

Nicoventures Trading Limited

Registered Number 06665343

Annual report and financial statements

For the year ended 31 December 2019

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Strategic report

The Directors present their strategic report on Nicoventures Trading Limited ("the Company") for the year ended 31 December 2019.

Principal activities

The principal activity of the Company during the year was the development, procurement, marketing and sale of Tobacco Heating products, Vapour products, Modern Oral and associated accessories as a member of the British American Tobacco p.l.c group of companies (the "Group").

Review of business and future developments

The loss for the financial year attributable to the Company's shareholders after deduction of all charges and the provision of taxation amounted to £665,610,000 (2018: £284,567,000).

The Company has continued to invest in its product portfolio to satisfy the needs of consumers worldwide. Revenue in 2019 has increased from £536,127,000 to £623,129,000 with the Tobacco Heating Product (THP) brand Glo continuing to grow in Japan during the financial year. The leading vapour brand Vype continues to drive revenue growth in the Company's German, Canadian and French markets.

The Company has continued to leverage R&D investment launching new innovations and establishing a strong new product initiative pipeline for future years.

On 15 February 2019, the Company issued 300,000,000 £1 ordinary shares to its parent company, Nicoventures Holdings Limited for a consideration of £300,000,000. The proceeds are used to support the activities of the Company.

On 6 August 2019, the Company issued 200,000,000 £1 ordinary shares to its parent company, Nicoventures Holdings Limited for a consideration of £200,000,000. The proceeds are used to support the activities of the Company.

Going concern

Notwithstanding net current liabilities of £371,625,000 as at 31 December 2019 and a loss for the year then ended of £665,610,000 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts (including the impact of COVID 19) for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the fact that the Company has received a capital injection of £1,900,000,000 from its parent company subsequent to the year end, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Events subsequent to the year end

During March 2020 the World Health Organization declared a pandemic related to Covid 19. The Directors have considered the potential impact of the Covid-19 pandemic on the Company's trading prospects and future cash flows. The directors have concluded that both the going concern basis of preparation of these financial statements is appropriate and that no further adjustment is required to the statement of financial position as at 31 December 2019.

Strategic report (continued)

On 9 April 2020, the Company commenced an action in the England and Wales High Court (Patents Court) against Philip Morris Products S.A. ("PMP") for revocation against three divisional patents in the same family, of which PMP is the proprietor (a further divisional patent in the same family was added into the revocation action on 9 July 2020). On 12 May 2020 PMP filed its defence together with a counterclaim for patent infringement against the Company and Investments concerning prototype examples or production samples of certain 'glo' tobacco heating devices. PMP are seeking an injunction, an order for delivery up or a destruction upon oath of all infringing articles, and either an account of profits or damages on commercial sales (and interest thereon). On 12 June 2020, the Company and British American Tobacco (Investments) Limited, a fellow Group undertaking filed their defence to the counterclaim. The trial of this action will take place in the week commencing 17 May 2021.

On 4 December 2020 the Company issued 1,900,000,000 £1 Ordinary shares to its parent entity Nicoventures Holdings Limited for a consideration of £1,900,000,000. The proceeds will be used to support the activities of the Company.

Key performance indicators

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

Principal risks and uncertainties

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

UK Companies Act: Section 172(1) Statement

The Company is part of the British American Tobacco p.l.c 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 activities are the development, procurement, marketing and sale of Tobacco Heating Products, Vapour products, modern oral and associated accessories.

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

The Company's key stakeholders are direct and indirect suppliers to the Company (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 402 employees with the majority based in the UK), governments and regulators, customs, and wider society in countries in which the Company operates.

Strategic report (continued)

UK Companies Act: Section 172(1) Statement (continued)

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

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

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

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

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

The principal decisions made by the Directors during the year included review and approval of the Company's Payment Practices Reporting and the review and approval of the Company's annual Modern Slavery Act Statement. 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 Practices Reporting

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

Strategic report (continued)

Modern Slavery Act Statement

The Board reviewed and approved the Company's annual Modern Slavery Act Statement for adoption by the Company. Key stakeholder interests taken into consideration in making these **decisions include** those of the Company's shareholder direct and indirect suppliers and customers, employees, and

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 BAT Group policies, governance and controls.

By Order of the Board



Ms. S. Mehta
Secretary

22 December 2020

Directors' report

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

Dividends

The Directors do not recommend the payment of a dividend for the year (2018: £nil).

Board of Directors

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

	Appointed	Resigned
Danika Ahr	15 May 2019	
David O'Reilly		
Frederico Pinto Monteiro		15 May 2019
Marina Trani		7 March 2019
Mihovil James Dijanosic	30 January 2019	
Paul Rutger Lageweg	15 May 2019	
Stanislav Amyaga		15 May 2019
Timothy James Bartle		
Vladimir Shilov	15 May 2019	
Robert Goossens	2 November 2020	

Research and development

The Company is currently undertaking development into innovative regulatory approved nicotine products that provide a consumer acceptable alternative to cigarettes. The research and development expenditure incurred by the Company in 2019 was £48,995,000 (2018: £41,794,000).

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.

Employees

The average number of employees employed by the Company during the year was 402 (2018: 279).

UK Companies Act 2006: Employee engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at pages 4 to 6 summarises the Director's approach to engaging with the Company's employees, and how the Directors have regard to their interests when making decisions.

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

The Directors are kept updated on employee perspectives, including through the use of Board notes relating to matters presented to the Board during the year which typically set out relevant employee

Directors' Report (continued)

considerations to matters under consideration. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and can draw on these perspectives in Board decision-making.

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

Statement of directors' responsibilities

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

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

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

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

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

Directors' declaration in relation to relevant audit information

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

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

By Order of the Board



Ms S Mehta
Secretary

22 December 2020

Independent auditor's report to the members of Nicoventures Trading Limited

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

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

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

Independent Auditor's Report to the members of Nicoventures Trading Limited (continued)

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

Auditor's responsibilities


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

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

Independent Auditor's Report to the members of Nicoventures Trading Limited (continued)

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

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



Oliver Briggs (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL
22 December 2020

Profit and loss account for the year ended 31 December

	Note	2019 £'000	2018 £'000
Continuing operations			
Revenue	2	623,129	536,127
Cost of sales		(438,906)	(329,010)
Gross profit		184,223	207,117
Other operating expenses	3	(893,604)	(491,189)
Operating loss		(709,381)	(284,072)
Interest receivable and similar income	4	1,678	524
Interest payable and similar expenses	5	(614)	(462)
Loss before taxation		(708,317)	(284,010)
Tax expense credit/(expense)	6	42,707	(557)
Loss for the financial year		(665,610)	(284,567)

Statement of comprehensive income for the year ended 31 December

	2019 £'000	2018 £'000
Loss for the financial year	(665,610)	(284,567)
Other comprehensive income/(expense)		
Item that may be reclassified subsequently to profit or loss:		
Cash flow hedges		
- net fair value (losses)/gains	(2,108)	1,830
Translation reserve	(12)	-
Total comprehensive income for the year, net of tax	(667,730)	(282,737)

Statement of changes in equity for the year ended 31 December

	Called up share capital	Translation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
1 January 2018	258,000	-	1,507	(195,542)	63,965
Loss for the financial year	-	-	-	(284,567)	(284,567)
Issue of new shares	145,000	-	-	-	145,000
Effective portion of changes in fair value of cash flow hedges	-	-	1,830	-	1,830
31 December 2018	403,000	-	3,337	(480,109)	(73,772)
Loss for the financial year	-	-	-	(665,610)	(665,610)
Issue of new shares	500,000	-	-	-	500,000
Translation reserve	-	(12)	-	-	(12)
Effective portion of changes in fair value of cash flow hedges	-	-	(2,108)	-	(2,108)
31 December 2019	903,000	(12)	1,229	(1,145,719)	(241,502)

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

Balance Sheet at 31 December

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	7	60,364	25,851
Tangible assets	8	61,581	39,467
Investments	9	8,315	4,166
Deferred tax assets	10	1,989	895
Debtors: amounts falling due after more than one year	12b	76	7,896
Derivative financial instruments – asset	15	988	276
		133,313	78,551
Current assets			
Stocks	11	15,929	3,654
Derivative financial instruments – assets	15	13,018	21,731
Debtors: amounts falling due within one year	12a	251,463	121,924
		280,410	147,309
Current liabilities			
Creditors: amounts falling due within one year	13	(640,214)	(281,111)
Provision for restructuring	14	(556)	-
Derivative financial instruments – liabilities	15	(11,265)	(16,094)
Net current liabilities		(371,625)	(149,896)
Deferred tax liabilities	10	(2,240)	(1,889)
Derivative financial instruments - liabilities	15	(950)	(538)
Net liabilities		(241,502)	(73,772)
Capital and reserves			
Called up share capital	16	903,000	403,000
Translation reserve		(12)	-
Cash flow hedge reserve		1,229	3,337
Profit and loss account		(1,145,719)	(480,109)
Total shareholders' deficit		(241,502)	(73,772)

The financial statements on pages 12 to 33 were approved by the Directors on 22 December 2020 and signed on behalf of the Board.

Mr V. Shilov
Director



Registered number
06665343

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

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

1. Accounting policies

Basis of accounting

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

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

The most significant items include:

- the review of asset values and impairment testing of financial and non-financial assets;
- the capitalisation and expensing of development costs relating to product and software;
- the determination of the point in time when the assets are ready for use and for amortisation; and
- the estimation of amounts to be recognised in respect of taxation and legal matters.

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.

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

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

1. Accounting policies (continued)

Going Concern

Notwithstanding net current liabilities of £371,625,000 as at 31 December 2019 and a loss for the year then ended of £665,610,000 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts (including the impact of COVID 19) for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the fact that the Company has received a capital injection of £1,900,000,000 from its parent company subsequent to the year end, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Revenue

Revenue principally comprises sale of new category products to customers. Revenue excludes duty, excise and other taxes and is after deducting returns and other similar discounts and payments to customers. 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.

Foreign currencies

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year. All exchange differences are taken to the profit and loss account in the year except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Other operating expenses

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

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

1. Accounting policies (continued)

Taxation

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

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

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

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Any liabilities or assets recognised for exposures in respect of the payment or recovery of a number of taxes are recognised at such time as an outcome becomes probable and when the amount can reasonably be estimated.

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.

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.

Retirement benefits

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

Research and development

Research expenditure is charged to income in the year in which it is incurred. Development expenditure is charged to income in the year it is incurred, unless it meets the recognition criteria of IAS 38 *Intangible Assets*.

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

1. Accounting policies (continued)

Intangible assets

The intangible assets shown on the Company balance sheet consist mainly of research and development and computer software. Intangibles are carried at cost less accumulated amortisation and impairment.

Research and development intangible assets are amortised on a straight-line basis over their remaining useful lives, consistent with the pattern of economic benefits expected to be received, which do not exceed 20 years.

Computer software is carried at cost less accumulated amortisation and impairment, and is amortised on a straight-line basis over periods ranging from three years to five years. Included in computer software are global software solutions designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group.

Assets under the course of development are not amortised until brought into operational use.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line to write off the assets over their useful economic life. The estimated useful lives are as follows:

	Years
Fixtures & Fittings	5-10
Plant & Machinery	5-10

Assets under construction are not depreciated until brought into operational use.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognised to the extent that the carrying value exceeds recoverable amount which is the higher of the asset's fair value less costs to sell and its value in use.

Investments in Group undertakings

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

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.

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

1. Accounting policies (continued)

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

Non-derivative financial assets

Non-derivative financial assets consist of loans and receivables. These are amounts owed by group undertakings and other debtors, with fixed or determinable payments that are not quoted at active market. These are measured at amortised cost, using the effective interest rate method, and stated net of allowances for credit losses.

Non-derivative financial liabilities

Non-derivative financial liabilities, including trade payables, are stated at amortised cost using the effective interest method.

Derivative financial assets and liabilities

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

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

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

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

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

1. Accounting policies (continued)

Derivative financial assets and liabilities (continued)

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

All of the Company's hedging relationships at the end of 2017 are considered to be continuing hedge relationships on the adoption of IFRS 9.

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

Impairment of financial assets at amortised cost

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

Contingent liabilities and contingent assets

Provision for litigations (including legal costs) would be made at such time as an unfavourable outcome became probable and the amount could be reasonably estimated. Contingent assets are possible assets whose existence will only be confirmed by future events not wholly within the control of the entity and are not recognised as assets until the realisation of income is virtually certain. Where a provision has not been recognised, the Company records its external legal fees and other external defence costs for litigations as these costs are incurred.

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

2. Revenue

	2019 £'000	2018 £'000
Revenue	623,129	536,127

Revenue comprises the sale of tobacco heating products, vapour products, modern oral and associated accessories to fellow Group undertakings.

In the opinion of the Directors a geographical analysis of income would be prejudicial to the interests of the Company.

3. Other operating expenses

	2019 £'000	2018 £'000
Other operating expenses comprise:		
Staff costs	73,840	45,632
Exchange (gains)/losses	(813)	(5,559)
Amortisation of intangible assets (note 7)	3,720	212
Impairment of intangible assets (note 7)	19,095	-
Depreciation of tangible assets (note 8)	8,146	6,333
Impairment of tangible assets (note 8)	19,773	3,560
Gain on tangible assets disposal	(338)	-
Research and development	48,995	41,794
Royalties paid to Group undertakings	49,922	44,868
Other	671,264	354,349
	893,604	491,189

Included within Other are marketing and sales support of £362,318,000 (2018: £284,821,000), technical and advisory services £79,459,000 (2018: £Nil), compensation for cost incurred for new category activities £91,438,000 (2018: £Nil) recharged from other group undertakings. Auditor's fees of £95,000 were borne by a fellow Group undertaking (2018: £23,000).

	2019 £'000	2018 £'000
Staff costs:		
Wages and salaries	43,900	26,704
Social security costs	6,001	3,504
Defined contribution pension costs (note 17)	3,417	2,199
Defined benefit pension cost (note 17)	1,376	906
Share-based payments	6,351	3,774
Other staff costs	12,795	8,545
	73,840	45,632

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

3. Other operating expenses (continued)

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

	2019	2018
	£'000	£'000
Aggregate emoluments	876	1,948
	2019	2018
	£'000	£'000
Directors exercising share options during the period	4	4
Directors entitled to receive shares under a long-term incentive scheme	2	4
Directors retirement benefits accruing under a defined contributions scheme	4	4
Highest paid director		
	2019	2018
	£'000	£'000
Aggregate emoluments	361	773
Accrued pension at the end of period	298	219

No other Directors received any remuneration in respect of their services as a Director of the Company during the year. The Company considers that there is no practicable method to allocate a portion of the emoluments these other Directors receive from their respective Group company employer for any qualifying services in respect of the Company, as these are considered to be incidental and part of the Directors overall management responsibilities within the Group.

The average monthly number of persons (including Directors) employed by the Company during the year was 402 (2018: 279).

	2019	2018
	Number	Number
Administration	17	21
Production	286	184
Selling and distribution	99	74
	402	279

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

4. Interest receivable and similar income

	2019 £'000	2018 £'000
Interest receivable from Group undertakings	710	524
Fair value changes on derivative financial instruments and hedged items	968	-
	1,678	524

5. Interest payable and similar charges

	2019 £'000	2018 £'000
Interest payable and similar charges	614	1
Fair value changes on derivative financial instruments and hedged items	-	461
	614	462

6. Taxation

(a) Recognised in the profit and loss account

	2019 £'000	2018 £'000
<i>UK corporation tax</i>		
Current tax on income for the period	(42,584)	-
	(42,584)	-
<i>Foreign tax</i>		
Current tax on income for the period	88	212
Total current tax (credit)/expense	(42,496)	212
<i>Deferred tax</i>		
Origination and reversal of temporary differences	-	83
Adjustments in respect of prior periods	(211)	262
Total deferred tax (credit)/expense	(211)	345
Total income tax (credit)/expense	(42,707)	557

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

6. Taxation (continued)

(b) Factors affecting the taxation charge

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

The current taxation charge differs from the standard 19% (2018: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below

	2019 £'000	2018 £'000
Loss for the year	(665,610)	(284,567)
Total tax (credit)/expense	(42,707)	557
Loss excluding taxation	(708,317)	(284,010)
Tax using the UK corporation tax rate of 19% (2018: 19.00%)	(134,580)	(53,962)
Adjustments in respect of prior periods	(211)	262
Non-deductible expenses	825	2,307
Effects of change in tax rate	227	(10)
Timing difference not recognised	1,932	-
R and D tax suffered	316	-
Foreign tax suffered	88	212
Group relief surrendered for less than tax rate	88,696	51,748
Total income tax (credit)/expense	(42,707)	557

The Company has a gross deferred tax asset of £21,704,000 (taxation amount £3,690,000) (2018: £3,298,000 (taxation amount £561,000)) in relation to fixed asset timing differences and tax losses which are not recognised in the balance sheet because it is not sufficiently probable that it will be utilised in the foreseeable future.

In 2019, the Directors have decided that the Company should commence charging the recipients of the Company's tax losses surrendered as group loss relief on an arm's length basis for the benefit of these losses. The Directors have based this judgment on the improved commercial position of the Company including commitments to a strong product pipeline, increased market coverage, strong turnover figures and future forecasts demonstrating a clear route to profitability aligned to the Company's strategy.

In determining their valuation of the losses to the Company, the Directors have considered the discounted cash flow forecasts of the Company and the likely benefit the Company might have received had the losses not been surrendered.

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

7. Intangible assets

	Research & Development	Computer Software	Assets under the course of development	Total
	£'000	£'000	£'000	£'000
Cost				
1 January 2019	2,078	-	23,985	26,063
Additions	12,875	-	44,453	57,328
Transfers	24,691	8,168	(32,859)	-
31 December 2019	39,644	8,168	35,579	83,391
Accumulated amortisation				
1 January 2019	212	-	-	212
Charge for the year	3,550	170	-	3,720
Impairment for the year	19,095	-	-	19,095
At 31 December 2019	22,857	170	-	23,027
Net book value				
1 January 2019	1,866	-	23,985	25,851
At 31 December 2019	16,787	7,998	35,579	60,364

Included within assets under the course of development are internally developed assets with a carrying value of £35,579,000, representing expenditure incurred in product development and computer software.

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

8. Tangible assets

	Plant and Machinery	Computer Equipment	Fixtures and Fittings	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
1 January 2019	44,871	-	2	15,499	60,372
Additions	7,479	80	11	47,611	55,181
Disposal	(5,179)	-	-	-	(5,179)
Transfers	27,060	-	-	(27,060)	-
31 December 2019	74,231	80	13	36,050	110,374
Accumulated depreciation					
1 January 2019	20,903	-	2	-	20,905
Disposal	(31)	-	-	-	(31)
Charge for the year	8,129	15	2	-	8,146
Impairment for the year	19,773	-	-	-	19,773
At 31 December 2019	48,774	15	4	-	48,793
Net book value					
1 January 2019	23,968	-	-	15,499	39,467
At 31 December 2019	25,457	65	9	36,050	61,581

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

9. Investment

Shares in Group undertakings

	Share Class	% Direct Interest	% Subsidiary Interest	% Attributable Interest
<u>Unlisted - registered in Poland</u>				
Nicoventures Poland sp. z o.o	Ordinary	0.1	0	0.1
1 Ordinary shares of 1 PLN				
Ul. Ilzecka 26, 02-135, Warsaw, Poland				
<u>Unlisted - registered in United States</u>				
Nicoventures U.S. Limited	Ordinary	100	0	100
100 Ordinary shares of 1 USD				
Corporation Service Company, 251 Little Falls Drive, Wilmington Delaware 19808, United States				
<u>Unlisted - registered in China</u>				
British American (Shanghai) Enterprise Development Co., Ltd	Ordinary	100	0	100
15,000,000 Ordinary shares of NPV USD				
Room 436, No. 1000, Zhenchen Road, Baoshan District, Shanghai, China				
<u>Unlisted - registered in China</u>				
British American Nico Business Consulting (Shanghai) Co., Ltd	Ordinary	0	100	100
90,000,000 Ordinary shares of NPV RMB				
Room 438, No. 1000, Zhenchen Road, Baoshan District, Shanghai, China				

Share holdings at cost less provisions

	£'000
Cost/ Net book value	
1 January 2019	4,166
Additions	4,149
31 December 2019	8,315

During the year the Company has invested £4,149,000 into British American (Shanghai) Enterprise Development Co., Ltd to finance their principal activities.

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

10. Deferred tax assets/ (liabilities)

	2019 £'000	2018 £'000
Deferred tax assets		
To be recovered within 1 year	-	-
To be recovered beyond 1 year	1,989	895
	1,989	895
Deferred tax liabilities		
To be recovered within 1 year	-	-
To be recovered beyond 1 year	(2,240)	(1,889)
	(2,240)	(1,889)

11. Stock

	2019 £'000	2018 £'000
Semi-finished goods	1,099	730
Finished goods	14,830	2,924
	15,929	3,654

Finished goods stock balances are shown net of a provision 2019: £2,162,000 (2018: £652,000).

12. Debtors:

a) amounts falling due within one year

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	235,596	110,270
Tax receivable	8,132	4,900
Other debtors	572	1,465
Prepayments and accrued income	7,163	5,289
	251,463	121,924

Included within amounts owed by Group undertakings is an amount of £107,526,000 (2018: £55,242,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR.

Prepayments and accrued income included amount of £4,864,000 owed to the Company that will be recovered through future purchases of inventory.

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

12. Debtors (continued):

b) amounts falling due after more than one year

	2019 £'000	2018 £'000
Prepayments and accrued income	76	7,896
	76	7,896

13. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	121,728	61,536
Amounts owed to Group undertakings	503,139	101,119
Accruals and deferred income	15,276	118,456
Tax payable	71	-
	640,214	281,111

Amounts due to Group undertakings are unsecured, interest free and have no fixed date of repayment.

14. Provision

	2019 £'000	2018 £'000
Provision for restructuring	556	-

This relates to provision for severance pay falling due within one year.

15. Derivative financial instruments

	2019 Assets £000	2019 Liabilities £000	2018 Assets £000	2018 Liabilities £000
Cash flow hedges				
- Forward foreign currency contracts	14,006	12,215	22,007	16,632
Current	13,018	11,265	21,731	16,094
Non-current	988	950	276	538

The Company's operations expose it to currency risk as sales and purchases of inventory are denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The total cash flow hedge movement for the year was a gain of £968,000.

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

16. Called up share capital

	Number
1 January 2019	403,000,005
Issue of new shares	500,000,000
31 December 2019	903,000,005

Ordinary shares at £1 each	2019	2018
Allotted, called up and fully paid		
- value £000	903,000	403,000
- number	903,000	403,000

The Company issued 500,000,000 ordinary shares of £1 each to a fellow Group undertaking during 2019.

17. Pensions

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 of the employer. British American Tobacco (Investments) Limited is the sponsoring employer.

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

The last full triennial actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2017 by a qualified independent actuary. The valuation showed that the fund had a deficit of £23,000,000 (2014: £264,000,000).

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

The defined benefit pension scheme cost was £1,376,000 (2018: £906,000) 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 are incurred. The defined contribution pension expense for the Company was £3,417,000 (2018: expense of £2,199,000).

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

18. Share-based payments

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

Long-Term Incentive plan (LTIP)

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

Deferred Share Bonus Scheme (DSBS)

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

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

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

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

Share-based payment expense

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

The weighted average share price on exercise of LTIP shares in 2019 was £28.31 (2018: £38.90). The weighted average share price on exercise of DSBS shares in 2019 was £28.40 (2018: £40.00).

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

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

19. Related party disclosures

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

The Company has completed transactions in the financial year with an associate as defined under IAS 24 Related Party Disclosures which is in the normal course of business. The amounts transacted in the financial year was £1,000,000 (2018: £Nil). The transaction related to research and development expenditure.

20. Contingent liabilities

As at 31 December 2019, the Company was served as a defendant in the action set out below.

Glo Patent Litigation

On 22 June 2018, an affiliate of Philip Morris International (PMI) commenced proceedings against British American Tobacco Japan, Ltd. in the Japanese courts challenging the import, export, sale and offer of sale of the glo device and of the NeoStiks consumable in Japan, at the time the claim was brought (and earlier models of the glo device), alleging that the glo devices directly infringe certain claims of two Japanese patents that have been issued to the PMI affiliate and that the NeoStiks indirectly infringe those patents. On 17 January 2019, the PMI affiliate introduced new grounds of infringement, alleging that the glo device also infringes some other claims in the two PMI affiliates Japanese patents. Damages for the glo device and NeoStik are claimed in the court filing, to the amount of 100 million yen (approximately £695,000 or US\$920,000). The PMI affiliate has also filed a request for injunction with respect to the glo device. BAT denies infringement and is challenging the validity of the two PMI affiliate's Japanese patents.

British American Tobacco Japan Ltd. acts as a limited risk distributor of the Company under the terms of a Distribution and Marketing Agreement. The Company. would compensate British American Tobacco Japan Ltd. for any costs and liabilities arising from the litigation, in accordance with the usual principles applicable to the Company's limited risk distribution relationships.

Payment guarantee

The Company has provided a payment guarantee to a third party in respect of certain commitments entered into by its fellow subsidiary undertaking in its normal course of business. Amounts paid and payable by the Company's subsidiary undertakings in the year ending 31 December 2019 were £nil (2018: £Nil). The maximum potential exposure to the Company under the payment guarantee will be £80,371,000 between 1 January 2020 and 31 December 2023.

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

21. Events subsequent to the year end

During March 2020 the World Health Organization declared a pandemic related to Covid 19. The Directors have considered the potential impact of the Covid-19 pandemic on the Company's trading prospects and future cash flows. The directors have concluded that both the going concern basis of preparation of these financial statements is appropriate and that no further adjustment is required to the statement of financial position as at 31 December 2019.

On 9 April 2020, the Company commenced an action in the England and Wales High Court (Patents Court) against Philip Morris Products S.A. ("PMP") for revocation against three divisional patents in the same family, of which PMP is the proprietor (a further divisional patent in the same family was added into the revocation action on 9 July 2020). On 12 May 2020 PMP filed its defence together with a counterclaim for patent infringement against the Company and Investments concerning prototype examples or production samples of certain 'glo' tobacco heating devices. PMP are seeking an injunction, an order for delivery up or a destruction upon oath of all infringing articles, and either an account of profits or damages on commercial sales (and interest thereon). On 12 June 2020, the Company and British American Tobacco (Investments) Limited, a fellow Group undertaking filed their defence to the counterclaim. The trial of this action will take place in the week commencing 17 May 2021.

On 4 December 2020 the Company issued 1,900,000,000 £1 Ordinary shares to its parent entity Nicoventures Holdings Limited for a consideration of £1,900,000,000. The proceeds will be used to support the activities of the Company.

22. 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 Nicoventures Holdings 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