

British American Tobacco UK Limited

Registered Number 02346565

Directors' report and financial statements

For the year ended 31 December 2018

MONDAY



L8F4G8JD

L14

30/09/2019

#88

COMPANIES HOUSE

Contents

Strategic Report.....	2
Directors' Report.....	3
Independent auditor's report to the members of British American Tobacco UK Limited	6
Profit and loss account	9
Statement of other comprehensive income.....	9
Statement of changes in equity	10
Balance sheet.....	11
Notes to the financial statements	12

Strategic Report

The Directors present their strategic report on British American Tobacco UK Limited (the "Company") for the year ended 31 December 2018.

Principal activities

The Company distributes and sells cigarettes, tobacco and nicotine products in the United Kingdom and the Channel Islands on behalf of the British American Tobacco p.l.c. group (the "Group").

Review of the year ended 31 December 2018

The loss for the financial year attributable to British American Tobacco UK Limited shareholders after deduction of all charges and the provision of taxation amounted to **£2,188,000** (2017: profit £6,430,000).

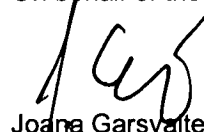
Key performance indicators

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 the Annual Report of British American Tobacco p.l.c. 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 Annual Report of British American Tobacco p.l.c. and do not form part of this report.

On behalf of the Board



Joana Garsvalte

Director

20 September 2019

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2018.

Dividends

During the year the Company paid dividends amounting to **£5,423,000** (2017: £4,427,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period from 1 January 2018 to the date of this report are as follows:

	Date appointed	Date resigned
William Richard Darvell Hill		30 August 2019
Nigel Graeme Hardy		
Gemma Bridget Webb		
John Matthew Christopher Barraclough		11 February 2019
Dimitri Alexandros Tounis		31 July 2019
Mairi Morrison	11 February 2019	
Joana Garsvaite	31 July 2019	
Nathan Michael Jones	30 August 2019	

Financial risk management

The Company's operations expose it to currency risk as parts of its purchases of raw materials are denominated in foreign currencies. The exposure is partially hedged with forward foreign exchange contracts.

The Company is also 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.

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 which are 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. We 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*.

Directors' Report (continued)

Statement of directors' responsibilities (continued)

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 (2017: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2017: £nil).

Disclosure of information to auditor (unless exempt from audit)

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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.

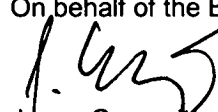
Directors' Report (continued)

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.

On behalf of the Board



Joana Garsvare

Director

One Eton Street
Richmond upon Thames
London
TW9 1EF

20 September 2019

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 2018 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 2018 and of its loss 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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.

Other information

The directors are responsible for the other information, which comprises the strategic report and the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3 and 4, 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.

James Baker (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square,

London, E14 5GL

20 September 2019

Profit and loss account

		2018 £'000	2017 (restated) £'000
	Note		
Turnover	2	155,553	102,683
Changes in stock		(9,128)	20,512
Raw materials and consumables		(108,305)	(93,992)
Other operating income	3	31,812	8,586
Other operating expenses	4	(70,576)	(32,984)
Operating (Loss)/ Profit		(644)	4,805
Interest receivable and similar income	5	21	15
Interest payable and similar expenses	6	(833)	(705)
(Loss)/ Profit before taxation		(1,456)	4,115
Income tax (expense)/ credit	7	(732)	2,315
(Loss)/ Profit after taxation		(2,188)	6,430

Statement of other comprehensive income

	2018 £'000	2017 £'000
(Loss)/Profit for the financial year	(2,188)	6,430
Effective portion of changes in fair value of cash flow hedges	-	(3,509)
Total comprehensive (Loss)/income for the year	(2,188)	2,921

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

Statement of changes in equity

	Called up share capital	Profit and loss account	Cash Flow Hedge Reserve	Total Equity
	£'000	£'000	£'000	£'000
1 January 2017	1,000	33,800	3,509	38,309
Profit for the financial year	-	6,430	-	6,430
Dividends paid	-	(4,427)	-	(4,427)
	1,000	35,803	3,509	40,312
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges	-	-	(3,509)	(3,509)
31 December 2017	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

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

Balance sheet

		31 December 2018 £'000	31 December 2017 £'000
	Note		
Fixed assets			
Tangible assets	8	154	343
Current assets			
Stock	9	35,561	35,027
Debtors: amounts falling due within one year	10	225,080	214,315
Derivative financial instruments - assets	14	-	1,347
Deferred tax asset	7	2,103	2,835
Cash at bank		680	380
Total current assets		263,424	253,904
Creditors: amounts falling due within one year	11	(234,525)	(217,444)
Net current assets		28,899	36,460
Total assets less current liabilities		29,053	36,803
Net assets		29,053	36,803
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account		28,053	35,803
Total shareholders' funds		29,053	36,803

20 September

The financial statements on pages 9 to 22 were approved by the Directors on 2019 and signed on behalf of the Board.



Joana Garsvaite
Director
20 September 2019

Registered number
02346565

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

Notes to the financial statements

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.

With effect from 1 January 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. In adopting IFRS 15, the Company has revised prior periods, as permitted by the Standard, to ensure comparability of the income statement across the periods presented. This Standard has changed the way the Company accounts for consideration payable to customers, and requires certain payments, previously shown as marketing expenses, to be shown as deduction from revenue. This has reduced revenue for the year ended 31 December 2017 by £8,159,000 with a corresponding reduction in other operating expenses. The cumulative impact of adopting IFRS 9 has been recognised as a restatement of opening reserves in 2018, and is £139,000, arising from the impairment of financial assets under the expected loss model.

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

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best 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 Company is included in the consolidated financial statements of British American Tobacco p.l.c. which is incorporated in the United Kingdom and registered in England and Wales. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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

Notes to the financial statements

1 Accounting policies (continued)

Foreign currencies

Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction, or at the forward rate if fully hedged by a forward exchange contract. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year or the forward rate if fully hedged by a forward exchange contract. 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 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.

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.

Notes to the financial statements

1 Accounting policies (continued)

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.

Tangible fixed 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:

	%
Plant, machinery and equipment	10-33

Impairment of non-financial assets

Financial assets are reviewed at each balance sheet date, or whenever events 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. 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

Going Concern

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Operating leases

The annual payments under operating leases are charged to the profit and loss account on a straight line basis over the length of 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.

Notes to the financial statements

1 Accounting policies (continued)

Dividends

Dividends payable that are unapproved at the year-end are not recognised as a liability.

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.

Provision

Provisions are recognised when either a legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Financial instruments

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

Forward contracts are used to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes.

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. All of the Company's derivatives are designated as cash flow hedges.

In order to qualify for hedge accounting, the Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company is also required to document and 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 on-going basis. This effectiveness testing is re-performed at each period end to ensure the hedge remains highly effective.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the profit and loss account in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are recognised in profit or loss.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting, where the forecasted or committed transaction is no longer expected to occur, the cumulative gain or loss that has been recorded in equity is transferred to the profit and loss account.

Notes to the financial statements

1 Accounting policies (continued)

Impairment of financial assets

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.

2 Turnover

Turnover comprises the sale of cigarettes, other tobacco and nicotine products in the United Kingdom and Channel Islands and the Company operates one class of business.

3 Other operating income

Other operating income comprises recharges to other fellow Group subsidiaries.

4 Other operating expenses

	2018 £'000	2017 (restated) £'000
Other operating charges include:		
Outsourced services	23,927	10,103
Staff costs	17,407	14,000
Marketing costs	5,529	5,526
Inventory write-off	7,155	834
Depreciation of tangible fixed assets	250	303
Auditors' remuneration:		
- Audit services	73	63
Exchange losses	48	435
Other operating charges	16,187	1,720
	70,576	32,984
	2018 £'000	2017 £'000
Staff costs:		
Wages and salaries	13,680	10,433
Social security costs	1,523	1,260
Defined contribution scheme costs (note 13)	1,210	833
Defined benefit scheme treated as defined contribution scheme (note 13)	312	521
Share-based payments	682	953
	17,407	14,000

Notes to the financial statements

Other operating expenses (continued)

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

	2018 Number	2017 Number
By activity		
Administration	19	15
Selling and distribution	173	183
	192	198

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

	2018 £'000	2017 £'000
Aggregate emoluments	1,605	1,236

	2018 Number	2017 Number
Directors exercising share options during the year	2	4
Directors entitled to receive shares under a long term incentive scheme	2	5
Directors retirement benefits accruing under a defined benefit scheme	1	2
Directors retirement benefits accruing under a defined contribution scheme	4	5

Highest paid Director

	2018 £'000	2017 £'000
Aggregate emoluments	795	470
Accrued pension at year end	80	121

The highest paid Director was entitled to receive shares under a long term incentive scheme and did exercise share options during the year.

Operating leases

At 31 December 2018, the Company had commitments in respect of non-cancellable operating leases falling due as set out below.

	Motor vehicles		Buildings		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within one year	455	540	2,643	2,600	3,098	3,140
Within two to five years	271	762	3,766	4,492	4,037	5,254
Beyond five years	-	-	-	-	-	-
	726	1,302	6,409	7,092	7,135	8,394

Notes to the financial statements

5 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from Group undertakings	21	15

6 Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable to Group undertakings	833	705

7 Taxation**(a) Recognised in the profit and loss account**

	2018 £'000	2017 £'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	732	(2,315)
Total deferred tax	732	(2,315)
Total income tax expense (note 7b)	732	(2,315)

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The current taxation charge differs from the standard 19% (2017: 19.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2018 £'000	2017 £'000
(Loss)/profit for the year	(2,188)	6,430
Total tax expense/ (credit)	732	(2,315)
(Loss)/ Profit excluding taxation	(1,456)	4,115
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	(276)	792
Non-deductible expenses	270	223
Effect of rate change	249	-
Recognition of temporary differences previously unrecognised	-	(2,894)
Group relief granted/ (received) for nil consideration	489	(436)
Total tax charge/(credit) (note 7a)	732	(2,315)

Notes to the financial statements

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Tangible fixed assets	2,103	2,835	-	-	2,103	2,835
Net tax assets	2,103	2,835	-	-	2,103	2,835

The Company has recognized deferred tax assets of **£2,103,194** (2017: £2,835,764) in relation to unused capital allowances. These unused allowances have no expiry date.

Movement in deferred tax during the year

	1 January 2018 £'000	Recognized in income £'000	Recognized in equity £'000	31 December 2018 £'000
Tangible fixed assets	2,835	(732)	-	2,103
	2,835	(732)	-	2,103

Movement in deferred tax during the prior year

	1 January 2017 £'000	Recognized in income £'000	Recognized in equity £'000	31 December 2017 £'000
Tangible fixed assets	520	2,315	-	2,835
	520	2,315	-	2,835

8 Tangible fixed assets

	Plant, machinery and equipment	
	2018 £'000	2017 £'000
Cost		
1 January	1,100	4,016
Additions	61	-
Disposals	-	(2,916)
31 December	1,161	1,100
Accumulated depreciation		
1 January	757	3,370
Charge for the year	250	303
Disposals	-	(2,916)
31 December	1,007	757
Net book value		
1 January	343	646
31 December	154	343

Notes to the financial statements

9 Stock

	2018 £'000	2017 £'000
Finished goods and goods for resale	35,561	35,207

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to **£117,433,000** (2017: £73,480,000). Write-offs taken to other operating expenses in the income statement comprise **£7,154,975** (2017: £834,082).

10 Debtors: amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	221,278	213,016
Expected credit loss allowance	(162)	-
Amounts owed by Group undertakings - net of allowances	221,116	213,016
Trade debtors external	3,692	1,147
Other debtors	272	152
	225,080	214,315

Amounts owed by Group undertakings of **£221,278,000** (2017: £213,016,000) are unsecured, non-interest bearing and repayable at demand.

11 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	10,091	5,788
Amounts owed to Group undertakings	58,776	22,590
Taxation and social security	149,510	180,657
Accruals and other liabilities	16,148	8,409
	234,525	217,444

Out of total amounts owed to Group undertakings in 2018 an amount of £28,844,000 is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. Other amounts presented in amounts owed to Group undertakings represent trade payables due to other group companies.

12 Called up share capital

Ordinary shares of £1 each	2018	2017
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

13 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 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).

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 £312,000 (2017: £521,000) 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 £1,210,000 (2017: £833,000).

14 Financial instruments

The Company's operations expose it to currency risk as part of purchases of raw materials and goods for resale are denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts.

	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Cash flow hedges				
- Forward foreign currency contracts	-	-	1,347	-
Current	-	-	1,347	-

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 2018 the valuation of the surplus on an IAS 19 basis was **£1,062,842,000** (2017: £995,473,000).

Notes to the financial statements

17 Post Balance Sheet Events

Subsequent to the year end, the Company has paid dividends amounting to £4,932,697.

18 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