivalents at beginning of period	**476.3**	351 6
Net cash and cash equivalents at end of period (note 8)	**248 1**	476 3

Notes are shown on pages 8 to 28

Group Notes on the Accounts

1. Accounting policies

Basis of Accounting
The Group accounts have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS

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

The preparation of the Group accounts requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements The key estimates and assumptions relate to calculation of assets and liabilities using exchange rates and market expectations of future interest rates as at the balance sheet date These are set out in the accounting policies below, together with the related notes to the accounts

Basis of consolidation
The consolidated financial information includes the accounts of B A T International Finance p l c and its subsidiary undertakings

A subsidiary is an entity controlled by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities

Intercompany balances and transactions, and any unrealised gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements

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

The differences between retained profits of foreign currency subsidiary undertakings translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of foreign currency net assets at the beginning of the year

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end rates of exchange are recognised in the income statement, except when deferred as qualifying cash flow hedges in the hedging reserve and as qualifying net investment hedges and on intercompany quasi-equity loans in the translation reserve

1. **Accounting policies** continued

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

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

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

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

Non-derivative financial assets are classified as either loans and receivables or cash and cash equivalents They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts For interest-bearing assets, their carrying value includes accrued interest receivable

Cash and cash equivalents include cash in hand and deposits held on call, together with other short term highly liquid investments Cash equivalents normally comprise instruments with maturities of three months or less at date of acquisition In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are shown as a separate category in liabilities on the balance sheet

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

Derivative financial assets and liabilities are stated 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 equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement The accumulated gains and losses are recognised in the income statement to match those of the underlying transaction

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

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

- 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

1. **Accounting policies** continued

Financial instruments continued

Hedge accounting is discontinued when a hedging instrument is derecognised (for example 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 removed from equity 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 equity, are immediately recognised in the income statement

The Group applied the financial instruments' standards IAS32 and IAS39 from 1 January 2005

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

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

Dividends
Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are declared and paid

Future changes to Group accounting policies
Certain changes to IFRS will be applicable for the Group accounts in future years To the extent that the Group has not adopted these early in the accounts to 31 December 2006, they will not affect the Group reported profit or equity but they will affect disclosures

The requirements which have been endorsed by the EU, are effective from 1 January 2007 and are considered to affect the Group relate to disclosures under IFRS7 Financial Instruments disclosures and amendment to IAS 1 - Capital disclosures In addition, IFRS8 Operating Segments will be effective from 1 January 2009 if, as expected, it is endorsed by the EU However, once endorsed, it would be possible to adopt IFRS8 before 2009

2. **Segmental reporting**

	Total		Europe		Americas		Asia Pacific	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
			£m	£m	**£m**	£m	**£m**	£m
Interest income	**596.8**	521 1	**516.9**	464 2	**54.0**	39 4	**25.9**	17 5
Interest expense	**(553.3)**	(502 9)	**(533.2)**	(494 6)	**(16.7)**	(2 2)	**(3 4)**	(6 1)
Other operating charges	**(1.5)**	(2 3)	**(1.4)**	(2 2)	**-**	-	**(0 1)**	(0 1)
Net fair value gains / (losses) on derivatives and foreign currency gains / (losses) on exchange	**96.7**	36 8	**200.2**	(94 9)	**(104.6)**	135 5	**1.1**	(3 8)
Profit / (loss) before taxation	**138.7**	52 7	**182 5**	(127 5)	**(67.3)**	172 7	**23.5**	7 5
Taxation	**(7.0)**	(8 4)	**(0.3)**	(0 3)	**(5.6)**	(6 9)	**(1.1)**	(1 2)
Retained profit for the year	**131.7**	44 3	**182.2**	(127 8)	**(72.9)**	165 8	**22.4**	6 3
Assets								
Segment assets	**11,931 9**	11,582 1	**10,123 8**	10,557 9	**1,165.2**	726 1	**642 9**	298 1
Liabilities								
Segment liabilities	**11,688.4**	11,317 8	**11,388.7**	11,056 0	**250.2**	201 5	**49.5**	60 3

The segmental analysis is based on the location of the counterparty

3. **Interest income**

	2006	2005
	£m	£m
Interest income		
From the parent undertaking	**121 3**	80 4
From fellow subsidiaries	**440.4**	407 6
Cash and cash equivalents	**35 1**	33 1
	596.8	521 1

4. **Interest expense**

	2006	2005
	£m	£m
Interest expense		
Bank overdrafts	**13.1**	2 1
Issued debt	**173 5**	179 6
	186 6	181 7
To the parent undertaking	**7.5**	10 5
To fellow subsidiaries	**359.2**	310 7
	553 3	502 9

Group Notes on the Accounts

5 Net gaıns/(losses) on faır value of derıvatıves and exchange dıfferences

	2006 £m	2005 £m
Faır value changes on derıvatıves comprıse		
Cash flow hedges transferred from equıty	**(11.3)**	0 3
Faır value changes on hedged ıtems	**95 7**	(17 6)
Faır value hedges	**(43 7)**	4 7
Instruments not desıgnated as hedges	**319 2**	(234 7)
Net faır value gaıns/(losses) on derıvatıves	**359 9**	(247 3)
Net foreıgn currency (losses)/gaıns on exchange	**(263.2)**	284 1
	96.7	36 8

The £59 9m movement to a gaın of £96 7m for net gaıns on faır value of derıvatıves and exchange dıfferences ıs prıncıpally due to

(a) A gaın of £72 0m (2005 loss of £38m) relatıng to foreıgn exchange forwards taken out as part of BAT Group's treasury management

(b) A loss of £20 0m (2005 gaın of £0 4m) relatıng to faır value changes on cross currency and ınterest rate swaps not desıgnated as hedges under IAS 39

(c) A loss of £4 0m (2005 gaın of £12 6m) relatıng to faır value changes on borrowıngs related derıvatıves provıded to other entıtıes wıthın the BAT Group

(d) £7 5m of gaıns ın 2005 relatıng to derıvatıves for whıch hedge accountıng was obtaıned durıng 2005

(e) A loss of £2m (2005 £nıl) relatıng to the net dıfference between the faır value changes to derıvatıves desıgnated as faır value hedges and the faır value changes to the hedged ıtems

(f) A gaın of £16m (2005 £18 4m) relatıng to the net ımpact of dıfferences on exchange

Most foreıgn currency assets and lıabılıtıes are maıntaıned ın US dollars and euros, whıch at 31 December 2006 have been translated to sterlıng at **US dollar 1.95715** and **Euro 1 4842** (2005 US$1 7168 and €1 4554)

6 Other operatıng charges and employee ınformatıon

	2006 £m	2005 £m
Other operatıng charges	**1.5**	2 3

Other operatıng charges ınclude remuneratıon receıvable of £20,000 (2005 £20,000) by the Company's audıtors for the audıtıng of the annual accounts No remuneratıon was receıved for the supply of other servıces to the Company by the Company's audıtors

The Group utılıses the servıces of a number of employees whose contracts of servıce are wıth a fellow subsıdıary and theır remuneratıon ıs ıncluded ın that company's financıal statements The fellow subsıdıary levıes a management charge ıncluded ın 'other operatıng charges' above The cost of these employees ıs ıncluded ın the management charge, but ıt ıs not possıble to ascertaın separately the element of the charge relatıng to staff costs, or the average number of employees

7. Tax expense

a) Summary of tax

	2006 £m	2005 £m
UK Corporation tax		
Comprising		
- current tax at 30%	7.0	2 0
- double tax relief	(7.0)	(2 0)
Overseas tax comprising		
- tax on current income	7 0	8 4
Total current tax expense (*note 7b)*	7 0	8 4
Deferred tax	-	-
	7.0	8 4

b) Factors affecting the tax charge

The taxation charge differs from the standard 30% rate of Corporation Tax in the UK The major causes of this difference are listed below

	2006 £m	2005 £m
Profit before taxation	138.7	52 7
UK Corporation Tax at **30%** (2005 30 0%)	41.6	15 8
Factors affecting the tax rate:		
Permanent differences	(2 3)	(1 9)
Timing differences	(1.0)	-
Losses not previously recognised	(4.9)	-
Overseas taxation	7 0	8 4
Double tax relief	(7 0)	(2 0)
BAT Group loss relief claimed for no consideration	(26.4)	(11 9)
Total current tax expense (*note 7a)*	7 0	8 4

At the balance sheet date the Group has unrecognised deferred tax assets in respect of deductable temporary differences of **£9 0m** (2005 £10 0m) There is no expiry date for these unrecognised deferred tax assets

8 Cash and cash equivalents

	31 December 2006 £m	31 December 2005 £m
Cash and bank balances	24.0	0 4
Cash equivalents	302 0	504 8
	326 0	505 2

All cash equivalents comprise deposits with an original maturity of three months or less The carrying value of cash and cash equivalents approximates to their fair value

Cash and cash equivalents are denominated in the following currencies

	31 December 2006 £m	31 December 2005 £m
Functional currency (UK sterling)	143 3	204 4
US dollar	33 2	203 5
Euro	147.3	96 9
Swiss franc	0.4	-
Other	1.8	0 4
	326.0	505 2

8 Cash and cash equivalents continued

Cash and bank balances are non-interest bearing Effective interest rates applicable to cash equivalents are as follows

	31 December 2006 £m	31 December 2005 £m	**31 December 2006 %**	31 December 2005 %
Functional currency (UK sterling)	**139.5**	204 4	**5 2**	4 6
US dollar	**31.4**	203 5	**5.3**	4 3
Euro	**131.1**	96 9	**3 6**	2 3
	302.0	504 8	**4 5**	4 0

In the Group Cash Flow Statement, net cash and cash equivalents are shown after deducting bank overdrafts, as follows

	31 December 2006 £m	31 December 2005 £m
Cash and cash equivalents *as above*	**326.0**	505 2
Less bank overdrafts	**(77 8)**	(28 7)
Less accrued interest	**(0.1)**	(0 2)
Net cash and cash equivalents	**248.1**	476 3

9. Amounts due on demand from fellow subsidiaries

The currency split of amounts due on demand from fellow subsidiaries is **£583.8m** in sterling (2005 £670 4m), **£60.5m** in euros (2005 £142 1m) and **£7 9m** in US dollars (2005 £nil) The effective interest rate is **5.4%** for sterling balances (2005 4 8%), **3.9%** for euro balances (2005 2 3%) and **5.4%** for US dollar balances (2005 £nil)

Amounts due on demand from fellow subsidiaires include **£0.1m** (2005 £nil) of interest receivable There is no material difference between the book value and fair value of amounts due on demand by fellow subsidiaries

10 Derivative financial instruments

	31 December 2006		31 December 2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Fair value hedges				
Interest rate swaps	**25.3**	**19.0**	79 4	-
Cross-currency swaps	**24.0**	**0.6**	6 6	8 9
Cash flow hedges				
Cross-currency swaps	**-**	**0 3**	7 2	-
Net investment hedges				
Cross-currency swaps	**53.2**	**-**	15 9	-
Trading				
Interest rate swaps	**-**	**-**	1 5	2 2
Cross-currency swaps	**54 8**	**33 5**	52 6	42 5
Forward foreign currency contracts	**66 0**	**67 9**	28 0	150 0
Others	**14.8**	**7 6**	7 4	9 0
	238 1	**128 9**	198 6	212 6

All balances above relate to derivatives with external parties other than those disclosed in note 20

Some derivative financial instruments are not designated as hedges and have been classified as trading derivatives

10. **Derivative financial instruments** continued

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 have been based on the quoted market price of similar derivatives

For all cash flow hedges, the timing of expected cash flows is as follows

	31 December 2006 £m	31 December 2005 £m
Within one year	**(4.1)**	7.2
Between one and two years	**(3 7)**	-
Between two and three years	**7.5**	-
	(0.3)	7.2

The maturity dates of all derivative financial instruments are as follows

	31 December 2006		31 December 2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
within 1 year	**79.9**	**27 0**	45 7	87 0
between 1 and 2 years	**51.0**	**30 5**	-	-
between 2 and 3 years	**67 0**	**0.6**	43 9	41 0
between 3 and 4 years	**0 3**	**40 9**	60 7	-
between 4 and 5 years	**3.3**	**-**	-	66 7
beyond 5 years	**36 6**	**29.9**	48 3	17 9
	238 1	**128.9**	198 6	212 6

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

	31 December 2006		31 December 2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps	**25.3**	**19 0**	80 9	2 2
Cross-currency swaps	**132.0**	**34.4**	82 3	51 4
Forward foreign currency contracts	**66 0**	**67 9**	28 0	150 0
Other	**14.8**	**7 6**	7 4	9 0
	238.1	**128.9**	198 6	212 6

(a) Interest rate swaps

	Maturity date		**Principal Currency m**	**Principal £m**	**Interest rate Original**	**Interest rate Swapped**	**31 December 2006 Assets £m**	**31 December 2006 Liabilities £m**
Fixed - floating								
1	2009	EUR	550 0	370 6	4 9	*Note (a)*	**10.1**	
2	2009	EUR	250 0	168 4	4 1	*Note (a)*	**3 8**	
3	2013	EUR	400 0	269 5	5 1	*Note (a)*	**6 7**	
4	2013	GBP	350 0	350 0	5 8	*Note (a)*		**19 0**
5	2019	GBP	250 0	250 0	6 4	*Note (a)*	**4 7**	
							25.3	**19 0**

The Group has no floating to fixed interest rate swaps at 31 December 2006

10. Derivative financial instruments continued

(a) Interest rate swaps continued

	Maturity date		Principal Currency m	£m	Interest rate Original	Swapped	31 December 2005 Assets £m	Liabilities £m
Fixed - floating								
1	2006	CAD	350 0	174 5	4 6	*Note (a)*	1 3	
2	2006	CHF	50 0	22 1	4 8	*Note (a)*	0 2	
3	2009	EUR	550 0	377 9	4 9	*Note (a)*	23 1	
4	2009	EUR	250 0	171 8	4 1	*Note (a)*	9 9	
5	2013	EUR	400 0	274 8	5 1	*Note (a)*	22 7	
6	2013	GBP	350 0	350 0	5 8	*Note (a)*	0 3	
7	2019	GBP	250 0	250 0	6 4	*Note (a)*	23 4	
Floating – fixed								
8	2006	CAD	350 0	174 5	*Note (a)*	4 6		1 2
9	2006	CHF	50 0	22 1	*Note (a)*	4 8		1 0
							80 9	2 2

Note (a) The floating rate interest rates are based on LIBOR or EURIBOR plus a margin ranging between nil and 137 basis points

The CAD and CHF fixed to floating swaps (numbers 1 and 2 at 31 December 2005), together with the matching CAD and CHF floating to fixed swaps (numbers 8 and 9 at 31 December 2005), were entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 page 25

The remaining fixed to floating swaps have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 page 25

(b) Cross-currency swaps

	Maturity date	Interest rate	Principal Original Currency m	£m	Interest rate	Principal Swapped Currency m	£m	31 December 2006 Assets £m	Liabilities £m
Fixed - fixed									
1	2008	7 1	AUD 200	403 2	4 1	SGD 239 8	79 9	0 9	
2	2008	6 9	AUD 800	607 1	4 5	SGD 943 5	314 2	3 3	
3	2009	4 9	EUR 500 0	336 9	6 5	USD 564 1	288 2	53 0	0 3
Fixed - floating									
4	2008	6 5	GBP 217 0	217 0	*Note (b)*	AUD 607 1	244 8		30 2
5	2009	4 9	EUR 150 0	101 1	*Note (b)*	GBP 103 6	103 6		0 6
6	2012	3 6	EUR 750 0	505 3	*Note (b)*	USD 906 9	463 4	21 7	
7	2016	5 5	GBP 325 0	325 0	*Note (b)*	EUR 473 4	319 0		3 3
8	2019	4 6	EUR 20 0	13 5	*Note (b)*	USD 21 9	11 2	2 2	
Floating - fixed									
9	2008	*Note (b)*	EUR 302 5	203 8	6 9	USD 330 0	168 6	27 5	
10	2008	*Note (b)*	AUD 607 1	244 8	6 8	CAD 483 9	212 5	22 1	
11	2016	*Note (b)*	EUR 473 4	319 0	5 5	GBP 325 0	325 0	1 3	
								132 0	34 4

10 Derivative financial instruments continued

(b) Cross-currency swaps continued

	Maturity date	Interest rate	Principal Original Currency m	£m	Interest rate	Principal Swapped Currency m	£m	31 December 2005 Assets £m	Liabilities £m
Fixed - fixed									
1	2006	5 4	DEM 250 0	87 8	6 7	USD 137 0	79 8	8 1	
2	2008	6 4	CAD 483 9	241 3	6 5	GBP 217 0	217	37 2	
3	2009	4 9	EUR 500 0	343 5	6 5	USD 564 1	328 8	23 1	
Fixed - floating									
4	2005	5 5	DEM 500 0	343 5	*Note (b)*	CHF 419 0	348 6		1 5
5	2006	5 1	EUR 500 0	103 1	*Note (b)*	CAD 699 0	103 6	4 6	
6	2009	4 9	EUR 150 0	515 2	*Note (b)*	GBP 103 6	528 2		8 9
7	2019	4 6	EUR 20 0	13 7	*Note (b)*	USD 21 9	12 7	2 0	
8	2008	6 5	GBP 217 0	217 0	*Note (b)*	AUD 607 1	259 4		41 0
Floating – fixed									
9	2006	*Note (b)*	CAD 699 0	348 6	5 1	EUR 500 0	343 5	1 0	
10	2008	*Note (b)*	EUR 302 5	207 8	6 9	USD 330 0	192 2	2 6	
11	2008	*Note (b)*	AUD 607 1	259 4	6 8	CAD 483 9	241 3	3 7	
								82 3	51 4

Note (b) The floating rate interest rates are based on LIBOR or EURIBOR plus a margin ranging between nil and 173 basis points

Swaps 4, 5, 6, 8 and 10 (2005 5, 6 and 7) have been used to manage the interest rate profile of external borrowings and are reflected in the repricing table in note 15 page 25

All other swaps have been entered into in order to manage the interest rate risk of debt held by fellow subsidiaries, and are therefore not reflected in the repricing table in note 15 page 25

Swap 2 at 31 December 2005 was cancelled in 2006 as part of the novation of a GBP 217m bond maturing in 2008 from another entity within the BAT Group

(c) Forward foreign currency contracts:

Forward foreign currency contracts are denominated in the following currencies

Fair value of assets

		31 December 2006 Currencies purchased forward						
		AUD £m	**CHF £m**	**CZK £m**	**EUR £m**	**GBP £m**	**USD £m**	**Total £m**
Currencies sold forward	AUD					0 5	0 7	1 2
	CAD					14 7	0 3	15 0
	CHF				0 1	5 2	0 1	5 4
	EUR					19 2	2 0	21 2
	GBP	0 4	1 0	0 1	0 2			1 7
	HKD					0 1		0 1
	HUF				0 4		0 2	0 6
	KRW				0 2			0 2
	NZD	1 8						1 8
	USD				0 1	17 9		18 0
	ZAR					0 8		0 8
		2 2	1 0	0 1	1 0	58 4	3 3	66 0

10. Derivative financial instruments continued

(c) Forward foreign currency contracts continued

Fair value of assets continued

Currencies sold forward	31 December 2005 Currencies purchased forward AUD £m	CHF £m	EUR £m	GBP £m	USD £m	Total £m
CAD					0 4	0 4
EUR				7 8		7 8
GBP		1 2	0 9		0 9	3 0
USD	0 2	1 2	5 5	7 2		14 1
ZAR				2 7		2 7
	0 2	2 4	6 4	17 7	1 3	28 0

Fair value of liabilities

Currencies sold forward	**31 December 2006** **Currencies purchased forward** **AUD** **£m**	**CAD** **£m**	**CHF** **£m**	**EUR** **£m**	**GBP** **£m**	**USD** **£m**	**Total** **£m**
AUD					3 2	0 8	4 0
CAD						0 3	0 3
CHF				0 2			0 2
CZK					0 2		0 2
EUR		40 5			0 8	2 2	43 5
GBP		5 9	2 8				8 7
HKD					0 3		0 3
HUF				0 4	0 8	0 2	1 4
NZD	1 6						1 6
SGD					0 3		0 3
USD					4 5		4 5
ZAR					2 9		2 9
	1 6	46 4	2 8	0 6	13 0	3 5	67 9

Currencies sold forward	31 December 2005 Currencies purchased forward AUD £m	CAD £m	CHF £m	EUR £m	HKD £m	HUF £m	NZD £m	SGD £m	USD £m	ZAR £m	Total £m
AUD							7 4		0 3		7 7
CHF									0 5		0 5
EUR		66 7							13 9		80 6
GBP	7 0	7 0	1 0	4 0	6 9	2 0	1 0	1 0	21 1	9 1	60 1
NZD	0 1										0 1
USD		1 0									1 0
	7 1	74 7	1 0	4 0	6 9	2 0	8 4	1 0	35 8	9 1	150 0

10. Derivative financial instruments continued

(c) Forward foreign currency contracts continued

Forward foreign currency contracts have been used to hedge both internal and external forecast transactions as well as the hedging of internal and external assets and liabilities Certain contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 15 page 24, and their nominal values are as follows

	31 December 2006		31 December 2005	
	Sell £m	**Buy £m**	Sell £m	Buy £m
Forward contracts to purchase GBP, sell CHF	**73.3**	**(74.4)**	77 5	(77 3)
Forward contracts to purchase GBP, sell AUD	**529 5**	**(525.8)**	-	-
Forward contracts to purchase GBP, sell CAD	**306 9**	**(308.8)**	-	-

(d) Others:

	31 December 2006		31 December 2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Bund forwards (note i)	**14 5**		7 1	
Interest derivative (note ii)		**7.6**		9 0
Coupon swap (note iii)	**0.3**		0 3	
	14 8	**7.6**	7 4	9 0

Notes

i) Forward contracts to purchase and sell German government securities with a nominal value of EUR 1 86 billion maturing in 2007 (2005 1 87 billion maturing in 2006), taken out to manage BAT Group financing arrangements

ii) Remaining impact of an interest derivative with a nominal value of €1 billion maturing in 2013

iii) Coupon swap receiving 0 4% annually on a nominal value of CAD 483 9m and paying 0 4% quarterly on a nominal value of AUD 607 1m, maturing in 2008

11. Management of financial risks

One of the principal responsibilities of the Group is to manage the financial risk arising from its underlying operations Specifically, the Group manages, within an overall policy framework, its exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks Derivative contracts are only entered into to facilitate the management of these risks

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 providers Furthermore, it is the policy that short term sources of funds (including drawings under US dollar and euro commercial paper programmes) are backed by undrawn committed lines of credit and cash

During 2006, the BAT Group's central banking facility of £1 75 billion of which the Company is a guarantor and borrower was extended on existing terms under a one year bank extension option (with a further one year bank extension option remaining)

Loans to fellow subsidiaries, subsidiary companies and the parent are made on commercial terms All contractual borrowing covenants have been met and none of them are expected to inhibit the Group's operations or funding plans

11 Management of financial risks continued

Currency risk

The Group's primary balance sheet translation exposures are to the US dollar, Canadian dollar, Australian dollar and euro These exposures are kept under continuous review and the Group's policy is to minimise all balance sheet translation exposure where it is practicable and cost effective to do so The exposures are managed by matching currency assets with currency borrowings At 31 December 2006, the currency profile of the Group's gross issued debt, after taking into account derivative contracts, was **23** (2005 26) per cent US dollar, **42** (2005 45) per cent euro, **1** (2005 27) per cent sterling, **16** (2005 nil) per cent Canadian dollar, **16** (2005 nil) per cent Australian dollar and **2** (2005 2) per cent other currencies

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

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 and to safeguard against any possible breach of its financial covenants Additional objectives are to minimise the cost of hedging and the associated counterparty risk

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt The desired ratio of fixed to variable rate debt is determined as a result of regular reviews of market conditions and strategy by Treasury and the board of the Company At 31 December 2006, the ratio of floating to fixed rate gross issued debt was **60:40** (2005 62 38) Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps, to vary the fixed and floating mix The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure

Credit Risk

Cash deposits and other financial instruments give rise to credit risk on the amounts due from bank counterparties 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 counterparties are reviewed regularly

Hedge Accounting

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

Fair value estimation

Derivative financial instruments
The fair value 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 have been based on the quoted market price of similar derivatives

Other financial instruments
The fair values of financial assets and liabilities with maturities of less than one year are assumed to approximate to their book values For financial assets and liabilities with maturities of more than one year, fair values are based on quoted market prices, market prices of comparable instruments at the balance sheet date or discounted cash flow analysis

12 Other receivables

	31 December 2006 £m	31 December 2005 £m
Prepayments and accrued income		
Due from fellow subsidiaries	1.6	1 5
Other	1 1	1 5
	2 7	3 0

Other receivables as at 31 December 2006 and 31 December 2005 are in sterling, and are non-interest bearing

Within Other prepayments and accrued income are amounts due in more than 1 year of **£0.9m** (2005 £1 2m)

There is no material difference between the book values for other receivables and their fair values

13a) Loans to parent

Loans to parent are due within one year and the effective interest rate is **6.2%** (2005 5 5%)

Loans to parent includes **£10.8m** of interest receivable at 31 December 2006 (2005 £9 6m) The fair value of loans to parent is **£2,062.5m** (2005 £2,075 1m)

13b) Loans to fellow subsidiaries

	31 December 2006 £m	31 December 2005 £m
Loans to fellow subsidiaries	8,656.0	8,007 1

Loans to fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates

	31 December 2006 £m	31 December 2005 £m	31 December 2006 %	31 December 2005 %
Functional currency (UK sterling)	2,059.5	1,907 3	6.1	5 3
US dollar	2,376 1	2,631 0	6.5	5 6
Euro	2,377 8	2,513 0	4.7	2 7
Canadian dollar	1,030.4	531 7	5.8	5 7
New Zealand dollar	124.3	161 6	9.1	7 8
Hong Kong dollar	146 5	150 8	4.9	4 9
Singapore dollar	444 6	52 5	4.4	4 0
Hungarian forint	51.2	51 9	9 4	7 6
Swiss franc	23.4	-	2 9	-
Other	22.2	7 3	6 3	4 6
	8,656.0	8,007 1	5 7	4 6

There is no material difference between the above amounts for loans to fellow subsidiaries and their fair values

13b). Loans to fellow subsidiaries continued

Loans to fellow subsidiaries are due as follows

	31 December 2006 £m	31 December 2005 £m
beyond 5 years	-	-
between 4 and 5 years	**2,222.6**	962 9
between 3 and 4 years	**605.3**	165 8
between 2 and 3 years	**327.8**	391 1
between 1 and 2 years	**632.8**	3,119 7
within 1 year	**4,867.5**	3,367 6
Total	**8,656.0**	8,007 1

The exposure to interest rate changes when loans reprice is as follows

	Total	Within 1 year	Between 1 and 2 years	Between 3 and 4 years	Between 4 and 5 years
As at 31 December 2006	**£m**	**£m**	**£m**	**£m**	**£m**
	8,656.0	**7,150 0**	**170.3**	**453.8**	**881 9**
As at 31 December 2005	£m	£m	£m	£m	£m
	8,007 1	7,140 1	358 8	-	508 2

Interest rate risk on loans to fellow subsidiaries is not hedged by the Group

Loans to fellow subsidiaries include **£83 1m** of interest receivable (2005 £102 6m)

Loans totalling **€1.9 billion** (2005 €1 9 billion) to a fellow subsidiary will be settled by delivery of German government securities Forward sale contracts are in place to hedge the value of these securities

14. Total shareholders' equity

	Share capital £m	**Hedging reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Total equity £m**
1 January 2006	**1.0**	**(6 5)**	**54.3**	**215.5**	**264.3**
Differences on exchange	-	-	(189 8)	-	(189 8)
Cash flow hedges					
net fair value losses	-	(11 8)	-	-	(11 8)
reclassified and reported in net profit	-	11 3	-	-	11 3
Net investment hedges					
net fair value losses	-	-	37 8	-	37 8
Profit for the year	-	-	-	131 7	131 7
31 December 2006	**1 0**	**(7.0)**	**(97.7)**	**347 2**	**243.5**

14 Total shareholders' equity continued

	Share capital £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
1 January 2005	1 0	-	(72 6)	204 9	133 3
Change in accounting policy	-	-	0 5	(33 7)	(33 2)
	1 0	-	(72 1)	171 2	100 1
Differences on exchange	-	-	137 5	-	137 5
Cash flow hedges					
net fair value losses	-	(6 2)	-	-	(6 2)
reclassified and reported in net profit	-	(0 3)	-	-	(0 3)
Net investment hedges					
net fair value losses	-	-	(11 1)	-	(11 1)
Profit for the year	-	-	-	44 3	44 3
31 December 2005	1 0	(6 5)	54 3	215 5	264 3

Details relating to the authorised and allotted share capital, and movements therein, is included on page 36, note 9 to the parent company financial statements

The translation reserve is as explained in the accounting policy on foreign currencies on page 8

The hedging reserve is as explained in the accounting policy on financial instruments on pages 9-10

The change in accounting policy in 2005 reflects the application of IAS 32 and IAS 39 from 1 January 2005

15. Borrowings - bank overdrafts and issued debt

	currency	maturity dates	interest rates	**31 December 2006 £m**	31 December 2005 £m
Issued debt					
Eurobonds	Euro	2006-2019	3 6 to 5 6%	**2,373.9**	2,476 4
	UK sterling	2006-2019	5 8 to 6 5%	**1,051.0**	868 5
				3,424.9	3,344 9
Premium on novated bonds				**3.8**	-
				3,428.7	3,344 9
Bank overdrafts				**77.8**	28 7
				3,506.5	3,373 6

In September 2006, a £217m bond was novated to the Company by another entity within the BAT Group at its market value of £221 4m The market premium of £4 4m is being amortised over the remaining period to maturity of the £217m bond in November 2008 The amortised cost of the premium is £3 8m at 31 December 2006

Bank overdrafts are all repayable within 1 year, and were denominated as follows **100** (2005 64) per cent US dollar, **nil** (2005 25) per cent euro, **nil** (2005 9) per cent sterling and **nil** (2005 2) per cent other currencies There is no material difference between the book values for bank overdrafts and their fair values

15. Borrowings - bank overdrafts and issued debt continued

Issued debt is repayable as follows

	31 December 2006 £m	31 December 2005 £m
beyond 5 years	1,988.2	2,085 9
between 4 and 5 years	-	-
between 3 and 4 years	-	1,181 1
between 2 and 3 years	1,141 4	-
between 1 and 2 years	220.8	-
within 1 year	78 3	77 9
Total	3,428.7	3,344 9

Issued debt is denominated in the following currencies

	Total £m	Functional Currency £m	US Dollar £m	Euro £m	Swiss Franc £m	Australian Dollar £m	Canadian Dollar £m
As at 31 December 2006							
Total issued debt	3,428 7	1,054 8	-	2,373 9	-	-	-
Effect of derivative financial instruments							
Cross-currency swaps	(94 9)	(113 4)	762 8	(956 8)	-	-	212 5
Forward foreign exchange contracts	0 7	(909 0)	-	-	73 3	529 5	306 9
	3,334 5	32 4	762 8	1,417 1	73 3	529 5	519 4
As at 31 December 2005							
Total issued debt	3,344 9	868 5	-	2,476 4	-	-	-
Effect of derivative financial instruments							
Cross-currency swaps	(2 0)	103 6	869 7	(975 3)	-	-	-
Forward foreign exchange contracts	(0 2)	(77 5)	-	-	77 3	-	-
	3,342 7	894 6	869 7	1,501 1	77 3	-	-

Details of the derivative financial instruments included in these tables is given in note 10 pages 14-19

15 Borrowings - bank overdrafts and issued debt continued

The exposure to interest rate changes when borrowings reprice is as follows

	Total	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Beyond 5 years
At 31 December 2006	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total issued debt	3,428 7	78 3	220 8	1,141 4	-	-	1,988 2
Effect of derivative financial instruments							
Interest rate swaps	-	1,408 5	-	(539 0)			(869 5)
Cross-currency swaps	(46 2)	578 2	(4 5)	(101 1)	-	-	(518 8)
	3,382 5	2,065 0	216 3	501 3	-	-	599 9
At 31 December 2005	£m	£m	£m	£m	£m	£m	£m
Total issued debt	3,344 9	77 9	-	-	1,181 1	-	2,085 9
Effect of derivative financial instruments							
Interest rate swaps	-	1,424 5	-	-	(549 7)	-	(874 8)
Cross-currency swaps	12 6	644 5	-	-	(103 0)	-	(528 9)
	3,357 5	2,146 9	-	-	528 4	-	682 2

Details of the derivative financial instruments included in these tables is given in note 10 pages 14-19

British American Tobacco p l c has provided guarantees for all of the Company's public indebtedness As at 31 December 2006 the amount of these guarantees was **£3,405.0 million** (2005 £3,330 2 million)

Issued debt includes interest payable of **£78.2m** at 31 December 2006 (2005 £77 9m) In addition, the carrying value of issued debt which is subject to fair value hedges has been reduced by **£37.7m** at 31 December 2006 (2005 increased by £58 0m)

The fair value of issued debt is estimated to be **£3,520 3 million** (2005 £3,469 0 million) and has been determined using quoted market prices or the market prices of comparable instruments at the balance sheet date

Effective interest rates of issued debt and bank overdrafts are as follows

	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
	£m	£m	**%**	%
Functional currency (UK sterling)	**1,054.8**	871 1	**6 2**	6 1
US dollar	**77 6**	18 4	**5 7**	4 3
Euro	**2,373.9**	2,483 6	**4.5**	4 2
Other	**0 2**	0 5	**6 8**	1 5
	3,506 5	3,373 6	**5 1**	4 7

The values and rates above do not reflect the effect of interest rate and cross-currency swaps detailed in note 10 pages 14-19

As explained in the Directors' Report on page 2, the Company is a guarantor and borrower under the BAT Group central banking facility In 2005, this facility was renewed for an amount of £1 75 billion for a term of five years In 2006, the facility was extended on existing terms under a one year bank extension option (with a further one year bank extension option remaining)

16a) Amounts payable on demand to parent

Amounts payable on demand to parent are denominated in sterling, and have an effective interest rate of **5 0%** (2005 4 8%) There is no accrued interest payable in the current or prior year

There is no material difference between the book value and fair value of amounts payable on demand to parent

16b) Amounts payable on demand to fellow subsidiaries

	31 December 2006 £m	31 December 2005 £m
Amounts payable on demand to fellow subsidiaries	**4,869.4**	4,814 4

The currency split of amounts payable on demand to fellow subsidiaries is **£4,192 6m** in sterling, **£8 8m** in Swiss francs, **£2 9m** in US dollars and **£665.1m** in euros (2005 £4,288 3m in sterling and £526 1m euros) The effective interest rate is **5.0%** for sterling balances, **1.9%** for Swiss franc balances, **5.1%** for US dollar balances and **3 6%** for euro balances (2005 sterling 4 8% and euro 2 6%)

Amounts payable on demand to fellow subsidiaries include **£1.8m** of interest payable at 31 December 2006 (2005 £0 6m)

There is no material difference between the book value and fair value of amounts on demand to fellow subsidiaries

17. Other payables

	31 December 2006 £m	31 December 2005 £m
Accrued charges and deferred income		
Due to fellow subsidiaries	-	0 5
Other	**3.7**	1 0
	3.7	1 5

Other payables as at 31 December 2006 and 31 December 2005 are denominated in sterling, are due within 1 year and are non-interest bearing There is no material difference between the book values of other payables and their fair values

18 Borrowings from fellow subsidiaries

	31 December 2006 £m	31 December 2005 £m
Borrowings from fellow subsidiaries	**2,632.0**	2,522 4

Borrowings from fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates

	31 December 2006 £m	31 December 2005 £m	31 December 2006 %	31 December 2005 %
Functional currency (UK sterling)	**2,287.9**	1,522 3	**5 1**	4 4
US dollar	**219.7**	240 5	**5 3**	4 3
Euro	**59 8**	668 0	**3.4**	2 2
Swiss franc	**39.2**	46 2	**2 0**	0 9
Other	**25.4**	45 4	**3.9**	4 6
	2,632 0	2,522 4	**5 1**	3 8

Borrowings from fellow subsidiaries include **£3 2m** of interest payable at 31 December 2006 (2005 £7 9m)

The exposure to interest rate changes when all borrowings reprice is within one year for **£2,621.9m** (2005 £2,522 4m) and within two years for **£10 1m** (2005 £nil)

18. Borrowings from fellow subsidiaries continued

There is no material difference between the above amounts for borrowings from fellow subsidiaries and their fair values

Borrowings from fellow subsidiaries fall due as follows

	31 December 2006 £m	**31 December 2005 £m**
beyond 5 years	-	83 9
between 4 and 5 years	-	27 6
between 2 and 3 years	-	-
between 1 and 2 years	**10.1**	-
within 1 year	**2,621.9**	2,410 9
Total	**2,632.0**	2,522 4

19. Contingent liabilities

The Group is one of the three entities in the BAT Group which have jointly guaranteed borrowings facilities available to British American Tobacco Mexico, S A de C V of **£352.6m** (US$690 0m), to B A T Capital Corporation of **£20 4m** (US$40 0m), and to B A T Holdings (The Netherlands) B V of **£1.756 billion** (€2 125 billion and £325m) All such facilities have been fully utilised at the balance sheet date

20. Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24, all of which are undertaken in the normal course of the Group's business as primary finance company for the BAT Group

Transactions and balances with fellow subsidiaries and parent relate mainly to the provision of finance to companies within the BAT Group

Details of these transactions are set out in notes 9, 12, 13, 16, 17 and 18 In addition, outstanding balances with fellow subsidiaries are included within note 10 The value of these balances are as follows

	31 December 2006		31 December 2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivative financial instruments				
Interest rate swaps	-	-	1 5	-
Cross-currency swaps	**54.9**	-	44 5	-
Forward foreign currency contracts	**6.6**	**46.1**	7 1	76 0
	61.5	**46.1**	53 1	76 0

The key management personnel of the Company consist of the members of the Board of Directors and no such person had any material interest during the year in a contract of significance with the Group The term key management personnel in this context includes the respective members of their households

21 Post balance sheet events

On 12 June 2007, BNP Paribas announced an offer to purchase for cash a target amount of €750 0m of the outstanding €1,700 0m 4 875 per cent Eurobond due in 2009 issued by the Company The offer is subject to a target acceptance amount of €750 0m subject to the right to amend such amount at any time On the same day, the Company announced its intention to issue one or more series of fixed or floating-rate notes, part consideration for which will take the form of the Eurobond purchased in the offer above This is expected to reduce the Company's refinancing risk by allowing it to take advantage of current favourable market conditions and to lengthen its debt maturity profile The transaction will also impact the ratio of floating to fixed rate gross issued debt

At the time of the approval of the financial statements, the tender process was still open It is therefore not possible to quantify the exact impact this transaction will have

21. Post balance sheet events conınuted

On 21 March 2007, the Chancellor announced that wıth effect from 1 Aprıl 2008 the standard rate of UK Corporatıon Tax wıll reduce from 30 percent to 28 percent As the change ın rates has not been substantıvely enacted at the balance sheet date, thıs change ın the tax rate ıs a non-adjustıng post balance sheet event The change ın the corporatıon tax rate wıll not have a materıal effect on the results or posıtıon of the Group

22. Prıncıpal subsıdıary undertakıngs

The Company holds the entıre ıssued share capıtal of BATIF Dollar Lımıted, and of B A T Fınance B V , finance companıes ıncorporated ın England and Wales and the Netherlands respectıvely

23. Dırectors' remuneratıon

None of the Dırectors receıved any remuneratıon ın respect of theır servıces to the Group durıng the year (2005 £nıl)

24. Parent undertakıng

The Company's ımmedıate and ultımate parent undertakıng ıs Brıtısh Amerıcan Tobacco p l c , beıng ıncorporated ın the Unıted Kıngdom and regıstered ın England and Wales Consolıdated group accounts are prepared by Brıtısh Amerıcan Tobacco p l c and are publıcly avaılable

25. Copıes of the report and accounts

Copıes of the report and accounts of Brıtısh Amerıcan Tobacco p l c may be obtaıned from the Company Secretary, Globe House, 4 Temple Place, London WC2R 2PG

Report of the Auditors

We have audited the Group financial statements of B A T International Finance p l c for the year ended 31 December 2006, which comprise the Group Income Statement, the Group Statement of Changes in Total Equity, the Group Balance Sheet, the Group Cash Flow Statement, and the related notes These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of B A T International Finance p l c for the year ended 31 December 2006

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' responsibilities, included in the Directors' Report

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the Directors' Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Group financial statements

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the Group financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London
14 June 2007

Balance Sheet – B.A.T. International Finance p.l.c.

31 December

	2006 £m	2005 £m
Assets		
Fixed assets		
Investments in subsidiaries (note 2)	**1,160 0**	1,160 0
Loans to parent (note 3a)	**2,056.9**	2,055 7
Loans to fellow subsidiaries (note 3b)	**6,472.2**	5,621 5
	9,689 1	8,837 2
Current assets		
Amounts due on demand from subsidiaries (note 4)	**1,079.4**	1,201 9
Amounts due on demand from fellow subsidiaries (note 5)	**652.2**	812 5
Prepayments and accrued income (note 6)	**2 7**	3 0
Derivative financial instruments (note 7)	**238 1**	198 6
Short term deposits and cash (note 8)	**326.0**	505 2
	2,298 4	2,721 2
Total assets	**11,987 5**	11,558 4
Liabilities		
Capital and reserves		
Called up share capital (note 9)	**1.0**	1 0
Retained earnings (note 9)	**298.1**	239 6
	299 1	240 6
Creditors		
Issued debt (note 10)	**3,428 7**	3,344 9
Bank overdrafts (note 10)	**77.8**	28 7
Amounts payable on demand to parent (note 11a)	**547.9**	393 3
Amounts payable on demand to fellow subsidiaries (note 11b)	**4,869.4**	4,814 4
Borrowings from fellow subsidiaries (note 12)	**2,632 0**	2,522 4
Derivative financial instruments (note 7)	**128.9**	212 6
Accruals and deferred income (note 13)	**3.7**	1 5
	11,688 4	11,317 8
Total funds employed	**11,987.5**	11,558 4

On behalf of the Board

D J Letti
14 June 2007

Notes are shown on pages 32 to 38

1. Accounting policies

Basis of Accounting
The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and UK Generally Accepted Accounting Principles

From 1 January 2005, the accounting policies in respect of financial instruments and foreign currencies have been amended to reflect the adoption of FRS 23 (The Effects of Changes in Foreign Exchange Rates), FRS 25 (Financial Instruments Disclosure and Presentation) and FRS 26 (Financial Instruments Measurement)

The adoption of International Financial Reporting Standards for the Group's consolidated accounts has led to the use of the 'liquidity format' for the balance sheet in those accounts In order to aid comparability between the Group and Company, the format of the Company balance sheet has been presented within the limits of Schedule 4 of the Companies Act 1985, to match as closely as possible the 'liquidity format'

Cash flow statement
The cash flows of the Company are included in the consolidated cash flow statement of B A T International Finance p l c which is publicly available Consequently the Company is exempt under the terms of FRS 1 (Revised) from publishing a cash flow statement

Foreign currencies
Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction Assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year All exchange differences, including unrealised gains and losses on the currency translation of long term monetary items, arising from this treatment are taken to the profit and loss account in the year

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

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

Non-derivative financial assets are classified as either loans and receivables or short term deposits and cash They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts For interest-bearing assets, their carrying value includes accrued interest receivable

Short term deposits and cash include cash in hand and deposits held on call, together with other short term highly liquid investments Short term deposits normally comprise instruments with maturities of three months or less at date of acquisition

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

1. Accounting policies continued

Financial instruments continued

Derivative financial assets and liabilities are stated 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 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 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

Hedge accounting is discontinued when a hedging instrument is derecognised (for example through expiry or disposal), or no longer qualifies for hedge accounting

Segmental analysis
The Company's internal reporting systems are not arranged on a geographical basis As SSAP25 requires a segmental analysis, geographical segmentation based on location of counterparty has been provided in note 14 The Company is a single product business providing finance services

Related parties
The Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are part of the British American Tobacco p l c Group

Dividends
Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are declared and paid

2. Investments in subsidiaries

The Company holds the entire issued share capital of BATIF Dollar Limited, and of B A T Finance B V , finance companies incorporated in England and Wales and the Netherlands respectively The cost of these investments as at 31 December 2006 was **£1,160 million** (2005 £1,160 million)

3a) Loans to parent

Loans to parent for the Company comprise exactly the same balances as Loans to parent for the Group, detailed in Group note 13a Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

3b) Loans to fellow subsidiaries

	£m
1 January 2006	**5,621.5**
Differences on exchange	(237 2)
Interest accruals	(20 8)
Advances	1,400 8
Repayments	(292 1)
31 December 2006	**6,472.2**

Loans to fellow subsidiaries are denominated in the following currencies, and have the following effective interest rates

	31 December 2006 £m	31 December 2005 £m	**31 December 2006 %**	31 Decemeber 2005 %
Functional currency (UK sterling)	**2,059.5**	1,907 3	**6.1**	5 3
US dollar	**192.3**	245 4	**6.2**	4 7
Euro	**2,377.8**	2,513 0	**4 7**	2 7
Canadian dollar	**1,030.4**	531 7	**5.8**	5 7
New Zealand dollar	**124 3**	161 6	**9 1**	7 8
Hong Kong dollar	**146.5**	150 8	**4.9**	4 9
Singapore dollar	**444.6**	52 5	**4 4**	4 0
Hungarian forint	**51 2**	51 9	**9.4**	7 6
Swiss franc	**23.4**	-	**2.9**	-
Other	**22 2**	7 3	**6.3**	4 6
	6,472 2	5,621 5	**5.4**	4 2

There is no material difference between the book values for loans to fellow subsidiaries and their fair values

Loans to fellow subsidiaries are due as follows

	31 December 2006 £m	31 December 2005 £m
between 4 and 5 years	**1,039.8**	953 9
between 3 and 4 years	**598.0**	13 1
between 2 and 3 years	**178.6**	37 7
between 1 and 2 years	**322.8**	2,660 1
within 1 year	**4,333.0**	1,956 7
Total	**6,472.2**	5,621 5

3b) Loans to fellow subsidiaries continued

The exposure to interest rate changes when loans reprice is as follows

	Total	Within 1 year	Between 1 and 2 years	Between 3 and 4 years	Between 4 and 5 years
As at 31 December 2006	**£m**	**£m**	**£m**	**£m**	**£m**
	6,472.2	**5,061 2**	**79.9**	**449.2**	**881.9**
As at 31 December 2005	**£m**	**£m**	**£m**	**£m**	**£m**
	5,621 5	4,771 9	346 7	-	502 9

Loans to fellow subsidiaries include **£66.1m** of interest receivable at 31 December 2006 (2005 £89 5m)

Interest rate risk of loans to fellow subsidiaries is not hedged

Loans totalling **€1 9 billion (2005 €1.9 billion)** to a fellow subsidiary will be settled by delivery of German government securities Forward sale contracts are in place to hedge the value of these securities

4. Amounts due on demand from subsidiaries

	31 December 2006 £m	31 December 2005 £m
Amounts due on demand from subsidiaries	**1,079.4**	1,201 9

Amounts due on demand from subsidiaries are denominated in US dollars The effective interest rate is **6 24%** (2005 5 2%)

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

5. Amounts due on demand from fellow subsidiaries

Amounts due on demand from fellow subsidiaries for the Company comprise exactly the same balances as Amounts owed by fellow subsidiaries for the Group, detailed in Group note 9 Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

6. Prepayments and accrued income

Prepayments and accrued income for the Company comprise exactly the same balances as Other receivables for the Group, detailed in Group note 12 Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

7 Derivative financial instruments

Derivative financial instruments for the Company comprise exactly the same balances as derivative financial instruments for the Group, detailed in Group note 10

The Group cashflow hedge cross-currency swaps of fair value £0 3m liability and the Group net investment hedge cross currency swaps of fair value £53 2m asset are not designated as hedges by the Company and are classified as trading derivatives

Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

8. Short term deposits and cash

Short term deposits and cash for the Company comprise exactly the same balances as Cash and cash equivalents for the Group, detailed in Group note 8 Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

9. Total shareholders' equity

	Called up share capital £m	Retained earnings £m	Total equity £m
1 January 2006	1 0	239 6	240 6
Profit for the year	-	58 5	58 5
31 December 2006	1 0	298 1	299 1

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been presented in these financial statements The profit for the year ended 31 December 2006 was **£58 5m** (2005 loss of £7 6m)

Share capital consists of 1 million ordinary shares of £1 each, authorised, allotted, issued and fully paid

10 Borrowings - bank overdrafts and issued debt

Bank overdrafts and Issued debt for the Company comprise exactly the same balances as Bank overdrafts and Issued debt for the Group, detailed in Group note 15 Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

11a) Amounts payable on demand to parent

Amounts payable on demand to parent for the Company comprise exactly the same balances as Amounts owed to parent for the Group, detailed in Group note 16a Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

11b) Amounts payable on demand to fellow subsidiaries

Amounts payable on demand to fellow subsidiaries for the Company comprise exactly the same balances as Amounts owed to fellow subsidiaries for the Group, detailed in Group note 16b Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

12. Borrowings from fellow subsidiaries

Borrowings from fellow subsidiaries for the Company comprise exactly the same balances as Borrowings from fellow subsidiaries for the Group, detailed in Group note 18 Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

13. Accruals and deferred income

Accruals and deferred income for the Company comprise exactly the same balances as Other payables for the Group, detailed in Group note 17 Under FRS 25 the disclosures required are the same as under IAS 32 Consequently no additional information is presented here

14 Segmental reporting

	Total		Europe		Americas		Asia Pacific	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Segment net assets	**299 1**	240 6	**(1,071.0)**	(356 8)	**780 3**	371 1	**589 8**	226 3

The segmental analysis is based on location of the counterparty

15. Directors' remuneration

None of the Directors received any remuneration in respect of their services to the Company during the year (2005 £nil)

16. Contingent liabilities

The Company is one of the three entities in the BAT Group which have jointly guaranteed borrowings facilities available to British American Tobacco Mexico, S A de C V of **£352.6m** (US$690 0m), to B A T Capital Corporation of **£20.4m** (US$40 0m), and to British American Tobacco Holdings (The Netherlands) B V of **£1.756 billion** (€2 125 billion plus £325m) All such facilities have been fully utilised at the balance sheet date

17 Post balance sheet events

On 12 June 2007, BNP Paribas announced an offer to purchase for cash a target amount of €750 0m of the outstanding €1,700 0m 4 875 per cent Eurobond due in 2009 issued by the Company The offer is subject to a target acceptance amount of €750 0m subject to the right to amend such amount at any time On the same day, the Company announced its intention to issue one or more series of fixed or floating-rate notes, part consideration for which will take the form of the Eurobond purchased in the offer above This is expected to reduce the Company's refinancing risk by allowing it to take advantage of current favourable market conditions and to lengthen its debt maturity profile The transaction will also impact the ratio of floating to fixed rate gross issued debt

At the time of the approval of the financial statements, the tender process was still open It is therefore not possible to quantify the exact impact this transaction will have

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation Tax will reduce from 30 percent to 28 percent As the change in rates has not been substantively enacted at the balance sheet date, this change in the tax rate is a non-adjusting post balance sheet event The change in the corporation tax rate will not have a material effect on the results or position of the Company

18. Parent undertaking

The Company's immediate and ultimate parent undertaking is British American Tobacco p l c , being incorporated in the United Kingdom and registered in England and Wales Consolidated Group accounts are prepared by British American Tobacco p l c and are publicly available

19. Copies of the report and accounts

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

Report of the Auditors

We have audited the parent company financial statements of B A T International Finance p l c for the year ended 31 December 2006 which comprise the Balance Sheet and the related notes These parent company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the Group financial statements of B A T International Finance p l c for the year ended 31 December 2006

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the annual report and accounts, including the parent company financial statements, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities, included in the Directors' Report

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements The other information comprises only the Directors' Report

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the parent company financial statements

Report of the Auditors continued

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company Financial Statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place, London
14 June 2007