B.A.T CAPITAL CORPORATION

Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

B.A.T CAPITAL CORPORATION

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KPMG LLP
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620 S. Tryon Street
Charlotte, North Carolina 28202-1842

Independent Auditors' Report

The Board of Directors
B.A.T Capital Corporation:

We have audited the accompanying financial statements of B.A.T Capital Corporation, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in shareholder's equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of B.A.T Capital Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Charlotte, North Carolina
March 12, 2021

B.A.T CAPITAL CORPORATION

Balance Sheets

December 31, 2020 and December 31, 2019

(Dollars in thousands)

Assets		**2020**		**2019**
Current assets:				
Cash and cash equivalents	$	—	$	16,664
Due from affiliates		3,118,997		1,574,214
Guarantee fee receivable from affiliates		46,398		38,671
Accrued interest receivable from affiliates		2,576		250,575
Loan receivable from affiliates		1,288,969		2,225,903
Other amounts due from affiliates		91,896		192,712
Derivative financial instruments		53,758		—
Total current assets		4,602,594		4,298,739
Long-term assets:				
Loan receivable from affiliate		24,407,985		20,199,198
Derivative financial instruments		14,591		173
Deferred income tax assets, net		187,521		143,822
Total assets	$	29,212,691	$	24,641,932
Liabilities and Shareholder's Equity (Deficit)				
Current liabilities:				
Due to affiliates	$	2,922,124	$	3,018,503
Guarantee fee payable to affiliate		46,398		38,661
Accounts payable and accrued liabilities		22,550		115
Accrued interest payable		282,107		237,349
Derivative financial instruments		6,777		357,260
Current portion of long-term debt		1,343,353		999,575
Income taxes payable		98,549		42,883
Total current liabilities		4,721,858		4,694,346
Long-term liabilities:				
Long-term debt		24,430,505		20,093,601
Total liabilities		29,152,363		24,787,947
Shareholder's equity (deficit):				
Common shares, $1 par value (2,000 shares authorized, issued and outstanding)		2		2
Additional paid-in capital		29,499		29,499
Accumulated other comprehensive loss		(459,518)		(310,569)
Retained earnings		490,345		135,053
Total shareholder's equity (deficit)		60,328		(146,015)
Total liabilities and shareholder's equity (deficit)	$	29,212,691	$	24,641,932

See accompanying notes to financial statements

B.A.T CAPITAL CORPORATION

Statements of Operations

Years ended December 31, 2020 and December 31, 2019

(Dollars in thousands)

	2020	2019
Interest income	$ 314	$ 1,809
Interest income from affiliates	891,685	812,544
Guarantee fee reimbursement from affiliates	226,546	195,974
Net gain on derivatives	171,015	—
Other reimbursement income from affiliates	562,369	215,947
Total income	**1,851,929**	**1,226,274**
Interest expense	842,253	662,214
Interest expense to affiliates	58,003	132,720
Guarantee fees to affiliate	226,546	195,974
Net loss on derivatives	—	50,390
Foreign exchange losses (gains)	204,201	(24,293)
Loss on early extinguishment of debt	67,299	6,457
General and administrative and other expenses	3,890	4,016
Total expenses	1,402,192	1,027,478
Income before income taxes	449,737	198,796
Income tax expense	94,445	41,747
Net income	$ **355,292**	**$ 157,049**
Other comprehensive loss:		
Loss on interest rate swaps, net of tax benefit (2020 - $39,594; 2019 - $56,313)	(148,949)	(211,842)
Comprehensive income (loss)	$ **206,343**	**$ (54,793)**

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Shareholder's Equity (Deficit)

Years ended December 31, 2020 and December 31, 2019

(Dollars in thousands)

	Common shares		Additional	Accumulated other comprehensive	Accumulated earnings	
	Shares	Amount	paid-in capital	loss	(deficit)	Total
Balance at December 31, 2018	2,000	$ 2	$ 29,499	$ (98,727)	$ (21,996)	$ (91,222)
Net income	—	—	—	—	157,049	157,049
Derivative, net of $56,313 tax benefit				(211,842)		(211,842)
Balance at December 31, 2019	2,000	2	29,499	(310,569)	135,053	(146,015)
Net income	—	—	—	—	355,292	355,292
Derivative, net of $39,594 tax benefit	—	—	—	(148,949)	—	(148,949)
Balance at December 31, 2020	2,000	$ 2	$ 29,499	$ (459,518)	$ 490,345	$ 60,328

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Cash Flows

Years ended December 31, 2020 and December 31, 2019

(Dollars in thousands)

		2020		2019
Cash flows from operating activities:				
Net income	$	355,292	$	157,049
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of loan fees received from affiliate		(4,525)		(8,985)
Amortization of debt issuance costs and discounts and termination of derivatives		61,571		16,421
Loss on early extinguishment of debt		67,299		6,457
Foreign exchange gains		204,201		(24,293)
Derivative (gains) losses, net		(171,015)		50,390
Deferred income tax (income) expense		(4,105)		(1,135)
Other changes that provided (used) cash:				
Accrued interest receivable from affiliate		247,999		(10,305)
Other amounts due from affiliates		100,826		(192,230)
Accounts payable and accrued liabilities		22,435		(388)
Accrued interest payable		44,758		18,549
Income taxes payable		55,666		32,740
Interest payable on derivative financial instruments		(32,399)		28,209
Other, net		1,707		1,751
Net cash flows from operating activities		949,710		74,230
Cash flows (used in) from investing activities:				
Net proceeds from cash agreements with affiliates		(1,641,162)		173,454
Loans issuance to affiliates		(5,859,447)		(1,285,580)
Loan receipts from affiliates		2,590,538		—
Net cash flows used in investing activities		(4,910,071)		(1,112,126)
Cash flows from (used in) financing activities:				
Proceeds from issuance of notes		7,150,000		3,500,000
Payment of debt issuance costs		(35,975)		(16,000)
Repayments of long-term debt		(2,649,091)		(2,250,000)
Payment for early extinguishment of debt		(67,299)		(6,457)
Payment on termination of derivative contracts		(453,938)		(184,271)
Net cash flows from financing activities		3,943,697		1,043,272
Net increase (decrease) in cash and cash equivalents		(16,664)		5,376
Cash and cash equivalents – beginning of year		16,664		11,288
Cash and cash equivalents – end of year	$	0	$	16,664
Supplemental cash flow information:				
Interest paid	$	734,459	$	626,796
Income taxes paid	$	50,650	$	2,350

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements present the financial position, results of operations and cash flows of B.A.T Capital Corporation, referred to as the Company, an indirect wholly owned subsidiary of British American Tobacco p.l.c., referred to as BAT, a company incorporated under the laws of England and Wales. Until December 7, 2016, the Company was a direct subsidiary of BAT. On December 7, 2016, following a sale of the Company by BAT to Louisville Securities Limited, referred to as LSL, the Company was purchased by BATUS Holdings Inc., referred to as BHI, from LSL pursuant to a stock purchase agreement and BHI became the sole stockholder and parent of the Company. Both LSL and BHI are indirect wholly-owned subsidiaries of BAT. The sale and purchase were at carrying value as the entities were under common control. The Company, incorporated in Delaware, has 2,000 common shares authorized, issued and outstanding with a par value of one dollar per share. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

(b) Nature of Business

The Company is a U.S. finance company that has historically been an issuer and a guarantor under the BAT Euro Medium Term Note Programme, referred to as the EMTN Program, (see note 2 and note 7) and has provided financing and cash management services to BAT companies in the U.S. Other than its role as a guarantor, the Company had been inactive for several years prior to 2017. On July 24, 2017, the Company borrowed $20 billion from a syndicate of third party banks under a bridge facility agreement and loaned the proceeds to BHI to fund a portion of the acquisition price paid to purchase the remaining 58% of Reynolds American Inc., referred to as RAI, not already owned by the BAT group, referred to as the RAI merger. On August 15 and August 16, 2017, the Company repaid the borrowings under the bridge facility agreement and issued approximately $20 billion of notes denominated in US dollars (USD), British pounds sterling (GBP) and euros (EUR) with tenors ranging from 3 years to 30 years.

Subsequent to the merger, the Company has been active in the capital markets with several new debt issuances. In addition to the financing provided to BHI, the Company is also providing financing and cash management services to RAI and its subsidiaries and guarantees certain debt of B.A.T. International Finance p.l.c., referred to as BATIF, an affiliated subsidiary of BAT. BATIF serves as the primary financing and cash management company for the BAT group.

(c) Cash and Cash Equivalents

Cash and cash equivalents may include money market funds, commercial paper and time deposits in major institutions to minimize investment risk. As short-term, highly liquid investments readily convertible to known amounts of cash, with remaining maturities of three months or less at the time of purchase, cash equivalents have carrying values that approximate fair values.

Prior to July 1, 2019, the Company’s cash was swept into an In-House Cash, or IHC, pooling structure managed by BATIF. Effective July 1, 2019, the Company’s cash was swept into a IHC pooling structure managed by B.A.T. Operating Finance Limited, referred to as BATOF. During 2020, the Company re-established the IHC management service relationship with BATIF. Accordingly, the Company terminated the IHC agreement with BATOF. The Company has an account which represents its interest in the IHC pooling structure and amounts in the Company’s IHC account are due on demand and earn interest. As further discussed below in note 4, the IHC agreement provides the Company with a $1.9 billion overdraft facility.

(d) Fair Value Measurement

The Company determines the fair value of assets and liabilities using a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity, and the reporting entity's own assumptions about market participant assumptions based on the best information available in the circumstances.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price.

The levels of the fair value hierarchy are:

Level 1: inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: inputs are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

(e) ***Derivative Financial Instruments***

The Company uses derivative instruments to manage certain interest rate and foreign currency risks. All derivative contracts entered into by the Company are with BATIF as the counterparty.

Derivatives are recognized on the Company's balance sheets at fair value and are classified according to their asset or liability position and the expected timing of settlement. Changes in the fair values of derivatives are recorded in net income (loss) or other comprehensive income (loss) based on whether the instrument is designated and effective as a hedge transaction and, if so, the type of hedge transaction.

(f) ***Revenue Recognition***

The Company applies ASU 2014-09, Revenue from Contracts with Customers (Topic 606), together with its related supplemental implementation guidance. This accounting standard establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Substantially all of the Company's net revenues are from transactions with BHI and RAI and consist of interest income and reimbursements of guarantee fees and other related financing expenses incurred by the Company. Loan and reimbursement agreements provide the terms and conditions for these transactions. Interest income is recognized as earned in accordance with the interest provisions in the underlying loan agreements. Reimbursement income is recognized when qualified expenses under the reimbursement agreements are incurred by the Company.

(g) ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to uncertain tax positions are accounted for as tax expense.

For federal income tax purposes, the Company's results are included in the consolidated United States federal income tax return of BHI. For state and local income tax purposes, the Company's results are included in 29 combined state and local income tax returns that include members of the consolidated United States federal income tax return of BHI. For financial reporting purposes, the Company's current and deferred income taxes are calculated using the separate return method. All current and deferred tax expense and current and deferred tax liabilities are calculated as if the Company files separate federal and state income tax returns that exclude the income, deductions and tax attributes of BHI.

The Company accounts for uncertain tax positions which require that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (a likelihood of more than 50%) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company did not have any uncertain tax positions for 2020 or 2019. The federal statute of limitations remains open for tax years 2017 through 2020.

(h) ***Accounting Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

(i) ***Contingencies***

In accordance with ASC 450, *Contingencies*, the Company records any loss related to a contingency at the time that likelihood of a loss becomes probable and the amount of the loss can be reasonably estimated. When the reasonable estimate is a range, the best estimate within that range will be recorded. When no amount within the range is more likely, the lowest amount within the range will be recorded. No such amounts were recorded for the years ended December 31, 2020 and 2019.

(j) ***Subsequent Events***

Subsequent events have been evaluated through March 12, 2021, the date the financial statements were issued.

(k) ***Recently Issued Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which replaces the current incurred loss impairment methodology for recognizing credit losses for financial instruments with a methodology that reflects expected credit losses and requires consideration for a broader range of reasonable and supportable information for estimating credit losses. The amended guidance is effective for fiscal years beginning after December 15, 2022. The amended guidance is not expected to have a material impact on the Company's results of operations, cash flows and financial position.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and in January 2021 issued ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope. This guidance provides temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Interbank Offered Rate, referred to as LIBOR, which is being phased out beginning at the end of 2021, to alternate reference rates, such as a secured overnight reference rate. These standards were effective upon issuance and allowed application to contract changes as early as January 1, 2020. These provisions may impact the Company as contract modifications and other changes occur during the LIBOR transition period. The Company's IHC agreement, certain outstanding debt and revolving credit facility (see Note 2) utilizes LIBOR as the reference rate. The Company will continue its assessment and monitor regulatory developments during the LIBOR transition period. The amended guidance is not expected to have a material impact on the Company's results of operations, cash flows and financial position.

(2) Long-Term Debt

Revolving Credit Facillity

In connection with the RAI acquisition, the Company, along with other subsidiaries of BAT and with BAT as Guarantor, entered into a two-tranche £6.0 billion forward starting revolving credit facility, which consists of a £3.0 billion 364-day revolving credit facility (with a one-year extension option and a one-year term-out option) and a £3.0 billion revolving credit facility, maturing in 2021.

On March 12, 2020, the Company, along with other subsidiaries of BAT, entered into a new two-tranche £6.0 billion revolving credit facility, consisting of a £3.0 billion 364-day revolving credit facility (with two one-year extension options and a term-out option) and a £3.0 billion revolving credit facility (with two one-year extension options), maturing in 2025. In addition, the revolving credit facility was amended to change the reference rate from LIBOR as the benchmark interest rate for GBP and USD to SONIA and SOFR, respectively, effective June 1, 2021. On January 28, 2021, BAT extended £2.85 billion of the 364-day tranche from March 2021 to March 2022 and £2.85 billion of the five-year tranche from March 2025 to March 2026. Of this tranche, £3 billion remains available until March 2025. The Company had no amounts outstanding under either revolving credit facility as of December 31, 2020 or December 31, 2019 nor had the Company taken any advances under either tranche during those respective years.

Long-term Notes

On August 15, 2017 and August 16, 2017, the Company issued approximately $20 billion in notes consisting of $17.25 billion in USD denominated notes, referred to as the 2017 USD Notes, $2.2 billion equivalent in EUR denominated notes, and $0.6 billion equivalent in GBP denominated notes, in the aggregate referred to as the 2017 BATCAP Notes. The USD notes were issued in a private offering exempt from, or not subject to, the registration requirements of the federal securities laws and were subject to a registration rights agreement. The maturities of the USD notes were extended to 2047. The notes denominated in GBP and EUR were sold to investors under the existing EMTN Program. The maturities for the EUR denominated notes are 2021 and 2023, and the maturity date for the GBP denominated notes is 2025. Under the terms of the EMTN Program, the notes were guaranteed by BAT, BATIF and certain other BAT affiliates. The 2017 BATCAP Notes were issued net of discounts of $4.2 million and the Company paid $79.8 million in fees and expenses. The discounts and debt issuance costs are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes.

In July 2019, BAT filed a registration statement on Form F-3 with the U.S. Securities and Exchange Commission, referred to as the SEC, to allow BATCAP and BATIF to offer and sell from time to time debt securities over the next three years, referred to as the Shelf Registration. In March 2020, the Shelf Registration was amended to include the indenture under which the 2017 USD Notes had been issued. Debt securities issued under this facility are guaranteed by BAT, BATIF and certain other BAT affiliates.

In September 2019, the Company issued $3.5 billion of USD denominated notes under the Shelf Registration, referred to as the 2019 USD Notes, with maturities ranging from 2024 to 2049. Upon issuance of these notes, the Company paid $16.0 million in fees that are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes. With a portion of the proceeds from the 2019 USD Notes, the Company prepaid a $2.25 billion USD note bearing fixed interest at 2.297% that was due August 14, 2020. The Company incurred a $6.5 million loss on the early extinguishment of this debt.

In March 2020 and September 2020, the Company issued $2.4 billion and $4.75 billion, respectively, of USD denominated notes under the Shelf Registration, referred to collectively as the 2020 USD Notes, with maturities ranging from 2027 to 2050. Upon issuance of these notes, the Company paid $36.0 million in fees that are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes.

The proceeds from the 2020 USD Notes were used to (i) repay $1.0 billion in variable rate notes that matured in August 2020, (ii) repay $1.6 billion of 2.764% notes due August 2022 tendered for in October 2020 and (iii) increase the amount lent under installment term loans to BHI, RAI and R.J. Reynolds Tobacco Company, an indirect subsidiary of RAI, referred to as RJRT, by $3.3 billion (see note 4). The Company incurred a $67.3 million loss on the tender offer of the August 2022 notes.

The Company recognized interest expense of $842.3 million, including $50.1 million of amortization related to terminated derivatives, and $662.2 million, including $6.1 of amortization related to terminated derivatives, in 2020 and 2019, respectively and, as of December 31, 2020 and 2019, had accrued $282.1 million and $237.3 million in accrued interest payable related to the 2017 BATCAP Notes, the 2019 USD Notes and the 2020 USD Note, collectively referred to as the BATCAP Notes.

Details of the BATCAP Notes remaining outstanding at carrying value, including a schedule of maturities, included in the Company's long-term debt is as follows (in thousands):

	For the years ended December 31,	
	2020	**2019**
USD notes:		
3 month LIBOR plus 0.59% notes due 08/14/2020	$ —	$ 1,000,000
3 month LIBOR plus 0.88% notes due 08/15/2022	750,000	750,000
2.764% notes due 08/15/2022	600,909	2,250,000
3.222% notes due 08/15/2024	2,500,000	2,500,000
2.789% notes due 09/6/2024	1,000,000	1,000,000
3.215% notes due 09/6/2026	1,000,000	1,000,000
4.700% notes due 04/2/2027	900,000	—
3.557% notes due 08/15/2027	3,500,000	3,500,000
2.259% notes due 03/25/2028	1,750,000	—
3.462% notes due 09/6/2029	500,000	500,000
4.906% notes due 04/2/2030	1,000,000	—
2.726% notes due 03/25/2031	1,250,000	—
4.390% notes due 08/15/2037	2,500,000	2,500,000
3.734% notes due 09/25/2040	750,000	—
4.540% notes due 08/15/2047	2,500,000	2,500,000
4.758% notes due 09/6/2049	1,000,000	1,000,000
5.282% notes due 04/2/2050	500,000	—
3.984% notes due 09/25/2050	1,000,000	—
EUR notes:		
3 month EURIBOR plus 0.5% notes due 08/16/2021, face value €1,100,000,000	1,343,760	1,233,320
1.125% notes due 11/16/2023, face value €750,000,000	916,200	840,900
GBP notes:		
2.125% notes due 08/15/2025, face value £450,000,000	615,150	596,565
Total principal	25,876,019	21,170,785
Unamortized discount	(2,352)	(2,874)
Unamortized debt issuance costs	(99,809)	(74,735)
Total long-term debt at carrying value	25,773,858	21,093,176
Less current maturities of long-term debt at carrying value	1,343,353	999,575
Total long-term debt (less current maturities) at carrying value	$ 24,430,505	$ 20,093,601

The EUR denominated debt and GBP denominated debt is valued using the foreign denominated face value and the related spot rate for the respective currency at the respective measurement date. Accordingly, in 2020, the Company recognized a loss of $204.3 million from the revaluation of the carrying value of the EUR denominated debt and GBP denominated debt to the December 31, 2020 spot rate. In 2019, the Company recognized a gain of $24.5 million from the revaluation of the carrying value of the EUR denominated debt and GBP denominated debt to the December 31, 2019 spot rate.

As of December 31, 2020, the maturities of the outstanding BATCAP Notes, excluding unamortized discount and debt issuance costs, for the next five years and thereafter are as follows (in thousands):

Year	Total
2021	$ 1,343,760
2022	1,350,909
2023	916,200
2024	3,500,000
2025	615,150
2026 and thereafter	18,150,000
	$ 25,876,019

Commercial Paper

The Company has the ability to issue commercial paper under a USD commercial paper program and a Euro-commercial paper program. During 2020, the Company issued and redeemed approximately $1.5 billion in under the USD commercial paper program. No commercial paper was issued in 2019 and no commercial paper was outstanding at December 31, 2020 or December 31, 2019.

Fair Value of Debt

The estimated fair value of the BATCAP Notes, in the aggregate, was $28.2 billion as of December 31, 2020 and $21.5 billion as of December 31, 2019. The fair value is derived from a third-party pricing source and is classified in Level 2 of the fair value hierarchy.

Registration of USD Notes and Subsequent Exchange Offer

In October 2018, the Company, as issuer of the USD notes, filed a Form F-4 with the SEC, to register notes, referred to as Registered Notes, under the Securities Act of 1933, referred to as the 1933 Act. The Registered Notes contained terms and conditions substantially identical to the $17.25 billion in privately placed USD notes, referred to as the Exchange Notes, issued in August 2017. On October 22, 2018, upon the Form F-4 being declared effective by the SEC, the Company launched an exchange offer to exchange any and all (to the extent held by eligible holders) Exchange Notes for its Registered Notes. On November 20, 2018, the Company completed the exchange offer, and of the total $17.25 billion in Exchange Notes outstanding, approximately $17.2 billion, or 99.7%, were exchanged for Registered Notes. Each series of Registered Notes is substantially identical to the Exchange Notes of the corresponding series, except that the Registered Notes are registered under the 1933 Act and do not bear any legends restricting transfer, and except that the registration rights pertaining to the Exchange Notes do not apply to the Registered Notes.

The Company remains the principal obligor of the remaining outstanding Exchange Notes that were not tendered in the exchange offer. Both the Registered Notes and the Exchange Notes have been guaranteed by BAT and RAI.

(3) Income Taxes

The components of the provision for income taxes for the years ended December 31 were as follows (in thousands):

	2020	2019
Current:		
Federal	$ 98,549	$ 42,883
State and other	—	—
	98,549	42,883
Deferred:		
Federal	(4,104)	(1,136)
State and other	—	—
	(4,104)	(1,136)
Provision for income taxes	$ 94,445	$ 41,747

Significant components of deferred tax assets and liabilities for the years ended December 31 included the following (in thousands):

	2020	2019
Deferred tax assets (liabilities):		
Losses on derivatives	$ 162,229	$ 161,770
Unrealized foreign exchange losses	24,540	(18,368)
Other	752	420
Net deferred tax asset	$ 187,521	$ 143,822

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

As of December 31, 2020 and 2019, the Company had no valuation allowance recorded against deferred tax assets.

There were no differences between the provision for income taxes and income taxes computed at statutory U.S. federal income tax rates for the years ended December 31,2020 and 2019.

The Company recognized a net deferred tax benefit of $39.6 million and $56.3 million in accumulated other comprehensive loss at December 31, 2020 and 2019. In 2020, the deferred income tax benefit related to the loss from the change in the fair value of the forward starting pay-fix interest rate swaps entered into in October 2018, the forward starting floating-to-fixed interest rate swaps entered into in February 2019 and the treasury locks entered into in March 2020, less the amortization of the forward starting pay-fix interest rate swaps that settled during September 2019 and March 2020. In 2019, the deferred income tax benefit related to the loss from the change in the fair value of the forward starting pay-fix interest rate swaps entered into in October 2018 and the forward starting floating-to-fixed interest rate swaps entered into in February 2019 and the treasury locks entered into in August 2019, less the amortization of the forward starting pay-fix interest rate swaps that settled during September 2019.

All of the derivative transactions, as discussed in note 4, with exception of the Foreign Currency Forward Contracts have been properly identified as hedging transactions for U.S. federal income tax purposes and are therefore being accounted for as hedging transactions for U.S. federal income tax purposes under the relevant sections of the Internal Revenue Code and underlying regulations.

The Company has been included in the consolidated United States federal income tax return of BHI since December 7, 2016 when BHI became its sole shareholder in the transaction discussed in note 1. For state and local income tax purposes, the Company's results are included in 29 combined state and local income tax returns that include members of the consolidated United States federal income tax return of BHI. For financial reporting purposes, the company's current and deferred income taxes are calculated using the separate return method under ASC 740-10-30-27. All current and deferred tax expense and current and deferred tax liabilities are calculated as if the Company files separate federal and state income tax returns that exclude the income, deductions and tax attributes of BHI.

(4) Related Party Transactions

As a U.S. finance company, the Company enters into transactions with multiple BAT affiliates, including its direct parent, BHI. The following is a summary of balances and transactions with BAT and its affiliates.

Loan Receivable from BHI

On August 15, 2017 and August 16, 2017, the Company issued approximately $20.0 billion in notes (see note 2). The proceeds from those notes were loaned to BHI in a series of eleven separate term loans denominated in U.S. dollars with amounts and maturity dates that matched the corresponding notes issued by the Company. BHI paid the Company $83.9 million in upfront fees related to the loans and the Company is amortizing those fees over the life of the respective notes using the effective interest method.

On December 20, 2019, the Company entered into a $20.0 billion installment term loan with BHI, referred to as the BHI Installment Note, that was effective on January 2, 2020 and effectively refinanced, in total, the eleven separate term loans made to BHI in August 2017. The BHI Installment Note had an interest rate of 3.582% and a maturity date of September 2049. Installment payment dates under the BHI Installment Note matched the payment dates of the outstanding 2017 BATCAP Notes and the 2019 USD Notes.

In May 2020, the BHI Installment Note was amended to extend the maturity date to April 2050 and adjust the interest rate to 3.663%. In addition, the installment payment dates were amended to match the maturity dates of the BATCAP Notes outstanding as of that date.

In September 2020, BATCAP lent an additional $1.14 billion to BHI under the BHI Installment Note and further amended the note to extend the maturity date to September 2050 and adjust the interest rate to 3.6% payable semi-annually. In addition, the installment payment dates were amended to match the maturity dates of the outstanding BATCAP Notes.

Related to the BHI loans receivable, the Company recognized $734.9 million and $715.5 million in interest income in 2020 and 2019, respectively, and had $2.1 million and $236.8 million accrued as interest receivable at December 31, 2020 and December 31, 2019, respectively.

Loans Receivable from RAI and RJRT

In September 2018, the Company entered into a one-year term loan agreement with RAI for a principal amount of $1.2 billion, referred to as RAI Term Loan. The RAI Term Loan bore a floating interest rate based on three-month U.S. dollar LIBOR plus a margin of 1.14% with interest payable quarterly. In May 2019, an additional $1.2 billion was advanced to RAI under the RAI Term Loan and the maturity was extended to May 2020. The Company also entered into a term loan agreement with RJRT, referred to as the RJRT Term Loan, in May 2019, for a principal amount of $82 million due in May 2020. Each respective term loan bore interest of three-month U.S. dollar LIBOR plus a margin of 1.36%. Each respective term loan had substantially similar terms.

On December 20, 2019, the Company entered into a $1.25 billion installment term loan with RAI, referred to as the RAI Installment Note, that was effective on January 2, 2020. The RAI Installment Note bore interest at a rate of 3.582% and was payable semi-annually with a maturity date of September 2049. At the same time, RAI provided a written notice to the Company of its intent to prepay $1.25 billion of the $2.4 billion outstanding RAI Term Loan. RAI subsequently made the prepayment on January 2, 2020.

In May 2020, the $1.15 billion RAI Term Loan maturity was extended to June 2022. The RJRT Term Loan was increased from $82 million to $190.5 million and the maturity was extended to June 2022. The interest rate on each respective term loan was amended to three-month U.S. dollar LIBOR plus a margin of 5.86% with interest payable quarterly.

Also in May 2020, the Company advanced an additional $1.4 billion to RAI under the RAI Installment Note, increasing the outstanding balance to $2.65 billion. The maturity date on the RAI Installment Note was extended to April 2050 and the interest rate was adjusted to 3.663%. In addition, the installment payment dates were amended to match the maturity dates of the BATCAP Notes outstanding as of that date.

In September 2020, RAI provided a written notice to the Company of its intent to prepay the remaining $1.15 billion on the RAI Term Loan and subsequently repaid the outstanding amount. In addition, at the same time, RJRT provided a written notice to the Company of its intent to prepay the $190.5 million on the RJRT Term Loan and subsequently repaid that outstanding amount.

In addition, in September 2020, the Company advanced an additional $1.72 billion under the RAI Installment Note to RAI. The Company also entered into an installment term loan with RJRT, referred to as the RJRT Installment Note, and advanced $242.8 million to RJRT. The RAI Installment Note and the RJRT Installment Note each have a maturity date of September 2050 and bear interest at 3.6% payable semi-annually. The installment payment dates match the maturity dates of the outstanding BATCAP Notes.

For the RAI Installment Note and the RJRT Installment Note, the Company recognized in aggregate $146.1 million and $71.4 million in interest income in 2020 and 2019, respectively, and had $0.5 million and $13.8 million accrued as interest receivable at December 31, 2020 and December 31, 2019, respectively.

On July 19, 2019, the Company entered into a $5.5 million three-year amortizing term loan agreement, due July 2022, with VapeWild Holdings, LLC, an indirect subsidiary of RAI. This term loan was drawable in one or more tranches and bore interest at the three-month U.S. dollar LIBOR plus a margin of 2.12%, per annum. At December 31, 2020, the Company had reserved the entire outstanding balance under this note of $3.6 million as a result of VapeWild Holdings, LLC filing for bankruptcy in December 2020. At December 31, 2019, the Company had a $2 million reserve related to collectability of this note recorded.

Details of the loans receivable at carrying value is as follows at December 31, 2020 and December 31, 2019 are as follows (in thousands):

	2020	2019
BHI		
3.6% installment term note due 9/25/2050	$ 21,142,650	$ —
3.582% installment term note due 09/06/2049	—	20,004,459
RAI		
3.6% installment term note due 9/25/2050	4,369,960	—
Three-month LIBOR plus 1.14% note due 5/01/2020	—	1,150,000
3.582% installment term note due 9/06/2049	—	1,250,000
RJRT		
3.6% installment term note due 9/25/2050	242,757	—
Three-month LIBOR plus 1.36% note due 05/01/2020	—	82,000
VapeWild		
Three-month LIBOR plus 2.12% note due 07/19/2022	—	1,580
Total principal	25,755,367	22,488,039
BHI Facility commitment fees	(58,413)	(62,938)
Total loan receivable from affiliates	$ 25,696,954	$ 22,425,101

Installments under the BHI Installment Note, the RAI Installment Note and the RJRT Installment Note are due and payable per the terms of an installment schedule in each respective agreement. Not less than ten business days prior to the installment due date, BHI, RAI and RJRT have the ability to request the payable date of a term loan installment be extended. The Company, in its sole discretion, may accept or decline the extension request. The interest rate for each respective term loan may be adjusted from time to time to reflect changes to the Company's weighted average cost of borrowing as defined in the agreements.

As of December 31, 2020, the maturities of these installment term loans receivable from affiliates, excluding facility commitment fees, were as follows (in thousands):

Year	Total
2021	$ 1,288,969
2022	1,350,909
2023	880,755
2024	3,500,000
2025	584,734
2026 and thereafter	18,150,000
	$ 25,755,367

Due from (to) affiliates

Prior to July 1, 2019, the Company's cash was swept into a IHC pooling structure managed by BATIF. Effective July 1, 2019, the Company's cash changed to being swept into a IHC pooling structure managed by BATOF. In 2020, the Company re-established the IHC management service relationship with BATIF. Accordingly, the Company terminated the IHC agreement with BATOF. The Company's interest in the cash pooling structure is represented by its balances in its IHC account.

Excess cash advances on deposit at BATIF are payable to the Company on demand and bear interest at a rate of 0.275% under overnight LIBOR. If necessary, the Company has the ability to overdraft its IHC account at BATIF by up to approximately $1.9 billion in the aggregate. Overdraft positions bear interest at 0.75% over overnight LIBOR. At December 31, 2020, the Company had advanced $3.1 billion through its IHC account to BATIF. At December 31, 2019, the Company had advanced $1.6 billion through its IHC account to BATOF. These amounts are classified as Due from affiliates in the Company's balance sheet.

The Company provides cash management services through separate IHC agreements with RAI and certain of its subsidiaries. Under the terms of these IHC agreements, excess daily cash balances in RAI and its subsidiaries bank accounts are advanced to the Company. Excess cash balances on deposit with the Company are payable to each respective entity on demand and bear interest at a rate of 0.275% under the overnight LIBOR rate.

Certain IHC agreements provide a separate overdraft facility that provides for advances that may not exceed the overdraft limits set forth in each respective agreement. Among these are a $900 million overdraft facility provided to RAI and a $700 million overdraft facility provided to RJRT. Overdraft advances bear interest at a rate of 0.75% over the overnight LIBOR rate. The IHC agreements will remain in effect until cancelled and have no maturity date specified.

The net amount on deposit in the IHC accounts for the benefit of RAI and its subsidiaries was $2.9 billion at December 31, 2020 and $3.0 billion at December 31, 2019 and is classified as Due to affiliates in the Company's balance sheet. In 2020 and 2019, the Company recognized $7.7 million and $56.4 million, respectively, in interest expense and $10.7 million and $25.7 million, respectively, in interest income related to IHC accounts.

Guarantee Fees

The Company entered into an agreement with BAT whereby BAT would provide an unconditional guarantee of the outstanding BATCAP Notes in exchange for a guarantee fee based on a fee rate and the nominal amount of the notes issued and outstanding. At December 31, 2020 and December 31, 2019, the Company recognized a payable to BAT for $46.4 million and $38.7 million, respectively. In 2020 and 2019, the Company recognized guarantee fee expense of $226.5 million and $196.0 million, respectively.

In August 2017, upon lending the proceeds from the note issuances to BHI, BHI agreed to reimburse the Company for the full amount of the guarantee fees paid to BAT. In December 2019, RAI agreed to reimburse the Company for the guarantee fees on a proportionate share of the notes benefitting RAI. RJRT entered into a substantially similar agreement with the Company in November 2020 for its proportionate share of guarantee fees on notes benefitting RJRT. Accordingly, at December 31, 2020 and 2019, the Company recognized a reimbursement receivable for $46.4 million and $38.7 million, respectively, for guarantee fees. In addition, in 2020 and 2019, the Company recognized reimbursement income of $226.5 million and $196.0 million, respectively, related to reimbursements of guarantee fees under the reimbursement agreements.

Derivatives

(a) Cross-Currency Interest Rate Swaps

In order to manage currency fluctuation risk on the EUR and GBP denominated notes, the Company entered into cross currency interest rate swaps pursuant to which it swapped the EUR and GBP denominated principal amounts bearing fixed or floating interest rates, as applicable, for a USD denominated principal amount bearing a corresponding fixed or floating interest rate, as applicable. The objective of these cross-currency swaps is to reduce volatility of cash flows associated with the underlying debt from changes in foreign currency exchange rates. Under the terms of these contracts, the Company will make interest payments in U.S dollars and receive interest in British pounds sterling or euros, as applicable. Upon the maturity of these contracts, the Company will pay the principal amount of the loans in U.S dollars and receive British pounds sterling or euros, as applicable. BATIF is the counterparty in these contracts. The key terms for the cross-currency swaps were as follows (USD/EUR/GBP amounts in thousands):

Cross currency swaps	Number of Contracts	Inception Date	Maturity Date	Pay Notional Amount	Interest Rate (Pay USD)	Receive Notional Amount	Interest Rate (Receive EUR/GBP)
EUR-USD	5	8/16/2017	8/16/2021	$1,288,969	3M Libor+86.7 bp	€ 1,100,000	3M Euribor+50 bp
EUR-USD	4	8/16/2017	11/16/2023	880,755	3.220%	€ 750,000	1.125%
GBP-USD	3	8/16/2017	8/15/2025	584,735	3.370%	£450,000	2.125%
				$2,754,459			

At December 31, 2020, the Company recognized a net asset of $68.3 million plus associated accrued interest payable of $6.7 million and at December 31, 2019, the Company had recognized a net liability of $103.1 million plus associated accrued interest payable of $9.3 million for the cross-currency swaps. The change in fair value of the cross-currency interest rate swaps was a gain of $171.4 million in 2020 and a loss of $50.5 million in 2019 and is reported in Net loss on derivatives in the accompanying statements of operations. In addition, the Company recognized net interest expense of $47.4 million and $68.7 million, respectively, in 2020 and 2019 related to the cross-currency swaps.

(b) Foreign Currency Forward Contracts

The Company will enter into foreign currency exchange contracts with BATIF to minimize the financial impact from exposure to changes in the exchange rates for GBP and EUR on certain liabilities denominated in those currencies. At December 31, 2020 and December 31, 2019, the Company had a liability recorded of $0.1 million and $0.2 million, respectively, for the fair value of forward exchange contracts. In 2020 and 2019, the Company recognized $0.4 million as expense and $0.1 million as income, respectively, related to foreign currency forward contracts recorded in Net loss on derivatives. Changes in the fair value are recognized as either income or expense, as applicable, as derivative (gains) losses, net in the accompanying statements of operations.

In addition, in 2019, the Company had entered into offsetting immaterial foreign currency exchange contracts with BATIF and RAI Services Company, a subsidiary of RAI, related to certain liabilities denominated in GBP. No such positions existed at December 31, 2020.

(c) Forward Starting Interest Rate Swaps and Treasury Locks

In October 2018, in anticipation of highly probable future note issuances to be used to refinance certain note maturities, the Company entered into forward starting pay-fix interest rate swaps, referred to as forward swaps, for a notional amount of $3.4 billion to lock in the five and ten year forward swap rates. The forward swaps anticipated note issuances in 2019 and 2020. The counterparty exposure under these forward swaps was with BATIF where in turn BATIF entered into identical swaps with external banks. The Company is utilizing cash flow hedge accounting for these forward swaps.

In August 2019, the Company terminated forward swaps with a notional amount of $1.35 billion associated with the anticipated issuance of the notes in September 2019 and incurred a loss of $158.6 million, before tax, which the Company settled with a cash payment. Concurrent with the termination of the forward swaps, the Company entered into treasury locks with a notional amount of $1.35 billion that the Company subsequently terminated on the date of the note issuance at a loss of $25.9 million, before tax, and which the Company settled with a cash payment. These losses were recognized in accumulated other comprehensive loss and, accordingly, are being amortized to interest expense over the life of the related debt.

The remaining forward swaps with a notional amount of $2.05 billion were associated with an anticipated debt issuance in June 2020 as discussed below. At December 31, 2019, the Company had recognized a liability of $211.9 million for the fair value of the remaining forward swaps with a corresponding balance for the same amount, before tax, in accumulated other comprehensive loss.

In March 2020, the Company terminated the remaining forward swaps with a notional amount of $2.05 billion associated with the anticipated issuance of the notes in April 2020 and incurred a loss of $427.7 million, before tax, which the Company settled with a cash payment. Concurrent with the termination of the forward swaps, the Company entered into treasury locks with a notional amount of $2.05 billion that the Company subsequently terminated on the date of the note issuance at a loss of $25.7 million, before tax, and which the Company settled with a cash payment. These losses were recognized in accumulated other comprehensive loss and, accordingly, are being amortized to interest expense over the life of the related debt.

In 2020 and 2019, the Company amortized $50.1 million and $6.1 million, respectively, to Interest expense related to the losses from termination of the forward starting interest rate swaps and treasury locks included in accumulated other comprehensive loss. The Company had no such derivatives at December 31, 2020.

(d) Floating to Fixed Interest Rate Swaps

In February 2019, the Company entered into three forward starting, floating to fixed interest rate swaps with BATIF as the counterparty. These swaps covered an aggregate notional amount of approximately $3.0 billion with fixed rates ranging from 3.22% to 3.53% and were effective from May 2019 to February 2020. The Company used cash flow hedge accounting for these floating to fixed interest rate swaps. At December 31, 2019, the Company had recognized a net liability of $2.8 million plus associated accrued interest payable of $29.7 million for the fair value of these swaps. A corresponding balance for the net liability, before tax, was recorded in accumulated other comprehensive loss. The floating to fixed interest rate swaps matured in February 2020. The Company recognized interest expense of $2.9 million and $7.6 million in 2020 and 2019 related to these swaps.

Other income – affiliates

The Company entered into separate agreements in 2019 with each of BHI and RAI and, in 2020, with RJRT under which certain expenses realized by the Company related to financing transactions that benefit these entities are reimbursed to the Company. In 2020 and 2019, the Company recognized $562.4 million and $215.9 million, respectively, as other income from affiliates for these reimbursements as follows (dollars in thousands):

	2020	2019
Losses on debt pre-hedges	$ 453,447	$184,505
Fees related to early extinguishment of debt	67,299	6,457
Debt issuance fees	35,975	16,000
Other	5,648	8,985
	$ 562,369	$215,947

General and administrative services

The Company had no direct employees in 2020 and 2019. The Company has a services agreement with Louisville Corporate Services Inc., a direct subsidiary of BHI, for the provision of general and administrative services to the Company consisting primarily of administrative, accounting, income tax and other support services.

(5) Fair Value

The Company records its derivative contracts at their fair value as of the balance sheet date. All derivatives held by the Company at December 31, 2020 and December 31, 2019, are categorized in Level 2 of the fair value hierarchy. Level 2 financial instruments are not traded in an active market but rather the fair values are determined based on market data, primarily yield curves and exchange rates, to calculate the present value of all estimated flows associated with each derivative contract at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives.

(6) Shareholder's Equity

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of $39.6 million and $56.3 million in tax benefit in 2020 and 2019, respectively, were as follows (in thousands):

	Forward Starting Interest Rate Swaps	Floating to Fixed Interest Rate Swaps	Total
Balance at December 31, 2018	$ (98,727)	$ —	$ (98,727)
Realized loss on termination of swaps, net of tax benefit of $38,746	(145,759)	—	(145,759)
Amortization, net of tax expense of $1,288	4,846	—	4,846
Change in fair value, net of tax benefit of $18,855	(68,689)	(2,240)	(70,929)
Balance at December 31, 2019	$ (308,329)	$ (2,240)	$ (310,569)
Realized loss on termination of swaps, net of tax benefit of $95,224	(358,223)	—	(358,223)
Amortization, net of tax expense of $10,531	39,618	—	39,618
Change in fair value, net of tax expense $45,099	167,417	2,240	169,657
Balance at December 31, 2020	$ (459,518)	$ —	$ (459,518)

(7) Contingent Liabilities

On December 9, 2011, the Company ceased to be a party to the EMTN Program under which the issuers, that also include BATIF, B.A.T. Netherlands Finance B.V. and British American Tobacco Holdings (The Netherlands) B.V., can from time to time issue notes in amounts not to exceed the EMTN Program limits or its equivalent in other currencies. The payments of all amounts in respect of any notes issued under the EMTN Program prior to December 9, 2011 are unconditionally and irrevocably guaranteed by BAT, the Company and each of the other issuers (except where it is the relevant issuer).

On May 31, 2017, the EMTN Program was amended and restated to increase the size of the EMTN Program from £15.0 billion to £25.0 billion and to add the Company as an issuer and a guarantor. At December 31, 2020 and December 31, 2019, the Company had issued $2.9 billion and $2.7 billion, respectively, equivalent of notes under the EMTN Program at the related spot rate for the respective currency at the respective measurement date.

Effective February 13, 2018, the Company became an additional guarantor of the notes issued pursuant to the EMTN Program that it was not already a guarantor of during the period since it ceased participation. With the additional guarantees in place, as of December 31, 2020 and December 31, 2019, the Company was a guarantor of securities with maturities ranging from 2021 to 2055 in the amount of approximately $18.7 billion and $14.4 billion, respectively, plus accrued interest which represents the maximum potential exposure (at applicable year-end exchange rates) had the relevant issuers defaulted.

The Company's guarantee of the notes issued under the EMTN is unconditional and irrevocable, joint and several with the other guarantors and is triggered when the issuer of the EMTN securities defaults on its payment obligations. If the Company is required by law to withhold any U.S. taxes (or taxes of any of its political subdivisions) from payments it makes under its guarantee, the Company is required to pay additional amounts so that security holders receive the same payment they would receive absent such withholding, subject to exceptions. The Company does not maintain a guarantee liability related to its guarantees with respect to the EMTN Program.