

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

Registered Number 00239762

Annual report and financial statements

For the year ended 31 December 2021

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Strategic report

The Directors present their Strategic Report on B.A.T (U.K. and Export) Limited (the “Company”) for the year ended 31 December 2021.

Principal activities

Until 2020, the principal activity of the Company was the sale and marketing of tobacco products on behalf of the British American Tobacco group of companies (the “Group”). This activity ceased in 2021 and the Company’s current principal activity is to hold investments in other Group subsidiaries.

Review of the year ended 31 December 2021

The profit for the financial year attributable to the Company’s shareholders after deduction of all charges and the provision of taxation amounted to £35,404,000 (2020: £128,529,000).

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 2021 Annual Report and Form 20-F (“BAT ARA & 20-F”) 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 ARA & 20-F and do not form part of this report.

UK Companies Act 2006: 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 above, since 2021 the Company’s principal activity is to hold investments in other Group subsidiaries.

Under Section 172(1) of the UK Companies Act 2006 (“the 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 its employees and other Group undertakings including the Company’s shareholders. Primary ways in which the Company engages with other Group undertakings, including its shareholders, are through regular meetings, intra-group management activities and ongoing dialogue. There is also regular engagement within the Group on finance-related matters which is taken into account in the Company’s decision-making.

Strategic report (continued)

UK Companies Act 2006: Section 172(1) Statement (Continued)

Throughout the COVID-19 pandemic, the Group's priority had been to safeguard the welfare of Group company employees while ensuring that the Group continued to operate effectively. A range of internal communications and engagement channels were used during the year to help Group company employees feel connected and supported. The primary engagement channels for Group company employees based in the UK (including the Company's employees) included town hall sessions, employee council meetings, the 'Your Voice' employee survey and webcasts. The engagement sessions have continued to be held primarily through virtual forums. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 57 of the BAT ARA & 20-F).

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.

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 ("SoDA"), and the Group Standards of Business Conduct, International Marketing Principles, Health and Safety Policy, and Environmental Policy as set out on pages 48 and 73 of the BAT ARA & 20-F. As a Group company, the Company acts in accordance with the Group's policies in relation to the safeguarding of human rights and community relationships, which are set out on page 48 of the BAT ARA & 20-F.

Certain authorities for decision-making are delegated to management under the SoDA, part of the Group's governance and internal controls framework through which robust corporate governance, risk management and internal control are promoted within the Group. Application of the SoDA 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. All newly appointed Directors receive training in respect of their roles and duties on appointment, including on directors' duties under Section 172 of the Act. Director training is provided through the Company Secretary.

The principal decisions made by the Directors during the year included the review, approval and payment of interim dividend payments to the shareholders as set out in the Directors' Report. In this context the Board considered, amongst other relevant factors, the Company's capital and cash positions, the Company's actual and contingent liabilities and its ability to pay its debts as they fell due.

Principal decisions are those decisions and discussions by the Board that are strategic or material to the Company and those of significance to any of Company's key stakeholders.

By Order of the Board

S. Mehta
Secretary



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S. Mehta
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21 September 2022

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2021.

Dividends

During the year the Company paid dividends amounting to £138,520,000 (2020: £229,973,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2021 to the date of signing this report are as follows:

	Appointed	Resigned
Danika Ahr		18 May 2021
Andrew James Barrett		19 May 2021
David Patrick Ian Booth		
Anthony Michael Hardy Cohn		
Peter Charles Michael Doona	4 August 2021	27 May 2022
Andres Santiago Lorenzo		1 February 2021
Robert Salisbury	20 June 2022	
Leonard Senra		19 May 2021
Hong Zhengxun		19 May 2021

Research and development

No research & development expenditure has been incurred during the year (2020: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Employees

The average number of employees employed or assigned from fellow Group undertakings during the year was 2 (2020: 8).

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

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.

Directors' Report (Continued)

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.

Applicable law requires the Directors to prepare financial statements for each financial year. Under applicable law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard ("FRS") 101.

Under applicable 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 Act. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors' declaration in relation to relevant audit information

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

- (a) to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all steps that a Director might reasonably be expected to have taken in order to make themselves 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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S. Mehta
Secretary

21 September 2022

Independent Auditor's report to the members of B.A.T (U.K. and Export) Limited

Opinion

We have audited the financial statements of B.A.T (U.K. and Export) Limited ("the Company") for the year ended 31 December 2021 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 2021 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.

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 as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.

Independent Auditor's report to the members of B.A.T (U.K. and Export) Limited (continued)

We remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. This included identifying journal entries to test based on certain risk criteria and testing the identified entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there is no sufficient incentive or pressure or opportunity to commit fraud related to revenue.

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.

We 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 non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

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

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

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

Strategic report and Directors' report

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

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

Independent Auditor's report to the members of B.A.T (U.K. and Export) Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

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.

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

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Chartered Accountants
15 Canada Square
London E14 5GL
Date:

Profit and loss account for the year ended 31 December

		2021	2020
		£'000	£'000
Continuing operations	Note		
Income	2	242	280,575
Changes in stocks of finished goods and work in progress		-	(15,429)
Other operating income	2	4,776	20
Raw materials and consumables		-	(75,035)
Staff Costs	3	(28)	(722)
Depreciation and gain or losses on disposal of assets		-	(1)
Other operating expenses	3	(1,980)	(66,388)
Operating Profit		3,010	123,020
Income from shares in Group undertakings	4	37,402	25,179
Interest receivable and similar income	5	312	349
Interest payable and similar expenses	6	(37)	(19)
Profit before taxation		40,687	148,529
Tax on profit	7	(5,283)	(20,000)
Profit for the financial year		35,404	128,529

Statement of other comprehensive income for the year ended 31 December

	2021	2020
	£'000	£'000
Profit for the financial year	35,404	128,529
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Effective portion of changes in fair value of cash flow hedges	-	(4,586)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	(1,133)
Income tax on items that are or may be reclassified subsequently to profit or loss	-	972
Total comprehensive income for the year	35,404	123,782

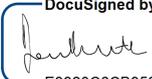
Statement of changes in equity at 31 December

	Share Capital £'000	Profit and loss account £'000	Cash Flow Hedge Reserves £'000	Total £'000
1 January 2020	1,000	427,546	4,747	433,293
Profit for the financial year	-	128,529	-	128,529
Dividends paid	-	(229,973)	-	(229,973)
<i>Items that are or may be subsequently reclassified to profit or loss:</i>				
Effective portion of changes in fair value of cash flow hedges	-	-	(4,586)	(4,586)
Net change in fair value of cash flow hedges reclassified to profit or loss	-	-	(1,133)	(1,133)
Other movements	-	-	972	972
31 December 2020	1,000	326,102	-	327,102
Profit for the financial year	-	35,404	-	35,404
Dividends paid	-	(138,520)	-	(138,520)
<i>Items that are or may be subsequently reclassified to profit or loss:</i>				
Effective portion of changes in fair value of cash flow hedges	-	-	-	-
Net change in fair value of cash flow hedges reclassified to profit or loss	-	-	-	-
Income tax on items that are or may be reclassified subsequently to profit or loss	-	-	-	-
31 December 2021	1,000	222,986	-	223,986

Balance sheet as at 31 December

	Note	2021 £'000	2020 £'000
Non-current assets			
Deferred tax	7	-	21,188
Investments	8	149,453	149,453
		149,453	170,641
Current assets			
Debtors: amounts falling due within one year	9	79,343	188,698
Financial Instruments	11	-	24
Cash at bank and in hand		2,094	12,174
		81,437	200,896
Creditors: amounts falling due within one year	10	(6,904)	(44,434)
Net current assets		74,533	156,462
Total assets less current liabilities		223,986	327,102
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account		222,986	326,102
Total shareholders' funds		223,986	327,102

The financial statements on pages 9 to 22 were approved by the Directors on 21 September 2022 and signed on behalf of the Board.

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Mr D.P.I. Booth
Director

Registered number
00239762

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

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies

Basis of preparation

The Company is incorporated, domiciled and registered in England in the UK. The registered number is 00239762 and the registered address is Globe House, 1 Water Street, London, WC2R 3LA.

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with FRS 101. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“IFRS”), but makes amendments where necessary in order to comply with the Act and where 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.

After reviewing the Company’s forecasts and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months following the signing of these accounts. In making this assessment the Directors have considered the impact of the termination of its license rights and its cessation of commercial activities. The Company will continue to hold investments in other Group entities and will continue to receive cashflows associated with these investments and therefore has continued to adopt the going concern basis in preparing its financial statements.

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 reiew of asset values and impairment testing of financial assets
- The determination of whether a provision needs to be recognised in respect of litigations and claims against the Company

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 Act.

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. 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.

Income

Income principally comprises sales of cigarettes, other tobacco products and materials associated with cigarette production to external customers and fellow Group companies around the world. Income excludes duty, excise and other taxes and is after deducting rebates, returns and other similar discounts and payments to direct and indirect customers. Income 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. As permitted by *IFRS 9*, a provisions matrix for lifetime expected losses is used for receivables balances arising from the recognition of revenue.

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies (continued)

Other operating expenses

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

Retirement benefits

The Company operates and 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.

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

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

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. As noted previously, disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent.

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. 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.

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.

Financial instruments

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

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies (continued)

Financial instruments (continued)

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.

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

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

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

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

Derivative fair value changes recognised in the profit and loss account are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance cost.

Investment 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. Dividends arising from investments in group undertakings are recognised when the Company's right to receive the payment of the dividend is established.

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.

Impairment of financial assets held at amortised cost

Allowances for expected credit losses on financial assets which are held at amortised cost are recognised on the initial recognition of the underlying asset, if material. Allowances in respect of loans and other receivables (debtors) are initially recognised at an amount equal to 12-month expected credit losses, where applicable. 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.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Notes to the financial statements for the year ended 31 December 2021

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2 Income and other operating income

	2021 £'000	2020 £'000
Income	242	280,575
Other operating income	4,776	20
	5,018	280,595

Income comprises the sale of tobacco products to fellow Group undertakings and 3rd party distributors in Americas and Sub-Saharan Africa (AmSSA) and Asia-Pacific and Middle East (APME) regions. Other operating income comprises intragroup recharges.

3 Other Operating expenses

	2021 £'000	2020 £'000
Other Operating expenses comprise:		
Auditor's remuneration		
- Audit services	130	171
Intragroup recharges	1,055	29,975
Royalties Paid	-	26,858
Marketing Investment	-	13,290
Others – Including Exchange (gains)/losses	795	(3,906)
	1,980	66,388
	2021 £'000	2020 £'000
Staff costs:		
Wages and salaries	21	523
Social security costs	7	85
Other pension costs	-	56
Share-based payments	-	58
	28	722

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

	2021 Number	2020 Number
By activity		
Administration	2	5
Marketing	-	3
	2	8

Notes to the financial statements for the year ended 31 December 2021

3 Other operating expenses (continued)

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2020: £nil). The Company considers that there is no practicable method to allocate a portion of the emoluments the 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.

4 Income from shares in Group undertakings

	2021	2020
	£'000	£'000
Income from shares in Group undertakings	37,402	25,179

5 Interest receivable and similar income

	2021	2020
	£'000	£'000
Interest receivable from Group undertakings	312	349

6 Interest payable and similar expenses

	2021	2020
	£'000	£'000
Interest payable to Group undertakings	37	19

7 Tax on profit**(a) Summary of taxation on profit**

	2021	2020
	£'000	£'000
Current taxation:		
UK corporation taxation on profit of the year		
Comprising:		
- current taxation at 19.00% (2020: 19.00%)	-	22,252
- double taxation relief	-	(5)
Overseas taxation	(5)	(16)
Adjustment in respect of prior years	(15,900)	-
Total current tax	(15,905)	22,231
Deferred taxation:		
Current year	21,188	(2,231)
Total taxation charge note 7(b)	5,283	20,000

Notes to the financial statements for the year ended 31 December 2021

7 Tax on profit (continued)

(b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. 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% (2020: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2021	2020
	£'000	£'000
Profit before taxation	40,687	148,529
Corporation taxation at 19.00% (2020: 19.00%) on profit	7,731	28,221
Factors affecting the taxation rate:		
Adjustments in respect of prior periods	(15,900)	-
Expenses not deductible	-	11
Income not taxable	(7,271)	(4,788)
Tax rate changes	-	(2,231)
Effects of overseas tax rates	(5)	(21)
Effects of Group Relief surrendered/ (claimed)	20,728	(23,439)
Effects of Group Relief paid for*	-	22,247
Total taxation charge note 7(a)	5,283	20,000

Adjustments in respect of prior periods in amount of £15,900,000 relate to a tax credit arising from the completion of the New Zealand Bilateral Advance Pricing Agreement ("BAPA") reached between HMRC and the New Zealand Inland Revenue.

*In the year ended 31 December 2019 the Company claimed group relief for tax losses pertaining to that year. These losses were surrendered to the Company by fellow UK Group Companies. The consideration payable for these losses was estimated to be Nil as the fellow UK Group Companies had historically surrendered their tax losses for Nil consideration. In 2020 one of those fellow UK Group Companies made a claim for consideration of £22,247,000 for the losses surrendered pertaining to the year 2019. The Company therefore recognised an additional tax expense for this amount in the year ended 31 December 2020.

Notes to the financial statements for the year ended 31 December 2021

7 Tax on profit (continued)

Deferred Tax

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Tangible Fixed Assets	-	21,188	-	-	-	21,188
Cash flow Hedge Reserves	-	-	-	-	-	-
Net tax assets / liabilities	-	21,188	-	-	-	21,188

Movement in deferred tax during the year

	1 January	Recognised	Recognised	31 December
	2021	in income	in equity	2021
	£000	£000	£000	£000
Tangible Fixed Assets	21,188	(21,188)	-	-
Cash flow Hedge Reserve	-	-	-	-
	21,188	(21,188)	-	-

Notes to the financial statements for the year ended 31 December 2021

8 Investments

(1) Shares in Group undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
Bahrain <i>Flat 2115, Building 2504, Road 2832, Block 428 Al Seef Area, Kingdom of Bahrain</i>				
British American Tobacco Middle East W.L.L.	Ordinary	100.00	0.00	100.00
Benin <i>Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin</i>				
British American Tobacco Benin SA	Ordinary	100.00	0.00	100.00
Burkina Faso <i>Ouagadougou, Avenue Yennega, BP: 882, Ouagadougou, Burkina Faso</i>				
Tobacco Marketing Consultant Burkina Fasco SARL	Ordinary	100.00	0.00	100.00
Burundi <i>Avenue de L'Uprina a Bujumbura, BP 345, Burundi</i>				
Tabarundi SARL (In Liquidation)	Ordinary	0.00	100.00	100.00
Iraq <i>Empire Business Tower, Building C5, 2nd floor, Erbil, Kurdistan Region of Iraq</i>				
B.A.T. Iraqia Company for Tobacco Trading Limited	Ordinary	100.00	0.00	100.00
Mali <i>DJELIBOUGOU-Immeuble BASSARO-BP 2065 Bamako, Mali</i>				
British American Tobacco (Mali) sarl	Ordinary	0.00	100.00	100.00
Qatar <i>P O Box 6689, 41 Floor, Tornado Tower, West Bay, Doha, Qatar</i>				
British American Tobacco Q LLC	Ordinary	100.00	0.00	100.00
Saudi Arabia <i>7051 Al Amir Sultan-Al Salamah District, Unit 1302. Jeddah 23525 - 2661, Saudi Arabia</i>				
BAT Saudia for Trading	Ordinary	100.00	0.00	100.00
Senegal <i>Almadies, Route Hôtel Méridien en Face Club Med, Dakar, Senegal</i>				
Tobacco Marketing Consultant TMC S.A.R.L (in liquidation)	Ordinary	0.00	100.00	100.00
Sudan <i>Byblos Tower, Al-Muk Nemer Street, Postal Code 11111, P.O Box 1381, Khartoum, Sudan.</i>				
Blue Nile Cigarette Company Limited	Ordinary	0.00	100.00	100.00
Tanzania, United Republic of <i>Acacia Estate Building, Kinondoni Rd, P.O. Box 288, Dar es Salaam, Tanzania</i>				
Zanzibar Distribution Company Limited (In liquidation)	Ordinary	0.00	99.00	99.00
International Cigarette Distributors Limited (In liquidation)	Ordinary	0.00	99.00	99.00

Notes to the financial statements for the year ended 31 December 2021

8 Investments (continued)

(1) Shares in Group undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
United Arab Emirates				
<i>Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates</i>				
British American Tobacco GCC DMCC	Ordinary	100.00	0.00	100.00
British American Tobacco ME DMCC	Ordinary	100.00	0.00	100.00
British American Tobacco International DMCC	Ordinary	0.00	100.00	100.00
United Kingdom				
<i>212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland</i>				
Murray, Sons & Company, Limited	Ordinary	100.00	0.00	100.00
<i>Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom</i>				
B.A.T Services Limited	Ordinary	99.00	0.00	99.00
British American Tobacco (AIT) Limited	Ordinary	100.00	0.00	100.00
Rothmans Exports Limited	Ordinary	100.00	0.00	100.00
Rothmans of Pall Mall (Overseas) Limited	Ordinary	100.00	0.00	100.00
Ryservs (No.3) Limited	Ordinary	100.00	0.00	100.00
Tobacco Exporters International Limited	Ordinary	100.00	0.00	100.00
Tobacco Marketing Consultants Limited	Ordinary	100.00	0.00	100.00
Carreras Rothmans Limited	6% First Pref.	33.33	0.00	100.00
Carreras Rothmans Limited	6% Second Pref.	33.33	0.00	100.00
Carreras Rothmans Limited	Ordinary	33.34	0.00	100.00
Yemen				
<i>P.O. Box 5302, Hoban, Taiz, Yemen</i>				
United Industries Company Limited	Ordinary	0.00	32.00	32.00
<i>P.O. Box 14, Sanna, Yemen</i>				
Kamaran Industry and Investment Company	Ordinary	0.00	31.00	31.00

(2) Carrying value of investments

	Shareholdings at cost less provisions £'000
Cost	
1 January 2021	149,485
Additions	-
Disposals	-
31 December 2020	149,485
Impairment provisions	
1 January 2021	32
Charge in the year	-
Impairment	-
31 December 2021	32
Net book value	
31 December 2020	149,453
31 December 2021	149,453

Notes to the financial statements for the year ended 31 December 2021

9 Debtors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade debtors	-	3,860
Amounts owed by Group undertakings	79,343	184,838
	79,343	188,698

Included within amounts owed by Group undertakings is an amount of £73,216,000 (2020: £173,895,000) which is unsecured, interest bearing and repayable on demand. The variable interest rate is in accordance with the Group's intercompany lending agreements. During 2021, the standard lending agreements within the Group were revised to take account of global benchmark interest rate reform. Prior to 1 August 2021 the applicable rate was based on the London Interbank Offered Rate and with effect from this date it is based on the Sterling Overnight Index Average. Management consider the replacement rates in the revised intercompany agreement to be economically equivalent to those used previously. The impact of the change in rates was not significant to the Company.

10 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	-	158
Amounts owed to Group undertakings	6,744	32,394
Accruals and deferred income	160	11,882
	6,904	44,434

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

11 Financial Instruments

The Company's operations expose it to currency risk as part of its sales of cigarettes and purchases of raw materials and goods for resale are denominated in foreign currencies other than pounds.

The exposure is hedged with forward foreign exchange contracts.

The fair value of the instruments at 31 December 2021 was a net receivable of £nil (2020: net receivable of £24,000).

	2021 Assets £'000	2021 Liabilities £'000	2020 Assets £'000	2020 Liabilities £'000
Cash flow hedges				
- Forward foreign currency contracts (current)	-	-	24	-
- Forward foreign currency contracts	-	-	24	-

Notes to the financial statements for the year ended 31 December 2021

12 Called up share capital

Ordinary shares of £1 each	2021	2020
Allotted, called up and fully paid		
- value	£1,000,000	£1,000,000
- number	1,000,000	1,000,000

13 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 Group.

14 Contingent Liability

On 20th April 2021 a former distributor for a BAT Group company, Walid Ahmed Mohammed Naghi Trading EST. ("Al Naghi") filed a claim against B.A.T (U.K. and Export) Limited ("BATUKE") for 2,105,356,121 Saudi Riyal (SAR) (£405 million). On 16th June 2021 the court dismissed the claim finding BATUKE lacks capacity to be sued. On 22 August 2021, Al Naghi filed an appeal against the Court of First Instance judgment. The Appellate Court issued a ruling cancelling the Court of First Instance judgment and remanded the case to the lower court with the instruction that the lower court join BAT entities in Bahrain and UAE to the proceedings, which Al Naghi had wrongly claimed on appeal to be branches of BATUKE. The lower Court tried to summon the Bahraini and UAE BAT entities to obtain clarifications about their status; however, said entities were not properly notified and did not appear. On 28 June 2022, the Court issued an oral ruling dismissing the claim against BATUKE and reversing its prior decision to seek clarifications from the BAT entities in Bahrain and UAE. The written judgment was issued on 2 August 2022, and was appealed on 29 August 2022. BATUKE will now need to wait to be invited by the court to respond.

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 British American Tobacco (Investments) Limited. Group financial statements are prepared only at the British American Tobacco Group level and may be obtained from:

The Company Secretary
Globe House
4 Temple Place
London
WC2R 2PG