

British American Tobacco UK Limited

Registered Number 02346565

Directors' report and financial statements

For the year ended 31 December 2020

WEDNESDAY



AAE24KJK

A41

29/09/2021

#1

COMPANIES HOUSE

Contents

Strategic Report 2

Directors' Report 4

Independent auditor's report to the member of British American Tobacco UK Limited 7

Profit and loss account for the year ended 31 December 11

Statement of changes in equity for the year ended 31 December 12

Balance sheet as at 31 December 13

Notes to the financial statements for the year ended 31 December 14

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 2020.

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 2020

The profit for the financial year attributable to the British American Tobacco UK Limited shareholders after deduction of all charges and the provision of taxation amounted to **£4,008,000** (2019: £1,072,000).

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 2020 Annual Report and Form 20-F ("BAT Annual Report") and do not form part of this report.

Principal risks and uncertainties

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

UK Companies Act: Section 172(1) Statement

The Company is part of the Group and is ultimately owned by British American Tobacco p.l.c. As set out 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.

Under section 172(1) of the UK Companies 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 assessment 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 Company has around 220 employees, 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

Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key stakeholders are summarised at pages 82 to 83 of the BAT Annual Report. Where the Directors do not engage directly with the Company's stakeholders, they are kept updated on stakeholder perspectives, including through the use of management reporting, and board notes relating to matters presented to the Board during the year which set out stakeholder considerations as applicable to matters under consideration. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making. During the decision-making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

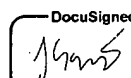
Throughout the COVID-19 pandemic, the Group's priority has been to safeguard the welfare of Group company employees while ensuring that the Group continues to operate effectively. A range of dynamic internal communications were facilitated during the year to help Group company employees feel connected and supported during the pandemic. The primary engagement channels for Group company employees (including the Company's employees) include town hall sessions, the 'Your Voice' employee survey and webcasts implemented as appropriate for the location of employees. In view of restrictions in place as a result of the COVID-19 pandemic, engagement sessions were held through virtual forums for the majority of the year. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 57 of the BAT Annual Report).

In accordance with the Group's overall governance and internal controls framework and in support of the Company's purpose as part of the Group, the Company applies and the Directors have due regard to all applicable Group policies and procedures, including the Group Statement of Delegated Authorities ("Group SoDA"), and the Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out at page 48 of the BAT Annual Report. As a Group company, the Company acts in accordance with the Group's policies in relation the safeguarding of human rights and community relationships, which are set out at page 48 of the BAT Annual Report.

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

The Directors receive training in relation to their role and duties as a Director on a periodic basis and all newly appointed Directors receive training in respect of their role and duties on appointment, including on directors' duties under Section 172 of the Companies Act. Director training is provided through the Company Secretary.

The principal decision made by the Directors during the year related to review and approval of the Company's annual Modern Slavery Act Statement, including consideration of stakeholder and other relevant factors. The Board reviewed and approved the Company's annual Modern Slavery Act Statement for adoption by the Company. Key stakeholder interests taken into consideration in making these decisions include those of direct and indirect suppliers and customers, employees, government authorities and wider society in countries in which the Company operates. As part of this review, the Board considered actions being taken to address the risk of human rights issues across the supply chain and the applicable Group policies, governance and controls.

DocuSigned by:

 1D30AA4ECPA2453
 On behalf of the Board

Joana Garsvaite
Director
 27 September 2021

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 2020.

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.

A European Union (EU) wide ban on menthol cigarettes sales went into effect on 20 May 2020 following the Directive 2014/40/EU of the European Parliament. It has been transposed into UK law and remained in force after 31 December 2020 when UK left EU. The ban on menthol-flavoured tobacco is the latest step in a Government tobacco control strategy designed to reduce youth uptake of smoking and to encourage and support quitting amongst smokers. The ban prohibits capsulated cigarettes or roll-your-own tobacco, including 'click on', 'click & roll', and 'dual', which are mechanisms for adding flavour to the product, separate from the cigarette itself. The Company was able to mitigate the negative impact of this regulation by transforming the portfolio and delisting all menthol products and reducing the impact of menthol product returns.

In preparation for "BREXIT" the Company put together project team that was closely monitoring the EU-UK negotiations to ensure compliance with new regulations coming into effect post end of transition period, including topics covering supply chain, product regulation compliance and movements of services and goods.

Dividends

The Directors do not recommend the payment of dividend in 2020 for the year 2019 (£4,933,000 was paid in 2019 for year ended 31 December 2018).

Board of Directors

The names of the persons who served as Directors of the Company during the period from 1 January 2020 to the date of this report are as follows:

	Date appointed	Date resigned
Gemma Bridget Webb		17/04/2020
Joana Garsvaite	31/07/2019	
Mairi Una Alice Morrison	11/02/2019	
Nathan Michael Jones	30/08/2019	
Carl Fredrik Saman Svensson	30/08/2019	
David Stephen Waterfield	01/02/2020	
Simon Dudley Keith Shaw Ashton	01/02/2020	

Employees

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

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

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

British American Tobacco UK Limited

Research and development

No research & development expenditure has been incurred during the year (2019: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2019: £nil).

Statement of directors' responsibilities

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

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

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

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

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

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.

British American Tobacco UK Limited

Directors' declaration in relation to relevant audit information

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

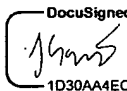
- (a) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditor is aware of that information.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at pages 2 and 3 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 page 82 to 83 of the BAT Annual Report.

On behalf of the Board

DocuSigned by:

1D30AA4ECDA2453...

Joana Garsvaite
Director
Building 7
566 Chiswick High Road
London
W4 5YG

27 September 2021

British American Tobacco UK Limited

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 2020 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 2020 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.

British American Tobacco UK Limited

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 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. 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 with rounded numbers, 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.

British American Tobacco UK Limited

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

British American Tobacco UK Limited

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

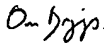
Auditor's responsibilities

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:



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

27 September 2021

British American Tobacco UK Limited

Profit and loss account for the year ended 31 December

Continuing operations	Note	2020 £'000	2019 £'000
Turnover	2	180,326	156,823
Change in stocks of finished goods		(148,893)	(134,798)
Other operating income	3	73,372	60,983
Other operating expenses	4	(98,511)	(78,043)
Operating profit		6,294	4,965
Net finance cost	5	(2,646)	(3,509)
Profit before taxation		3,648	1,456
Tax credit/(expense)	6	360	(384)
Profit after taxation		4,008	1,072

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	Profit and loss account	Total Equity
	£'000	£'000	£'000
1 January 2019	1,000	28,053	29,053
Loss for the financial year	-	1,072	1,072
Dividends paid	-	(4,933)	(4,933)
31 December 2019	1,000	24,192	25,192
Profit for the financial year	-	4,008	4,008
31 December 2020	1,000	28,200	29,200

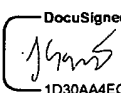
The accompanying notes are an integral part of the financial statements.

British American Tobacco UK Limited

Balance sheet as at 31 December

		31 December 2020 £'000	31 December 2019 £'000
	Note		
Fixed assets			
Tangible assets	7	20,900	20,021
Current assets			
Stock	8	78,688	33,565
Debtors: amounts falling due within one year	9	246,144	189,621
Deferred tax asset	6	2,079	1,719
Cash at bank and in hand		906	845
Total current assets		327,817	225,750
Total assets		348,717	245,771
Creditors: amounts falling due within one year	10	(305,285)	(200,025)
Loan & Borrowings	11	(3,191)	(4,262)
Total current liabilities		(308,476)	(204,287)
Loan & Borrowings	11	(11,041)	(16,292)
Total non-current liabilities		(11,041)	(16,292)
Net assets		29,200	25,192
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account		28,200	24,192
Total shareholders' funds		29,200	25,192

The financial statements on pages 11 to 23 were approved by the Directors on 27 September 2021 and signed on behalf of the Board.

DocuSigned by:

 1D30AA4ECDA2453...

Joana Garsvaite
 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 2020

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 the Companies Act 2006 ("the Act") 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 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.

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

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

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

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

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

Exemptions under FRS 101

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

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

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

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

1 Accounting policies (continued)

Foreign currencies

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

Turnover

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

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

Operating expenses

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

Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted. Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

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

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

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2020****1 Accounting policies (continued)****Group Relief**

As a UK resident wholly-owned subsidiary of the British American Tobacco group of companies (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.

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. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value in use.

Leased assets

With effect from 1 January 2019, the Company has applied IFRS 16 Leases to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of note 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 the Standard. The impact on the Company of implementing the new Standard is shown in Note 17 Adoption of new accounting standards effective 1 January 2019.

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

British American Tobacco UK Limited**Notes to the financial statements for the year ended 31 December 2020****1 Accounting policies (continued)****Leased assets (continued)**

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

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

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

Employee share schemes

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

Dividends

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

Retirement benefits

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

Financial instruments

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

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

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

1 Accounting policies (continued)**Financial instruments (continued)**

provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current.

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

Loans and receivables

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

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.

3 Other operating income

Other operating income comprises recharges to other fellow Group subsidiaries.

4 Other operating expenses

	2020 £'000	2019 £'000
Other operating charges comprise:		
Outsourced services	32,500	19,297
Staff costs	30,394	24,863
Marketing costs	10,091	11,900
Inventory write-off	9,189	8,054
Depreciation of tangible fixed assets	5,088	3,600
Auditors' remuneration:		
- Audit services	83	75
Exchange losses	59	40
Other operating charges	11,107	10,214
	98,511	78,043

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

4 Other operating expenses (continued)

	2020 £'000	2019 £'000
Staff costs:		
Wages and salaries	23,613	20,071
Social security costs	2,677	2,032
Defined contribution scheme costs (note 13)	1,850	1,282
Defined benefit scheme treated as defined contribution scheme (note 13)	156	289
Share-based payments	2,098	1,189
	30,394	24,863

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

	2020 Number	2019 Number
By activity		
Administration	25	18
Selling and distribution	322	202
	347	220

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

	2020 £'000	2019 £'000
Aggregate emoluments	1,883	1,772

	2020 Number	2019 Number
Directors exercising share options during the year	5	3
Directors entitled to receive shares under a long-term incentive scheme	2	2
Directors retirement benefits accruing under a defined benefit scheme	1	1
Directors retirement benefits accruing under a defined contribution scheme	6	8

Highest paid Director

	2020 £'000	2019 £'000
Aggregate emoluments	650	541
Accrued pension at year end	133	85

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 2020

5 Net finance costs

	2020 £'000	2019 £'000
Interest payable to Group undertakings	1,890	3,234
Interest on lease liabilities	756	275
	2,646	3,509

6 Taxation

(a) Recognised in the profit and loss account

	2020 £'000	2019 £'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	(360)	384
Total deferred tax	(360)	384
Total income tax (credit)/expense (note 6b)	(360)	384

(b) Factors affecting the taxation charge

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, after the balance sheet date. This will increase the company's future current tax charge accordingly.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2019: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2020 £'000	2019 £'000
Profit for the year	4,008	1,072
Total tax (credit)/expense	(360)	384
Profit before taxation	3,648	1,456
Tax using the UK corporation tax rate of 19% (2019: 19%)	693	277
Non-deductible expenses	404	226
Recognition of previously unrecognised deductible temporary differences	(202)	(61)
Group relief received for nil consideration	(1,255)	(58)
Total tax (credit)/ expense (note 6a)	(360)	384

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Tangible fixed assets	2,079	1,719	-	-	2,079	1,719
Net tax assets	2,079	1,719	-	-	2,079	1,719

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

6 Taxation (continued)

The Company has recognised deferred tax assets of £2,079,345 (2019: £1,719,042) in respect of fixed asset timing differences.

Movement in deferred tax during the year

	1 January 2020 £'000	Recognised in income £'000	Recognised in equity £'000	31 December 2020 £'000
Tangible fixed assets	1,719	360	-	2,079

7 Tangible assets

Overview of tangible assets, including right-of use assets

	Motor Vehicles £'000	Plant, machinery and equipment £'000	Leasehold property £'000	Asset under construction £'000	Total £'000
Cost					
Balance at 1 January 2019	1,634	1,100	8,578	61	11,373
Additions	46	-	16,610	1,707	18,363
Disposals	(22)	-	-	-	(22)
Transfers	-	179	-	(179)	-
Balance at 31 December 2019	1,658	1,279	25,188	1,589	29,714
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
Accumulated depreciation					
Balance at 1 January 2019	817	1,007	4,289	-	6,113
Depreciation charge for the year	510	91	2,999	-	3,600
Disposals	(20)	-	-	-	(20)
Balance at 31 December 2019	1,307	1,098	7,288	-	9,693
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
Net book value					
1 January 2019	817	93	4,289	61	5,260
31 December 2019	351	181	17,900	1,589	20,021
31 December 2020	174	8,244	11,920	562	20,900

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.

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

8 Stock

	2020 £'000	2019 £'000
Finished goods and goods for resale	78,688	33,565

Increase in stock was driven by 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 £9,189,000 (2019: £8,054,000). Net realisable value adjustment of stock amounted to £1,177,000 (2019: £Nil)

9 Debtors: Amounts falling due within one year

	2020 £'000	2019 £'000
Trade debtors external	87,735	63,784
Amounts owed by Group undertakings	158,042	125,529
Expected credit loss allowance	(160)	(80)
Trade receivables – net of allowances	245,617	189,233
Other debtors	527	388
	246,144	189,621

Amounts owed by Group undertakings of £158,041,000 (2019: £125,529,000) are unsecured, non-interest bearing and repayable on demand.

The movements in the allowance accounts are as follows:

	2020 £'000	2019 £'000
1 January	80	162
Amount charged/(released) during the year	80	(82)
31 December	160	80

10 Creditors: Amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	19,733	7,726
Amounts owed to Group undertakings	40,268	14,897
Taxation and social security	211,036	155,285
Accruals and deferred income	34,248	22,117
	305,285	200,025

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

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

11 Borrowings

	2020 £'000	2019 £'000
Non-current Liabilities		
Lease Liabilities	11,041	16,292

Current Liabilities		
Lease Liabilities	3,191	4,262

Amount recognised in profit or loss:

	2020 £'000	2019 £'000
Interest on lease liabilities	741	275
Expenses relating to short-term leases	15	41

Term and conditions of outstanding lease liabilities as at 31 December 2020 are as follows:

	Nominal Interest rate	Year of maturity	Carrying amount £'000
Lease Liabilities	2.13% - 3.19%	2021 - 2029	14,232

Lease liabilities are repayable as follows:

	Present Value of minimum lease payments £'000
Within one year	3,191
Between one and two years	1,236
Between two and three years	1,276
Between three and four years	1,318
Between four and five years	1,360
Beyond five years	5,851
	14,232

12 Called up share capital

Ordinary shares of £1 each	2020	2019
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 2020

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 liabilities arising in the defined benefit schemes, including UKPF, are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method, this being formally valued at least every three years. The last full triennial actuarial valuation of UKPF was carried out as at 31 March 2020 by a qualified independent actuary and showed a surplus of £139,000,000.

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 **£156,000** (2019: £289,000) 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 **£1,850,000** (2019: £1,282,000).

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 British American Tobacco p.l.c. 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 2020 the valuation of the surplus on an IAS 19 basis was **£389,126,000** (2019: £326,386,000).

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 2020.

On meeting held on 21 May 2021 the Board approved payments of interim dividend of £7,999,734 to be paid to its sole shareholder, Weston Investment Company Limited ("Weston"), according with the Group dividend policy. The proposed dividend comprised of:

- £2,887,184 dividend in respect of 2020; and
- £5,112,550 dividend in respect of 2021.

British American Tobacco UK Limited

Notes to the financial statements for the year ended 31 December 2020

17 Adoption of new accounting standards effective 1 January 2019

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

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

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

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

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

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