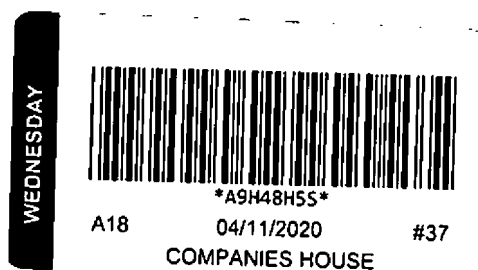


British-American Tobacco (Holdings) Limited

Registered Number 00262254

Annual 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 (Holdings) Limited (the "Company") for the year ended 31 December 2019.

Principal activities

The Company acts as an investment holding company in subsidiary undertakings of the British American Tobacco group of companies (the "Group") which are active in the tobacco industry and in addition acts as the principal Group Head Office operating company.

Review of the year ended 31 December 2019

The profit for the financial year attributable to British-American Tobacco (Holdings) Limited shareholders after deduction of all charges and the provision of taxation amounted to £4,233,393,000 (2018: £3,229,761,000).

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

Post Balance Sheet Events

In April 2020, the Company transferred the Royalty activity to a fellow British American Tobacco p.l.c Group company.

On 3 June 2020, the directors approved the sale of IT related fixed assets in value of approx. £332,000,000 and stock in value of approx. £238,000,000, and the transfer of the IDT activities to British American Shared Services (GSD) Limited, ("GSD"), a fellow Group company. The purpose of the transfer would be to align the IT assets to commercial activities and to enable significant optimisation of the current IDT Group recharges and administrative processes.

The Directors have also approved an equity capital injection up to £660,000,000 to GSD, to fund the transfer.

The equity injection and the asset sale are expected to happen in the second part of 2020.

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in British American Tobacco p.l.c.'s 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 above in the Company's Strategic Report, the Company's principal activity is the holding of investments in subsidiary undertakings of the Group which are active in the tobacco industry and in addition acts as the principal Group Head Office operating company.

Strategic Report (continued)

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 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 its employees (the Company has around 776 employees with the majority based in the UK), direct and indirect suppliers to the Company (including suppliers of materials, goods and services), banks, other Group undertakings, governments, tax authorities, its shareholder and wider society in the countries in which the Company operates. 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. Primary ways in which the Company engages with financial institutions are through regular meetings, ongoing dialogue and relationship management conducted by the Group's Treasury and Finance teams. There is also regular engagement within the Group on finance-related matters, which is taken into account in the Company's 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).

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

In accordance with the Group's overall governance and internal controls framework and in support of the Company's purpose as part of the Group, the Company applies and the Directors have due regard to all applicable Group policies and procedures, including the Group Statement of Delegated Authorities ("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 BAT 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 the Company's Payment Practices Reporting. Examples of how stakeholder considerations and other relevant factors have been taken into account during the decision-making process in these contexts are as follows:

Strategic Report (continued)

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 making these decisions include those of the Company's shareholder, direct and indirect suppliers and customers, employees, government authorities and wider society in countries in which the Company operates. As part of this review, the Board considered actions being taken to address the risk of human rights issues across the supply chain and the applicable Group policies, governance and controls.

Payment Practices Reporting: The Board reviewed the requirements for the Company to publish its payment practice report under the Reporting on Payment Practices and Performance Regulations ('Regulations') and the contents of the Company's payment practice report for the year. The Board also approved the procedure for publication of the Company's payment practice report in accordance with the Regulations. Key factors taken into consideration in relation to these decisions included the interests of the Company's direct and indirect suppliers, the Company's standard payment terms, and its payment processes.

By order of the Board



Mr P. McCormack
Assistant Secretary

2 October 2020

Directors' Report

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

Dividends

During the year the Company paid dividends amounting to £5,000,000,000 (2018: £2,900,000,000).

Board of Directors

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

Nicandro Durante	(Resigned 1 April 2019)
John Benedict Stevens	(Resigned 5 August 2019)
Jerome Bruce Abelman	
Jack Bowles	
Alan Davy	
Giovanni Giordano	(Resigned 31 March 2019)
Andrew MacLachlan Gray	(Resigned 1 January 2019)
Tadeu Luiz Marroco	
David O'Reilly	
Ricardo Cesar de Almeida Oberlander	(Resigned 31 August 2020)
Naresh Kumar Sethi	(Resigned 31 March 2019)
Johan Maurice Vandermeulen	
Kingsley Wheaton	
Marina Fagundes Bellini	(Appointed 1 January 2019)
Luciano Comin	(Appointed 1 January 2019)
Hae In Kim	(Appointed 1 January 2019)
Paul Rutger Lageweg	(Appointed 1 January 2019)
Guy Andrew Meldrum	(Appointed 1 January 2019)
Mihovil James Dijanosic	(Appointed 1 September 2020)

Directors' indemnities

Throughout the period 1 January 2019 to 31 December 2019, qualifying third party indemnities have been in force under which Mr N. Durante and Mr J.B. Stevens as Directors of the Company until 1 April 2019 and 5 August 2019 respectively, were, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company or as a result of things done by each of them as a Director on behalf of the Company.

Throughout the periods 1 January 2019 to the date of this report, qualifying third party indemnities have been in force under which Mr J. Bowles and Mr T.L. Marroco as Directors of the Company, were, to the extent permitted by law, indemnified by British American Tobacco p.l.c., the ultimate parent undertaking, in respect of all costs, charges, expenses or liabilities which they may incur in or about the execution of their duties to the Company or as a result of things done by each of them as a Director on behalf of the Company.

Research and development

No research and 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).

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' Report (continued)

Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, 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 committed 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 aims to establish and maintain a safe working environment for all staff, including those with disabilities.

UK Companies Act 2006: Employee engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at page 2 summarises the primary engagement channels for Group company employees based in the UK (including the Company's employees), the Directors' approach to engaging with the Company's employees, and how the Directors have regard to their interests when making decisions

During the year, the Directors engaged directly with Company employees, including through webcasts or virtual presentations, to discuss Group strategy, performance and other topics such as Group diversity and inclusion. Examples during the year include participation in the Group's global webcast campaign #BalanceForBetter on International Women's Day and the Group's annual event for 'B United', the Group's LGBT+ network. During the year, the Directors received several updates on Group workforce engagement (including with employees of the Company), covering feedback from engagement channels including insights from the "Your Voice" employee engagement survey.

Further information regarding methods of engagement with Group company employees based in the UK (including the Company's employees) is provided on pages 26 to 27 and pages 41 to 42 of the BAT Annual Report.

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 suppliers, employees, the Company's shareholder 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.

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;

Directors' Report (continued)

- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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

Directors' declaration in relation to relevant audit information

Having made appropriate enquiries, each of the Directors who held office at the date of approval of this 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.

By Order of the Board



Mr P. McCormack
Assistant Secretary

2 October 2020

Independent Auditor's Report to the members of British-American Tobacco (Holdings) Limited

Opinion

We have audited the financial statements of British-American Tobacco (Holdings) Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and loss account, Statement of other comprehensive income, Statement of changes in equity, Balance Sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 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 a year from the date of approval of the financial statements. 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 (Holdings) Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on pages 6 and 7, 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.



Natalia Bottomley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London. E14 5GL
5 October 2020

Profit and loss account for the year ended 31 December

	Note	2019 £'000	2018 £'000
Continuing operations			
Other operating income	2	1,293,783	1,253,666
Other operating expenses	3	(958,503)	(988,110)
Operating profit		335,280	265,556
Income from shares in Group undertakings	4	3,933,164	2,997,073
Interest receivable and similar income	5	7,071	5,648
Interest payable and similar expenses	6	(23,559)	(25)
Profit before taxation		4,251,956	3,268,252
Tax on profit	7	(18,563)	(38,491)
Profit for the financial year		4,233,393	3,229,761

Statement of comprehensive income for the year ended 31 December

	Note	2019 £'000	2018 £'000
Profit for the financial year		4,233,393	3,229,761
Actuarial (loss)/gain arising on defined benefit pension scheme	17	(29,280)	16,929
Effective portion of changes in fair value of cash flow hedges	19	39,627	(18,119)
Deferred tax on actuarial loss/(gain)		4,978	(2,878)
Total recognised gains relating to the financial year		4,248,718	3,225,693

Statement of changes in equity for the year ended 31 December

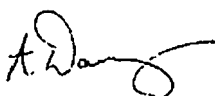
	Called up share capital	Share premium account	Profit and loss account	Cash flow hedge reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000
1 January 2018	124,898	23,183,910	1,955,812	8,752	25,273,372
Total comprehensive income					
Profit for the financial year	-	-	3,229,761	-	3,229,761
Other comprehensive income (see above)	-	-	14,051	(18,119)	(4,068)
Total comprehensive income for the period	-	-	3,243,812	(18,119)	3,225,693
<i>Transactions with owners, recorded directly in equity</i>					
Equity share scheme income	-	-	27,643	-	27,643
Exercise of equity-settled share options	-	-	2,080	-	2,080
Dividends paid	-	-	(2,900,000)	-	(2,900,000)
31 December 2018	124,898	23,183,910	2,329,347	(9,367)	25,628,788
Total comprehensive income					
Profit for the financial period	-	-	4,233,393	-	4,233,393
Other comprehensive income (see above)	-	-	(24,302)	39,627	15,325
Total comprehensive income for the period	-	-	(2,069)	39,627	15,325
<i>Transactions with owners, recorded directly in equity</i>					
Equity share scheme expense	-	-	(2,509)	-	(2,509)
Exercise of equity-settled share options	-	-	1,759	-	1,759
Dividends paid	-	-	(5,000,000)	-	(5,000,000)
31 December 2019	124,898	23,183,910	1,537,688	30,260	24,876,756

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

Balance sheet as at 31 December

		31 December 2019	31 December 2018
	Note	£'000	£'000
Fixed assets			
Intangible assets	8	348,178	358,196
Tangible assets	9	64,363	22,116
Investments in Group undertakings	10	27,206,870	23,392,864
		27,619,411	23,773,176
Current assets			
Debtors: amounts falling due after one year		596	549
Stocks	12	237,670	311,488
Debtors: amounts falling due within one year	11	1,461,580	1,945,718
Deferred tax asset	15	103,528	106,783
Derivative financial instruments – assets	19	46,022	1,583
Cash at bank and in hand		431	123,539
		1,849,827	2,489,660
Creditors: amounts falling due within one year	13a	(408,288)	(348,505)
Derivative financial instruments - liabilities	19	(4,274)	(11,967)
Net current assets		1,437,265	2,129,188
Total assets less current liabilities		29,056,676	25,902,364
Creditors: amounts falling due after one year	13b	(3,850,279)	(952)
Provisions for liabilities	14	(39,785)	(15,552)
Retirement benefit scheme liabilities	17	(289,302)	(255,882)
Derivative financial instruments – liabilities falling due after one year	19	(554)	(1,190)
Net assets		24,876,756	25,628,788
Capital and reserves			
Called up share capital	16	124,898	124,898
Share premium account	16	23,183,910	23,183,910
Profit and loss account		1,537,688	2,329,347
Cash flow hedge reserve		30,260	(9,367)
Total shareholders' funds		24,876,756	25,628,788

The financial statements on pages 10 to 37 were approved by the Directors on 2 October 2020 and signed on behalf of the Board.



Mr. A. Davy
Director

Registered number
00262254

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, such as the preparation of a cash flow statement or disclosures regarding financial instruments, transactions with related parties, and certain disclosures regarding share-based payments 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.

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.

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 of £53,907,267.

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 financial and non-financial assets; and
- the estimation of and accounting for retirement benefits costs.

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.

Foreign currencies

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

Income

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

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

1 Accounting policies (continued)

Taxation

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

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

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

Deferred tax is 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.

Intangible assets

The intangible assets shown on the Company balance sheet consist mainly of computer software.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to ten years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding ten years. Assets in the course of construction are not amortised until brought into operational use.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held for sale. Freehold and leasehold property are depreciated at rates between 2.5 per cent and 4 per cent per annum, and plant and equipment at rates between 5 per cent and 25 per cent per annum. Assets in the course of construction are not depreciated until brought into operational use.

Investments in Group undertakings

Investments in Group undertakings are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, where appropriate.

Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared and paid.

Stocks

The Company acts as a service provider for certain global solutions and accounts for the cost of the services for which the entity has not recognised the related revenue as work in progress stock, in accordance with IAS 2.

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

1 Accounting policies (continued)

Retirement benefits

The Company operates and participates in both defined benefit and defined contribution schemes. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 Employee Benefits, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements.

Actuarial gains and losses, changes in unrecognised scheme surpluses and minimum funding requirements are recognised in full through other comprehensive income. Past service costs or credits resulting from amendments to benefits are recognised immediately.

For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements.

Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

Financial instruments

The Company's business model for managing financial assets is set out in the 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 cash and cash equivalents and loans and other receivables) but some assets (typically investments) are held for investment potential.

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

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

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

for derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the profit and loss account. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the profit and loss account in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the profit and loss account in the same periods as the hedged item;

for derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the profit and loss account in the period in which they arise.

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

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the profit and loss account in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately reclassified to the profit and loss account.

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

1 Accounting policies (continued)

Financial instruments (continued)

All of the Company's hedging relationships at the end of 2018 are considered to be continuing hedge relationships on the adoption of IFRS 9.

Derivative fair value changes recognised in the profit and loss account are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs. Non-derivative financial assets apart from investments in associates are classified on initial recognition as amounts owed by Group undertakings and Other debtors.

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.

Impairment of financial assets held at amortised cost

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. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12-month expected credit losses. Where the credit risk on the receivables has increased significantly since initial recognition, allowances are measured at an amount equal to the lifetime expected credit loss. Prior to 1 January 2018, financial assets were reviewed for impairment at each balance sheet date, or whenever events indicated that the carrying amount might not be recoverable.

Impairment of non-financial assets and investments in Group undertakings

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 recoverable amount which is the higher of the asset's fair value less costs to sell and its value in use.

Leases

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 property, plant and equipment note 9 and the liabilities included as part of creditors note 13.

In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. Total assets and total equity and liabilities on 1 January 2019 have both increased by £53,907,267. 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 applied the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

Going forward for new leasing arrangements taken out after 1 January 2019, the Company will also adopt 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.

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

1 Accounting policies (continued)

Leases (continued)

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.

Prior to 1 January 2019, the annual payments under operating leases were charged to the profit and loss account on a straight-line basis over the length of the lease term.

Other operating expenses

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

2 Other operating income

Other operating income predominantly comprises royalties, technical and advisory fees and IT recharges from fellow Group undertakings.

	2019 £'000	2018 £'000
Royalties	712,982	678,158
Technical and advisory fees	267,721	312,050
IT recharges	272,125	248,007
Other income	40,955	15,451
	1,293,783	1,253,666

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

3 Other operating expenses

	2019 £'000	2018 £'000
Other operating expenses comprise:		
Staff costs	252,615	278,627
Depreciation of tangible assets	15,090	6,806
Amortisation of intangibles	71,510	72,647
Impairment of tangible assets	186	934
Tangible asset write-off	-	17
Write off of intangible assets	1,246	-
Write off of intangible assets – capitalised	(1,246)	-
Impairment of intangible assets – net	-	-
Gain on disposal of tangible assets	(591)	(542)
Utilities and operating lease charges:		
- buildings – gross	9,795	19,847
- buildings - amounts capitalised to work in progress	-	(9)
- buildings – net	9,795	19,838
Auditor's remuneration:		
- For the audit of the financial statements of the ultimate parent undertaking	10,051	8,645
- For the audit of the financial statements of the Company	50	50
Taxation advisory services	22,755	17,104
Other advisory services	33,206	24,583
Taxation advisory services - capitalised	(3,855)	(811)
Advisory services - net	52,106	40,876
Exchange losses	6,819	3,185
Exceptional operating expense	38,200	44,579
Royalty expense	227,993	215,928
Other operating expense	188,446	220,215
Cost of sales	107,738	93,159
Total other operating expense capitalised to work in progress	(21,505)	(16,854)
	958,503	988,110

	2019 £'000	2018 £'000
Staff costs:		
Wages and salaries	170,559	179,359
Social security costs	19,150	21,167
Unfunded defined benefit scheme pension costs (note 17)	25,671	26,857
Defined contribution scheme pension cost (note 17)	5,965	7,507
Other pension costs	74	213
Pension recharge (note 17)	3,406	2,789
Share-based payments (note 18)	104,373	104,323
Contributions from other Group undertakings to share based payments	(69,269)	(54,182)
Total staff costs capitalised to work in progress	(7,314)	(9,406)
Total	252,615	278,627

The Company acts as contractual employer and recharges the costs as appropriate to other Group undertakings where its employees perform work on behalf of other Group undertakings. Additionally the Company is recharged for work performed for the Company by employees employed by other Group undertakings.

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

3 Other operating expenses (continued)

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

	2019 Number	2018 Number
Administration	776	868

The aggregate emoluments of the Directors payable by the Company or its subsidiary undertakings in respect of their services to those companies while Directors of the Company were:

	2019 £'000	2018 £'000
Aggregate emoluments	18,827	14,898

	2019 Number	2018 Number
Directors exercising share options during the year	14	11
Directors entitled to receive shares under a long term incentive scheme	14	11
Directors retirement benefits accruing under a defined benefit scheme	10	8
Directors retirement benefits accruing under a defined contribution scheme	5	3

Highest paid Director

	2019 £'000	2018 £'000
Aggregate emoluments	1,955	2,019

Defined contribution pension scheme:

Accrued pension at the end of year	-	-
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Included in the total aggregate emoluments above is payment for compensation for loss of office of £1,664,000 (2018: £nil).

The above figures do not include Messrs N. Durante, J.B Stevens, J. Bowles and T. Marroco who receive remuneration in respect of their services as Directors of the British American Tobacco p.l.c. Group and do not receive any remuneration in their capacity as Directors of the Company. Their remuneration is disclosed in the Annual Report of British American Tobacco p.l.c..

Notes to the financial statements for the year ended 31 December 2019**4 Income from shares in Group undertakings**

	2019	2018
	£'000	£'000
Income receivable from Group undertakings	3,933,164	2,997,073

Income receivable from Group undertakings mainly represents dividends received from Louisville Securities Limited and British American Tobacco Western Europe Commercial Trading Limited.

5 Interest receivable and similar income

	2019	2018
	£'000	£'000
Exchange gains	-	1,964
Interest receivable from Group undertakings	6,784	3,684
Other interest receivable	287	-
	7,071	5,648

6 Interest payable and similar expenses

	2019	2018
	£'000	£'000
Exchange losses	1,570	-
Interest payable to Group undertakings	21,989	25
	23,559	25

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

7 Taxation

(a) Recognised in the Profit and loss account

	2019 £'000	£'000	2018 £'000	£'000
<i>UK corporation tax</i>				
Current tax on income for the period	14,846		22,510	
Adjustments in respect of prior periods	(8,090)		(6,740)	
Double taxation relief	(14,846)		(14,421)	
<i>Foreign tax</i>				
Current tax on income for the period	18,420		26,671	
Total current tax		10,330		28,020
<i>Deferred tax</i>				
Origination and reversal of temporary differences	8,227		10,818	
Adjustments in respect of prior periods	6		(347)	
Total deferred tax		8,233		10,471
Total tax expense		18,563		38,491

(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 for the year	4,233,393	3,229,761
Total tax expense	18,563	38,491
Profit excluding taxation	4,251,956	3,268,252
Tax using the UK corporation tax rate of 19% (2018: 19%)	807,872	620,968
Adjustments in respect of prior periods	(8,084)	(7,087)
Non deductible expenses	14,015	14,401
Income non taxable	(771,269)	(590,421)
Transfer pricing adjustments	113	-
Tax rate changes	(956)	(823)
Group relief claimed for nil consideration	(26,479)	(9,205)
Effects of overseas tax rates	3,351	10,658
Total tax charge	18,563	38,491

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

8 Intangible assets

	Computer software £'000	Under development £'000	Total £'000
Cost			
1 January 2019	684,359	19,442	703,801
Additions	-	62,737	62,737
Reallocation	33,686	(33,686)	-
Disposal	(1,290)	-	(1,290)
31 December 2019	716,755	48,493	765,248
Accumulated amortisation			
1 January 2019	(345,605)	-	(345,605)
Charge for the year	(71,510)	-	(71,510)
Disposals	45	-	45
31 December 2019			
Net book value			
1 January 2019	338,754	19,442	358,196
31 December 2019	299,685	48,493	348,178

9 Tangible assets

	Freehold property £'000	Leasehold property £'000	Plant and equipment £'000	Under development £'000	Total £'000
Cost					
1 January 2019	46,217	-	67,106	1,566	114,889
Adoption of IFRS 16	-	53,411	496	-	53,907
Additions	-	-	1,626	2,048	3,674
Reallocation	114	-	1,886	(2,000)	-
Disposals	-	-	(1,408)	-	(1,408)
31 December 2019	46,331	53,411	69,706	1,614	171,062
Accumulated depreciation					
1 January 2019	(38,311)	-	(54,462)	-	(92,773)
Charge for the year	(641)	(9,566)	(4,883)	-	(15,090)
Impairment charge	-	-	(186)	-	(186)
Disposals	-	-	1,350	-	1,350
31 December 2019	(38,952)	(9,566)	(58,181)	-	(106,699)
Net book value					
1 January 2019	7,906	-	12,644	1,566	22,116
31 December 2019	7,379	43,845	11,525	1,614	64,363

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Bahrain				
Flat 2115, Building 2504, Road 2832, Block 428 Al Seef Area, Kingdom of Bahrain British American Tobacco Middle East S.P.C.	Ordinary	0.00	100.00	100.00
Benin				
Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin British American Tobacco Benin SA	Ordinary	0.00	100.00	100.00
Bosnia and Herzegovina				
ul. Kralja Petra I Karadordevica br. 82, 78000 Banja Luka, Bosnia and Herzegovina FDBL-B d.o.o. Banja Luka	Ordinary	0.00	100.00	100.00
Blajburških žrtava br. 62, Mostar, Bosnia and Herzegovina TOBACCO PRESS d.o.o. Mostar	Ordinary	0.00	100.00	100.00
Bulgaria				
425, Tsarigradsko Shose Blvd., Warehouse Base 2, Warehouse (205-208 - (219-222), Pancharevo Municipality, 1000, Sofia, Bulgaria Express Logistics and Distribution EOOD	Ordinary	0.00	100.00	100.00
Cambodia				
1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia British American Tobacco (Cambodia) Limited No. 33, Street No. 294 (Corner of Street No. 29), Sangat Tonle Bassac, Khan Cham Karmon, Phnom Penh, Cambodia	Ordinary	0.00	71.00	71.00
British American Tobacco (Cambodge) International Limited	Ordinary	0.00	100.00	100.00
Cayman Islands				
Trident Trust Company (Cayman) Ltd., One Capital Place, PO Box 847, Grand Cayman, KY1-1103, Cayman Islands R.J. Reynolds Tobacco (CI), Co.	Ordinary	0.00	100.00	100.00
Chile				
Isidora Goyenechea 3000, piso 19, Las Codes, Chile BAT Chile S.A.	Ordinary	0.00	100.00	49.53
Inversiones Casablanca S.A.	Ordinary	0.00	99.98	99.98
British American Tobacco Chile Operaciones S.A.	Ordinary	0.00	49.50	49.50
Denmark				
Vester Farimagsgade 16, 1606 Copenhagen, Denmark British American Tobacco Denmark A/S (House of Prince A/S)	Ordinary	0.00	100.00	100.00
Precis (1789) Denmark A/S	Ordinary	0.00	100.00	100.00
X-International ApS	Ordinary	0.00	100.00	100.00
Egypt				
Administrative unit no.1, 5th Floor, Building S2B, Sector A, Downtown Mall Katameya, 5th settlement, New Cairo, Egypt BETCO for General Services and Marketing LLC	Ordinary	0.00	100.00	100.00
BETCO for Trade and Distribution LLC	Ordinary	0.00	100.00	100.00
British American Tobacco Egypt LLC	Ordinary	0.00	100.00	100.00
Fiji				
Lady Maria Road, Nabua, Suva, Fiji British American Tobacco (Fiji) Marketing Limited	Ordinary	0.00	50.00	50.00
Central Manufacturing Company Limited	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Hong Kong Units 2501 and 2506 to 2510, 25/F Island Place Tower, Island Place 510, King's Road, Hong Kong American Cigarette Company Limited	Ordinary	0.00	100.00	100.00
LEHMAN, LEE & XU CORPORATE SERVICES, Suite 3313, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong Reynolds Asia-Pacific Limited	Ordinary	0.00	100.00	100.00
Iran, Islamic Republic of No.3, Aftab St., Khodami St., Vanak Sq., Post Code: 1994834589, Islamic Republic of Iran B.A.T. Pars Company (Private Joint Stock)	Ordinary	0.00	99.00	99.00
Iraq Enkawa, Erbil, Kurdistan Region of Iraq B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	0.00	100.00	100.00
Isle of Man 2nd Floor, St Mary's Court, 20 Hill Street, Douglas, IM1 1EU, Isle of Man Abbey Investment Company Limited	Ordinary	0.00	100.00	100.00
Italy Via Amsterdam 147, 00144 Rome, Italy British American Tobacco Italia S.p.A.	Ordinary	0.00	100.00	100.00
Japan Midtown Tower 20F, 9-7-1 Akasaka, Minato-ku, Tokyo, Japan British American Tobacco Japan, Ltd.	Equity Units	0.00	100.00	100.00
Kenya 9 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya British American Tobacco Area Limited	Ordinary	0.00	50.00	50.00
Korea, Republic of Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Republic of Korea British American Tobacco Korea Limited	Common	0.00	100.00	100.00
Malaysia 12th Floor, Menara Symphony, No. 5, Jalan Semangat, Seksyen 13, 46200, Petaling Jaya, Selangor Darul Ehsan, Malaysia British American Tobacco GSD (Kuala Lumpur) Sdn Bhd	Ordinary	0.00	100.00	100.00
Mali DJELIBOUGOU-Immeuble BASSARO- BP 2065, Bamako -Mali British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
Netherlands Parktoeren, 6th Floor, VanHeuven Goedhartlaan 11a, 1181 LE Amstelveen, The Netherlands R.J. Reynolds Tobacco B.V.	Ordinary	0.00	100.00	100.00
R.J. Reynolds Tobacco C.V.	Partnership: General Partner – R. J. Reynolds Global Products, Inc. (10%); Limited Partner – R.J. Reynolds Tobacco Co. (DE) (90%);	0.00	100.00	100.00
Reynolds International Holdings B.V.	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Niger <i>Siège social : Rue du parc, Quartier Terminus, Niamey</i>				
British American Tobacco Niger	Ordinary	0.00	100.00	100.00
Norway <i>Dronning Eufemias gate 42. 0191 Oslo, Norway</i>				
British American Tobacco Norway AS	Ordinary	0.00	100.00	100.00
Pakistan <i>Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan</i>				
Pakistan Tobacco Company Limited	Ordinary	0.00	94.35	94.35
Phoenix (Private) Limited	Ordinary	0.00	100.00	94.65
Poland <i>Ul. Tytoniowa 16, 16-300, Augustow, Poland</i>				
British-American Tobacco Polska S.A.	Ordinary	0.00	34.64	34.64
<i>Krakowiakow 48, 02-255, Warszawa, Poland</i>				
British American Tobacco Polska Trading sp. z o.o.	Ordinary	0.00	100.00	100.00
Romania <i>319 Splaiul Independentei, Sema Parc "City Buiding", 1st Floor, 6th Sector, Bucharest, Romania</i>				
British American Shared Services (Europe) S.R.L.	Ordinary	0.00	100.00	100.00
Senegal <i>Almadies, Route Hôtel Méridien en Face Club Med, Dakar, Senegal</i>				
Tobacco Marketing Consultant TMC S.A.R.L	Ordinary	0.00	100.00	100.00
Solomon Islands <i>Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands</i>				
Solomon Islands Tobacco Company Limited	Ordinary	0.00	50.00	50.00
South Africa <i>Waterway House South, 3 Dock Road, V&A Waterfront, Cape Town 8000, South Africa</i>				
British American Shared Services Africa Middle East (Pty) Limited	Ordinary	0.00	100.00	100.00
Sudan <i>Byblos Tower, Al-Muk Nemer Street, Postal Code 11111, P.O Box 1381, Khartoum, Sudan.</i>				
Blue Nile Cigarette Company Limited	Ordinary	0.00	100.00	100.00
Sweden <i>Västra Trädgårdsgatan 15, 111 53 Stockholm, Sweden</i>				
British American Tobacco Sweden AB	Ordinary	0.00	100.00	100.00
British American Tobacco Sweden Holding AB	Ordinary	0.00	100.00	100.00
<i>Stenåldersgatan 23, 213 76 Malmö, Sweden</i>				
<i>Sweden Stationsvagen 11, 523 74 Hokerum, Sweden</i>				
Winnington AB	Ordinary	0.00	100.00	100.00
Winnington Holding Ab	Ordinary	0.00	100.00	100.00
Winnington Global AB	Ordinary	0.00	100.00	100.00
<i>Stenåldersgatan 23, 213 76 Malmö, Sweden</i>				
<i>Fiedler & Lundgren AB</i>	Ordinary	0.00	100.00	100.00
<i>Stre Jamvagsgatan 13, 4 fl. SE-252 24 Helsingborg, Sweden</i>				
Niconovum AB	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Switzerland				
<i>Route de France 17, 2926 Boncourt, Switzerland</i>				
British American Tobacco Switzerland S.A.	Ordinary	0.00	100.00	100.00
British American Tobacco Switzerland Vending SA	Ordinary	0.00	100.00	100.00
<i>Route de la Glâne 107, c/o NBA Fiduciaire S.A. 1752 Villars-sur-Glâne, Switzerland</i>				
Intertab S.A.	Registered	0.00	50.00	50.00
Tanzania, United Republic of				
<i>Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania</i>				
British American Tobacco (Tanzania) Limited	Ordinary	0.00	100.00	100.00
Zanzibar Distribution Company Limited (In liquidation)	Ordinary	0.00	99.00	99.00
Trinidad and Tobago				
<i>Corner Eastern Main Road and Mt. D'or Road, Champs Fleurs, Trinidad and Tobago</i>				
The West Indian Tobacco Company Limited	Ordinary	0.00	50.13	50.13
Uganda				
<i>10th Floor, Lotus Towers, Plot 16 Mackinnon Road, Nakasero, Kampala, Uganda</i>				
British American Tobacco Uganda Limited	Ordinary	0.00	70.00	70.00
United Arab Emirates				
<i>Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates</i>				
British American Tobacco GCC DMCC	Ordinary	0.00	100.00	100.00
British American Tobacco ME DMCC	Ordinary	0.00	100.00	100.00
British American Tobacco International DMCC	Ordinary	0.00	100.00	100.00
United Kingdom				
<i>Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom</i>				
B.A.T Additional Retirement Benefit Scheme Trustee Limited	Ordinary	0.00	100.00	100.00
British American Global Shared Services Limited	Ordinary	100.00	0.00	100.00
CG Ventures Limited	Ordinary	0.00	100.00	100.00
Louisville Securities Limited	Ordinary	100.00	0.00	100.00
Louisville Securities Limited	Redeemable Preference	100.00	0.00	0.00
British American Tobacco Healthcare Trustee Limited	Ordinary	100.00	0.00	100.00
<i>212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland</i>				
Murray, Sons & Company, Limited	Ordinary	0.00	100.00	100.00
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
Advanced Technologies (Cambridge) Limited	Ordinary	0.00	100.00	100.00
B.A.T (U.K. and Export) Limited	Ordinary	0.00	100.00	100.00
B.A.T Cambodia (Investments) Limited	Ordinary	0.00	100.00	100.00
B.A.T Portugal Limited	Ordinary	0.00	100.00	100.00
B.A.T Services Limited	Ordinary	0.00	100.00	100.00
B.A.T Uzbekistan (Investments) Limited	Ordinary	0.00	100.00	100.00
B.A.T Vietnam Limited	Ordinary	0.00	100.00	100.00

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
United Kingdom				
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
BATUS Limited	Ordinary	0.00	100.00	100.00
British American Shared Services (GSD) Limited	Ordinary	0.00	100.00	100.00
British American Shared Services Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (AIT) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (Investments) Limited	Ordinary	100.00	0.00	100.00
British American Tobacco (Philippines) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco (South America) Limited	Ordinary	0.00	100.00	100.00
British American Tobacco Georgia Limited	Ordinary	0.00	100.00	100.00
British American Tobacco Global Travel Retail Limited	Ordinary	100.00	0.00	100.00
British American Tobacco Western Europe Commercial Trading Limited	Ordinary Euro	100.00	0.00	100.00
British American Tobacco Western Europe Commercial Trading Limited	Ordinary Pound Sterling	100.00	0.00	100.00
British-American Tobacco (Mauritius) p.l.c.	Ordinary	0.00	100.00	100.00
Carreras Rothmans Limited	6% first preference shares	0.00	100.00	100.00
Carreras Rothmans Limited	6% second preference shares	0.00	100.00	100.00
Carreras Rothmans Limited	Ordinary	0.00	100.00	100.00
East African Tobacco Company (U.K.) Limited	Ordinary	0.00	100.00	100.00
Powhattan Limited	Ordinary	0.00	100.00	100.00
Rothmans Exports Limited	Ordinary	0.00	100.00	100.00
Rothmans International Tobacco (UK) Limited	Ordinary	0.00	100.00	100.00
Rothmans of Pall Mall (Overseas) Limited	Ordinary	0.00	100.00	100.00
Ryservs (1995) Limited	Ordinary	0.00	100.00	100.00
Ryservs (No.3) Limited	Ordinary	0.00	100.00	100.00
Tobacco Exporters International Limited	Ordinary	0.00	100.00	100.00
Tobacco Marketing Consultants Limited	Ordinary	0.00	100.00	100.00
Westanley Trading & Investment Company Limited	Ordinary	0.00	100.00	100.00
Westminster Tobacco Company Limited	Ordinary	0.00	100.00	100.00
United States				
<i>251 Little Falls Drive, Wilmington, DE 19808, United States</i>				
B.A.T Capital Corporation	of Common Stock of \$1	0.00	100.00	100.00
BATUS Holdings Inc.	Common Stock	0.00	100.00	100.00
BATUS JAPAN, INC.	Common Stock	0.00	100.00	100.00
BATUS Retail Services, Inc.	Common Stock	0.00	100.00	100.00
British American Tobacco (Brands) Inc.	Common	0.00	100.00	100.00
Brown & Williamson Holdings, Inc.	Common Stock	0.00	100.00	100.00
Louisville Corporate Services, Inc.	Common Stock of no par value	0.00	100.00	100.00
<i>401 N. Main Street, Winston-Salem, NC 27101, United States</i>				
Reynolds American Inc.	Common Stock	0.00	100.00	100.00
CF Vapor Company, LLC	Membership Interest	0.00	100.00	100.00
Conwood Holdings, Inc.	Common Stock	0.00	100.00	100.00
EXP Homes, LLC	Membership Interest	0.00	100.00	100.00

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

10 Investments in Group undertakings

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
United States				
<i>Main Street, Winston-Salem, NC 27101, United States</i>				
LOEC, Inc.	Common Stock	0.00	100.00	100.00
Lorillard Holdings Company, Inc.	Common Stock	0.00	100.00	100.00
	Membership	0.00	100.00	100.00
Lorillard Licensing Company LLC	Interest			
Lorillard Q-Tech, Inc.	Common Stock	0.00	100.00	100.00
Lorillard Technologies, Inc.	Common Stock	0.00	100.00	100.00
	Membership	0.00	100.00	100.00
Lorillard, LLC	Interest			
Niconovum USA, Inc.	Common Stock	0.00	100.00	100.00
Northern Brands International, Inc.	Common Stock	0.00	100.00	100.00
One Park Media Services, Inc.	Common Stock	0.00	100.00	100.00
R. J. Reynolds Global Products, Inc.	Common Stock	0.00	100.00	100.00
R. J. Reynolds Tobacco Company	Common Stock	0.00	100.00	100.00
R. J. Reynolds Tobacco International, Inc.	Common Stock	0.00	100.00	100.00
R. J. Reynolds Vapor Company	Common Stock	0.00	100.00	100.00
R.J. Reynolds Tobacco Co.	Common Stock	0.00	100.00	100.00
R.J. Reynolds Tobacco Holdings, Inc.	Common Stock	0.00	100.00	100.00
RAI Innovations Company	Common Stock	0.00	100.00	100.00
RAI International, Inc.	Common Stock	0.00	100.00	100.00
RAI Services Company	Common Stock	0.00	100.00	100.00
RAI Strategic Holdings, Inc.	Common Stock	0.00	100.00	100.00
RAI Trade Marketing Services Company	Common Stock	0.00	100.00	100.00
Reynolds Brands Inc.	Common Stock	0.00	100.00	100.00
Reynolds Technologies, Inc.	Common Stock	0.00	100.00	100.00
RJR Realty Relocation Services, Inc.	Common Stock	0.00	100.00	100.00
RJR Vapor Co., LLC	Common Stock	0.00	100.00	100.00
	Membership	0.00	100.00	100.00
Rosswil LLC	Interest			
S.F. Imports, Inc.	Common Stock	0.00	100.00	100.00
Spot You More, Inc.	Common Stock	0.00	100.00	100.00
3220 Knotts Grove Rd., Oxford, NC 27565				
Santa Fe Natural Tobacco Company, Inc.	Common Stock	0.00	100.00	100.00
3700 Airpark Dr. Owensboro, KY 42301				
Kentucky BioProcessing, Inc.	Common Stock	0.00	100.00	100.00
Farmers Bank Building, Suite 1402, 301 N. Market Street, Wilmington, DE 19801				
Reynolds Finance Company	Common Stock	0.00	100.00	100.00
5106 Tradeport Dr., Memphis, TN 38141				
American Snuff Company, LLC	Membership	0.00	100.00	100.00
	Interest			
Uzbekistan				
77 Minor Passage, Tashkent, 100084, Uzbekistan				
JSC JV "UZBAT A.O."	Ordinary	0.00	97.38	97.38

(2) Investments in Associated Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
India				
Nepal				
<i>Shree Bal Sadan, Gha 2-513, Kantipath, Kathmandu, Nepal</i>				
Surya Nepal Pvt. Limited	Ordinary	0.00	2.00	2.00
Yemen				
P.O. Box 14, Sana, Yemen				
Kamaraan Industry and Investment Company	Ordinary	0.00	31.00	31.00

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

10 Investments in Group undertakings

(3) Investments in Group undertakings

	Investment in Group undertakings £'000
Cost	
1 January 2019	23,865,620
Additions	3,814,006
31 December 2019	27,679,626
Impairment provisions	
1 January 2019	(472,756)
31 December 2019	(472,756)
Net book value	
1 January 2019	23,392,864
31 December 2019	27,206,870

During the year the company has made an equity injection of USD 4,700,000,000 (£3,814,006,000) into Louisville Securities Limited. The proceeds of this equity injection were used in order to repay redeemable preference shares issued to another group entity.

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

11 Debtors:

Amounts falling due within one year

	2019 £'000	2018 £'000
Amounts due from Group undertakings – gross	1,021,475	1,525,445
Allowances	(36,783)	(30,225)
Amounts due from Group undertakings – net	984,692	1,495,220
Other debtors	99,815	23,833
Prepayments and accrued income	345,293	403,519
Government levies	31,780	23,146
	1,461,580	1,945,718

Included within amounts owed by Group undertakings is an amount of £743,238,000 (2018: £1,297,205,000) which is unsecured and interest bearing and repayable at demand. The interest rate is based on LIBOR. Other amounts owed by Group undertakings are unsecured, interest free and repayable at demand.

The movement in allowance accounts are as follows:

	2019 £'000
1 January 2019	30,225
Provided in the year	7,667
Exchange differences	(1,109)
31 December 2019	36,783

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

12 Stocks

	2019 £'000
Work in progress	
1 January 2019	311,488
Capitalised project costs	33,920
Cost of sales	(107,738)
31 December 2019	237,670

Amounts included in work in progress are project costs to be recovered from fellow Group undertakings up to 2023, as per internal contracts.

13 Creditors:

(a) Amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	70,385	65,827
Amounts owed to Group undertakings	208,702	150,798
Taxation and social security	31,495	37,429
Other creditors	4,482	90
Accruals and deferred income	83,812	94,361
Lease liabilities	9,412	-
	408,288	348,505

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand. Accruals and deferred income mainly represent bonus accrual. Lease liabilities mainly relate to property and other assets leased from a fellow Group undertaking.

(b) Amounts falling due after one year

	2019 £'000	2018 £'000
Deferred income	952	952
Amounts owed to Group undertakings	3,814,006	-
Lease liabilities	35,321	-
	3,850,279	952

Deferred income represents the portion of the receipt related to the Franked Investment Income Global Litigation Order ("FIIGLO") allocated to British-American Tobacco (Holdings) Limited. The total gross amount received from HM Revenue and Customs ("HMRC") by the Group was £1,225,244,000 in three separate payments. HMRC held back £261,000,000 on the second payment received by the Group, contending that it represents a new 45% tax on the interest component of restitution claims against HMRC. The total cash allocated to the Company was £952,000, after an apportioned deduction of £327,000 representing the 45% tax described previously.

Actions challenging the legality of the 45% tax have been lodged by both the Group and other participants in FIIGLO.

The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal. Due to the uncertainty of the amount and eventual outcome the Company has not recognised this receipt in the Profit and loss account in the current or prior period.

Amounts owed to Group undertakings represent USD 4,700,000,000 (£3,814,006,000) loan from B.A.T. International Finance p.l.c., interest rate based on LIBOR. The proceeds of the borrowing have been used to fund the equity injection in Louisville Securities Limited.

Lease liabilities mainly relate to property and other assets leased from a fellow Group undertaking.

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

14 Provisions for liabilities

	Share schemes	Restructuring provisions	Total
	£'000	£'000	£'000
1 January 2019	15,552	-	15,552
Provide in the year	10,929	21,628	32,557
Utilised during the year	(8,324)	-	(8,324)
31 December 2019	18,157	21,628	39,785

15 Deferred tax asset

	1 January 2019	Recognised in income	Recognised in equity	December 2019
	£'000	£'000	£'000	£'000
ACA's	48,794	(9,152)	-	39,642
Pensions	43,500	704	4,978	49,182
Provisions	694	645	-	1,339
Shares	13,795	(430)	-	13,365
Total	106,783	(8,233)	4,978	103,528

	1 January 2018	Recognised in income	Recognised in equity	December 2018
	£'000	£'000	£'000	£'000
ACA's	59,604	(10,810)	-	48,794
Pensions	42,620	3,758	(2,878)	43,500
Provisions	513	181	-	694
Shares	17,395	(3,600)	-	13,795
Total	120,132	(10,471)	(2,878)	106,783

16 Called up share capital

Ordinary shares of £1 each	2019	2018
Allotted, called up and fully paid		
- value	£124,897,643	£124,897,643
- number	124,897,643	124,897,643

Share premium account

	2019	2018
- value	£23,183,909,490	£23,183,909,490

17 Retirement Benefit Scheme Liabilities

The Company participates in several retirement benefit schemes, the largest of which is the British American Tobacco UK Pension Fund (UKPF). 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 of the scheme, with the other participating employers recognising costs equal to their contributions to those liabilities. British American Tobacco (Investments) Limited is the Principal Employer and sponsoring employer under IAS 19 of the scheme. The cost recognised by the Company in respect of this scheme was £3,406,000 (2018: £2,789,000) for the year (note 3).

The last full triennial actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2017 by a qualified independent actuary. The valuation showed that the fund had a deficit of £23,000,000 (2014: £264,000,000). Details of the latest actuarial valuation of this defined benefit scheme are contained in the financial statements of British American Tobacco (Investments) Limited.

On 1 April 2005, the UK defined benefit schemes were closed to new employees; employees joining since that date have been eligible to join a defined contribution pension scheme.

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

17 Retirement Benefit Scheme Liabilities

The Company operates the Employee Benevolent Fund (EBF), which is an unfunded scheme. The scheme is formally valued annually by a qualified independent actuary. The amounts recognised in the balance sheet are determined as follows:

	2019 £'000	2018 £'000
Present value of unfunded scheme liabilities	(289,302)	(255,882)
	<u>(289,302)</u>	<u>(255,882)</u>
The above net liability is recognised in the Balance Sheet as follows:		
– retirement benefit scheme liabilities	(289,302)	(255,882)
	<u>(289,302)</u>	<u>(255,882)</u>

The amounts recognised in the income statement for the defined benefit scheme are as follows:

	2019 £'000	2018 £'000
Defined benefit schemes		
Service cost		
– current service cost	18,128	20,136
– past service cost	2,336	502
– settlements and curtailments	(1,853)	-
– interest on scheme liabilities	7,060	6,219
Total amount recognised in the income statement (note 3)	<u>25,671</u>	<u>26,857</u>

The amounts recognised in other comprehensive income in respect of actuarial gains and losses of the Company are as follows:

	2019 £'000	2018 £'000
Actuarial (loss)/gains on scheme liabilities	<u>(29,280)</u>	<u>16,929</u>

The movements in scheme liabilities are as follows:

	2019 £'000	2018 £'000
Present value at 1 January	255,882	250,708
Current service cost	18,128	20,136
Past service costs	2,336	502
Interest on scheme liabilities	7,060	6,219
Settlements and curtailments	(1,853)	-
Benefits paid (cash outflow)	(21,531)	(4,754)
Actuarial gains	29,280	(16,929)
Present value at 31 December	<u>289,302</u>	<u>255,882</u>

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

17 Retirement benefits scheme liabilities (continued)

Scheme liabilities by scheme membership:

	2019	2018
	£'000	£'000
Active members	149,006	129,793
Deferred members	8,497	6,257
Retired members	131,799	119,832
Present value at 31 December	289,302	255,882

Scheme liabilities by benefits earned to date:

	2019	2018
	£'000	£'000
Guaranteed benefits	266,734	226,376
Future salary increases	22,568	29,506
Present value at 31 December	289,302	255,882

Actuarial gains shown above can be analysed as follows:

	2019	2018
	£'000	£'000
Actuarial (losses)/gains:		
- arising from changes in financial assumptions	(27,023)	19,617
Experience losses	(2,257)	(2,688)
Total	(29,280)	16,929

Changes in financial assumptions principally relate to discount rate and inflation rate movements.

The principal actuarial assumptions used, weighted to reflect individual scheme differences are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

Assumptions

	2019	2018
	%	%
Rate of increase in salaries	3.00%	3.20%
Rate of increase in pensions in payment	3.00%	3.20%
Rate of increase in deferred pensions	2.20%	2.20%
Discount rate	2.04%	2.85%
General inflation	3.00%	3.20%

	2019	2018
	Years	Years
Weighted average duration of liabilities	15.8	19.56

Notes to the financial statements for the year ended 31 December 2019**17 Retirement benefits scheme liabilities (continued)**

Mortality assumptions are subject to regular review. The following table has been used for 2019: S2PA (YOB) with the CMI (2018) improvement model with a 1.25% long term improvement rate (2018: CMI (2017)).

Based on the above, the weighted average life expectancy, in years, for mortality tables used to determine benefit obligations is as follows:

	2019 Years	2018 Years
Member age 65 (current life expectancy)		
- male	22.42	22.60
- female	23.91	24.10
Member age 45 (life expectancy at age 65)		
- male	23.97	24.17
- female	25.22	25.41

Valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2019 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase £'000	1 year decrease £'000	0.25 percentage point increase £'000	0.25 percentage point decrease £'000
Average life expectancy – increase/(decrease) of scheme liabilities	11,847	(11,334)		
Rate of inflation – increase/(decrease) of scheme liabilities			14,852	(13,627)
Discount rate – (decrease)/increase of scheme liabilities			(13,954)	15,282

Defined Contribution Scheme Costs

On 1 April 2005, the UK defined benefit schemes were closed to new employees, and new members since then have joined the defined contribution scheme. The cost to the Company was:

	2019 £'000	2018 £'000
Defined contribution schemes recognised in the income statement gross (note 3)	5,965	7,507

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

18 Share-based payments

Employees of the Company participate in the British American Tobacco share schemes arrangements. The group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. LTIPs were granted in March.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. DSBS are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,600 in any year) under the equity-settled scheme are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Share-based payment expense

Please refer to the Annual Report of British American Tobacco p.l.c. for full disclosures under IFRS 2.

The weighted average share price on exercise of LTIP shares in 2019 was £28.31 (2018: £38.90).

The weighted average share price on exercise of DSBS shares in 2019 was £28.40 (2018: £40.00).

The outstanding shares for the year ended 31 December 2019 had an exercise price range of £23.78 - £32.83 (2018: £26.23 - £49.46). The weighted average remaining contractual life are 8.2 years (2018: 8.1 years) for the LTIP shares and are 1.5 years (2018: 1.3 years) for the DSBS shares.

19 Derivative financial instruments

	2019	2019	2018	2018
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Cash flow hedges				
- Forward foreign currency contracts	46,022	(4,828)	1,583	(13,157)
Current	46,022	(4,274)	-	(11,967)
Non – current	-	(554)	-	(1,190)

The Company's operations expose it to currency risk as income from shares in Group undertakings is denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The total cash flow hedge movement for the year was a gain of £39,627,000 (2018: loss of £18,119,000).

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

20 Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under paragraph 3(c) of FRS 101 'Related party disclosures' from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

21 Contingent liabilities

The last full triennial actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2017 by a qualified independent actuary. The valuation showed that the fund had a deficit of £23,000,000 (2014: £264,000,000). Details of the latest actuarial valuations of this defined benefit scheme are contained in the financial statements of British American Tobacco (Investments) Limited.

On 1 April 2005, the British American Tobacco UK Pension Fund was closed to new employees; employees joining since that date have been eligible to join a defined contribution pension scheme. With effect from 1 July 2020, the British American Tobacco UK Pension Fund was closed to further accrual of benefits with all active members becoming deferred members of the fund.

22 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-of-use" assets.

As disclosed in note 1 the anticipated impact of IFRS 16 to the Group's balance sheet as at 1 January 2019 was the capitalisation of £53,907,267 right-of-use assets and financial liabilities of £53,907,267.

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
Property	
Within one year	10,317
Between one and five years	47,282
Beyond five years	-
Plant and equipment	
Within one year	198
Between one and five years	312
Total minimum lease commitments	58,108
Discounted to present value	(4,201)
To be capitalised as lease liabilities at 1 January 2019	53,907

The weighted average incremental borrowing rate applied in discounting lease commitments was 2.70% for property and 1.80% for plant & equipment.

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

23 Post balance sheet event

In April 2020, the Company transferred the Royalty activity to a fellow British American Tobacco p.l.c Group company.

On 3 June 2020, the directors approved the sale of IT related fixed assets in value of approx. £332,000,000 and stock in value of approx. £238,000,000, and the transfer of the IDT activities to British American Shared Services (GSD) Limited, ("GSD"), a fellow Group company. The purpose of the transfer would be to align the IT assets to commercial activities and to enable significant optimisation of the current IDT Group recharges and administrative processes.

The Directors have also approved an equity capital injection up to £660,000,000 to GSD, to fund the transfer.

The equity injection and the asset sale are expected to happen in the second part of 2020

24 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 B.A.T Industries p.l.c.. 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 2PGs