

British American Tobacco UK Limited

Registered Number 02346565

Directors' report and financial statements

For the year ended 31 December 2019



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Strategic Report

The Directors present their strategic report on British American Tobacco UK Limited ("the Company") for the year ended 31 December 2019.

Principal activities

The Company's principal activity is the sale and distribution of cigarettes, tobacco, electronic cigarettes and other nicotine products in the United Kingdom and the Channel Islands on behalf of the British American Tobacco p.l.c. group companies (the "Group").

Review of the year ended 31 December 2019

The profit for the financial year attributable to the British American Tobacco UK Limited shareholder after deduction of all charges and the provision of taxation amounted to **£1,072,000** (2018: loss of £2,188,000).

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

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in Strategic Report in British American Tobacco p.l.c.'s 2019 Annual Report and Form 20-F ("BAT Annual Report") and do not form part of this report.

Principal risks and uncertainties

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

UK Companies Act: Section 172(1) Statement

The Company is part of the British American Tobacco Group and is ultimately owned by British American Tobacco p.l.c. As set out in the Company's Strategic Report above, the Company's principal activity is the sale and distribution of cigarettes, tobacco, electronic cigarettes and nicotine products.

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

The Company's key stakeholders are direct and indirect suppliers to the Company, customers of the Company (including distributors, wholesalers and retailers), the shareholder of the Company, employees (the Company has around 220 employees with the majority based in the UK), government, customs, revenue and tax authorities, and wider society in the country in which the Company operates. Whilst the Company does not supply products directly to consumers, consumers of the Group's tobacco products are also key stakeholders of the Company.

Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key stakeholders are summarised at pages 26 to 27 of the BAT Annual Report. Where the Directors do not engage directly with the Company's stakeholders, they are kept updated on stakeholder perspectives, including through the use of management reporting, and board notes relating to matters presented to the Board during the year which set out stakeholder considerations as applicable to matters under consideration. This enables

British American Tobacco UK Limited

the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making.

The primary engagement channels for Group company employees based in the UK (including the Company's employees) include town hall sessions, employee council meetings, the 'Your Voice' employee survey and webcasts. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 32 of the BAT Annual Report).

In accordance with the Group's overall governance and internal controls framework and in support of the Company's purpose as part of the Group, the Company applies and the Directors have due regard to all applicable Group policies and procedures, including the Group Statement of Delegated Authorities ("Group SoDA"), and the Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out at pages 28 to 32 of the BAT Annual Report. As a Group company, the Company acts in accordance with the Group's policies in relation to the safeguarding of human rights and community relationships, which are set out at pages 30 to 31 of the Group Annual Report.

Where authority for decision-making is delegated to management under the Group SoDA, the Group SoDA mandates regard for the likely long-term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with wider stakeholders, the impact of business operations on the environment and communities, and other relevant factors. The Group SoDA is part of the Group's governance and internal controls framework through which good corporate governance, risk management and internal control is promoted within the Group and does not derogate from any requirement for Board review, oversight or approval in relation to the Company's activities.

The Directors receive training in relation to their role and duties as a director on a periodic basis and all newly appointed Directors receive training in respect of their role and duties on appointment. Director training is provided through the Company Secretary. Focus areas for Directors' training during 2019 included a recap on directors' duties under Section 172 of the UK Companies Act.

The principal decisions made by the Directors during the year included review and approval of the Company's annual Modern Slavery Act Statement and review and approval of a distribution to the shareholder. Examples of how stakeholder considerations and other relevant factors have been considered during the decision-making process in these contexts are as follows:

Modern Slavery Act Statement. The Board reviewed and approved the Company's annual Modern Slavery Act Statement for adoption by the Company. Key stakeholder interests taken into consideration in that context include those of the Company's shareholder, direct and indirect suppliers and customers, employees, and government authorities and wider society in countries in which the Company operates.

Distribution to the shareholder. The Board reviewed and approved the payment of a dividend during the year as set out in the Directors' Report below. The Board considered, amongst other relevant factors, the Company's capital position, the amount of its distributable reserves, its cash position, the Company's actual and contingent liabilities and its ability to pay its debts as they fell due.

On behalf of the Board



Joana Garsvaite

Director

28 September 2020

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2019.

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over the ability to continue as a going concern for at least a year from the date of approval of the financial statements. In forming this assessment, the Directors have considered the possible impact that COVID-19 may have on the Company.

The Directors are closely monitoring the ongoing outbreak of COVID-19, and how it will affect the Company operations via a series of Crisis Committee Meetings. Although the full scale of the disruption is still evolving, the Directors have not seen any immediate impacts to the Company's ability to continue its trading activities. The Directors acknowledge that it is challenging to predict the full impact this may have on the Company but are satisfied that the Company will continue to be able to meet its ongoing liabilities as and when they fall due in reasonably foreseeable circumstances.

Therefore, the Directors consider the going concern basis of preparation of these financial statements appropriate.

Dividends

During the year the Company paid dividends amounting to **£4,933,000** (2018: £5,423,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period from 1 January 2019 to the date of this report are as follows:

	Date appointed	Date resigned
Gemma Bridget Webb		17/04/2020
Joana Garsvaite	22/07/2019	
Mairi Una Alice Morrison	11/02/2019	
Nathan Michael Jones	30/08/2019	
Carl Fredrik Saman Svensson	30/08/2019	
David Stephen Waterfield	01/02/2020	
Simon Dudley Keith Shaw Ashton	01/02/2020	
William Richard Darvell Hill		30/08/2019
Nigel Graeme Hardy		31/12/2019
Christopher Matthew John Barraclough		11/02/2019
Dimitri Alexandros Tounis		31/07/2019

Financial risk management

The Company is exposed to credit risk due to sales to debtors. To minimise exposure, credit limits are set up for each customer and management monitors the level of outstanding debt on an on-going basis.

Directors' Report (continued)

Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including through the engagement channels referred to in the Strategic Report, and through individual discussions, team briefings, publications and regular meetings with employee representatives.

The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

The Company has employment policies in place which specify commitments to providing a work environment that is free from harassment, bullying and discrimination – these policies are available to all staff on the Company's intranet. There is no discrimination against people with disabilities who apply to join the Company and anyone within the Company with disability is awarded the same opportunities for promotion, training and career development as other staff. The Company aim to establish and maintain a safe working environment for all staff, including those with disabilities.

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

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

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

Research and development

No research & development expenditure has been incurred during the year (2018: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

Directors' Report (continued)

Auditor

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

Directors' declaration in relation to relevant audit information

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

- (a) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) 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 relevant audit information and to establish that the Company's auditor is aware of that information.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at page 2 summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders when making decisions on behalf of the Company

Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 26 to 27 of the BAT Annual Report.

On behalf of the Board



Joana Garsvaite
Director
One Eton Street
Richmond upon Thames
London
TW9 1EF
28 September 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH AMERICAN TOBACCO UK LIMITED

Opinion

We have audited the financial statements of British American Tobacco UK Limited ("the company") for the year ended 31 December 2019 which comprise the profit and loss account, statement of changes in equity, balance sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH AMERICAN TOBACCO UK LIMITED

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

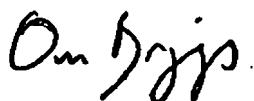
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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



Oliver Briggs (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London, E14 5GL

28 September 2020

Profit and loss account for the year ended 31 December

Continuing operations	Note	2019 £'000	2018 £'000
Turnover	2	156,823	155,553
Raw materials and consumables		(134,798)	(117,433)
Other operating income	3	60,983	31,812
Other operating expenses	4	(78,043)	(70,576)
Operating profit / (loss)		4,965	(644)
Other interest receivable and similar income	5	90	21
Interest payable and similar expenses	6	(3,599)	(833)
Profit / (loss) before taxation		1,456	(1,456)
Tax on Profit / (Loss)	7	(384)	(732)
Profit / (loss) after taxation		1,072	(2,188)

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

Statement of changes in equity for the year ended 31 December

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
1 January 2018	1,000	35,803	36,803
Change in accounting policy	-	(139)	(139)
	1,000	35,664	36,664
Loss for the financial year	-	(2,188)	(2,188)
Dividends paid	-	(5,423)	(5,423)
31 December 2018	1,000	28,053	29,053
Profit for the financial year	-	1,072	1,072
Dividends paid	-	(4,933)	(4,933)
31 December 2019	1,000	24,192	25,192

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

Balance sheet as at 31 December

	Note	31 December 2019 £'000	31 December 2018 £'000
Fixed assets			
Tangible assets	8	20,021	154
Current assets			
Stock	9	33,565	35,561
Debtors: amounts falling due within one year	10	189,621	225,080
Deferred tax asset	7	1,719	2,103
Cash at bank and in hand		845	680
Total current assets		225,750	263,424
Total assets		245,771	263,578
Creditors: amounts falling due within one year	11	(200,025)	(234,525)
Loan & Borrowings	12	(4,262)	-
Total current liabilities		(204,287)	(234,525)
Loan & Borrowings	12	(16,292)	-
Total non-current liabilities		(16,292)	-
Net assets		25,192	29,053
Capital and reserves			
Called up share capital	13	1,000	1,000
Profit and loss account		24,192	28,053
Total shareholders' funds		25,192	29,053

The financial statements on pages 9 to 23 were approved by the Directors on 28 September 2020 and signed on behalf of the Board.



Joana Garsvaite
Director

Registered number
02346565

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

Notes to the financial statements for the year ended 31 December 2019

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101 have been taken.

The Directors have at the time of approving these financial statements a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months following the signing of these accounts.

With effect from 1 January 2019, the Company has applied IFRS 16 Leases to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities.

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

The most significant items include the review of asset values and impairment testing of non-financial assets.

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

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

Exemptions under FRS 101

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- The effects of new but not yet effective IFRSs;
- IFRS 2 *Share Based Payments* in respect of group settled share-based payments
- Disclosures of transactions with other subsidiary undertakings of the British American Tobacco plc. Group;
- Disclosures in respect of the Capital Management.

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

Notes to the financial statements for the year ended 31 December 2019

1 Accounting policies (continued)

Foreign currencies

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

Turnover

Turnover principally comprises sales of cigarettes, other tobacco and nicotine products in the United Kingdom and the Channel Islands. Turnover excludes duty, excise and other taxes and is after deducting rebates, returns and other similar discounts and payments to direct and indirect customers. Turnover is recognized when control of the goods is transferred to a customer; this is usually evidenced by a transfer of the significant risks and rewards of ownership upon delivery to the customer, which in terms of timing is not materially different to the date of shipping.

From 1 January 2018, as permitted by IFRS 9, a provisions matrix for lifetime expected losses is used for receivables balances arising from the recognition of revenue. Prior to this, allowances were made for bad and doubtful debts, as appropriate.

Operating expenses

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

Taxation

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

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

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.

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

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

Stock

Stock is valued at the lower of cost and net realisable value. Cost is based on weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale. Provisions are made for slow moving or obsolete items.

Notes to the financial statements for the year ended 31 December 2019

1 Accounting policies (continued)

Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis to write off the cost of tangible assets over their useful lives. Depreciation is charged pro rata based on the month of acquisition and disposal. The rates of depreciations used are:

	%
Motor vehicles	25-33
Plant, machinery and equipment	10-33
Leasehold property	10-25

Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value in use.

Leased assets

With effect from 1 January 2019, the Company has applied IFRS 16 Leases to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of note 8 Tangible assets and the liabilities included as part of note 12 Borrowings.

In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. The impact on the Company of implementing the new Standard is shown in Note 18 Adoption of new accounting standards effective 1 January 2019.

The Company has taken advantage of certain practical expedients available under the Standard, including "grandfathering" previously recognised lease arrangements such that contracts were not reassessed at the implementation date as to whether they were, or contained, a lease, and leases previously classified as finance leases under IAS 17 remained capitalised on the adoption of IFRS 16. In addition, as part of the implementation, the Company has applied a single discount rate to portfolios of leases with reasonably similar characteristics, has assessed whether individual leases are onerous prior to applying the Standard, has applied hindsight in determining the lease term if the contract contains options to extend or terminate the lease, and has not apply the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

For leasing arrangements entered into after 1 January 2019, the Company has also adopted several practical expedients available under the Standard including not applying the requirements of IFRS 16 to leases of intangible assets, applying the portfolio approach where appropriate to do so, not applying the recognition and measurement requirements of IFRS 16 to short-term leases (leases of less than 12 months maximum duration) and to leases of low-value assets. Except for property-related leases, non-lease components will not be separated from lease components. The Company will continue to report recognised assets and liabilities under leases within property, plant and equipment and borrowings respectively rather than show these as separate line items on the face of the balance sheet.

Lease liabilities are initially recognised at an amount equal to the present value of estimated contractual lease payments at the inception of the lease, after taking into account any options to extend the term of the lease. Lease commitments are discounted to present value using the interest rate implicit in the lease if this can be readily determined, or the applicable incremental rate of borrowing, as appropriate. Right-of-use lease assets are initially recognised at an amount equal to the lease liability, adjusted for initial direct costs in relation to the assets, then depreciated over the shorter of the lease term and their estimated useful lives.

Notes to the financial statements for the year ended 31 December 2019

1 Accounting policies (continued)

Leased assets (continued)

Prior to 1 January 2019, the company applied IAS 17 Leases. Under IAS 17, leases which were not classified as finance leases were classified as operating leases and such arrangements were not capitalised. Rental payments under operating leases were charged to operating profit on a straight-line basis over the lease term.

Employee share schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group undertaking, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The fellow Group Company, which administers the share schemes on behalf of other Group undertakings and calculates and reflects the charge for the share schemes, provides the relevant disclosures required under IFRS 2. Disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent. Amounts recorded in the year related to employee share scheme are not material.

Dividends

Dividends payable that are unapproved at the year-end are not recognised as a liability. Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

Retirement benefits

The Company operates and participates in both defined benefit and defined contribution schemes. The cost and liabilities of the defined benefit schemes are accounted for by the principal employer of the arrangement, and the Company recognises its contributions to the costs of these schemes as an expense when they fall due. Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due. Amounts recorded in the year related to retirement benefits are not material.

Financial instruments

The Company's business model for managing financial assets is in accordance with the principles set out in the BAT Group Treasury Manual which notes that the primary objective with regard to the management of cash and investments is to protect against the loss of principal. The majority of financial assets are held in order to collect contractual cash flows (typically loans and other receivables).

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current.

Financial instruments are initially recognised at fair value plus directly attributable transaction costs where applicable, with subsequent measurement as set out below. The Company's financial assets are held in order to collect contractual cash flows and are subsequently carried at amortised cost. Non-derivative financial liabilities, including creditors, are subsequently carried at amortised cost using the effective interest method. Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised in profit and loss.

Loans and receivables

Amounts owed by Group undertakings and other debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Notes to the financial statements for the year ended 31 December 2019

1 Accounting policies (continued)

Impairment of financial assets held at amortised cost

Financial assets are reviewed at each balance sheet date, or whenever event indicate that the carrying amount may not be recoverable. With effect from 1 January 2018, loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on the initial recognition of the underlying asset. As permitted by IFRS 9, the loss allowance on trade receivables arising from the recognition of revenue under IFRS 15 are initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

2 Turnover

Turnover principally comprises sales of cigarettes, other tobacco and nicotine products in the United Kingdom and the Channel Islands.

3 Other operating income

Other operating income comprises recharges to other fellow Group subsidiaries.

4 Other operating expenses

	2019	2018
	£'000	£'000
Other operating charges comprise:		
Outsourced services	19,297	23,927
Staff costs	24,863	17,407
Marketing costs	11,900	5,529
Inventory write-off	8,054	7,155
Depreciation of tangible fixed assets	3,600	250
Auditors' remuneration:		
- Audit services	75	73
Exchange losses	40	48
Other operating charges	10,214	16,187
	78,043	70,576
	2019	2018
	£'000	£'000
Staff costs:		
Wages and salaries	20,071	13,680
Social security costs	2,032	1,523
Defined contribution scheme costs (note 14)	1,282	1,210
Defined benefit scheme treated as defined contribution scheme (note 14)	289	312
Share-based payments	1,189	682
	24,863	17,407

Notes to the financial statements for the year ended 31 December 2019

4 Other operating expenses (continued)

The average monthly number of persons (including Directors) employed by the Company during the year was:

	2019 Number	2018 Number
By activity		
Administration	18	19
Selling and distribution	202	173
	<u>220</u>	<u>192</u>

The aggregate emoluments of the Directors payable by the Company in respect of their services to the Company were as follows:

	2019 £'000	2018 £'000
Aggregate emoluments	<u>1,772</u>	<u>1,605</u>

	2019 Number	2018 Number
Directors exercising share options during the year	3	2
Directors entitled to receive shares under a long-term incentive scheme	2	2
Directors retirement benefits accruing under a defined benefit scheme	1	1
Directors retirement benefits accruing under a defined contribution scheme	8	4

Highest paid Director

	2019 £'000	2018 £'000
Aggregate emoluments	541	795
Accrued pension at year end	<u>85</u>	<u>80</u>

The highest paid Director was entitled to receive shares under a long-term incentive scheme and did not exercise share options during the year.

5 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable from Group undertakings	<u>90</u>	<u>21</u>

6 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest payable to Group undertakings	3,324	833
Interest on lease liabilities	275	-
	<u>3,599</u>	<u>833</u>

Notes to the financial statements for the year ended 31 December 2019

7 Taxation

(a) Recognised in the profit and loss account

	2019 £'000	2018 £'000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
Adjustments in respect of prior periods	-	-
Total current tax		
<i>Deferred tax</i>		
Origination and reversal of temporary differences	384	732
Total deferred tax	384	732
Total income tax expense (note 7b)	384	732

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget, it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2018: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2019 £'000	2018 £'000
Profit/ (loss) for the year	1,072	(2,188)
Total tax expense	384	732
Profit excluding taxation	1,456	(1,456)
Tax using the UK corporation tax rate of 19% (2018: 19%)	277	(276)
Non-deductible expenses	226	270
Recognition of temporary differences previously unrecognised	(61)	249
Group relief granted/ (received) for nil consideration	(58)	489
Total tax charge (note 7a)	384	732

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Tangible fixed assets	1,719	2,103	-	-	1,719	2,103
Net tax assets	1,719	2,103	-	-	1,719	2,103

The Company has recognized deferred tax assets of £1,719,042 (2018: £2,103,194) in relation to unused capital allowances. These unused allowances have no expiry date.

Notes to the financial statements for the year ended 31 December 2019

7 Taxation (continued)

Movement in deferred tax during the year

	1 January 2019 £'000	Recognised in income £'000	Recognised in equity £'000	31 December 2019 £'000
Tangible fixed assets	2,103	(384)	-	1,719

8 Tangible assets

Overview of tangible assets, including right-of use assets

	Motor Vehicles £'000	Plant, machinery and equipment £'000	Leasehold property £'000	Asset under construction £'000	Total £'000
Cost					
Balance at 1 January 2018	-	1,100	-	-	1,100
Additions	-	-	-	61	61
Balance at 31 December 2018	-	1,100	-	61	1,161
Balance at 1 January 2019	-	1,100	-	61	1,161
Adoption of IFRS 16	1,634	-	8,578	-	10,212
Adjusted balance at 1 January 2019	1,634	1,100	8,578	61	11,373
Additions	46	-	16,610	1,707	18,363
Disposals	(22)	-	-	-	(22)
Transfers	-	179	-	(179)	-
Balance at 31 December 2019	1,658	1,279	25,188	1,589	29,714
Accumulated depreciation					
Balance at 1 January 2018	-	757	-	-	757
Depreciation charge for the year	-	250	-	-	250
Balance at 31 December 2018	-	1,007	-	-	1,007
Balance at 1 January 2019	-	1,007	-	-	1,007
Adoption of IFRS 16	817	-	4,289	-	5,106
Adjusted balance at 1 January 2019	817	1,007	4,289	-	6,113
Depreciation charge for the year	510	91	2,999	-	3,600
Disposals	(20)	-	-	-	(20)
Balance at 31 December 2019	1,307	1,098	7,288	-	9,693
Net book value					
1 January 2018	-	343	-	-	343
31 December 2018	-	93	-	61	154
31 December 2019	351	181	17,900	1,589	20,021

Right-of-use assets

The Company's right-of-use assets related to office and warehouse facilities, as well as the lease of motor vehicles. Upon adoption of IFRS 16 Leases, £5,106,000 worth of right-of use assets have been capitalised as at 1 January 2019 at net book value. During 2019, further additions of £16,656,000 (net of reassessments, modifications and terminations) were made to the Company assets portfolio.

Notes to the financial statements for the year ended 31 December 2019

9 Stock

	2019	2018
	£'000	£'000
Finished goods and goods for resale	33,565	35,561

Write-offs taken to the other operating expenses in the income statement comprise **£8,054,000** (2018: £7,155,000)

10 Debtors: Amounts falling due within one year

	2019	2018
	£'000	£'000
Trade debtors external	63,784	3,692
Amounts owed by Group undertakings	125,529	221,278
Expected credit loss allowance	(80)	(162)
Trade receivables – net of allowances	189,233	224,808
Other debtors	388	272
	189,621	225,080

Amounts owed by Group undertakings of **£125,529,000** (2018: £221,278,000) are unsecured, non-interest bearing and repayable at demand.

The movements in the allowance accounts are as follows:

	2019	2018
	£'000	£'000
1 January	162	-
Amount (released)/charged during the year	(82)	162
31 December	80	162

11 Creditors: Amounts falling due within one year

	2019	2018
	£'000	£'000
Trade creditors	7,726	10,091
Amounts owed to Group undertakings	14,897	58,776
Taxation and social security	155,285	149,510
Accruals and deferred income	22,117	16,148
	200,025	234,525

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements for the year ended 31 December 2019

12 Borrowings

	2019 £'000	2018 £'000
Non-current Liabilities		
Lease Liabilities	16,292	-
Current Liabilities		
Lease Liabilities	4,262	-
Amount recognised in profit or loss:		
	2019 £'000	2018 £'000
2019 – Lease under IFRS16		
Interest on lease liabilities	275	-
Expenses relating to short-term leases	41	-
2018 – Operating lease under IAS17		
Lease expense	-	2,373

Term and conditions of outstanding lease liabilities as at 31 December 2019 are as follows:

	Nominal Interest rate	Year of maturity	Carrying amount £'000
Lease Liabilities	2.13% - 3.19%	2020 - 2029	20,554

Lease liabilities are repayable as follows:

	Present Value of minimum lease payments £'000
Within one year	4,262
Between one and two years	2,034
Between two and three years	2,012
Between three and four years	2,054
Between four and five years	1,671
Beyond five years	8,521
	<u>20,554</u>

13 Called up share capital

	2019	2018
Ordinary shares of £1 each		
Allotted, called up and fully paid		
- value	£1,000,002	£1,000,002
- number	1,000,002	1,000,002

Notes to the financial statements for the year ended 31 December 2019

14 Retirement benefits

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer funded scheme. Under FRS 101, where more than one employer participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the net defined benefit cost shall be recognised in the accounts of the group entity that is legally the sponsoring employer. British American Tobacco (Investments) Limited is the sponsoring employer with the other participating employers recognising costs equal to their contributions to those liabilities.

Details of the latest actuarial valuation of this defined benefit scheme are contained in the financial statements of British American Tobacco (Investments) Limited.

The liabilities arising in the defined benefit schemes, including UKPF, are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method, this being formally valued at least every three years. The last full triennial actuarial valuation of UKPF was carried out as at 31 March 2017 by a qualified independent actuary and showed a deficit of £23,000,000.

The Company only participates in multi-employer schemes and the Company is unable to identify its share of the underlying assets and liabilities of the schemes.

The defined benefit pension scheme cost was **£289,000** (2018: £312,000) for the year.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due. The defined contribution pension cost for the Company was **£1,282,000** (2018: £1,210,000).

15 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under FRS 101 'Related party disclosures' from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

16 Contingent liabilities

The Company's ultimate parent British American Tobacco p.l.c. has guaranteed the liabilities of the British American Tobacco UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. In addition, all of the participating employers have cross guaranteed the contributions due to the scheme. The fund had a deficit according to the last triennial actuarial valuation in March 2017, of £23,000,000. As at 31 December 2019 these valuation of the surplus on an IAS 19 basis was **£326,385,000** (2018: £1,062,842,000).

17 Post Balance Sheet Events

The Directors have considered the potential impact of the Covid-19 pandemic on the Company's trading prospects and future cash flows. They have concluded that both the going concern basis of preparation of these financial statements is appropriate and that no adjustment is required to the statement of financial position as at 31 December 2019.

Notes to the financial statements for the year ended 31 December 2019

18 Adoption of new accounting standards effective 1 January 2019

With effect from 1 January 2019, the Company adopted IFRS 16 Leases with no revision of prior periods, as permitted by the Standard. In accordance with IFRS 16, the distinction between operating leases and finance leases is removed with the effect that virtually all leasing arrangements are brought on the balance sheet as financial obligations and "right-to-use asset".

As disclosed in note 1 the anticipated impact of IFRS 16 to the Company's balance sheet as at 1 January 2019 was the capitalisation of £5,106,000 right-to-use assets and financial liabilities of £5,106,000.

In 2019, as part of the implementation of IFRS 16, further commitments were identified and consequently the financial obligations and "right-to-use" assets increased. The impact of the new Standard to the Company's balance sheet at 1 January 2019, and a reconciliation to reported leasing commitments, is shown below:

Minimum lease commitments	£000
Leasehold Property	
Within one year	2,168
Between one and five years	2,121
Beyond five years	-
	<u>4,289</u>
Motor Vehicles	
Within one year	450
Between one and five years	367
Beyond five years	-
	<u>817</u>
Total minimum lease commitments	5,106
Discounted to present value	-
To be capitalised as lease liabilities at 1 January 2019	5,106
Prepaid leases reclassified from receivables	-
To be capitalised as right-to-use assets at 1 January 2019	5,106

The weighted average incremental borrowing rate applied in discounting lease commitments was 3%.

19 Parent undertakings

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

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