

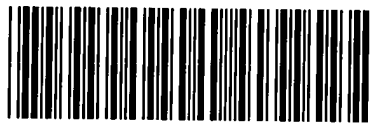
British American Tobacco UK Limited

Registered Number 02346565

Directors' report and financial statements

For the year ended 31 December 2021

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British American Tobacco UK Limited

Strategic Report

The Directors present their strategic report on British American Tobacco UK Limited ("the Company") for the year ended 31 December 2021.

Principal activities

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

Review of the year ended 31 December 2021

The profit for the financial year attributable to the Company's shareholders after deduction of all charges and the provision of taxation amounted to **£7,601,000** (2020: £4,008,000).

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

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in Strategic Report in British American Tobacco p.l.c.'s 2021 Annual Report and Form 20-F ("BAT ARA & 20-F") 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 ARA & 20-F and do not form part of this report.

UK Companies Act 2006: Section 172(1) Statement

The Company is part of the 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 sale and distribution of cigarettes, tobacco products and New Categories non-combustible products in the United Kingdom and Channel Islands.

Under Section 172(1) of the UK Companies Act 2006 ("the Act") and as part of the Directors' duty to the Company's shareholders to act as they consider most likely to promote the success of the Company, the Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. The Directors must also have regard for the interests of the Company's employees, business relationships with the Company's wider stakeholders, and the impact of the Company's operations on the environment and communities in which it operates. Consideration of these factors and other relevant matters is embedded into all Board decision-making and risk assessments throughout the year.

The Company's key stakeholders are consumers, direct and indirect suppliers to the Company (including leaf suppliers, product materials suppliers and goods and services suppliers), customers of the Company (including distributors, wholesalers and retailers), employees, the government, customs, revenue, and tax authorities and wider society in countries in which the Company operates, and the Company's shareholders.

British American Tobacco UK Limited

Strategic Report (continued)

UK Companies Act 2006: Section 172(1) Statement

Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key external stakeholders are summarised on pages 20 to 21 of the BAT ARA & 20-F. Engagement with other Group undertakings including the Company's shareholders is conducted through regular meetings, intra-group management activities and ongoing dialogue. There is also regular engagement within the Group on finance-related matters which is taken into account in the Company's decision-making.

Throughout the COVID-19 pandemic, the Group's priority has been to safeguard the welfare of Group company employees while ensuring that the Group continues to operate effectively. A range of internal communications and engagement channels were used during the year to help Group company employees feel connected and supported. The primary engagement channels for Group company employees based in the UK (including the Company's employees) included town hall sessions, employee council meetings, the 'Your Voice' employee survey and webcasts. As a result of the COVID-19 pandemic, engagement sessions continued to be held primarily through virtual forums. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 57 of the BAT ARA & 20-F).

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 ("SoDA"), and the Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out on pages 48 and 73 of the BAT ARA & 20-F. 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 on page 48 of the BAT ARA & 20-F.

Certain authorities for decision-making are delegated to management under the SoDA, part of the Group's governance and internal controls framework through which robust corporate governance, risk management and internal control are promoted within the Group. Application of the SoDA 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. All newly appointed Directors receive training in respect of their roles and duties on appointment, including on directors' duties under Section 172 of the Act. Director training is provided through the Company Secretary.

The principal decisions made by the Directors during the year included the review, approval and payment of an interim dividend and review of the procedures for 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:

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

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 Company's payment practices 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 this review included the interests of the Company's direct and indirect suppliers, the Company's payment processes its standard payment terms and applicable reporting regulations.

British American Tobacco UK Limited

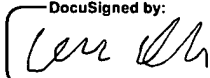
Strategic Report (continued)

UK Companies Act 2006: Section 172(1) Statement

Principal decisions are those decisions and discussions by the Board that are strategic or material to the Company and those of significance to any of Company's key stakeholders.

On behalf of the Board

Ceren Ozmen Eryavuz
Director

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22 September 2022

British American Tobacco UK Limited**Directors' Report**

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2021.

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

The Company performance post 'BREXIT' was robust in part due to the growth in new categories products', reflecting a share increase of +19.5pp in Modern Oral and +5pp in Vapour categories which translated in £25m extra revenue. The Company managed to mitigate any supply chain disruption from BREXIT introduction at the beginning of 2021 due to the stock build strategy executed at the Dec 2020.

Company successfully completed brand migration from VYPE to VUSE in May 2021 in alignment with Group's portfolio strategy.

In 2021 the Company also saw expansion of new modern disposables competitors within Vapour category. This negatively impacted the Company's share growth expectations for the year. The Company has taken necessary steps to launch its own modern disposable product in response to competition. Product was launched in July 2022.

Dividends

During the year the Company paid dividends amounting to £7,999,733 (No dividend was paid in 2020). £5,112,550 related to interim dividends for 2021 period and £2,887,183 for the 2020 period.

Board of Directors

The names of the persons who served as Directors of the Company during the period from 1 January 2021 to the date of this report are as follows:

	Date appointed	Date resigned
Simon Dudley Keith Shaw Ashton		01/09/2021
Timothy James Bartle	11/05/2022	
Zeliha Ceren Ozmen Eryavuz	03/08/2022	
Joana Garsvaite		06/06/2022
Edward Hawthorne	11/05/2022	
Nathan Michael Jones		24/01/2022
Mairi Una Alice Morrison		
Carl Fredrik Saman Svensson		
David Stephen Waterfield		

Research and development

No research & development expenditure has been incurred during the year (2020: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Auditor

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

British American Tobacco UK Limited

Directors' Report (continued)

Employees

The average number of employees employed by the Company during the year was 405 (2020: 347).

The Company has employment policies in place which set out the commitments to providing a work environment that is free from harassment, bullying and discrimination – these policies are available online to all staff. The Company is committed to ensuring that 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.

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

UK Companies Act 2006: Employee engagement statement

The Company's Section 172(1) statement set out in the Strategic Report on pages 2 to 4 summarises the Directors' approach to engaging with the Company's employees, and how the Directors have regard to their interests when making decisions. Further information regarding methods of engagement with Group company employees based in the UK (including the Company's employees) is provided on pages 72 to 73 of the BAT ARA & 20-F.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report on pages 2 to 4 summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders when making decisions on behalf of the Company. Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 20 to 21 of the BAT ARA & 20-F.

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.

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

Under applicable 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

British American Tobacco UK Limited

Directors' Report (continued)

Statement of directors' responsibilities

- 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.

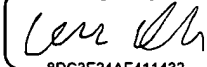
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Act. 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 their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all steps that a Director might reasonably be expected to have taken in order to make themselves aware of relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board

DocuSigned by:

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Ceren Ozmen Eryavuz
Director

22 September 2022

Building 7
566 Chiswick High Road
London
W4 5YG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER 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 2021 which comprise the profit and loss account, statement of changes in equity, balance sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes; and
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue model is not complex and does not require any significant judgment. Revenue is recognised 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. The nature of the industry or entity's operations do not provide opportunities to engage in fraudulent revenue recognition.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to revenue accounts that are not expected to be posted manually, journal entries that contained specific key words in the description, users who only posted one entry for the fiscal year, and journal entries posted with an unusual double entry combination.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors (as required by auditing standards), and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of noncompliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

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 6-7, 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.

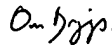
INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF BRITISH AMERICAN TOBACCO UK LIMITED

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.

DocuSigned by:

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Oliver Briggs (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

DATE 22 September 2022

British American Tobacco UK Limited**Profit and loss account for the year ended 31 December**

	Note	2021 £'000	2020 £'000
Continuing operations			
Turnover	2	196,896	180,326
Change in stocks of finished goods		(154,803)	(148,893)
Other operating income	3	66,716	73,372
Other operating expenses	4	(100,098)	(98,511)
Operating profit		8,711	6,294
Net finance cost	5	(2,265)	(2,646)
Profit before taxation		6,446	3,648
Tax credit	6	1,155	360
Profit after taxation		7,601	4,008

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

British American Tobacco UK Limited

Statement of changes in equity for the year ended 31 December

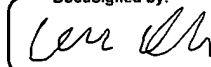
	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
1 January 2020	1,000	24,192	25,192
Profit for the financial year	-	4,008	4,008
31 December 2020	1,000	28,200	29,200
Profit for the financial year	-	7,601	7,601
Dividends paid	-	(7,999)	(7,999)
31 December 2021	1,000	27,802	28,802

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

British American Tobacco UK Limited**Balance sheet as at 31 December**

		31 December 2021 £'000	31 December 2020 £'000
	Note		
Fixed assets			
Tangible assets	7	30,961	20,900
Current assets			
Stock	8	28,774	78,688
Debtors: amounts falling due within one year	9	228,876	246,144
Deferred tax asset	6	3,234	2,079
Cash at bank and in hand		906	906
Total current assets		261,790	327,817
Total assets		292,751	348,717
Creditors: amounts falling due within one year	10	(243,326)	(305,285)
Loan & Borrowings	11	(4,169)	(3,191)
Total current liabilities		(247,495)	(308,476)
Loan & Borrowings	11	(16,454)	(11,041)
Total non-current liabilities		(16,454)	(11,041)
Net assets		28,802	29,200
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account		27,802	28,200
Total shareholders' funds		28,802	29,200

The financial statements on pages 12 to 27 were approved by the Directors on 22 September 2022 and signed on behalf of the Board.

DocuSigned by:

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Ceren Ozmen Eryavuz
Director

Registered number
02346565

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

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2021****1 Accounting policies****Basis of accounting**

The Company is incorporated, domiciled and registered in England in the UK. The registered number is 02346565 and the registered address is Building 7, Chiswick Business Park, 566 Chiswick High Road, London, England, W4 5YG.

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Act and in accordance with FRS 101 Reduced Disclosure Framework.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards, in conformity with the requirements of the Act, but makes amendments where necessary in order to comply with the Act, and where advantage of disclosure exemptions available under FRS 101 have been taken.

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

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

The most significant items include the review of asset values and impairment testing of non-financial assets such as vehicles, marketing assets and leasehold property.

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 Act.

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 Group.
- Disclosures in respect of the Capital Management.

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

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2021****1 Accounting policies (continued)****Foreign currencies**

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

Turnover

Turnover principally comprises sales of cigarettes, other tobacco and nicotine products in the United Kingdom and the Channel Islands. Turnover excludes duty, excise and other taxes and is after deducting rebates, returns and other similar discounts and payments to direct and indirect customers. Turnover is recognised 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.

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

Operating expenses

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

Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised. As required under International Accounting Standard ("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 recognised 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.

Group Relief

As a UK resident wholly-owned subsidiary of the Group, the Company is eligible to surrender tax losses to, or claim tax losses from, fellow members of the same UK group for the purposes of calculating corporation tax due in the UK ("Group Relief"). It is Group policy that tax losses are surrendered unless the entity generating the losses has a particular requirement to carry the losses forward. It is also Group policy not to reimburse entities for Group Relief surrendered unless, on a stand-alone basis and assuming the entity were not in the Group, those losses are judged to have value to the entity generating the loss.

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2021****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 assets

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

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

Impairment of non-financial assets

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

Leased assets

The Company has applied IFRS 16 Leases to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of Note 7 Tangible assets and the liabilities included as part of Note 11 Borrowings.

In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by IFRS.

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

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

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2021****1 Accounting policies (continued)****Leased assets (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.

Employee share schemes

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

Dividends

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 directors, while interim dividend distributions are recognised in the period in which the dividends are declared and paid. Dividends payable that are unapproved at the year-end are not recognised as a liability. Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

Retirement benefits

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

Financial instruments

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

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

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

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies (continued)

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

Loans and receivables

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

Impairment of financial assets held at amortised cost

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

2 Turnover

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

At end of 2020 a new route to market distribution model was introduced with the objective of increasing the Company's presence in Retail channel, this model sees Nicoventures Retail (UK) Limited ("NRL") acting as a last mile distributor on behalf of the Company, leveraging NRL's Enterprise system (ERP) enablement which is better suited for Direct Sales distribution. The flow of stock from the Company to the ultimate Retailer via NRL is sourced by NRL from the Company's 'Cash & Carry' customers (i.e., Bestway, Booker etc.). NRL acts as an agent in this arrangement with limited risk and the Company acts as a principal with significant exposure to the risks and rewards associated with the sale of the goods through this model, and the revenue from this model is recorded in the Company's financial statements.

3 Other operating income

Other operating income comprises recharges to other fellow Group subsidiaries.

4 Other operating expenses

	2021 £'000	2020 £'000
Other operating charges comprise:		
Staff costs	38,349	30,394
Marketing costs	25,510	10,091
Depreciation of tangible fixed assets	5,564	5,088
Inventory write-off	1,767	9,189
Auditors' remuneration:		
- Audit services	87	83
Exchange losses	(39)	59
Outsourced services	27,250	32,500
Other operating charges	1,610	11,107
	100,098	98,511

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

4 Other operating expenses (continued)

The Company increased marketing spend in 2021 to drive further sales growth in Vapour and Modern Oral product categories.

	2021 £'000	2020 £'000
Staff costs:		
Wages and salaries	29,477	23,613
Social security costs	4,069	2,677
Defined contribution scheme costs (note 13)	2,637	1,850
Defined benefit scheme treated as defined contribution scheme (note 13)	-	156
Share-based payments	2,166	2,098
	38,349	30,394

Increase of wages and salaries were driven by annual salary increase and project Bond increase of Field force employees.

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

	2021 Number	2020 Number
By activity		
Administration	35	25
Selling and distribution	370	322
	405	347

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

	2021 £'000	2020 £'000
Aggregate emoluments	2,004	1,883

	2021 Number	2020 Number
Directors exercising share options during the year	5	5
Directors entitled to receive shares under a long-term incentive scheme	2	2
Directors retirement benefits accruing under a defined benefit scheme	2	1
Directors retirement benefits accruing under a defined contribution scheme	5	6

Highest paid Director

	2021 £'000	2020 £'000
Aggregate emoluments	801	650
Accrued pension at year end	133	133

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

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

5 Net finance costs

	2021 £'000	2020 £'000
Interest payable to Group undertakings	1,814	1,890
Interest on lease liabilities	451	756
	2,265	2,646

Reduction in lease interest was driven by Richmond office lease write-off in 2020 after the Company moved offices.

6 Taxation

(a) Recognised in the profit and loss account

	2021 £'000	2020 £'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	(499)	(360)
Tax rate changes	(656)	-
Total deferred tax	(1,155)	(360)
Total income tax credit (note 6b)	(1,155)	(360)

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax asset at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2020:19%).

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2020:19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2021 £'000	2020 £'000
Profit for the year	7,601	4,008
Total tax credit	(1,155)	(360)
Profit before taxation	6,446	3,648
Tax using the UK corporation tax rate of 19% (2020:19%)	1,225	693
Non-deductible expenses	417	404
Tax rate changes	(776)	-
Recognition of previously unrecognised deductible temporary differences	-	(202)
Group Relief received for nil consideration	(2,021)	(1,255)
Total tax credit (note 6a)	(1,155)	(360)

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

6 Taxation (continued)

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Tangible fixed assets	3,234	2,079	-	-	3,234	2,079
Net tax assets	3,234	2,079	-	-	3,234	2,079

The Company has recognised deferred tax assets of **£3,234,086** (2020: £2,079,345) in respect of fixed asset timing differences.

Movement in deferred tax during the year

	1 January 2021	Recognised in income	Recognised in equity	31 December 2021
	£'000	£'000	£'000	£'000
Tangible fixed assets	2,079	1,155	-	3,234

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

7 Tangible assets

Overview of tangible assets, including right-of use assets

	Motor Vehicles	Plant, machinery and equipment	Leasehold property	Asset under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Balance at 1 January 2020	1,658	1,279	25,188	1,589	29,714
Additions	63	-	-	7,868	7,931
Disposals	-	-	(2,156)	-	(2,156)
Reassessment of right-of-use asset	-	-	(663)	-	(663)
Transfers	-	8,895	-	(8,895)	-
Balance at 31 December 2020	1,721	10,174	22,369	562	34,826
Balance at 1 January 2021	1,721	10,174	22,369	562	34,826
Additions	3,808	-	6,576	5,592	15,976
Disposals	(39)	-	(9,290)	-	(9,329)
Impairment	-	(312)	-	-	(312)
Transfers	-	5,675	-	(5,675)	-
Balance at 31 December 2021	5,490	15,537	19,655	479	41,161
Accumulated depreciation					
Balance at 1 January 2020	1,307	1,098	7,288	-	9,693
Depreciation charge for the year	240	832	4,016	-	5,088
Disposals	-	-	(855)	-	(855)
Balance at 31 December 2020	1,547	1,930	10,449	-	13,926
Balance at 1 January 2021	1,547	1,930	10,449	-	13,926
Depreciation charge for the year	972	1,682	2,910	-	5,564
Disposals	-	-	(9,290)	-	(9,290)
Balance at 31 December 2021	2,519	3,612	4,069	-	10,200
Net book value					
1 January 2020	351	181	17,900	1,589	20,021
31 December 2020	174	8,244	11,920	562	20,900
31 December 2021	2,971	11,925	15,586	479	30,961

Right-of-use assets

The Company's right-of-use assets related to office and warehouse facilities, as well as the lease of motor vehicles.

Additions of motor vehicles of £3,808,000 was related to purchase of Field Force vans to expand independent channel coverage as per project Bond.

Leasehold property with zero net book value was disposed to align disclosure to financial records of the Company.

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

8 Stock

	2021 £'000	2020 £'000
Finished goods and goods for resale	28,774	78,688

Decrease in stock was driven by 2020 stock build in preparation of Brexit coupled with higher level of returns due to menthol ban regulation. Write-offs taken to the other operating expenses in the income statement comprise **£1,767,000** (2020: £9,189,000). Net realisable value adjustment of stock amounted to **£455,000** (2020: £1,177,000)

Under the new RTM model, the Company recognises the Stock held by NRL at the end of the accounting period since the Company acts as the principal in the arrangement and has the ultimate control associated with the sale of the goods. The value of stock legally owned by NRL and held on behalf of the Company under this arrangement and included in the Company's balance sheet was £2.4 million (2020: £176,000).

9 Debtors: Amounts falling due within one year

	2021 £'000	2020 £'000
Trade debtors external	86,997	87,735
Amounts owed by Group undertakings	142,053	158,042
Expected credit loss allowance	(173)	(160)
Trade receivables – net of allowances	228,876	245,617
Other debtors	-	527
	228,876	246,144

Amounts owed by Group undertakings of **£142,053,000** (2020: £158,042,000) are unsecured, non-interest bearing and repayable on demand.

The movements in the allowance accounts are as follows:

	2021 £'000	2020 £'000
1 January	160	80
Amount charged during the year	13	80
31 December	173	160

10 Creditors: Amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	11,157	19,733
Amounts owed to Group undertakings	23,850	40,268
Taxation and social security	174,087	211,036
Accruals and deferred income	34,233	34,248
	243,326	305,285

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand. Taxation and social security major balance are Excise duty and VAT payables to HMRC. Higher payable in 2020 was driven by the BREXIT stock build and excise clearance of stock related to it.

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

11 Borrowings

	2021 £'000	2020 £'000
Non-current Liabilities		
Lease Liabilities	16,454	11,041
Current Liabilities		
Lease Liabilities	4,169	3,191
Total Liabilities	20,623	14,232

Amount recognised in profit or loss:

	2021 £'000	2020 £'000
Interest on lease liabilities	451	741
Expenses relating to short-term leases	-	15

Term and conditions of outstanding lease liabilities as at 31 December 2021 are as follows:

	Nominal Interest rate	Year of maturity	Carrying amount £'000
Lease Liabilities	1.45% - 3.19%	2023 - 2029	20,623

	Present Value of minimum lease payments £'000
Lease liabilities are repayable as follows:	
Within one year	4,169
Between one and two years	4,249
Between two and three years	3,417
Between three and four years	3,089
Between four and five years	1,450
Beyond five years	4,249
	20,623

12 Called up share capital

Ordinary shares of £1 each	2021	2020
Allotted, called up and fully paid		
- value	£1,000,002	£1,000,002
- number	1,000,002	1,000,002

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2021****13 Retirement benefits**

The Company participates in both defined benefit and defined contribution schemes.

The Company participates in the British American Tobacco UK Pension Fund ("UKPF"), a group scheme which provides benefits for employees and ex-employees of several UK subsidiaries of British American Tobacco p.l.c. The fund as a defined benefit scheme was closed to new members on 1 April 2005, and new members since then have joined the defined contribution scheme. With effect from 1 July 2020, UKPF was closed to further accrual of benefits with all active members becoming deferred members of the fund.

Under IAS 19, where more than one group company 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 whole net defined benefit cost and liability shall be recognised in the accounts of the group entity that is legally the sponsoring employer with the other group entities recognising a cost equal to their contributions to those costs for the period. The Company is unable to identify its share of the underlying assets and liabilities of the UKPF scheme. The contribution by the Company in respect of defined benefit pension scheme costs was **£0** (2020: £156,000) for the year.

The principal employer of the scheme is British American Tobacco (Investments) Limited and it has recognised the balances required by IAS 19 in full in its own financial statements. The retirement benefit liabilities and funding obligations in respect of the scheme are cross guaranteed by the principal employer and all of the participating employers, including British American Tobacco p.l.c.. 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 UKPF was carried out as at 31 March 2020 by a qualified independent actuary. The valuation showed that the fund had a surplus of £139 million on a Technical Provisions basis, in accordance with the statutory funding objective. The Trustee of the Fund also has a Long-Term Funding Target to be fully funded on a Solvency Liabilities basis by 2026, and on this basis the Fund had a surplus of £7 million at the valuation date. On an IAS19 basis, the Fund had a surplus at 31 December 2021 of **£275,420,000** (2020: £389,126,000).

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 **£2,637,000** (2020: £1,850,000).

14 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 Group.

15 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 surplus, according to the last triennial actuarial valuation in March 2020, of £139,000,000. As at 31 December 2021 the valuation of the surplus on an IAS 19 basis was **£275,420,000** (2020: £389,126,000).

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2021

16 Post Balance Sheet Events

The Directors have noted no post balance sheet events and have concluded that both the going concern basis of preparation of these financial statements is appropriate and that no adjustment is required to the statement of financial position as at 31 December 2021. No dividend was paid post balance sheet in 2022.

17 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 Group level and may be obtained from:

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