

Nicoventures Trading Limited

Registered Number 06665343

Annual report and financial statements

For the year ended 31 December 2020

Contents

Strategic report	3
Directors' report	7
Independent auditor's report to the members of Nicoventures Trading Limited	10
Profit and loss account for the year ended 31 December	14
Statement of comprehensive income for the year ended 31 December	14
Statement of changes in equity	15
Balance Sheet at 31 December	16
Notes to the financial statements for the year ended 31 December 2020	17

Strategic report

The Directors present their strategic report on Nicoventures Trading Limited (“the Company”) for the year ended 31 December 2020.

Principal activities

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

Review of business and future developments

The loss for the financial year attributable to the Company’s shareholders after deduction of all charges and the provision of taxation amounted to £784,131,000 (2019: £665,610,000).

The Company has continued to invest in its product portfolio to satisfy the needs of consumers worldwide. Revenue increased from £623,129,000 in 2019 to £658,385,000 in 2020 with the Tobacco Heating Product (THP) brand Glo continuing to grow in Russia and Italy during the financial year. The leading vapour brand Vuse continues to drive revenue growth in the Company’s Canadian market.

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

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

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

Going concern

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

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

Strategic report (continued)

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

UK Companies Act: Section 172(1) Statement

The Company is part of the Group and is ultimately owned by British American Tobacco p.l.c. As set out above in the Company's Strategic Report, the Company's principal activities are the development, procurement, marketing and sale of Tobacco Heating products, Vapour products, Modern Oral and associated accessories.

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

Strategic report (continued)

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

The Company's key stakeholders are direct and indirect suppliers to the Company (including product materials suppliers and goods and services suppliers), customers of the Company (including distributors), employees (the Company has around 463 employees), the shareholder of the Company and governments authorities and wider society in countries in which the Company operates.

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. There is also regular engagement within the Group on finance-related matters, which is taken into account in the Company's decision-making.

Where the Directors do not engage directly with the Company's stakeholders, they are kept updated on stakeholder perspectives, including through the use of management reporting and board notes relating to matters presented to the Board during the year which set out stakeholder considerations as applicable to matters under consideration. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision-making.

During the decision-making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

Throughout the COVID-19 pandemic, the Group's priority has been to safeguard the welfare of Group company employees while ensuring that the Group continues to operate effectively. A range of dynamic internal communications were facilitated during the year to help Group company employees feel connected and supported during the pandemic. The primary engagement channels for Group company employees (including the Company's employees) include town hall sessions, employee council meetings, the 'Your Voice' employee survey and webcasts. 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.

Strategic report (continued)

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

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

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

By Order of the Board

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Ms. S. Mehta
Secretary

22 July 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

The Directors do not recommend the payment of a dividend for the year (2019: £nil).

Board of Directors

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

	Appointed	Resigned
Danika Ahr		18 May 2021
David O'Reilly		
Mihovil James Dijanosic		25 September 2020
Paul Rutger Lageweg		
Timothy James Bartle		
Vladimir Shilov		
Robert Arthur Marie Goossens	2 November 2020	

Research and development

The Company is currently undertaking development into innovative regulatory approved nicotine products that provide a consumer acceptable alternative to cigarettes. The research and development expenditure incurred, including staff costs and depreciation and amortisation, by the Company in 2020 was £81,740,000 (2019: £71,855,000).

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

UK Companies Act 2006: Stakeholder engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at pages 3 to 6 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.

Employees

The average number of employees employed by the Company during the year was 463 (2019: 402).

Directors' Report (continued)

Employees (continued)

UK Companies Act 2006: Employee engagement statement

The Company's Section 172(1) statement set out in the Strategic Report at pages 3 to 6 summarises the Director's approach to engaging with the Company's employees, and how the Directors have regard to their interests when making decisions.

The primary engagement channels for Group company employees (including the Company's employees) include town hall sessions, employee council meetings, the 'Your Voice' employee survey and webcasts. 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).

The Directors are kept updated on employee perspectives, including through the use of Board notes relating to matters presented to the Board during the year which typically set out relevant employee considerations to matters under consideration. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and can draw on these perspectives in Board decision-making.

Further information regarding methods of engagement with BAT Group company employees (including the Company's employees) is provided on pages 62 to 63 of the BAT Annual Report.

Statement of directors' responsibilities

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

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

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

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

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

Directors' Report (continued)

Directors' declaration in relation to relevant audit information

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

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

By Order of the Board

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Ms S Mehta

Secretary

22 July 2021

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

Opinion

We have audited the financial statements of Nicoventures Trading Limited ("the Company") for the year ended 31 December 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 loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

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

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

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 policies and procedures to prevent and detect fraud that apply to this group company as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions. We did not identify any additional fraud risks.

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.

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.

This company is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

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

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

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

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

DocuSigned by:

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

Chartered Accountants
15 Canada Square
London, E14 5GL

22 July 2021

Profit and loss account for the year ended 31 December

	Note	2020 £'000	2019 £'000
Continuing operations			
Revenue	2	658,385	623,129
Other operating income	3	9,230	-
Cost of sales		(535,144)	(438,906)
Gross profit		132,471	184,223
Other operating expenses	4	(960,063)	(893,604)
Operating loss		(827,592)	(709,381)
Interest receivable and similar income	5	64	1,678
Interest payable and similar expenses	6	(14,862)	(614)
Loss before taxation		(842,390)	(708,317)
Tax credit	7	58,259	42,707
Loss for the financial year		(784,131)	(665,610)

Statement of comprehensive income for the year ended 31 December

	2020 £'000	2019 £'000
Loss for the financial year	(784,131)	(665,610)
Other comprehensive income/(expense)		
Item that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of net cash flow hedges	(13,711)	(2,272)
Net change in fair value of cash flow hedges reclassified to profit or loss	1,322	(368)
Income tax on items that are or may be reclassified subsequently to profit or loss	2,325	532
Translation reserve	(14)	(12)
Total comprehensive expense for the year, net of tax	(794,209)	(667,730)

Statement of changes in equity for the year ended 31 December

	Called up share capital	Translation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
1 January 2019	403,000	-	3,337	(480,109)	(73,772)
Loss for the financial year	-	-	-	(665,610)	(665,610)
Issue of new shares	500,000	-	-	-	500,000
Translation reserve	-	(12)	-	-	(12)
Effective portion of changes in fair value of cash flow hedges	-	-	(2,108)	-	(2,108)
31 December 2019	903,000	(12)	1,229	(1,145,719)	(241,502)
Loss for the financial year	-	-	-	(784,131)	(784,131)
Issue of new shares	1,900,000	-	-	-	1,900,000
Translation reserve	-	(14)	-	-	(14)
Items that are or may be reclassified subsequently to profit or loss:					
Effective portion of changes in fair value of net cash flow hedges	-	-	(13,711)	-	(13,711)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	-	1,322	-	1,322
Income tax on items that are or may be reclassified subsequently to profit or loss	-	-	2,325	-	2,325
31 December 2020	2,803,000	(26)	(8,835)	(1,929,850)	864,289

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

Balance Sheet at 31 December

	Note	2020 £'000	2019 £'000
Non-current assets			
Intangible assets	8	79,257	60,364
Tangible assets	9	31,807	61,581
Right of use assets	10	656	-
Investments	11	8,315	8,315
Deferred tax assets	12	3,379	1,989
Debtors: amounts falling due after more than one year	14b	11	76
Derivative financial instruments – asset	18	909	988
		124,334	133,313
Current assets			
Stock	13	21,123	15,929
Derivative financial instruments – assets	18	8,101	13,018
Debtors: amounts falling due within one year	14a	1,295,935	251,463
Cash at bank		252	-
		1,325,411	280,410
Current liabilities			
Creditors: amounts falling due within one year	15	(563,771)	(640,214)
Lease liabilities	16	(321)	-
Provision for restructuring	17	-	(556)
Derivative financial instruments – liabilities	18	(18,142)	(11,265)
Net current assets/ (liabilities)		743,177	(371,625)
Deferred tax liabilities	12	(1,306)	(2,240)
Lease liabilities	16	(335)	-
Derivative financial instruments - liabilities	18	(1,581)	(950)
Net assets/ (liabilities)		864,289	(241,502)
Capital and reserves			
Called up share capital	19	2,803,000	903,000
Translation reserve		(26)	(12)
Cash flow hedge reserve		(8,835)	1,229
Profit and loss account		(1,929,850)	(1,145,719)
Total shareholders' surplus/ (deficit)		864,289	(241,502)

The financial statements on pages 14 to 39 were approved by the Directors on 22 July 2021 and signed on behalf of the Board.

DocuSigned by:

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Vladimir Shilov
Director

Registered number
06665343

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

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

1. Accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 ('the Act') and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Act, but makes amendments where necessary in order to comply with the Act, and where advantage of certain disclosure exemptions available under FRS 101 have been taken, including those relating to preparation of a cash flow statement or disclosures regarding financial instruments and transactions with related parties.

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

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

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

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

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

1. Accounting policies (continued)

Going Concern

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

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

Revenue

Revenue principally comprises sale of new category products to customers. Revenue excludes duty, excise and other taxes and is after deducting returns and other similar discounts and payments to customers. Revenue is recognised when control of the goods is transferred to a customer; this is usually evidenced by a transfer of the significant risks and rewards of ownership upon delivery to the customer, which in terms of timing is not materially different to the date of shipping.

Other operating income

Other operating income comprises royalties receivable and is included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Other operating income comprises sales-based royalties from licensing arrangements with fellow British American Tobacco p.l.c Group companies around the world. Sales-based royalties are not recognised until the relevant product sale occurs based upon the royalty exception under IFRS 15. 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.

Foreign currencies

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

Other operating expenses

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

LIBOR

Where interest bearing receivables and payables have their floating rates based on benchmark rates, such as LIBOR, the Company will account for the application of replacement benchmark rates in accordance with the Amendments to IFRS 9 Financial Instruments published in 2019 (phase 1) and 2020 (phase 2) when applicable.

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

1. Accounting policies (continued)

Research and development

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

Taxation

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

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

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

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

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

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

Group relief

As a UK-resident wholly-owned subsidiary within the British American Tobacco group of companies (the "Group"), the Company is eligible to surrender tax losses to, or claim tax losses from, fellow members of the same UK group for the purposes of calculating corporation tax due in the UK ("group relief"). It is Group policy that tax losses are surrendered unless the Company generating the losses has a particular need to carry the loss forward. In 2019 the Company commenced charging recipients of the Company's tax losses surrendered as group loss relief on an arm's length basis for the benefit of these losses (refer to Note 7).

Employee Share Schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group undertaking, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The fellow Group company, which administers the share schemes on behalf of other Group undertakings and calculates and reflects the charge for the share schemes, provides the relevant disclosures required under IFRS 2. Disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent.

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

1. Accounting policies (continued)

Retirement benefits

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

Intangible assets

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

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

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

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

Tangible assets

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

	Years
Right of use assets	3
Computer equipment	3
Fixtures & Fittings	3-10
Plant & Machinery	3-20

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

Impairment of non-financial assets

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

Investments in Group undertakings

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

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.

Financial Instruments

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

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

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

Non-derivative financial assets

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

Non-derivative financial liabilities

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

Derivative financial assets and liabilities

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

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

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

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

1. Accounting policies (continued)

Derivative financial assets and liabilities (continued)

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.

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

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

Impairment of financial assets at amortised cost

Loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on the initial recognition of the underlying asset. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12-month expected credit losses. Where the credit risk on the receivables has increased significantly since initial recognition, allowances are measured at an amount equal to the lifetime expected credit loss.

Leases

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 considering 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 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 the initial direct costs in relation to the assets, then depreciated over the shorter of the lease term and their estimated useful lives.

Contingent liabilities and contingent assets

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

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

2. Revenue

	2020 £'000	2019 £'000
Revenue	658,385	623,129

Revenue comprises the sale of Tobacco Heating products, Vapour products, Modern Oral and associated accessories to fellow Group undertakings located in Europe and North Africa (ENA), Americas and Sub-Saharan Africa (AmSSA) and Asia-Pacific and Middle East (APME) regions.

Additional information about the Group's revenues from New Categories are summarised at pages 76 to 81 of the BAT Annual Report.

3. Other operating income

Operating income comprises sale-based royalties from fellow Group companies

	2020 £'000	2019 £'000
Royalty income	9,230	-

4. Other operating expenses

	2020 £'000	2019 £'000
Other operating expenses comprise:		
Audit fees	395	95
Staff costs	85,508	73,840
Exchange gains	(11,831)	(813)
Amortisation of intangible assets (Note 8)	17,748	3,720
Impairment of intangible assets (Note 8)	4,581	19,095
Depreciation of tangible assets (Note 9)	7,529	8,146
Impairment of tangible assets (Note 9)	32,046	19,773
Gain on tangible assets disposal	(2)	(338)
Research and development	33,438	30,017
Royalties paid to Group undertakings	37,283	49,922
Other	753,368	690,147
	960,063	893,604

Included within Other are marketing and sales support of £349,472,000 (2019: £362,318,000), technical and advisory services £71,139,000 (2019: £79,459,000), compensation for cost incurred for new category activities £nil (2019: £91,438,000) recharged from other group undertakings.

Included within staff costs are £21,766,000 (2019: £18,978,000) and included within impairment and depreciation are £26,536,000 (£22,860,000) relating to research and development activities.

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

4. Other operating expenses (continued)

	2020	2019
	£'000	£'000
Staff costs:		
Wages and salaries	52,212	43,900
Social security costs	8,802	6,001
Defined contribution pension costs (Note 20)	4,659	3,417
Defined benefit pension cost (Note 20)	642	1,376
Share-based payments (Note 21)	6,992	6,351
Other staff costs	12,201	12,795
	85,508	73,840

The average monthly number of persons (including Directors) employed by the Company during the year was 463 (2019: 402).

	2020	2019
	Number	Number
Administration	46	17
Production	315	286
Selling and distribution	102	99
	463	402

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

4. Other operating expenses (continued)

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

	2020	2019
	£'000	£'000
Aggregate emoluments	341	876
	2020	2019
	£'000	£'000
Directors exercising share options during the year	1	4
Directors entitled to receive shares under a long-term incentive scheme	-	2
Directors retirement benefits accruing under a defined contributions scheme	1	4
Highest paid director		
	2020	2019
	£'000	£'000
Aggregate emoluments	341	361
Accrued pension at the end of period	52	298

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

5. Interest receivable and similar income

	2020	2019
	£'000	£'000
Interest receivable from Group undertakings	64	710
Fair value changes on derivative financial instruments and hedged items (Note 18)	-	968
	64	1,678

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

6. Interest payable and similar charges

	2020	2019
	£'000	£'000
Interest payable and similar charges	11,215	614
Fair value changes on derivative financial instruments and hedged items (Note 18)	3,647	-
	14,862	614

7. Taxation

(a) Recognised in the profit and loss account

	2020	2019
	£'000	£'000
<i>UK corporation tax</i>		
Current tax on income for the period	(58,350)	(42,584)
	(58,350)	(42,584)
<i>Foreign tax</i>		
Current tax on income for the period	91	88
Total current tax credit	(58,259)	(42,496)
<i>Deferred tax</i>		
Adjustments in respect of prior periods	-	(211)
Total deferred tax credit	-	(211)
Total income tax credit	(58,259)	(42,707)

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

7. 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%. 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 current taxation charge differs from the standard 19% (2019: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2020 £'000	2019 £'000
Loss for the year	(784,131)	(665,610)
Total tax credit	(58,259)	(42,707)
Loss excluding taxation	(842,390)	(708,317)
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	(160,054)	(134,580)
Adjustments in respect of prior periods	-	(211)
Non-deductible expenses	2,138	825
Effects of change in tax rate	-	227
Unrecognised temporary differences	7,454	1,932
Research and Development tax suffered	482	316
Foreign tax expensed	(17)	-
Foreign tax suffered	91	88
Group relief surrendered for less than tax rate	91,647	88,696
Total income tax credit	(58,259)	(42,707)

The Company has a gross deferred tax asset of £60,992,000 (taxation amount £11,588,000) (2019: £21,704,000 (taxation amount £3,690,000)) in respect of fixed asset timing differences and tax losses which are not recognised in the balance sheet because it is not sufficiently probable that it will be utilised in the foreseeable future.

In 2019, the Directors decided that the Company should commence charging the recipients of the Company's tax losses surrendered as group loss relief on an arm's length basis for the benefit of these losses. In determining their valuation of the losses to the Company, the Directors have considered the discounted cash flow forecasts of the Company and the likely benefit the Company might have received had the losses not been surrendered.

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

8. Intangible assets

	Research & Development	Computer Software	Assets under the course of development	Total
	£'000	£'000	£'000	£'000
Cost				
1 January 2020	39,644	8,168	35,579	83,391
Additions	-	-	41,222	41,222
Reclassification	(406)	-	-	(406)
Transfers	17,122	38,083	(55,205)	-
31 December 2020	56,360	46,251	21,596	124,207
Accumulated amortisation				
1 January 2020	22,857	170	-	23,027
Charge for the year	9,763	7,985	-	17,748
Reclassification	(406)	-	-	(406)
Impairment for the year	4,581	-	-	4,581
At 31 December 2020	36,795	8,155	-	44,950
Net book value				
1 January 2020	16,787	7,998	35,579	60,364
At 31 December 2020	19,565	38,096	21,596	79,257

Included within assets under the course of development are internally developed assets with a carrying value of £21,596,000, representing expenditure incurred in product development and computer software.

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

9. Tangible assets

	Plant and Machinery	Computer Equipment	Fixtures and Fittings	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
1 January 2020	74,231	80	13	36,050	110,374
Additions	1,190	12	-	20,101	21,303
Disposal	(16,063)	-	-	-	(16,063)
Reclassification	(267)	-	-	-	(267)
Transfers	46,688	-	-	(46,688)	-
31 December 2020	105,779	92	13	9,463	115,347
Accumulated depreciation					
1 January 2019	48,774	15	4	-	48,793
Disposal	(4,561)	-	-	-	(4,561)
Reclassification	(267)	-	-	-	(267)
Charge for the year	7,498	29	2	-	7,529
Impairment for the year	32,046	-	-	-	32,046
31 December 2020	83,490	44	6	-	83,540
Net book value					
1 January 2019	25,457	65	9	36,050	61,581
31 December 2020	22,289	48	7	9,463	31,807

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

10. Right of use assets

	Land and buildings	Other	Total
	£'000	£'000	£'000
Cost			
1 January 2020	-	-	-
Additions	213	443	656
31 December 2020	213	443	656
Accumulated depreciation			
1 January 2020	-	-	-
Charge for the year	-	-	-
At 31 December 2020	-	-	-
Net book value			
1 January 2020	-	-	-
At 31 December 2020	213	443	656

Description of lease activities as follows:

a) Real estate leases

The Company leases land and buildings for its warehouse space. Lease terms are negotiated on an individual basis. Leases are typically made for a period of 3 years with option to extend.

b) Other leases

The Company also leases machinery and equipment for its activities.

Depreciation and impairment of right of use assets is similar to measurement of owned assets.

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

11. Investment

Shares in Group undertakings

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

Share holdings at cost less provisions

	£'000
Cost/ Net book value	
1 January 2020	8,315
Additions	-
31 December 2020	8,315

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

12. Deferred tax assets/(liabilities)

	2020	2019
	£'000	£'000
Deferred tax assets		
To be recovered beyond 1 year	3,379	1,989
	3,379	1,989
Deferred tax liabilities		
To be recovered beyond 1 year	(1,306)	(2,240)
	(1,306)	(2,240)

13. Stock

	2020	2019
	£'000	£'000
Semi-finished goods	611	1,099
Finished goods	20,512	14,830
	21,123	15,929

Semi-finished goods and finished goods stock balances are shown net of a provision 2020: £1,418,000 (2019: £2,162,000).

14. Debtors:

a) amounts falling due within one year

	2020	2019
	£'000	£'000
Trade receivable	112	-
Amounts owed by Group undertakings	1,270,209	235,596
Tax receivable	21,415	8,132
Other debtors	3,010	572
Prepayments and accrued income	1,189	7,163
	1,295,935	251,463

Included within amounts owed by Group undertakings is an amount of £1,046,261,000 (2019: £107,526,000) which is 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 2020

14. Debtors (continued):

The Company has amounts receivable from fellow Group subsidiaries where the variable interest rate is based on a recognised benchmark rate which is due to be reformed and replaced in the near future. For example, the London InterBank Interest Rate (“LIBOR”) is unlikely to be offered after the end of 2021. The receivable is subject to standard lending agreements within the Group which are scheduled to be revised during 2021 to take account of global benchmark interest rate reform. The interest rate to be applied in future will be in accordance with the changes to the Group’s intercompany lending agreements, and the Company will apply the relevant Amendments to IFRS 9 *Financial Instruments* at that time. The Company does not believe that it would be materially adversely affected by these changes.

b) amounts falling due after more than one year

	2020	2019
	£'000	£'000
Prepayments and accrued income	11	76
	11	76

15. Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	135,648	121,728
Amounts owed to Group undertakings	400,427	503,139
Accruals and deferred income	27,560	15,276
Tax payable	136	71
	563,771	640,214

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

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

16. Lease liabilities

	2020	2019
	£'000	£'000
Current portion of lease liabilities	321	-
Non-current portion of lease liabilities	335	-
	656	-

The movement in the lease liabilities is as follows:

	£'000
1 January 2020	-
Addition	656
31 December 2020	656

The maturity of the lease liabilities is analysed as follows:

	£'000
Within one year	321
Between one and two years	335
31 December 2020	656

17. Provision

	2020	2019
	£'000	£'000
Provision for restructuring	-	556

The 2019 provision was for severance pay falling due within one year.

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

18. Derivative financial instruments

	2020 Assets £'000	2020 Liabilities £'000	2019 Assets £'000	2019 Liabilities £'000
Cash flow hedges				
- Forward foreign currency contracts	9,010	19,723	14,006	12,215
Current	8,101	18,142	13,018	11,265
Non-current	909	1,581	988	950

The Company's operations expose it to currency risk as sales and purchases of inventory are denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The total ineffective cash flow hedge movement for the year was a loss of £3,647,000 (2019: gain of £968,000).

19. Called up share capital

	Number
1 January 2020	903,000,005
Issue of new shares	1,900,000,000
31 December 2020	2,803,000,005

	2020	2019
Ordinary shares at £1 each		
Allotted, called up and fully paid		
- value £'000	2,803,000	903,000
- number	2,803,000	903,000

The Company issued 1,900,000,000 ordinary shares of £1 each to a fellow Group undertaking during 2020.

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

20. Pensions

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer funded scheme. Under FRS 101, where more than one employer participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the net defined benefit cost and liability shall be recognised in the accounts of the group entity that is legally the sponsoring employer with other group participating entities recognising a cost equal to their contributions to those costs for the period. British American Tobacco (Investments) Limited is the sponsoring employer.

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

The last full triennial actuarial valuation of the British American Tobacco UK Pension Fund was carried out with an effective date of 31 March 2020. This showed that the Fund had a surplus of £139,000,000 on a Technical Provisions basis, in accordance with the statutory funding objective.

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

The defined benefit pension scheme cost was £642,000 (2019: £1,376,000) for the year.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they are incurred. The defined contribution pension expense for the Company was £4,659,000 (2019: expense of £3,417,000).

21. Share-based payments

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

Long-Term Incentive plan (LTIP)

Awards granted in 2020 under the long term incentive plan are under the Performance Share Plan (PSP) and the Restricted Share Plan (RSP) with the following conditions:

PSP: nil-cost options released three years from date of grant. Pay out is subject to performance conditions based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant). Total shareholder return combines the share price and dividend performance of the equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled PSP awards were granted in March.

RSP: nil-cost options released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three year holding period. of the three year holding period. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled RSP awards were granted in March.

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

21. Share-based payments (continued)

Awards granted in 2019 are nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. The performance conditions and the dividend entitlement attached to these awards are identical to the PSP award mentioned above. Both equity and cash-settled LTIP awards were granted in March.

Deferred Share Bonus Scheme (DSBS)

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

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

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

Share-based payment expense

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

The weighted average share price on exercise of LTIP shares in 2020 was £29.37 (2019: £28.31).
The weighted average share price on exercise of DSBS shares in 2020 was £28.08 (2019: £28,40).

The outstanding shares for the year ended 31 December 2019 had an exercise price range of £27.08 - £31.05 (2019: £23.78 - £32.83). The weighted average remaining contractual life are 8.1 years (2019: 8.2 years) for the LTIP shares and are 1.4 years (2019: 1.5 years) for the DSBS shares.

22. 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.

23. Contingent liabilities

Payment guarantee

The Company has provided a payment guarantee to a third party in respect of certain commitments entered into by its fellow subsidiary undertaking in its normal course of business. Amounts paid and payable by the Company's subsidiary undertakings in the year ending 31 December 2020 were £nil (2019: £Nil). The maximum potential exposure to the Company under the payment guarantee will be £64,584,000 between 1 January 2021 and 31 December 2023.

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

24. Contingent liabilities (continued)

As at 31 December 2020, the Company was involved in the active litigation matters set out below.

Glo Patent Litigation

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

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

On 9 April 2020, the Company commenced an action in the England and Wales High Court (Patents Court) against Philip Morris Products S.A. ("PMP") for revocation against three divisional patents in the same family, of which PMP is the proprietor (a further divisional patent in the same family was added into the revocation action on 9 July 2020). On 12 May 2020 PMP filed its defence together with a counterclaim for patent infringement against the Company and British American Tobacco (Investments) Limited concerning prototype examples or production samples of certain 'glo' tobacco heating devices. PMP are seeking an injunction, an order for delivery up or a destruction upon oath of all infringing articles, and either an account of profits or damages on commercial sales (and interest thereon). On 12 June 2020, the Company and British American Tobacco (Investments) Limited, a fellow Group undertaking filed their defence to the counterclaim. The trial of this action took place between 18- 25 May 2021. On 14 July 2021 the England and Wales High Court (Patents Court) handed down its judgment finding that all four divisional patents were invalid for lack of an inventive step and consequently, that PMP's counterclaim failed.

On 11 December 2020 PMP filed a complaint before the Regional Court Dusseldorf in Germany against BAT Germany alleging that the sale, offer for sale and importation of glo TABAK HEATER and neo STICK products infringe a patent. PMP is seeking an injunction, delivery up and destruction of product in BAT Germany's possession or ownership, a recall of product from commercial customers and a declaratory judgment for damages. BAT Germany acts as a limited risk distributor of the Company under the terms of a Distribution and Marketing Agreement. The Company would compensate BAT Germany for any costs and liabilities arising from the litigation, in accordance with the usual principles applicable to the Company's limited risk distribution relationships. The trial of this action will take place on 14 October 2021.

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

23. Contingent liabilities (continued)

Vype ePod Patent Litigation

On 27 November 2020 PMP filed a complaint before the Regional Court Mannheim in Germany against British American Tobacco (Germany) GmbH (BAT Germany) alleging that the sale, offer for sale and importation of Vype ePod products infringes a patent. PMP is seeking an injunction, delivery up and destruction of product in BAT Germany's possession or ownership, a recall of product from commercial customers and a declaratory judgment for damages. BAT Germany acts as a limited risk distributor of the Company under the terms of a Distribution and Marketing Agreement. The Company would compensate BAT Germany for any costs and liabilities arising from the litigation, in accordance with the usual principles applicable to the Company's limited risk distribution relationships. The trial of this action took place on 15 June 2021, and a decision is expected around 20 July 2021.

24. Parent undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is Nicoventures Holdings Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

The Company Secretary
Globe House
1 Water Street
London
WC2R 3LA