NICOVENTURES TRADING LIMITED

Registered Number 06665343

Annual Report and Financial Statements

For the year ended 31 December 2022

Contents

Strategic Report

The Directors present their strategic report on Nicoventures Trading Limited (the “Company”) for the year ended 31 December 2022.

Principal activities

The principal activities of the Company during the year were the development, procurement, marketing and sale of tobacco heating products ("THPs"), vapour products, modern oral products and associated products as a member of the British American Tobacco p.l.c. group of companies (the “Group”).

Review of the year ended 31 December 2022

The loss for the financial year attributable to the Company’s shareholder after deduction of all charges and the provision of taxation amounted to £671,811,000 (2021: £838,922,000).

The Company has continued to invest in its product portfolio to satisfy the needs of consumers worldwide. Revenue increased from £934,382,000 in 2021 to £1,297,898,000 in 2022 with the THP brand Glo being the main contributor to the increased revenue. The leading Vapour brand Vuse continues to drive revenue growth in Company's leading market, Canada, with new product Vapour Disposable (Modi) continuing to grow in Europe during the financial year.

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

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

Key performance indicators

Given the nature of the Company’s activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance, or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in British American Tobacco p.l.c.’s 2022 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: Section 172(1) Statement

The Company is part of the Group and is ultimately owned by British American Tobacco p.l.c. As set out above in the Company’s Strategic Report, the Company’s principal activity is the development, procurement, marketing and sale of THPs, vapour products, modern oral products and associated products.

Under Section 172(1) of the UK Companies Act 2006 (the “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 the 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 Group undertakings, including its shareholder, direct and indirect suppliers to the Company (including product materials suppliers, and goods and services suppliers), customers of the Company (including distributors and wholesalers), employees, the government, customs, revenue and tax authorities,trademark registry bodies and wider society in countries in which the Company operates.

The Company engages with other Group undertakings, including its shareholder through regular meetings, intra-group management activities and ongoing dialogue. Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key external stakeholders are summarised on pages 20 to 21 of the BAT ARA & 20-F. 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: Section 172(1) Statement (continued)

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 relation to employee engagement, a range of internal communications and engagement channels were used during the year to support effective engagement with Group company employees. The primary engagement channels for Group company employees based in the UK (including the Company's employees) include town hall sessions, employee council meetings, the Your Voice employee survey and webcasts as set out on pages 88, 140 and 169 of the BAT ARA & 20-F. The Group's 'Speak Up' channels are also available to all Company employees (as set out on page 66 of the BAT ARA & 20-F).

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 Environment Policy as set out on pages 45 and 91 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 45 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 of Company's payment practices reporting and review and approval of organisational changes. Examples of how stakeholder considerations and other relevant factors have been taken into account during the decision-making process in these context are as follows:

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

Organisational changes: The Board reviewed and approved changes to the Company's organisational structure and activities, to drive greater efficiencies in the Company's processes and ways of working within the Group. Key factors taken into consideration in this context included the anticipated benefits of the reorganisation to the Company and its shareholder, as part of the wider Group, and the interests of the Company's employees.

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 the Company's key stakeholders.

By Order of the Board

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Joana B Cavalcanti
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Joana Bezerra Cavalcanti
Director

26 September 2023

Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2022.

In accordance with section 414C(11) of the Act, the Directors have provided an indication of likely future developments in the business of the Company in the Strategic Report under the heading "Review of the year ended 31 December 2022".

Dividends

The Directors do not recommend the payment of a dividend for the year (2021:£nil).

Board of Directors

The names of the persons who served as Directors of the Company during the period from 1 January 2022 to the date of signing this report are as follows:

	Appointments in the period	Resignations in the period
Simon Dudley Keith Shaw Ashton		31 March 2023
Joana Bezerra Cavalcanti		
Anthony Copty	1 April 2023	
James Murphy	1 March 2023	
Paul Rutger Lageweg		30 June 2023
Dr David O'Reilly		28 February 2023
Marcus Rodwell		
Ralf Wittenberg	1 September 2023	
Zafar Khan	1 September 2023	

Auditor

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

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 2022 was £150,160,000 (2021: £88,518,000).

Financial risk management

The Company's operations expose it to currency risk as part of its sales of New Categories products and purchases of goods for resale are denominated in foreign currencies other than Sterling. The exposure is partially hedged with forward foreign exchange contracts.

The Company is also exposed to a credit risk due to sales to external parties. To minimise exposure, management monitors the level of outstanding debt on an ongoing basis.

Employees

The average number of employees employed by the Company during the year was 397 (2021: 232).

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 employees. The Company is committed to ensuring 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. The Company aims to establish and maintain a safe working environment for all staff, including those with disabilities.

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings and publications. The Company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme. Further information is set out at pages 89, 163, 167 to 168 and 268 of the BAT ARA & 20-F.

Directors' report (continued)

Employee Engagement Statement

The Company's Section 172(1) statement set out in the Strategic Report on pages 3 to 4 summarises the Directors' approach to engaging with the Company's employees, and how the Directors have regard to their interests when making decisions.

Further information regarding methods of engagement with Group company employees based in the UK (including the Company's employees) is provided on pages 88 to 89 of the BAT ARA & 20-F.

Stakeholder Engagement Statement

The Company's Section 172(1) statement set out in the Strategic Report on pages 3 to 4 summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders when making decisions on behalf of the Company.

Further information regarding stakeholder engagement on behalf of the Company at Group level is provided on pages 20 to 21 of the BAT ARA & 20-F.

Corporate Governance Statement

This section reports on the corporate governance arrangements applied by the Company during the year.

British American Tobacco p.l.c., the Company's ultimate parent company and a UK premium listed company, has adopted and reports in accordance with the UK Corporate Governance Code 2018.

As a member of the Group and a private limited company, the Company has adopted, and the Directors have due regard to, the Group's overall governance framework and all applicable Group policies and procedures, including the SoDA, as summarised in the Strategic Report.

Within this framework, the Company maintains its own corporate governance arrangements reported below, designed to promote high standards of corporate governance and the Company's long-term sustainable success. These arrangements are considered most appropriate for the Company as a wholly-owned subsidiary of British American Tobacco p.l.c.

Purpose and Leadership

- The Company's purpose and strategy is in full alignment with the overall strategy of the Group, and the Group's purpose to build A Better Tomorrow™.
- The Company's culture is guided by the BAT Ethos, to be bold, fast, empowered, responsible and diverse. The Directors support and uphold the values of the BAT Ethos to foster a vibrant and rewarding workplace.
- The Directors are kept updated on stakeholder perspectives, engagement conducted with stakeholders and the impact of decisions on stakeholders where applicable, through the use of management reporting and board notes relating to matters presented to the Board during the year. 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.

Board Composition

- The Board is made up of Directors who bring a diverse skill set, background, experience, knowledge and capability to promote effective decision-making, risk management and strategy development for the Company.
- The Board composition reflects the scale and complexity of the Company's operations. The Board comprises of four Directors at the date of this report and Board composition is kept under review, including in view of events such as internal role changes and strategic developments.

Director Responsibilities

- The Board is collectively responsible to the shareholder of the Company for its long-term sustainable success and for the Company's strategic direction, values, governance and alignment with those of the wider Group.
- Consistent with the Group's overall governance framework, the Board and each individual Director has a well-established understanding of their accountability and responsibilities to promote high standards of

Directors' report (continued)

Corporate Governance Statement (continued)

corporate governance, effective decision-making, risk management and internal controls in respect of the Company, and in the wider Group context.

- In addition to application of the SoDA, the Company has adopted, and the Directors have due regard to, the Company's own Statement of Delegated Authorities which complements and is consistent with the SoDA.

Opportunity and Risk

- The principal risks and uncertainties of the Company, including financial risk management, are integrated within the principal risks of the Group and are monitored by audit committees within the Group to provide a framework for identifying, evaluating and managing risks faced by the Group. Further information is provided at pages 116 to 121 of the BAT ARA & 20-F. The key Group risk factors that may be relevant to the Company are disclosed on pages 341 to 361 in the BAT ARA & 20-F.
- The Company maintains its own procedures for risk management and has its own internal controls with a view to safeguarding shareholder interests and the Company's assets.
- The Company's own procedures and policies for risk management and internal controls are designed to identify, evaluate and manage risks that may impede the Company's objectives and its strategy, but also to identify future opportunities to promote the long-term success of the Company.

Remuneration of the Board

- The remuneration policies and practices maintained within the Group are founded on a high degree of alignment and consistency across the organisation and guide decisions on remuneration across the Group's businesses and, where applicable, the Company.
- The Board's remuneration structures and strategy are consistent with the remuneration policies and practices maintained within the Group. In reviewing remuneration, consideration is given to the level of individual experience, scope of role, responsibility, individual performance and pay levels in applicable peer groups.
- The Remuneration Committee of British American Tobacco p.l.c. reviews workforce remuneration and related policies across the Group, and the alignment remuneration strategy with Group culture. Further information is disclosed on pages 168 to 169 of the BAT ARA & 20-F.

Stakeholder Relationships and Engagement

- The Board's approach to stakeholder engagement and consideration of stakeholders in key decisions in 2022 are set out above in the Strategic Report.
- Primary ways in which the Company engages directly or indirectly, as part of the Group, with its key stakeholders are summarised at pages 20 to 21 of the BAT ARA & 20-F.

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 Reduced Disclosure Framework.

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 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.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Act.

By Order of the Board

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Joana B Cavalcanti

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Joana Bezerra Cavalcanti

Director 26 September 2023

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 2022 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 2022 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 used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- an inability to achieve the revenue growth targets in the group's business plan

Given the level of financial resources, and the risks inherent in the cash flows, our evaluation of the directors' going concern assessment was not of particular significance in our audit.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Company's current and projected cash (a reverse stress test). We assessed the completeness of the going concern disclosure.

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; and
- we found the going concern disclosure in note 1 to be acceptable.

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

Independent Auditor's Report to the members of 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 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. This included identifying journal entries to test based on certain risk criteria and testing those journal 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.

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 Director's report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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.

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

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

Oliver Briggs (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London. E14 5GL

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Oli Briggs
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26 September 2023

Profit and loss account for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	2	**1,297,898**	934,382
Cost of sales		**(852,168)**	(806,029)
Other operating income	3	**29,484**	37,695
Other operating expenses	4	**(1,294,920)**	(1,103,789)
Operating loss		**(819,706)**	(937,741)
Interest receivable and similar income	5	**14,648**	7,819
Interest payable and similar expenses	6	**(1,243)**	(381)
Loss before taxation		**(806,301)**	(930,303)
Tax credit	7	**134,490**	91,381
Loss for the financial year		**(671,811)**	(838,922)

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

Statement of comprehensive income for the year ended 31 December 2022

	2022 £'000	2021 £'000
Loss for the financial year	**(671,811)**	(838,922)
Other comprehensive income/(expenses)		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of net cash flow hedges	**22,719**	26,397
Net change in fair value of cash flow hedges reclassified to profit or loss	**(39,603)**	(5,352)
Translation reserves	**72**	1
Income tax on items that are or may be reclassified subsequently to profit or loss	**3,547**	(3,999)
Total comprehensive income/(loss) for the financial year, net of tax	**(685,076)**	(821,875)

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

Statement of changes in equity for the year ended 31 December 2022

	Called up share capital	Translation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
1 January 2021	**2,803,000**	**(26)**	**(8,835)**	**(1,929,850)**	**864,289**
Loss for the financial year	—	—	—	(838,922)	(838,922)
Other comprehensive income					
Issue of new shares	1,600,000	—	—	—	1,600,000
Items that are or may be reclassified subsequently to profit and loss:					
Effective portion of changes in fair value of cash flow hedges	—	—	26,397	—	26,397
Net change in fair value of cash flow hedges reclassified to profit or loss	—	—	(5,352)	—	(5,352)
Translation reserve	—	1	—	—	1
Income tax on items that are or may be reclassified subsequently to profit or loss	—	—	(3,999)	—	(3,999)
31 December 2021	**4,403,000**	**(25)**	**8,211**	**(2,768,772)**	**1,642,414**
Loss for the financial year	—	—	—	(671,811)	(671,811)
Other comprehensive income					
Items that are or may be reclassified subsequently to profit and loss:					
Effective portion of changes in fair value of cash flow hedges	—	—	22,719	—	22,719
Net change in fair value of cash flow hedges reclassified to profit or loss	—	—	(39,603)	—	(39,603)
Translation reserve	—	72	—	—	72
Income tax on items that are or may be reclassified subsequently to profit or loss	—	—	3,547	—	3,547
31 December 2022	**4,403,000**	**47**	**(5,126)**	**(3,440,583)**	**957,338**

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

Balance sheet as at 31 December 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Intangible assets	8	**55,837**	83,784
Tangible assets	9	**44,220**	45,573
Investments	11	**10,175**	8,315
Deferred tax assets	12	**114,315**	217
Debtors: amounts falling due after one year	14	**2,914**	1,829
Derivative financial instruments - asset	21	**985**	249
		228,446	139,967
Current assets			
Stocks	13	**96,054**	38,654
Debtors: amounts falling due within one year	14	**1,546,692**	2,067,795
Derivative financial instruments - asset	21	**9,187**	14,314
Cash at bank		**86**	629
		1,652,019	2,121,392
Current liabilities			
Creditors: amounts falling due within one year	15	**(893,330)**	(611,230)
Lease liabilities	16	**(5,256)**	(1,359)
Provision for liabilities and charges	17	**—**	(1,524)
Derivative financial instruments - liabilities	21	**(15,624)**	(2,433)
Net current assets		**737,809**	1,504,846
		966,255	1,644,813
Non-current liabilities			
Deferred tax liabilities	12	**(2,103)**	(2,143)
Lease liabilities	16	**(5,690)**	(256)
Derivative financial instruments - liabilities	21	**(1,124)**	—
Net assets		**957,338**	1,642,414
Capital and reserves			
Called up share capital	20	**4,403,000**	4,403,000
Cash flow hedge reserve		**(5,126)**	8,211
Translation reserve		**47**	(25)
Profit and loss account		**(3,440,583)**	(2,768,772)
Total shareholders' surplus		**957,338**	1,642,414

These financial statements on pages 12 to 34 were approved by the Board of Directors on 26 September 2023 and signed on behalf of the Board.

DocuSigned by:

Joana B Cavalcanti

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Joana Bezerra Cavalcanti
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 2022

1. Accounting policies

Basis of accounting

The Company is a private company incorporated, domiciled and registered in England and Wales in the UK. The registered number is 06665343 and the registered address is Globe House, 1 Water Street, London, WC2R 3LA.

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted International Accounting Standards ("IAS"), but makes amendments where necessary in order to comply with the Act, and has taken advantage of certain disclosure exemptions available under FRS 101, including those relating to the 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 financial statements.

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 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 financial statements.

The most significant items include:

- the review of asset values of financial and non-financial assets;
- the capitalisation and expensing of development costs relating to product and software; and
- the estimation and judgement 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 accounting policies set out below, have unless otherwise stated been applied to all periods presented in the financial statements.

Going concern

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, 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.

Other operating income

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

Notes to the financial statements for the year ended 31 December 2022

1. Accounting policies (continued)

Foreign currencies

Items included in the financial statements of the Company are reported in Sterling, being the primary currency of the economic environment in which the Company operates.

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.

Forward contracts are used to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes.

Other operating expenses

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

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 profits for the period, together with deferred taxation.

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

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

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

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

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

As a UK-resident wholly-owned subsidiary within 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.

Share based payments

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group company, 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 companies calculates and reflects the charge for the share schemes, and provides the relevant disclosures required under International Financial Reporting Standard ("IFRS") 2 Share-based payments. Consequently, the Company has taken advantage of the disclosure exemptions under FRS101.

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

Notes to the financial statements for the year ended 31 December 2022

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, freight and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale

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 four years to seven 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 basis 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 and Fittings	3-10
Plant & Machinery	3-20

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

Impairment of non-financial assets

Non-financial 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.

Investments

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

Financial instruments

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

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

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

Notes to the financial statements for the year ended 31 December 2022

1. Accounting policies (continued)

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 on an 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. The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. 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 economic relationship between the item being hedged and the hedging instrument. The Company is also required to demonstrate an assessment of the economic relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is re-performed 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 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.

Where interest bearing receivables and payables have their floating rates based on benchmark rates, such as the London Interbank Interest Rate, the Company accounted 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. The replacement rate Sterling Overnight Index Average ("SONIA") has been applied since August 2021.

Impairment of financial assets held 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.

1. Accounting policies (continued)

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.

Provisions for liabilities

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

Leases

The Company applies IFRS 16 Leases to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment note 9 and the liabilities included as part of creditors note 16.

The Company has adopted several practical expedients available under the standard including not applying the requirements of IFRS 16 to leases of intangible assets, applying the portfolio approach where appropriate to do so, not applying the recognition and measurement requirements of IFRS 16 to short-term leases (leases of less than 12 months maximum duration) and to leases of low-value assets. Except for property-related leases, non-lease components are not separated from lease components.

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

Contingent liabilities are disclosed when a potential outflow is possible as a result of past events, or where an unfavourable outcome is probable but cannot be reliably 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.

2. Revenue

	2022	2021
	£'000	£'000
Revenue	**1,297,898**	934,382

Revenue comprises the sale of Tobacco Heating Products, Vapour Products, Modern Oral and associated accessories to fellow Group companies located in Europe and North Africa, Americas and Sub-Saharan Africa and Asia-Pacific and Middle East regions.

Additional information about the Group's revenues is summarised at pages 108 to 115 of the BAT ARA & 20-F.

3. Other operating income

	2022	2021
	£'000	£'000
Other operating income comprises:		
Royalty income from fellow Group companies	**24,643**	20,154
Other Income	**4,841**	17,541
	29,484	37,695

Notes to the financial statements for the year ended 31 December 2022

4. Other operating expenses

	Notes	2022 £'000	2021 £'000
Other operating expenses comprise:			
Freight and logistics		89,992	67,822
Royalties		40,499	34,868
Exchange gains		7,856	4,557
Audit fees		439	418
Staff costs		104,474	98,235
Amortisation of intangible assets	8	34,722	25,938
Impairment of intangible assets	8	33,002	8,702
Depreciation of tangible assets	9	14,190	7,217
Impairment of tangible assets	9	13,983	3,235
Intangible assets write off		—	5,053
Tangible assets write off		—	802
Gain on tangible assets disposal		(446)	(21)
Research and development		38,939	22,672
Other items		917,270	824,291
		1,294,920	1,103,789

Included within Other items are marketing and sales support of £588,258,000 (2021: £552,242,000) and technical and advisory services £112,768,000 (2021: £104,189,000) with the balance comprising legal and professional fees, IT expenses and other expenses.

	Notes	2022 £'000	2021 £'000
Staff costs:			
Wages and salaries		**66,871**	65,618
Social security costs		**8,853**	8,008
Defined benefit pension cost	18	**—**	68
Defined contribution pension costs	18	**5,877**	5,458
Share-based payments	19	**9,560**	7,300
Other staff costs		**13,313**	11,783
		104,474	98,235

The average number of employees employed by the Company during the year was 397 (2021: 232).

The Company acts as contractual employer and has a number of employees who are contractually assigned, either fully or partly, to perform work for other Group undertakings. The average number of employees assigned to other Group undertakings was 11 (2021: 12).

Additionally, the Company has a number of employees who are assigned, either fully or partly, to perform work for the Company by employees of other Group undertakings. The average number of employees assigned by other Group undertakings was 182 (2021: 284).

The net number of persons engaged on Company business after taking account of assignments was 569 (2021: 504). The salary costs reflected in the financial statements relate to the net employment costs after assignment.

4. Other operating expenses (continued)

	Post assignment		Pre assignment	
	2022	2021	**2022**	2021
	Number	Number	Number	Number
Administration	**54**	19	**26**	9
Production	**407**	359	**278**	131
Selling and distribution	**108**	126	**93**	92
	569	504	**397**	232

Directors

All of the Directors were contractually employed by another Group company during the year. No Director was assigned to the Company in 2022 (2021:1). Their aggregate emoluments are disclosed below.

	2022	2021
	£'000	£'000
Aggregate emoluments	—	354
Directors exercising share options during the period	—	1
Directors entitled to receive shares under a long term incentive scheme	—	—
Directors retirement benefits accruing under a defined benefit scheme	—	1

Highest paid Director

	2022	2021
	£'000	£'000
Aggregate emoluments	—	354
Accrued pension at the end of period	—	13

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

	2022	2021
	£'000	£'000
Fair value changes on derivative financial instruments and hedged items (Note 21)	—	7,775
Interest receivable from Group undertakings	**14,648**	44
	14,648	7,819

Notes to the financial statements for the year ended 31 December 2022

6. Interest payable and similar expenses

	2022	2021
	£'000	£'000
Interest payable and similar charges	**431**	381
Fair value changes on derivative financial instruments and hedged items (Note 21)	**812**	—
	1,243	381

7. Taxation

(a) Recognised in the profit and loss account

	2022	**2022**	2021	2021
	£'000	**£'000**	£'000	£'000
UK corporation tax				
Current tax on income for the period	**(44,267)**		(91,417)	
Prior year adjustment	**19,924**		—	
Foreign tax				
Current tax on income for the period	**444**		36	
Total current tax credit		**(23,899)**		(91,381)
Deferred tax				
Origination and reversal of temporary differences - current year	**(69,694)**		—	
Origination and reversal of temporary differences - prior year adjustment	**(40,897)**		—	
Total deferred tax credit		**(110,591)**		—
Total income tax credit note 7(b)		**(134,490)**		(91,381)

(b) Factors affecting the taxation charge

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 deferred tax asset/ liability at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

The taxation charge for the year differs from the charge that would be expected based on the statutory 19% (2021: 19%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

7. Taxation (continued)

	2022	2021
	£'000	£'000
Loss for the financial year	**(671,811)**	(838,922)
Total tax credit	**(134,490)**	(91,381)
Loss excluding taxation	**(806,301)**	(930,303)
Tax using the corporation tax rate of 19% (2021: 19%)	**(153,197)**	(176,758)
Expenses not deductible	**3,979**	1,926
Prior year adjustment	**(20,973)**	—
Adjustment to reflect value of losses	**24,590**	—
Unrecognised temporary differences	**—**	1,743
Foreign tax expensed	**(78)**	(7)
Foreign tax suffered	**444**	36
Group Relief surrendered for less than tax rate	**10,745**	81,679
Total taxation note 7(a)	**(134,490)**	(91,381)

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.

The Company has recognised a deferred tax asset in respect of gross temporary difference of £787,419,000 (recognised deferred tax assets of £110,591,000) (2021: £nil (taxation amount £nil)) in respect of tax losses and fixed assets temporary differences that are expected to be group relieved to group companies at an arm's length value. The recognition of the DTA is based on the UK tax group's profitability, rather than the Company’s profitability. The UK tax group's profitability is partly dependent on the Company having fewer losses. It is expected that NVT will reduce the level of losses by improving the efficiency of its delivery. Based on current forecasts it is expected that the Company will surrender all its current year losses and some of its brought forward losses via group relief each year from 2025, with the recognised losses being fully surrendered to other group companies within 5 years thereafter. The recognised losses are forecast to be used in 4-6 years (after first utilisation) if the UK tax group's profits increase or decrease by 10% over the forecast period. The tax losses have been measured based on the value that is expected to be received by the Company from other group companies.

The Company has a gross deferred tax asset of £3,298,000 (taxation amount £463,000) (2021: £84,581,000 (taxation amount £21,145,000)) in respect of tax losses which are not recognised in the balance sheet because it is not sufficiently probable that they will be utilised in the foreseeable future.

Notes to the financial statements for the year ended 31 December 2022

8. Intangible Assets

	Research & Development	Computer Software	Assets under the course of development	Total
	£'000	£'000	£'000	£'000
Cost				
1 January 2022	47,830	64,765	29,805	142,400
Acquisition	—	—	39,777	39,777
Transfer	40,097	24,135	(64,232)	—
Disposals	(24,425)	—	—	(24,425)
31 December 2022	**63,502**	**88,900**	**5,350**	**157,752**
Amortisation				
1 January 2022	(34,776)	(23,840)	—	(58,616)
Charge for the year	(11,325)	(23,397)	—	(34,722)
Impairment for the year	(33,002)	—	—	(33,002)
Disposals	24,425	—	—	24,425
31 December 2022	**(54,678)**	**(47,237)**	**—**	**(101,915)**
Net book value				
1 January 2022	13,054	40,925	29,805	83,784
31 December 2022	**8,824**	**41,663**	**5,350**	**55,837**

Included within assets under the course of development are internally developed assets with a carrying value of £5,350,000, representing expenditure incurred in product development and computer software.

Notes to the financial statements for the year ended 31 December 2022

9. Tangible Assets

	Leasehold property	Plant and Equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000
Cost				
1 January 2022	**728**	**103,420**	**19,224**	**123,372**
Additions	202	20,915	5,709	26,826
Transfers	—	10,719	(10,719)	—
Disposals	—	(38,601)	—	(38,601)
31 December 2022	**930**	**96,453**	**14,214**	**111,597**
Accumulated depreciation and impairment				
1 January 2022	**(232)**	**(77,567)**	**—**	**(77,799)**
Charge for the year	(343)	(13,847)	—	(14,190)
Impairment charge	—	(13,983)	—	(13,983)
Disposals	—	38,595	—	38,595
31 December 2022	**(575)**	**(66,802)**	**—**	**(67,377)**
Net book value				
1 January 2022	496	25,853	19,224	45,573
31 December 2022	**355**	**29,651**	**14,214**	**44,220**

Included within tangible assets are right of use assets with net book value of £13,702,000 (2021: £4,072,000) with details included in Note 10.

Notes to the financial statements for the year ended 31 December 2022

10. Rights of use assets

	Leased assets (Property)	Leased assets (P&E)	Total
	£'000	£'000	£'000
Cost			
1 January 2022	**728**	**4,565**	**5,293**
Additions	201	18,265	18,466
Reassessments, modifications and terminations	—	(5)	(5)
31 December 2022	**929**	**22,825**	**23,754**
Accumulated depreciation			
1 January 2022	**(232)**	**(989)**	**(1,221)**
Charge for the year	(343)	(6,654)	(6,997)
Impairment	—	(1,834)	(1,834)
31 December 2022	**(575)**	**(9,477)**	**(10,052)**
Net book value			
1 January 2022	496	3,576	4,072
31 December 2022	**354**	**13,348**	**13,702**

Description of lease activities as follows:

- 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.

- 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.

11. Investment in subsidiaries

Details of the Company's subsidiaries at 31 December 2022 are as follows:

	£'000
Cost/ Net book value	
At 1 January 2022	8,315
Additions	1,860
At 31 December 2022	**10,175**

During 2022 the Company increased its contribution in British American (Shanghai) Enterprise Development Co., Ltd by RMB 15,000,000 (£1,860,000).

Notes to the financial statements for the year ended 31 December 2022

11. Investment in subsidiaries (continued) /Shares in Group undertakings

Country	Address	Company	Share Class	Direct interest	Subsidiary interest	Attributable interest
Poland	Ul. Ilzecka 26, 02-135, Warsaw, Poland	Nicoventures Poland sp. z.o.o (In Liquidation)	Ordinary	0.10%	0.00%	0.10%
United States	Corporation Service Company, 251 Little Falls Drive, Wilmington Delaware 19808, United States	Nicoventures U.S. Limited	Ordinary	100.00%	0.00%	100.00%
China	Room 436, No. 1000, Zhenchen Road, Baoshan District, Shanghai, China	British American (Shanghai) Enterprise Development Co., Ltd	Ordinary	100.00%	0.00%	100.00%
China	Room 438, No. 1000, Zhenchen Road, Baoshan District, Shanghai, China	British American Nico Business Consulting (Shanghai) Co., Ltd	Ordinary	0.00%	100.00%	100.00%

12. Deferred tax assets/(liabilities)

	Asset		Liabilities		Net	
	2022	2021	**2022**	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Tax losses	**97,123**	—	**—**	—	**97,123**	—
Accelerated capital allowances	**13,468**	—	**—**	—	**13,468**	—
Derivative fair value losses	**3,724**	217	**(2,103)**	(2,143)	**1,621**	(1,926)
Net tax assets/ (liabilities)	**114,315**	217	**(2,103)**	(2,143)	**112,212**	(1,926)

Movements in deferred tax in the year

	1 January 2022	Recognised in profit & loss	Recognised in other comprehensive income	31 December 2022
	£'000	£'000	£'000	£'000
Tax losses	—	97,123	—	97,123
Accelerated capital allowances	—	13,468	—	13,468
Derivative fair value losses	(1,926)	—	3,547	1,621
Movement	**(1,926)**	**110,591**	**3,547**	**112,212**

13. Stock

	2022	2021
	£'000	£'000
Semi-finished goods	**239**	240
Finished goods and goods for resale	**95,815**	38,414
Total	**96,054**	38,654

Semi-finished goods and finished goods stock balances are shown net of a provision of £6,057,000 (2021: £5,798,000).

14. Debtors

	2022	2021
	£'000	£'000
Debtors: amounts falling due within one year		
Trade debtors	**1,796**	215
Amounts owed by Group undertakings	**1,516,386**	2,024,468
Income tax receivable	**1,898**	2,093
Other debtors	**1,302**	3,888
Prepayments and accrued income	**25,310**	37,131
	1,546,692	2,067,795

Included within amounts owed by Group undertakings is an amount of £1,268,577,000 (2021: £1,757,839,000) which is unsecured, interest bearing and repayable on demand. The interest rate is based on SONIA. The Company has amounts receivable from fellow Group subsidiaries where the variable interest rate is in

Notes to the financial statements for the year ended 31 December 2022

14. Debtors (continued)

accordance with the Group's intercompany lending agreements. Other amounts owed by Group undertakings are unsecured and interest free.

	2022	2021
	£'000	£'000
Debtors: amounts falling due after one year		
Tax receivable	**—**	1,829
Prepayments and accrued income	**2,914**	—
	2,914	1,829

Included within prepayments and accrued income is an amount of £2,464,000 which is 2022 Research and Development Expenditure Credit expected to be received in Q1 2024.

15. Creditors

	2022	2021
	£'000	£'000
Trade creditors: amounts falling due within a year		
Trade creditors	**241,589**	183,620
Amounts owed to Group undertakings	**188,961**	283,841
Accruals and deferred income	**462,780**	143,769
	893,330	611,230

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

16. Lease liabilities

	2022	2021
	£'000	£'000
Current portion of lease liabilities	5,256	1,359
Non-current portion of lease liabilities	5,690	256
Total lease liabilities	**10,946**	1,615

Movement in lease liabilities

	£'000
1 January 2022	**1,615**
Addition lease commitments	**18,466**
Reassessment of lease	**(69)**
Interest charge	**331**
Differences on exchange	**313**
Repayments - Interest	**(331)**
Repayments - Capital	**(9,379)**
31 December 2022	**10,946**

Notes to the financial statements for the year ended 31 December 2022

16. Lease liabilities (continued)

Maturity of lease liabilities

	£'000
Within one year	**5,256**
Between one and two years	**5,690**
Between two and three years	**—**
Between three and four years	**—**
Between four and five years	**—**
Beyond five years	**—**
31 December 2022	**10,946**

17. Provision for liabilities and charges

	2022	2021
	£'000	£'000
Provision for restructuring	**—**	1,524
Provision for liabilities and charges	**—**	1,524

The 2021 provision was for severance pay falling due within one year, fully utilised and reversed in 2022. Included within other operating expenses and staff costs in the Profit and Loss statement (see note 4) are restructuring costs.

18. Retirement benefits

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

The Company participates in the British American Tobacco UK Pension Fund ("UKPF"), a Group scheme which provides benefits for employees and ex-employees of several UK subsidiaries of British American Tobacco p.l.c. The UKPF as a defined benefit scheme was closed to new members on 1 April 2005, and new members since then have joined the defined contribution scheme. With effect from 1 July 2020, UKPF was closed to further accrual of benefits with all active members becoming deferred members of the UKPF.

Under IAS 19, where more than one Group company 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 whole net defined benefit cost and liability shall be recognised in the financial statements of the Group entity that is legally the sponsoring employer with the other Group entities recognising a cost equal to their contributions to those costs for the period. The Company is unable to identify its share of the underlying assets and liabilities of the UKPF scheme. The contribution by the Company in respect of defined benefit pension scheme costs was nil (2021: £68,000) for the year.

The principal employer of the scheme is British American Tobacco (Investments) Limited, and it has recognised the balances required by IAS 19 in full in its own financial statements. The retirement benefit liabilities and funding obligations in respect of the scheme are cross guaranteed by the principal employer and all of the participating employers, including British American Tobacco p.l.c. 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 UKPF was carried out as at 31 March 2020 by a qualified independent actuary. The valuation showed that the fund had a surplus of £139 million on a Technical Provisions basis, in accordance with the statutory funding objective. The Trustee of the fund also has a Long-Term Funding Target to be fully funded on a Solvency Liabilities basis by 2026, and on this basis the UKPF had a surplus of £7 million at the valuation date.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due. The defined contribution pension cost for the Company was £5,877,000 (2021: £5,458,000).

Notes to the financial statements for the year ended 31 December 2022

19. Share based payments

The Group operates a number of share-based payment arrangements of which the three principal ones are:

Long-Term Incentive plan ("LTIP")

Since 2020, performance-related conditional awards under which shares are released automatically following a 3-year vesting period (5-year period for the Executive Directors). LTIP awards granted up to 2019 are nil-cost options exercisable after three years from date of grant (five years for Executive Directors) with a contractual life of 10 years.

For awards granted in 2021, 2020 and 2019, vesting is subject to performance conditions measured over a 3-year period (for all awards), based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group.

For 2022 awards, the performance conditions are based on earnings per share (30% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant), net turnover (15% of the grant) and New Categories revenue growth (15% of the grant).

Participants are not entitled to dividends prior to the vesting or exercise of the awards. A cash equivalent dividend accrues through the vesting period (other than for the Executive Directors where additional shares are delivered in lieu of cash) and is paid on vesting. Both equity and cash-settled PSP awards are granted in March each year.

In the U.S., PSP awards are made over BAT American Depository Shares (ADSs).

Deferred Share Bonus Scheme ("DSBS")

Granted in connection with annual bonuses, conditional awards under which shares are released three years from date of grant subject to a continuous employment condition during the three-year vesting period. A cash equivalent dividend accrues through the vesting period and is paid quarterly (other than for the Executive Directors where additional shares are delivered in lieu of cash). Both equity and cash - settled DSBS awards are granted in March each year.

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

Share Reward Scheme ("SRS")

Free shares granted in April each year (maximum £3,600 in any year) under the equity-settled schemes are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares. The shares are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

International Share Reward Scheme ("ISRS")

Conditional shares are granted in April each year (maximum £3,600 in any year) subject to a three-year vesting period. Dividend equivalents accrue through the vesting period and additional shares at delivered at vesting. Awards may be equity or cash - settled.

Share-based payment expense

Please refer to the BAT ARA & 20-F for full disclosures under IFRS 2.

The weighted average share price on exercise of LTIP shares in 2022 was £32.87 (2021: £27.67).

The weighted average share price on exercise of DSBS shares in 2022 was £32.19 (2021: £27.58).

The outstanding shares for the year ended 31 December 2022 had an exercise price range of £31.95 - £35.20 (2021: £26.04 - £28.00). The weighted average remaining contractual life are 1.81 years (2021: 3.68 years) for the LTIP shares and are 1.26 years (2021: 1.28 years) for the DSBS shares.

Notes to the financial statements for the year ended 31 December 2022 (continued)

20. Called up share capital

	2022	2021
Ordinary shares of £1 each		
Allotted, called up and fully paid		
- value £'000	**£4,403,000**	£4,403,000
- number '000	**4,403,000**	4,403,000

21. Derivative financial instruments

The Company's operations expose it to currency risk as sales and purchases of inventory are dominated 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 £812,000 (2021: gain of £7,775,000).

	2022	**2022**	2021	2021
	Assets	**Liabilities**	Assets	Liabilities
	£'000	£'000	**£'000**	£'000
Forward foreign currency contracts >1yr	**985**	**(1,124)**	249	—
Forward foreign currency contracts <1yr	**9,187**	**(15,624)**	14,314	(2,433)
Net forward foreign currency contracts	**10,172**	**(16,748)**	14,563	(2,433)

22. Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under FRS101 from disclosing transactions with other subsidiary undertakings of the 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. The maximum potential exposure to the Company under the payment guarantee will be £22,360,000 between 1 January 2023 and 31 December 2023.

As at 31 December 2022, the Company was either served as a defendant or is liable to compensate BAT companies that have been served as defendants in the actions 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 £630,000 or US$758,000). The PMI affiliate has also filed a request for injunction with respect to the glo device. British American Tobacco Japan,Ltd. denies infringement and is challenging the validity of the two PMI affiliate's Japanese patents. On 30 November 2022, the Tokyo District Court dismissed both of the above claims of the PMI affiliate on the grounds that both of the above two PMI affiliate's Japanese patents lack inventive step and would be invalidated by a patent invalidation trial. The PMI affiliate has appealed against this judgment.

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.

23. Contingent liabilities (continued)

for any costs and liabilities arising from the litigation, in accordance with the usual principles applicable to the Company's limited risk distribution relationships.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 sought 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 filed their defence to the counterclaim. The trial of this action took place from 17 May 2021 to 25 May 2021, and the court found that all four divisional patents are invalid. PMP's appeal was dismissed following an appeal hearing on 30 November 2022.

On 11 February 2022, the Company commenced an action in the England and Wales High Court (Patents Court) against PMP for revocation against one of PMP's patents (a further divisional patent in the same family was added into the revocation action on 27 May 2022). On 22 August 2022, PMP counterclaimed for patent infringement against the Company and British American Tobacco (Investments) Limited concerning certain 'glo' tobacco heating devices that comprise two inductive heating coils and their corresponding consumables. (PMP later abandoned its counterclaim in respect of one of the patents, but maintained its counterclaim in respect of the other.) PMP is seeking an injunction and damages (plus interest thereon). The trial was heard in March 2023. On 18 April 2023 the England and Wales High Court (Patents Court) handed down its judgment finding that the PMP patents were valid but one of them is not infringed (the counterclaim in respect of the other patent having been abandoned). Thus PMP's counterclaim for patent infringement against the Company and British American Tobacco (Investments) Limited failed. The Court (i) granted PMP permission to appeal in respect of the infringement finding, and (ii) granted the Company permission to appeal in respect of the validity findings. The appeals are listed to be heard on 19 and 20 March 2024.

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 British American Tobacco (Germany) GmbH ("BAT Germany") 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 hearing was on 30 November 2021 and the decision handed down on 21 December 2021. The court ordered an injunction preventing sales of the glo dual coil Hyper device and consumables but excluding the single coil Hyper device. BAT obtained a stay of enforcement in relation to consumables labelled for use with the single coil Hyper device. The court granted the requests for delivery up and destruction of product in BAT Germany's possession, recall of product from commercial customers, and a declaratory judgment for damages (which would only become due following a separate action for the actual payment of damages). BAT Germany has appealed and following an appeal hearing on 24 November 2022, the Higher Regional Court Dusseldorf fully reversed the finding of the lower court on 15 December 2022, in BAT's favour. PMP is seeking leave to appeal to the Bundesgerichtsof. 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.

Vype ePod Patent Litigation

On 27 November 2020 PMP filed a complaint before the Regional Court Mannheim in Germany against 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. The decision was handed down on 30 November 2021, and the court found there was no infringement (and none of the remedies were granted). PMI has appealed and the appeal hearing is yet to be scheduled. BAT Germany acts as a limited risk distributor of the Company under the terms of a Distribution and Marketing Agreement. The Company would

23. Contingent liabilities (continued)

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.

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
4 Temple Place
London
WC2R 2PG