British American Tobacco Global Travel Retail Limited

Registered Number 09913893

Annual report and financial statements

For the year ended 31 December 2019

Contents

Strategic report

The Directors present their strategic report on British American Tobacco Global Travel Retail Limited (the "Company") for the year ended 31 December 2019.

Principal activities:

The Company distributes and sells cigarettes and tobacco products in the Global Travel Retail channel on behalf of members of the British American Tobacco p.l.c. group of companies (the "Group").

Review of the year ended 31 December 2019

The profit for the financial period attributable to the Company's shareholders after deduction of all charges amounted to USD 50,733,000 (2018: USD 72,213,000).

Post balance sheet events

Company's restructuring in 2020

As part of an on-going review of the Global Travel Retail operations and in order to consolidate under one business unit the Group's travel retail and duty-free businesses, the Directors took the decision to cease the Company's operations and transfer them to a new company within the Group as of 1 October 2020. This was communicated to the Company's employees in January 2020. As the Directors do not intend to acquire a replacement trade, the financial statements have not been prepared in a going concern basis. The effect is explained in note 16 (Post balance sheet events).

An estimate of the full and final financial effect of the Company's restructuring is not yet available.

Covid-19

The Covid-19 outbreak in Q1 2020 has had a significant impact on the 2020 Global Travel Retail business across the world, driven by strict travel restrictions and large decrease in the Global Travel Retail consumer base. In this context, 2020 sales have considerably reduced compared to previous year. The effect is explained in note 16 (Post balance sheet events).

Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in British American Tobacco p.l.c.'s 2019 Annual Report and Form 20-F ("BAT Annual Report") and do not form part of this report.

Principal risks and uncertainties

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

Strategic report (continued)

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 above in the Company's Strategic Report, the Company's principal activity is the distribution and sale of cigarettes and tobacco products in the Global Travel Retail channel on behalf of the Group.

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), internal and external customers of the Company (including distributors, wholesalers and retailers), employees (the Company has around 107 employees based in the United Kingdom), governments, wider society in countries in which the Company operates and the Company's shareholder. Whilst the Company does not supply products directly to consumers, consumers of the Group's tobacco products are also key stakeholders of the Company.

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 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).

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

Strategic report (continued)

UK Companies Act: Section 172(1) Statement

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

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

On behalf of the Board

Mr P. McCormack
Assistant Secretary

Globe House
4 Temple Place
London
WC2R 2PG

16 October 2020

Directors' report

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

Following the Covid-19 outbreak in Q1 2020 which had a significant impact on the Global Travel Retail trade, the Company's Directors have continuously coordinated the efforts to mitigate and minimise the impact of the 2020 Covid-19 pandemic on the Company's operations.

Dividends

During the year, the Company paid dividends amounting USD 110,000,000 (2018: USD 232,315,000)

Board of Directors

The names of the persons who served as Directors of the Company during the year, and to the date of this report, were:

	Date appointed	Date resigned
Matthias Baltes	11 September 2017	12 March 2019
Pablo Andres Banki	1 March 2018	14 October 2019
Athanasios Trimis	23 May 2018	
Hans Arsene Herman Maria Geeroms	12 March 2019	1 May 2020
Anton Eremin	12 March 2019	
Victoria Stepanova	14 October 2019	

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: USD nil).

Research and development

The Company incurred research & development expenditure of USD 4,776,000 during the year (2018: USD 2,198,000).

Employees

The average number of employees employed by the Company during the year was 107 (2018: 122).

Financial risk management

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

The Company is also exposed to credit risk due to sales to debtors. To minimise exposure, credit limits are set up for each customer and management monitors the level of outstanding debt on an on-going basis.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at page 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.

Directors' report (continued)

Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 26 to 27 of the BAT Annual Report.

Auditor

The auditor, KPMG LLP, has indicated willingness to continue to act and is deemed to have been reappointed pursuant to Section 487 of the Companies Act 2006.

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS101 *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 accounting 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; and
- 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. However, as explained in note 1, the Directors do not believe that it is appropriate to prepare these financial statements on a going concern basis.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

State of disclosure of information to auditor

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

Directors' report (continued)

b) he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board

Mr P. McCormack
Assistant Secretary

Globe House
4 Temple Place
London
WC2R 2PG

16 October 2020

Independent auditor’s report to the members of British American Tobacco Global Travel Retail Limited

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

Strategic report and directors’ report

The directors are responsible for the strategic report and the directors’ report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors’ report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors’ report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Mark Baillache, (Partner)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London. E14 5GL

16 October 2020

Profit and loss account for the year ended 31 December

Continuing operations	Note	**2019** **$'000**	2018 $'000
Turnover	2	**208,326**	289,119
Cost of sales		**(89,369)**	(133,200)
Other operating income	3	**2,732**	5,104
Other operating expenses	4	**(72,285)**	(89,290)
Operating profit		**49,404**	71,733
Interest receivable and similar income	5	**1,868**	1,618
Interest payable and similar expenses	6	**-**	(1,123)
Profit on ordinary activities before taxation		**51,272**	72,228
Tax on profit on ordinary activities	7	**(539)**	(15)
Profit for the financial year		**50,733**	72,213

There is no difference between the profit on ordinary activities before taxation and the profit for the financial period stated above and their historical cost equivalents

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

Statement of other comprehensive income for the year ended 31 December

	2019	2018
	$'000	$'000
Profit for the financial year	**50,733**	72,213
Effective portion of changes in fair value of cash flow hedges	**(2,069)**	4,787
Actuarial loss arising on defined benefit pension scheme	**(217)**	(43)
Deferred tax for Actuarial (loss)/gain arising on defined benefit pension scheme	**74**	-
Total other comprehensive income for the year	**48,521**	76,957

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

Statement of changes in equity for the year ended 31 December

	Called up share capital	Profit and loss account	Cash flow hedge reserve	Total Equity
	$'000	$'000	$'000	$'000
Balance at 1 January 2018	**-**	**232,102**	**(2,525)**	**229,577**
Profit for the financial year	-	72,213	-	72,213
Dividends paid	-	(232,315)	-	(232,315)
	-	**72,000**	**(2,525)**	**69,475**
Other comprehensive income				
Actuarial loss arising on defined benefit pension scheme	-	**(43)**	**-**	**(43)**
Movement in Cash flow hedge reserve		**-**	**4,787**	**4,787**
Balance at 31 December 2018	**-**	**71,957**	**2,262**	**74,219**
Profit for the financial year	-	50,733	-	50,733
Dividends paid		(110,000)	-	(110,000)
	-	**12,690**	**2,262**	**14,952**
Other comprehensive income				
Actuarial loss arising on defined benefit pension scheme	-	**(217)**	**-**	**(217)**
Deferred tax for Actuarial (loss)/gain arising on defined benefit pension scheme	-	**74**	**-**	**74**
Movement in Cash flow hedge reserve	**-**	**-**	**(2,069)**	**(2,069)**
Balance at 31 December 2019	**-**	**12,547**	**193**	**12,740**

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

Balance sheet as at 31 December

	Note	**2019**	2018
		$'000	$'000
Fixed assets			
Tangible assets	8	**58**	83
Current assets			
Cash		**305**	239
Stocks	9	**16,375**	23,543
Deferred tax asset	7	**506**	43
Debtors: amounts falling due within one year	10	**49,616**	120,792
Derivative financial instruments - assets	11	**848**	3,070
Total current assets		**67,650**	147,687
Creditors: amounts falling due within one year	12	**(50,543)**	(54,506)
Derivative financial instruments - liabilities	11	**(619)**	(98)
Deferred tax liability	7	**(116)**	(534)
Current provisions for liabilities	13	**(1,364)**	(15,000)
Net current assets		**15,008**	77,550
Total assets less current liabilities		**15,066**	77,632
Provisions for liabilities	13	**-**	(1,114)
Retirement benefit scheme liabilities	14	**(2,326)**	(2,299)
Net assets		**12,740**	74,219
Capital and reserves			
Called up share capital	15	**-**	-
Profit and loss account		**12,547**	71,957
Cash flow hedge reserve		**193**	2,262
Total shareholders' funds		**12,740**	74,219

The financial statements on pages 10 to 33 were approved by the Directors on 16 October 2020 and signed on behalf of the Board.

Ms V. Stepanova
Director

Victoria Stepanova

Registered number
09913893

The accompanying notes on pages 14 to 33 are an integral part of the financial statements.

Notes to the financial statements for the year ended 31 December

1 Accounting policies

Basis of preparation

In line with the Strategic report, the financial statements are not 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 to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

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; and
- The effects of new but not yet effective IFRSs

As the consolidated financial statements of British American Tobacco p.l.c. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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 accounting estimate is:

- The estimation of provisions for liabilities and charges is subject to uncertain future events and so the amount and/or timing may differ from current assumptions.

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.

Notes to the financial statements for the year ended 31 December

1 Accounting policies (continued)

Going Concern

These financial statements are not prepared on a going concern basis, considering that a decision has been taken to cease the Company's operations at the end of September 2020.

Foreign currencies

The Company's functional currency is US dollar. Transactions arising in currencies other than US dollar are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than US dollar 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 recognized in other comprehensive income.

Financial instruments

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

Non-derivative financial assets are classified on initial recognition in accordance with the Company's business model as loans and receivables, or cash and cash equivalents and accounted for as follows:

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are solely payments of principal and interest on the principal amount outstanding that are primarily held in order to collect contractual cash flows. These balances include trade and other receivables and are measured at amortised cost, using the effective interest rate method and stated net of allowances for credit losses.

Cash and cash equivalents include amounts held in bank accounts.

Non-derivative financial liabilities include trade payables.

1 Accounting policies (continued)

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

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

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

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

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

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 cost.

Turnover

Turnover principally comprises sales of cigarettes, other tobacco products and nicotine products to external customers. Revenue excludes Value Added Taxation and is after deducting rebates, returns and other similar discounts and payments to direct and indirect customers. 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 in most cases.

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.

Notes to the financial statements for the year ended 31 December

1 Accounting policies (continued)

Taxation

Taxation is chargeable on the profits for the year, together with deferred tax.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Stock

Stock is valued at the lower of cost and net realisable value. Cost is based on weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale. Provisions are made for slow moving or obsolete items.

Tangible fixed assets

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

The rates of depreciations used are:

	%
Freehold building - improvement	4-20
Plant, machinery and equipment	10-33
(manufacturing property and non-manufacturing property)	

Notes to the financial statements for the year ended 31 December

1 Accounting policies (continued)

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 regarding these costs are included in the consolidated financial statements of the Company's ultimate parent.

Dividends

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

Retirement benefits

The Company operates and participates in both defined benefit and defined contribution schemes. The cost and liabilities of the defined benefit schemes are accounted for by the principal employer of the arrangement, and the Company recognises its contributions to the costs of these schemes as an expense when they fall due. Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

The valuation of the defined benefit obligation in relation to the unfunded pension liability transferred to the Company in 2017 was performed in accordance with IAS 19 Employee Benefits. Actuarial gains and losses are recognised in full through other comprehensive income. The actuarial cost charged to profit from operations consists of net interest on the net defined benefit liability.

Provisions

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

Notes to the financial statements for the year ended 31 December

2 Turnover

Turnover comprises the sale of cigarettes and tobacco products in airport outlets, border, military and diplomatic shops as well as on board aircrafts, ferries and cargo ships around the world.

Change in significant accounting policies

With effect from 1 January 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers*. In the 2018 financial statements the Company has fully revised prior periods, as permitted by the Standard, to ensure comparability of the Profit and Loss statement across periods.

For the Company, the principle impact of the adoption of IFRS 15 is the requirement for certain payments to indirect customers, previously presented as marketing costs within other operating expenses, to be presented as deductions from turnover. This has reduced turnover for the year by USD 18,565,000 (2018: USD 18,726,000), with a corresponding reduction in other operating expenses.

3 Other operating income

Other operating income comprise recharges to other fellow Group subsidiaries.

Notes to the financial statements for the year ended 31 December

4 Other operating expenses

	2019	2018
	$'000	$'000
Other operating expenses comprise:		
Outsourced services	**18,876**	20,349
Storage & Warehousing	**(64)**	324
Staff costs	**15,062**	13,942
Defined benefit scheme costs – non-staff related	**21**	14
Depreciation of tangible fixed assets	**25**	47
Auditor's remuneration:		
- Audit services	**119**	88
Exchange (gains)/losses	**306**	905
Other operating expenses	**37,940**	53,621
- Marketing investment	**18,538**	17,604
- IT services	**462**	267
- Freight	**1,208**	643
- Royalties	**15,012**	18,872
- Travel & Entertainment	**1,225**	1,107
- Bad debts	**(36)**	7,165
- Miscellaneous	**1,531**	7,963
	72,285	89,290

2019 bad debts amount is the result of IFRS 9 bad debts provision review based on lower receivables versus the previous year. 2018 bad debts amount was related to unrecovered receivables from a customer which the company ceased supplying in January 2018.

Notes to the financial statements for the year ended 31 December

4 Other operating expenses (continued)

	2019	2018
	$'000	$'000
Staff costs:		
Wages and salaries	**12,174**	11,731
Social security costs	**1,080**	1,066
Defined contribution scheme costs (note 13)	**772**	738
Defined benefit scheme treated as defined contribution scheme (note 13)	**100**	58
Share-based payments	**936**	349
	15,062	13,942

The average monthly number of persons (including Directors) employed by the Company during the period was 107 (2018: 122).

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

	2019	2018
	$'000	$'000
Aggregate emoluments	**1,801**	1,522

	2019	2018
	Number	Number
Directors exercising share options during the year	**3**	3
Directors entitled to receive shares under a long-term incentive scheme	**1**	2
Directors retirement benefits accruing under a defined benefit scheme	**1**	-
Directors retirement benefits accruing under a defined contribution scheme	**2**	6

Notes to the financial statements for the year ended 31 December

4 Other operating expenses - continued

Highest paid Director

	2019	2018
	$'000	$'000
Aggregate emoluments	**704**	613
Accrued pension at year end	**18**	7

5 Interest receivable and similar income

	2019	2018
	$'000	$'000
Interest receivable from Group undertakings	**1,868**	1,618

6 Interest payable and similar expenses

	2019	2018
	$’000	$’000
Interest payable to Group undertakings	**-**	1,123

7 Taxation on profit on ordinary activities

(a) Recognised in the Profit and loss account

	2019		2018	
	$'000	**$'000**	$'000	$'000
UK corporation tax				
Current tax on income for the period	**-**		-	
Adjustment in respect of prior years	**-**		-	
Foreign tax				
Current tax on income for the period	**855**		-	
		855		**-**
Deferred Tax				
Origination and reversal of timing differences	**44**		15	
Prior year adjustment	**(360)**			
		(316)		15
Total income tax expense		**539**		15

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. In the 11 March 2020 Budget, it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2018: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

Notes to the financial statements for the year ended 31 December

7 Taxation on profit on ordinary activities (continued)

	2019 $'000	2018 $'000
Profit for the year	**50,733**	72,213
Total tax expense	**539**	15
Profit excluding taxation	**51,272**	72,228
Corporation taxation at 19% (2018: 19%) on profit	**9,742**	13,723
Factors affecting the taxation rate:		
Expenses not deductible	**229**	152
Income not taxable	**(20)**	-
Adjustments in respect of prior years	**(360)**	10
Tax rate changes	**(5)**	5
Foreign tax suffered	**855**	-
Effects of group relief/other reliefs	**(9,902)**	(13,875)
Total taxation note 7(a)	**539**	15

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000
Tangible Fixed Assets	**34**	40	**-**	-	**34**	40
Cashflow Hedge Reserves	**76**	3	**(116)**	(534)	**(40)**	(531)
Defined benefit pension scheme	**396**	-	**-**	-	**396**	-
Net tax assets / (liabilities)	**506**	43	**(116)**	(534)	**390**	(491)

Notes to the financial statements for the year ended 31 December

7 Taxation on profit on ordinary activities (continued)

Movement in deferred tax during the year:

	1 January 2019 $'000	Recognised in income $'000	Recognised in equity $'000	31 December 2019 $'000
Tangible Fixed Assets	**40**	**(6)**	**-**	**34**
Cashflow Hedge Reserve	**(531)**	**-**	**491**	**(40)**
Defined benefit pension scheme	**-**	**322**	**74**	**396**
	(491)	**316**	**565**	**390**

8 Tangible fixed assets

	Plant, machinery and equipment	Freehold building - improvement	Total
	$'000	$'000	$'000
Cost			
1 January 2019	**438**	**77**	**515**
Additions	-	-	-
31 December 2019	**438**	**77**	**515**
Accumulated depreciation			
1 January 2019	**392**	**40**	**432**
Charge for the period	10	15	25
31 December 2019	**402**	**55**	**457**
Net book value			
1 January 2019	**46**	**37**	**83**
31 December 2019	**36**	**22**	**58**

Notes to the financial statements for the year ended 31 December

9 Stocks

	2019	2018
	$'000	$'000
Repack materials	**1,329**	776
Finished goods	**20,336**	22,767
Finished goods and goods for resale - obsolescence provision	**(5,290)**	-
Total stocks	**16,375**	23,543

10 Debtors: amounts falling due within one year

	2019	2018
	$'000	$'000
Trade debtors	**39,984**	37,512
Amounts owed by Group undertakings	**7,804**	82,104
Prepayments and accrued income	**1,828**	1,176
	49,616	120,792

Amounts owed by Group undertakings of USD 7,804,000 (2018: USD 82,104,000), are unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR.

Prior to the adoption of IFRS 9 on 1 January 2018, the amounts owed by group undertakings and the receivables were stated net of allowances for estimated irrecoverable amounts due to the identification of a loss event (the incurred cost method).

Debtors amounts at 31 December 2019 are reported in the balance sheet net of allowances which are amounting to USD 21,000 as a result of IFRS 9 adoption.

Notes to the financial statements for the year ended 31 December

10 Debtors: amounts falling due within one year (continued)

Trade debtors and Amounts owed by Group undertakings have been reported in the balance sheet net of allowances as follows:

	2019 $'000	2018 $'000
Trade debtors - gross	**40,003**	37,580
Trade debtors - allowance	**(19)**	(68)
Amounts owed by Group undertakings - gross	**7,806**	82,140
Amounts owed by Group undertakings - allowance	**(2)**	(36)
Prepayments and accrued income	**1,828**	1,176
Net trade and other receivables	**49,616**	120,792

The movements in allowance account are as follows:

	Trade Debtors $'000	Amounts owed by Group undertakings $'000	Total $'000
1 January 2019	**68**	**36**	**104**
Provisions - bad debt amounts written off	(47)	-	(47)
Release to Profit and Loss	(2)	(34)	(36)
Charge of expected credit loss in the year	-	-	-
Closing balance of allowance accounts as at 31 December 2019	**19**	**2**	**21**

Notes to the financial statements for the year ended 31 December

11 Financial instruments

The Company's operations expose it to currency risk as part of its sales, purchases of raw materials and goods for resale are denominated in foreign currencies other than US dollar. The exposure is hedged with forward foreign exchange contracts aligned to British American Tobacco p.l.c. policy.

The fair value of the instruments at 31 December 2019 was a net receivable of $229,000.

	2019	2018
	$'000	$'000
Forward foreign currency contracts - assets	848	3,070
Forward foreign currency contracts - liabilities	(619)	(98)
Fair Value of hedges	229	2,972

12 Creditors: amounts falling due within one year

	2019	2018
	$'000	$'000
Trade creditors	10,936	14,846
Amounts owed to Group undertakings	15,583	12,932
Taxation and social security	(113)	(76)
Accruals	24,137	26,804
	50,543	54,506

Amounts owed to Group undertakings of USD 15,583,000 (2018: USD 12,932,000) are unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR.

Notes to the financial statements for the year ended 31 December

13 Provisions

	Total $'000	Current $'000	Non-current $'000
Balance at 1 January 2019	**16,114**	**15,000**	**1,114**
Provisions made during the period	**629**	**629**	**-**
Provisions used during the period	**(10,944)**	**(9,937)**	**(1,007)**
Provisions reversed during the period	**(4,435)**	**(4,328)**	**(107)**
Balance at 31 December 2019	**1,364**	**1,364**	**-**

Amounts included as provisions at 31 December 2019 relate to contractual disputes (USD 735,000) and restructuring liabilities (USD 629,000).

14 Retirement benefits

There are no individuals directly employed by the Company. Instead, individuals employed by other Group companies work for the Company, with their full employment cost being recharged to the Company, including costs related to defined contribution local schemes and defined benefit pension local schemes.

As of 1 January 2017, the Pension Agreements assumed by another Company of the group (British American Tobacco International in Liquidation) in the amount of CHF 2,590,242 (with equivalent of USD 2,588,490) were transferred to the Company along with all related rights and obligations.

The Retirement benefit scheme liabilities are formally valued annually by a qualified independent actuary. The amounts recognised in the balance sheet are determined as follows:

Notes to the financial statements for the year ended 31 December

14 Retirement benefits (continued)

	2019	2018
	$'000	$'000
Present value of unfunded scheme liabilities	(2,326)	(2,299)
	(2,326)	(2,299)

The above net liability is recognised in the Balance Sheet as follows:		
– retirement benefit scheme liabilities	(2,326)	(2,299)
	(2,326)	(2,299)

The amounts recognised in profit and loss for the defined benefit scheme are as follows:

	2019	2018
	$'000	$'000
Defined benefit schemes		
– interest on scheme liabilities	21	14
Total amount recognised in the profit and loss (note 3)	21	14

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

	2019	2018
	$'000	$'000
Actuarial loss on scheme liabilities	217	43

Notes to the financial statements for the year ended 31 December

14 Retirement benefits (continued)

The movements in Defined benefit obligation are as follows:

	2019	2018
	$'000	$'000
Defined benefit obligation at 1 January	2,299	2,518
Liability acquired	-	-
Interest on scheme liabilities	21	14
Benefits paid (cash outflow)	(246)	(251)
Actuarial loss/(gain)	217	43
Exchange loss/(gain)	35	(25)
Defined benefit obligation at 31 December	2,326	2,299

Actuarial losses/(gains) shown above can be analysed as follows:

	2019	2018
	$'000	$'000
Actuarial losses/(gains):		
- arising from changes in financial assumptions	121	(48)
Experience gains	96	91
Total	217	43

Changes in financial assumptions principally relate to discount rate (0.9% at the beginning of the reporting period, 0.1% at the end of the reporting period). The main reason for the experience adjustments is the increase of the annual pension for two beneficiaries.

15 Called up share capital

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

16 Post balance sheet events

Company's restructuring in 2020

As part of an on-going review of the Global Travel Retail operations and in order to consolidate under one business unit the Group's travel retail and duty-free businesses, the Directors decided that the Company's operations are ceased at the end of September 2020 and transferred to another company . This was communicated to the Company's employees in January 2020. As the Company's Directors do not intend to acquire a replacement trade, the financial statements have not been prepared in a going concern basis.

As part of the Company's restructuring and trade transferred to another company as of 1 October 2020, inventory and some of the Company's fixed assets will be sold to the new company in September 2020. This is applicable for all the Company's inventory held in September - with sale to be made at cost - and for three of the Company's assets representing machinery and equipment - sold at net book value/scrap value for the fully depreciated ones. The remaining two assets of the Company were written off in August and September 2020 at net book value.

The retirement benefit scheme liabilities will be transferred to another company by the end of 2020, at a cost yet to be determined.

Except for the above-mentioned assets and liabilities, all other assets and liabilities will be settled by the Company in the next period.

Most of the Company's employees will move to other roles within the group, the rest will be made redundant.

An estimate of the full and final financial effect of the Company's restructuring is not yet available.

Covid-19

The Covid-19 outbreak in Q1 2020 has had a significant impact on the 2020 Global Travel Retail business across the world, driven by strict travel restrictions and large decrease in the Global Travel Retail consumer base. In this context, 2020 sales have considerably reduced compared to previous year.

The Company's Directors have continuously coordinated the efforts to mitigate and minimise the impact of the 2020 Covid-19 pandemic. This has been enabled by the entire Company' staff working remotely during the entire period.

Notes to the financial statements for the year ended 31 December

16 Post balance sheet events (continued)

Supply Chain disruption risk (production and distribution) has been mitigated by holding buffer stocks.

Company's inventory has been regularly reviewed with purchase planning adjusted in line with the latest sales forecast. Shelf life extension options have been implemented in order to minimise the write-off of expired inventory. However, the sudden decrease in the 2020 Global Travel Retail operations in Q1 2020 had an impact on the inventory held at the end of 2019, resulting in 2020 write-offs of 2019 inventory of approximately USD 2'000'000.

Credit status of all customers has been reviewed in line with the risk profile. Credit extensions were approved for priority and low risk customers, while high risk customers were moved to advance payments approach. 2019 Company's receivables have been recovered in 2020.

Covid-19 context started after the 2019 reporting period, therefore it is disclosed as a material non-adjusting post balance-sheet event, given its material impact on the 2020 Company's operations.

The decision to restructure the Company's operations preceded the Covid-19 context and already determined that these financial statements are not prepared on a going concern basis.

17 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.

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 British-American Tobacco (Holdings) Limited. Group financial statements are prepared 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