

B.A.T Services Limited

Registered Number 00221104

Annual report and financial statements

For the year ended 31 December 2020

Contents

Strategic Report.....	2
Directors' Report.....	5
Independent auditor's report to the members of B.A.T Services Limited.....	7
Profit and loss account and statement of other comprehensive income 31 December	11
Statement of changes in equity 31 December	12
Balance sheet 31 December	13
Notes to the financial statements for the year ended 31 December 2020.....	14

Strategic Report

The Directors present their strategic report on B.A.T Services Limited (the “Company”) for the year ended 31 December 2020.

Principal activities

The principal activity of the Company is to operate a branch in Taiwan to distribute tobacco products in that country on behalf of the British American Tobacco p.l.c. group of companies (the “Group”).

Review of the year ended 31 December 2020

The profit for the financial year attributable to B.A.T Services Limited shareholders after deduction of all charges and the provision of taxation amounted to £12,528,000 (2019: £6,221,000).

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

Key performance indicators

Given the nature of the Company’s activities, the Company’s Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company’s specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in British American Tobacco p.l.c.’s 2020 Annual Report and Form 20-F (“BAT Annual Report”) and do not form part of this report.

Principal risks and uncertainties

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

UK Companies Act: Section 172(1) Statement

The Company is part of the Group and is ultimately owned by British American Tobacco p.l.c. As set out above in the Company’s Strategic Report, the Company’s principal activity is to operate a branch in Taiwan to distribute tobacco products in that country.

Under section 172(1) of the UK Companies Act and as part of the Directors’ duty to the Company’s shareholders, to act as they consider most likely to promote the success of the Company, the Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. The Directors must also have regard for the interests of the Company’s employees, business relationships with the Company’s wider stakeholders, and the impact of the Company’s operations on the environment and communities in which it operates. Consideration of these factors and other relevant matters is embedded into all Board decision-making and risk assessments 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 (including distributors, wholesalers and retailers), employees (the Company has around 115 employees based in Taiwan), government authorities and wider society in countries in which the Company operates and the Company’s shareholders. Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key stakeholders are summarised at pages 82 to 83 of the BAT Annual Report.

Where the Directors do not engage directly with the Company’s stakeholders, they are kept updated on stakeholder perspectives, including through the use of management reporting and board notes relating to matters presented to the Board during the year which set out stakeholder considerations as applicable

Strategic report (continued)

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

to matters under consideration. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making. During the decision-making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

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

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

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

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

The principal decisions made by the Directors during the year included the review and approval of the Company's annual Modern Slavery Act Statement and review and approval of the Company's Payment Practices Reporting. Examples of how stakeholder considerations and other relevant factors have been taken into account during the decision-making process in these contexts are as follows:


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 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.

Strategic report (continued)

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

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 suppliers, the Company's standard payment terms, and its payment processes.

By Order of the Board

DocuSigned by:

E28C712D61F0440...

Mr P. McCormack
Secretary

17 June 2021

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2020.

Dividends

During the year the Company paid dividends amounting to £6,363,000 (2019: £13,049,000).

Board of Directors

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

David Patrick Ian Booth	
Robert Fergus Heaton	(Resigned 30 April 2020)
Noelle Colfer	(Resigned 31 March 2020)
Gregory Aris	(Appointed 22 July 2020)
Anthony Michael Hardy Cohn	(Appointed 22 July 2020)
Ridirectors Limited	(Appointed 22 July 2020)

Research and development

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

Political contributions

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

Employees

The average number of employees employed by the Company during the year was 115 (2019: 109).

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.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at pages 2 to 4 summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders when making decisions on behalf of the Company.

Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 82 to 83 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:

Directors' Report (continued)

Statement of Directors' responsibilities (continued)

- 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 report confirms that:

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

By Order of the Board

DocuSigned by:

E28C712D61F0440...

Mr. P McCormack
Secretary

17 June 2021

Independent Auditor's Report to the members of B.A.T Services Limited

Opinion

We have audited the financial statements of B.A.T Services Limited ("the company") for the year ended 31 December 2020 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Independent Auditor's Report to the members of B.A.T Services Limited (continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as pension assumptions.

We did not identify any additional fraud risks.

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

We also performed procedures including:

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

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

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

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

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

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

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

Independent Auditor's Report to the members of B.A.T Services Limited (continued)

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

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

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

Strategic report and Directors' report

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

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

- we have not identified material misstatements in the strategic report and director's 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 pages 5 and 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.

Independent Auditor's Report to the members of B.A.T Services Limited (continued)


Auditor's responsibilities

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

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

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

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

DocuSigned by:

AC0B2E3C647841B...

Natalia Bottomley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London. E14 5GL

17 June 2021

Profit and loss account for the year ended 31 December

	Note	2020 £'000	2019 £'000
Turnover	2	82,063	66,505
Cost of sales	3	(40,073)	(37,649)
Other operating income		175	148
Other operating expenses	3	(25,220)	(20,797)
Operating profit		16,945	8,207
Interest payable and similar expenses	4	(14)	(22)
Profit before taxation		16,931	8,185
Tax on profit	5	(4,403)	(1,964)
Profit for the financial year		12,528	6,221

Statement of comprehensive income for the year ended 31 December

		2020 £'000	2019 £'000
Profit for the financial year		12,528	6,221
Actuarial gain/(loss) arising on defined benefit pension scheme	13	78	(34)
Deferred tax on actuarial gain/loss	5	(16)	7
Differences arising on exchange on the retranslation to sterling of the profit for the financial year from average to closing rates		(205)	(39)
Differences on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year		517	(193)
Total comprehensive income for the financial year		12,902	5,962

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	Other Reserves	Profit and loss account	Total Equity
	£'000	£'000	£'000	£'000
1 January 2019	-	-	13,450	13,450
Reclassification	-	4,313	(4,313)	-
Profit for the financial year	-	-	6,221	6,221
Dividends Paid	-	-	(13,049)	(13,049)
	-	4,313	2,309	6,622
Other comprehensive income				
Actuarial loss arising on defined benefit pension scheme	-	-	(34)	(34)
Deferred tax on actuarial loss	-	-	7	7
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange	-	(39)	-	(39)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	-	(193)	-	(193)
31 December 2019 (*Revised)	-	4,081	2,282	6,363
Profit for the financial year	-	-	12,528	12,528
Dividends Paid	-	-	(6,363)	(6,363)
	-	4,081	8,447	12,528
Other comprehensive income				
Actuarial gain arising on defined benefit pension scheme	-	-	78	78
Deferred tax on actuarial gain	-	-	(16)	(16)
Difference on exchange arising on the retranslation to sterling of the profit for the financial year from average to closing rates of exchange	-	(205)	-	(205)
Difference on exchange arising on the retranslation to sterling (using closing rates of exchange) of net assets at the beginning of the year	-	517	-	517
31 December 2020	-	4,393	8,509	12,902

*The revision of the 2019 financial statements is represented by the reallocation of the retranslation foreign exchange differences from Profit and loss reserves to Other reserves.

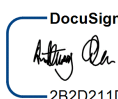
The accompanying notes are an integral part of the financial statements.

Balance sheet as at 31 December

	Note	2020 £'000	2019 (*Revised) £'000
Fixed assets			
Intangible assets	6	28	39
Tangible assets	7	722	1,378
		750	1,417
Current assets			
Debtors: amounts falling due after one year	9 (b)	1,527	-
Stock	8	11,139	6,476
Debtors: amounts falling due within one year	9 (a)	20,188	18,445
Cash at bank and in hand		13,362	6,515
Creditors: amounts falling due within one year	10 (a)	(32,165)	(25,751)
Net current assets		14,051	5,685
Creditors - amounts falling due after one year	10 (b)	(1,687)	(386)
Total assets less liabilities excluding pension deficit		13,114	6,716
Pensions deficit	13	(212)	(353)
Total assets less liabilities including pensions deficit		12,902	6,363
Capital and reserves			
Called up share capital	12	-	-
Other reserves		4,393	4,081
Profit and loss account		8,509	2,282
Total shareholders' funds		12,902	6,363

*The revision of the 2019 financial statements is represented by the reallocation of the retranslation foreign exchange differences from Profit and loss reserves to Other reserves.

The financial statements on pages 11 to 26 were approved by the Directors on 17 June 2021 and signed on behalf of the Board.

DocuSigned by:

 2B2D211DC74B4D3...

Mr. A.M.H Cohn
Director

Registered number 00221104

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

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

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards, 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 cash flow statement or disclosures regarding financial instruments and transactions with related parties, have been taken.

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

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

The most significant items include:

- the review of asset values and impairment testing of financial and non-financial assets;
- the estimation of and accounting for retirement benefits costs;
- the estimation of amounts to be recognised in respect of taxation.

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 these financial statements.

Foreign currencies

The functional currency of the Company is Sterling. Turnover and profits expressed in currencies other than sterling are translated into sterling using exchange rates applicable to the dates of the underlying transactions. Monetary assets and liabilities are translated at closing rates of exchange.

The Company operates a branch in Taiwan which has the functional currency of Taiwanese Dollars, and the results of the branch are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions.

The difference between the retained earnings of the overseas branch translated at the average and closing rates of exchange is taken to reserves, as are differences on exchange arising on the retranslation to sterling of foreign currency net assets at the beginning of the year. Exchange differences arising on the retranslation of certain monetary assets and liabilities between the Company and its branch, which qualify to be treated as a net investment in a foreign operation, are translated at the exchange rate ruling at the end of the year and are taken to reserves. Other exchange differences, including those on remittances, are reflected in the profit and loss account.

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

1 Accounting policies (continued)

Turnover

Turnover comprises sales at invoiced value and is after deducting rebates, returns and similar discounts.

Turnover and Income is recognised in the profit and loss account when all contractual or other applicable conditions for recognition have been met.

Other operating expenses

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

Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

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

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

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.

Group relief

As a UK resident wholly-owned subsidiary of the Group, the Company is eligible to surrender tax losses to, or claim tax losses from, fellow members of the same UK group for the purposes of calculating corporation tax due in the UK ("group relief").

It is Group policy that tax losses are surrendered unless the entity generating the losses has a particular requirement to carry the losses forward. It is also Group policy not to reimburse entities for group relief surrendered unless, on a stand-alone basis and assuming the entity were not in the Group, those losses are judged to have value to the entity generating the loss.

Tangible assets

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

The rate of depreciation used for plant, machinery and equipment is 20-25%.

Intangible assets

The intangible assets shown on the Company balance sheet consist mainly of computer software, that is carried at cost less accumulated amortisation and impairment, and is amortised over 3 years.

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

1 Accounting policies (continued)

Stock

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

Impairment of non-financial assets

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

Financial instruments

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

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

Financial instruments are initially recognised at fair value plus directly attributable transaction costs where applicable. The Company's financial assets consist of cash and debtors, including loans (debentures) and trade receivables, amounts owed by Group undertakings and other debtors. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently carried at amortised cost, using the effective interest rate method, and are stated net of allowances for credit losses.

Non-derivative financial liabilities, including creditors, are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

Loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on initial recognition of the underlying asset. As permitted by IFRS 9 *Financial Instruments*, loss allowances on trade receivables arising from the recognition of revenue under IFRS 15 Revenue from Contracts with Customers 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 the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

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

1 Accounting policies (continued)

Leases

With effect from 1 January 2019, the Company has applied IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment and the liabilities included as part of borrowings. Total assets and total equity and liabilities on 1 January 2019 have both increased by £1,573,000.

In adopting IFRS 16, the Company has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. The Company has taken advantage of certain practical expedients available under the Standard, including “grandfathering” previously recognised lease arrangements such that contracts were not reassessed at the implementation date as to whether they were, or contained, a lease, and leases previously classified as finance leases under IAS 17 remained capitalised on the adoption of IFRS 16. In addition, as part of the implementation, the Company has applied a single discount rate to portfolios of leases with reasonably similar characteristics, has assessed whether individual leases are onerous prior to applying the Standard, has applied hindsight in determining the lease term if the contract contains options to extend or terminate the lease, and has not applied the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

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

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

Prior to 1 January 2019, the annual payments under operating leases were charged to the profit and loss account on a straight-line basis over the length of the lease term.

Dividends

Final dividend distributions to the Company’s shareholders are recognised as a liability in the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared and paid.

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

1 Accounting policies (continued)

Retirement benefits

The Company operates a defined benefit scheme which provides a lump sum on retirement or leaving service, a defined contribution scheme, and a funded severance scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due.

For defined benefit schemes, pension net surpluses or deficits as at the balance sheet date are recognised in full as an asset or liability respectively. The net deficit or surplus is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. Actuarial gains and losses are recognised as they are incurred in the statement of total recognised gains and losses.

The actuarial cost charged to operating profit consists of current service cost, past service costs and gains or losses on settlements and curtailments. The interest cost and expected return on plan assets are recognised in other finance expenses.

2 Turnover and other operating income

	2020	2019
	£'000	£'000
Gross turnover	284,473	232,620
Duty and excise taxes	(202,410)	(166,115)
Net turnover excluding duty and excise taxes	82,063	66,505

Turnover comprises sales of tobacco products in the Taiwan market.

Other operating income relates to recharges of operating expenses to other Group undertakings.

3 Other operating expenses

	2020	2019
	£'000	£'000
Cost of sales:		
Purchases of goods for resale	40,618	37,089
Change in stocks of finished goods and goods for resale	(545)	560
	40,073	37,649
	2020	2019
	£'000	£'000
Other operating expenses comprise:		
Staff costs	6,191	6,106
Depreciation of tangible assets	914	974
Intangible amortisation	19	12
Operating lease charges:		
- buildings	153	47
- others	21	32
Auditors' remuneration:		
- Audit services	15	14
Other charges	17,907	13,612
	25,220	20,797

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

3 Other operating expenses (continued)

	2020 £'000	2019 £'000
Staff costs:		
Wages and salaries	5,517	5,270
Social security costs	261	364
Share based payments	102	274
Defined benefit scheme cost (note 13)	(54)	4
Defined contribution scheme costs (note 13)	365	194
	6,191	6,106

The average monthly number of persons employed by the Company during the year was:

	2020 Number	2019 Number
By activity:		
Administration	17	17
Marketing	98	92
	115	109

4 Interest payable and similar charges

	2020 £'000	2019 £'000
Bank loans and overdrafts	14	22
	14	22

5 Taxation

(a) Recognised in the profit and loss account

	2020		2019	
	£'000	£'000	£'000	£'000
<i>Foreign tax</i>				
Current tax on income for the period	3,690		1,871	
Prior tax on income for the period	702			
Total current tax		4,392		1,871
<i>Deferred tax</i>				
Origination and reversal of temporary differences	11		93	
Total deferred tax		11		93
Total income tax expense		4,403		1,964

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

5 Taxation (continued)

(b) Factors affecting the taxation charge

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. The deferred tax liability at 31 December 2019 has been calculated at 19% (2019: 17%). An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, after the balance sheet date. This will increase the company's future current tax charge accordingly.

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

	2020 £'000	2019 £'000
Profit for the year	12,528	6,221
Total tax expense	4,403	1,964
Profit excluding taxation	16,931	8,185
Tax using the UK corporation tax rate of 19% (2019: 19%)	3,217	1,555
Non-deductible expenses	342	173
		-
Transfer pricing adjustments	(2)	(2)
Group relief (claimed)/surrendered	2	2
Foreign tax suffered	4,392	1,871
Overseas branch exemption	(3,548)	(1,635)
Total tax charge for the year	4,403	1,964

(c) Deferred tax recognised in other comprehensive income

	2020 £'000	2019 £'000
Deferred tax on pension	(16)	7
Total	(16)	7

The profits of the branch in Taiwan are not taxable in the UK. As there are no UK operations, all current and deferred tax balances therefore arise in Taiwan. As the entity is incorporated in the UK, the applicable tax rate used in the tax reconciliation is the UK statutory rate of 19%.

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

6 Intangible assets

	Intangible £'000
Cost	
At 1 January 2020	51
Additions for the year	7
At 31 December 2020	58
Accumulated amortisation	
At 1 January 2020	12
Exchange differences	(1)
Charge for the year	19
At 31 December 2020	30
Net book value	
At 1 January 2020	39
At 31 December 2020	28

7 Tangible assets

	Fixtures and fittings £'000	Plant, machinery and equipment £'000	Leasehold Asset £'000	Total £'000
Cost				
At 1 January 2020	860	725	1,971	3,556
Differences on exchange	17	24	68	109
Additions	33	87	234	354
Disposal	-	(58)	(322)	(380)
At 31 December 2020	910	778	1,951	3,639
Accumulated depreciation				
At 1 January 2020	837	588	753	2,178
Differences on exchange	15	20	16	51
Charge for the year	8	65	841	914
Disposal	-	(59)	(167)	(226)
At 31 December 2020	860	614	1,443	2,917
Net book value				
At 1 January 2020	23	137	1,218	1,378
At 31 December 2020	50	164	508	722

8 Stock

	2020 £'000	2019 £'000
Finished goods and goods for resale	11,139	6,476

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

9 (a) Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade debtors	19,470	17,735
Amounts owed by Group undertakings	466	275
Corporate tax receivable	-	166
Deferred tax asset (note 11)	252	269
	20,188	18,445

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

9 (b) Debtors: amounts falling due after one year

	2020 £'000	2019 £'000
Trade debtors	1,527	-
	1,527	-

Amounts falling due after one year represents prepayments related to employees' benefits.

10 (a) Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	14,210	14,817
Amounts owed to Group undertakings	13,499	9,388
Taxation and social security	2,816	323
Leasehold liabilities	306	811
Other creditors	1,334	412
	32,165	25,751

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

10 (b) Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Other creditors	1,527	-
Leasehold liabilities	160	386
	1,687	386

Other creditors falling due after one year related to employees' benefits.

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

11 Deferred taxation

Deferred taxation asset		£'000
1 January 2020		269
Charge for the year (note 5a)		(11)
Exchange difference		(6)
31 December 2020		252
	2020	2019
	£'000	£'000
Deferred taxation comprises:		
Other timing differences	252	269
	252	269

12 Called up share capital

Ordinary shares of £1 each	2020	2019
Allotted, called up and fully paid		
- value	£100	£100
- number	100	100

13 Retirement benefits

The Company does not participate in any United Kingdom pension funds. However, its branch in Taiwan operates both a defined benefit scheme, which provides a lump sum on retirement or leaving service, and a defined contribution scheme.

Defined contribution scheme

The Company operates a defined contribution pension plan in accordance with local pension legislation. The scheme is mandatory for all new employees and existing employees have the option to change from the defined benefit scheme to the defined contribution scheme. Contributions to the defined contribution scheme are made by the Company at a rate of 6% of salary.

The total operating pension cost to the Company in respect of defined contribution scheme pensions, was £365,000 (2019: £194,000).

Defined benefit scheme

The Company's branch in Taiwan has operated a defined benefit scheme since 2008, which provides a lump sum on retirement or leaving service. An actuarial valuation of the scheme as at 31 December 2020 was performed by PACT Co. Ltd, an independent actuary.

Contributions to the defined benefit scheme are made in accordance with local labor law minimum requirements at 2% of payroll. The most recent actuarial valuation as at 31 December 2020 was performed by Professional Actuary Management Consulting Co. Ltd., an independent actuary. The fair value attributed to the fund assets £528,000 (2019: £593,000), and the present value of the liabilities was £740,000 (2019: £946,000) which represents a funding ratio of 71% (2019: 63%).

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

13 Retirement benefits (continued)

	2020	2019
	Funded schemes	Funded schemes
	£'000	£'000
Fair Value of the assets	528	593
Present value of unfunded scheme liabilities	(740)	(946)
Pension deficit	(212)	(353)

The amounts recognised in the income statement for the defined benefit schemes are as follows:

	2020	2019
	£'000	£'000
Defined benefit schemes		
Service cost		
– past service cost	-	-
– Gains arising from curtailment and settlement	58	-
Net interest on the net defined benefit liability		
– interest on scheme assets	(4)	(4)
– interest on unrecognised funded scheme surpluses	-	-
Total amount recognised in the income statement (Note 3)	54	(4)

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

	2020	2019
	£'000	£'000
Actuarial gain/(losses) on scheme liabilities	59	(34)
Actuarial gain on scheme assets	19	-
Net actuarial gain/(losses) in other comprehensive income	78	(34)

The movements in scheme liabilities are as follows:

	2020	2019
	£'000	£'000
Present value at 1 January	(946)	(893)
Exchange differences	(32)	(7)
Past service cost	-	-
Settlements and curtailments	188	-
Interest on scheme liabilities	(9)	(12)
Actuarial gains/(losses)	59	(34)
Present value at 31 December	(740)	(946)

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

13 Retirement benefits (continued)

Scheme liabilities by scheme membership:

	2020	2019
Active members	32	34

The movements in funded scheme assets are as follows:

	2020 £'000	2019 £'000
Fair value at beginning of period	593	554
Exchange differences	20	(9)
Gain/Losses on settlements and curtailments	(131)	-
Interest on scheme assets	6	28
Actuarial gain	19	-
Company contributions	21	20
Fair value at end of period	528	593

The fair value of scheme assets by category:

Other assets – unlisted	528	593
Fair value of scheme assets at 31 December	528	593

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

	2020 £'000	2019 £'000
Actuarial losses:		
- arising from changes in financial assumptions	(46)	(64)
- arising from changes in demographic assumptions	(2)	(6)
Experience gain	107	16
Return on plan assets	19	20
Total	78	(34)

Changes in financial assumptions principally relate to salary increases and discount rate.

The principal actuarial assumptions used (weighted to reflect individual scheme differences) are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

	2020 %	2019 %
Rate of increase in salaries	4%	4%
Discount rate	0.5%	0.875%
	2020 Funded	2019 Funded
Weighted average duration of liabilities	13.6	14.2

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

13 Retirement benefits (continued)

The weighted average life expectancy in years for mortality tables used to determine the defined benefit obligations is as follows:

	2020 Years	2019 Years
Member age 65 (current life expectancy)		
- male	18.3	18.3
- female	21.5	21.5
Member age 45 (life expectancy at age 65)		
- male	39.6	39.6
- female	34.6	34.6

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by 0.25%.

	2020		2019	
	0.25 percentage point increase £'000	0.25 percentage point decrease £'000	0.25 percentage point increase £'000	0.25 percentage point decrease £'000
Discount rate	(24,801)	25,876	(32,934)	34,392
Salary increase	24,598	(23,725)	32,824	(31,626)

14 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.

15 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 B.A.T (U.K. and Export) 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