

**Nicoventures Trading Limited**

**Registered Number 06665343**

**Annual report and financial statements**

**For the year ended 31 December 2018**



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## Strategic report

The Directors present their strategic report on Nicoventures Trading Limited ("the Company") for the year ended 31 December 2018.

### Principal activities

The principal activity of the Company during the year was the development, procurement, marketing and sale of Tobacco Heating Products, Vapour products and associated accessories.

### Review of business and future developments

The loss for the financial year attributable to the Company's shareholders after deduction of all charges and the provision of taxation amounted to £284,567,000 (2017: £89,917,000).

The Company has continued to invest in its product portfolio to satisfy the needs of consumers worldwide. Revenue in 2018 has increased from £304,117,000 to £536,127,000 with the Tobacco Heating Product (THP) brand Glo continuing to grow in Japan and Romania during the financial year. The leading vapour brand Vype continues to drive revenue growth in the Company's UK and French markets. Vype has also been newly launched in Canada during the financial year.

The Company has continued to leverage R&D investment with the British American Tobacco p.l.c. Group (the "Group") launching new innovations and establishing a strong new product initiative pipeline for future years.

During the year, the Company issued 145,000,000 Ordinary shares of £1 each to its' parent company, Nicoventures Holding Limited for a consideration of £145,000,000.

### Going concern

Considering the Company's financial position as at 31 December 2018, British-American Tobacco (Holdings) Limited ('the Supporting Company') intends to provide continuing financial support to the Company for the purposes of its business operations for a period of at least 12 months from the date of approval of these financial statements. The Supporting Company has indicated that it will not seek repayment of amounts currently made available. Given this and after reviewing the Company's forecasts and projections of the Company and the Supporting Company for the 12 months from approval of these financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

### Events subsequent to the year end

On 15 February 2019, the Company issued 300,000,000 £1 ordinary shares to its parent company, Nicoventures Holdings Limited for a consideration of £300,000,000. The proceeds will be used to support the activities of the Company.

On 6 August 2019, the Company issued 200,000,000 £1 ordinary shares to its parent company, Nicoventures Holdings Limited for a consideration of £200,000,000. The proceeds will be used to support the activities of the Company.

## Strategic report (continued)

### Key performance indicators

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

### Principal risks and uncertainties

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

By Order of the Board

**Mr V. Shilov**  
Director



**27 September 2019**

## Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2018.

## Dividends

The Directors do not recommend the payment of a dividend for the year (2017: £nil).

## Board of Directors

The names of the persons who served as Directors of the Company during the period from 1 January 2018 to the date of signing this report are as follows:

	Appointed	Resigned
Marina Trani		7 March 2019
Frederico Pinto Monteiro		15 May 2019
Timothy James Bartle	13 April 2018	
Stanislav Amyaga	13 April 2018	15 May 2019
David O'Reilly	26 April 2018	
Danika Ahr	15 May 2019	
Vladimir Shilov	15 May 2019	
Paul Rutger Lageweg	15 May 2019	
Mihovil James Dijanosic	30 January 2019	

## 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 by the Company in 2018 was £41,794,000 (2017: £3,241,000).

## Auditor

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

## Employees

The average number of employees employed by the Company during the year was 279 (2017: 74).

## 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.

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

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

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

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

### Directors' declaration in relation to relevant audit information

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

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

By Order of the Board

Mr V. Shilov

Director



27 September 2019

## **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 2018 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 2018 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.

### **The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of investments and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

### **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").

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

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

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

### **Strategic report and directors' report**

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

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

### **Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 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.



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

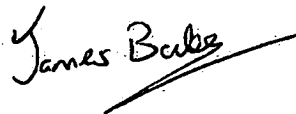
### **Auditor's responsibilities**

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

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



**James Baker (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor

*Chartered Accountants*  
15 Canada Square  
London, E14 5GL

27 September 2019

# Profit and loss account for the year ended 31 December

	Note	2018 £'000	2017 £'000
<b>Continuing operations</b>			
Revenue	2	536,127	304,117
Cost of sales		(329,010)	(260,577)
<b>Gross profit</b>		<b>207,117</b>	<b>43,540</b>
Other operating expenses	3	(491,189)	(136,243)
<b>Operating loss</b>		<b>(284,072)</b>	<b>(92,703)</b>
Interest receivable and similar income	4	524	2,794
Interest payable and similar expenses	5	(462)	(8)
<b>Loss before taxation</b>		<b>(284,010)</b>	<b>(89,917)</b>
Tax on loss	6	(557)	-
<b>Loss for the financial year</b>		<b>(284,567)</b>	<b>(89,917)</b>

# Statement of comprehensive income for the year ended 31 December

	2018 £'000	2017 £'000
Loss for the financial year	(284,567)	(89,917)
Other comprehensive income/(expense)		
Item that may be reclassified subsequently to profit or loss:		
Cash flow hedges		
- net fair value gains	1,830	1,507
<b>Total comprehensive income for the year, net of tax</b>	<b>(282,737)</b>	<b>(88,410)</b>

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

	Called up share capital	Cash flow hedge reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000
1 January 2017	104,000	-	(105,625)	(1,625)
Loss for the financial year	-	-	(89,917)	(89,917)
Issue of new shares	154,000	-	-	154,000
Effective portion of changes in fair value of cash flow hedges	-	1,507	-	1,507
<b>31 December 2017</b>	<b>258,000</b>	<b>1,507</b>	<b>(195,542)</b>	<b>63,965</b>
Loss for the financial year	-	-	(284,567)	(284,567)
Issue of new shares	145,000	-	-	145,000
Effective portion of changes in fair value of cash flow hedges	-	1,830	-	1,830
<b>31 December 2018</b>	<b>403,000</b>	<b>3,337</b>	<b>(480,109)</b>	<b>(73,772)</b>

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

**Balance Sheet at 31 December**

	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Intangible assets	7	25,851	-
Tangible assets	8	39,467	16,000
Investments	9	4,166	-
Deferred tax assets	10	895	-
Debtors: amounts falling due after more than one year	12b	7,896	7,828
Derivative financial instruments – asset	14	276	295
		<b>78,551</b>	<b>24,123</b>
<b>Current assets</b>			
Stocks	11	3,654	9,744
Derivative financial instruments – assets	14	21,731	17,008
Debtors: amounts falling due within one year	12a	121,924	215,172
		<b>147,309</b>	<b>241,924</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	13	(281,111)	(189,005)
Derivative financial instruments – liabilities	14	(16,094)	(12,964)
<b>Net current (liabilities)/assets</b>		<b>(149,896)</b>	<b>39,955</b>
Deferred tax liabilities	10	(1,889)	-
Derivative financial instruments - liabilities	14	(538)	(113)
<b>Net (liabilities)/assets</b>		<b>(73,772)</b>	<b>63,965</b>
<b>Capital and reserves</b>			
Called up share capital	15	403,000	258,000
Cash flow hedge reserve		3,337	1,507
Profit and loss account		(480,109)	(195,542)
<b>Total shareholders' (deficit)/funds</b>		<b>(73,772)</b>	<b>63,965</b>

The financial statements on pages 9 to 27 were approved by the Directors on 27 September 2019 and signed on behalf of the Board.

Mr V. Shilov  
Director



Registered number  
06665343

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

## Notes to the financial statements for the year ended 31 December 2018

### 1. Accounting policies

#### Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101, such as the preparation of a cashflow statement, disclosures relating to share schemes, disclosures relating to financial instrument and transactions with related parties, have been taken.

With effect from 1 January 2018, the Company has adopted IFRS 15 Revenue from Contracts. The adoption of the standard has had no material impact on the accounts.

In addition, with effect from 1 January 2018, the Company has adopted IFRS 9 Financial Instruments with no revision of prior periods, as permitted by the Standard. A simplified "lifetime expected loss model" has been used for balances arising as a result of revenue recognition, as permitted by the Standard, by applying a standard rate of provision on initial recognition of trade debtors based upon the Company's historical experience of credit loss modified by expectations of the future and increasing this provision to take account of overdue receivables. Applying the requirements of IFRS 9 has resulted in no material impact to the accounts.

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

The most significant items include:

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

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

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

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

## Notes to the financial statements for the year ended 31 December 2018

### 1. Accounting policies (continued)

#### Going Concern

Considering the Company's financial position as at 31 December 2018, British-American Tobacco (Holdings) Limited ('the Supporting Company') intends to provide continuing financial support to the Company for the purposes of its business operations for a period of at least 12 months from the date of approval of these financial statements. The Supporting Company has indicated that it will not seek repayment of amounts currently made available. Given this and after reviewing the Company's forecasts and projections of the Company and the Supporting Company for the 12 months from approval of these financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

#### Revenue

Revenue principally comprises sales of tobacco heating products, vapour products and associated accessories to customers. Revenue excludes duty, excise and other taxes and is after deducting returns and other similar discounts and payments to customers. Revenue is recognised when control of the goods is transferred to a customer; this is usually evidenced by a transfer of the significant risks and rewards of ownership upon delivery to the customer, which in terms of timing is not materially different to the date of shipping. From 1 January 2018, as permitted by IFRS 9, a provisions matrix for lifetime expected losses is used for receivables balances arising from the recognition of revenue. Prior to this, allowances were made for bad and doubtful debts, as appropriate.

#### Foreign currencies

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

#### Other operating expenses

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

#### Taxation

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

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

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

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.

## Notes to the financial statements for the year ended 31 December 2018

### 1. Accounting policies (continued)

#### Taxation (continued)

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.

#### Employee Share Schemes

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

#### Retirement benefits

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

#### 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*.

#### Intangible assets

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

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

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

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

## Notes to the financial statements for the year ended 31 December 2018

### 1. Accounting policies (continued)

#### Tangible assets

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

	Years
Fixtures & Fittings	5-10
Plant & Machinery	5-10

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

#### Impairment of non-financial assets

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

#### Investments in Group undertakings

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

#### Stock

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

#### Financial Instruments

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

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

#### Non-derivative financial assets

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



## Notes to the financial statements for the year ended 31 December 2018

### 1. Accounting policies (continued)

#### Non-derivative financial liabilities

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

#### Derivative financial assets and liabilities

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

For derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. 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 income statement 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 income statement in the same periods as the hedged item.

#### Impairment of financial assets at amortised cost

Financial assets are reviewed at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable. With effect from 1 January 2018, 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. The loss allowance arising from recognition of revenue under IFRS 15 are initially measured at an amount equal to lifetime expected loss. 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. Prior to 1 January 2018, financial assets are reviewed at each balance sheet date, or whenever events indicate that the carrying amount may not be recoverable.

#### Contingent liabilities and contingent assets

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

## Notes to the financial statements for the year ended 31 December 2018

### 2. Revenue

	2018 £'000	2017 £'000
Revenue	536,127	304,117

Revenue comprises the sale of tobacco heating products, vapour products and associated accessories to fellow Group undertakings.

In the opinion of the Directors a geographical analysis of income would be prejudicial to the interests of the Company.

### 3. Other operating expenses

	2018 £'000	2017 £'000
<b>Other operating expenses comprise:</b>		
Staff costs	45,632	16,339
Exchange (gains)/losses	(5,559)	2,357
Amortisation of intangible assets (note 7)	212	-
Depreciation of tangible assets (note 8)	6,333	1,698
Impairment of tangible assets (note 8)	3,560	9,200
Auditor's remuneration borne by another group company	-	23
Research and development	41,794	3,241
Other	399,217	103,385
	<b>491,189</b>	<b>136,243</b>

Included within Other are £284,821,000 (2017: £101,391,000) of marketing and sales support paid to other group undertakings, which distribute the Company's products to end customers. Auditor's fees of £23,000 were borne by a fellow Group undertaking (2017: £23,000).

	2018 £'000	2017 £'000
<b>Staff costs:</b>		
Wages and salaries	26,704	11,112
Social security costs	3,504	1,081
Defined contribution pension costs (note 16)	2,199	564
Defined benefit pension cost (note 16)	906	264
Share-based payments	3,774	1,722
Other staff costs	8,545	1,596
	<b>45,632</b>	<b>16,339</b>

## Notes to the financial statements for the year ended 31 December 2018

### 3. Other operating expenses (continued)

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

	2018 £'000	2017 £'000
Aggregate emoluments	1,948	-
	2018 £'000	2017 £'000
Directors exercising share options during the period	4	-
Directors entitled to receive shares under a long-term incentive scheme	4	-
Directors retirement benefits accruing under a defined contributions scheme	4	-
<b>Highest paid director</b>		
	2018 £'000	2017 £'000
Aggregate emoluments	773	-
Accrued pension at the end of period	219	-

The total director remuneration was £1,948,000 (2017: £nil), with the highest paid director remuneration of £773,000 (2017: £nil). The accrued pension for the highest paid director at the end of the year was £219,000 (2017: £nil).

No other Directors received any remuneration in respect of their services as a Director of the Company during the year (2017: £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.

The average monthly number of persons (including Directors) employed by the Company during the year was 279 (2017: 74).

	2018 Number	2017 Number
Administration	21	25
Production	184	36
Selling and distribution	74	13
	<b>279</b>	<b>74</b>

## Notes to the financial statements for the year ended 31 December 2018

### 4. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from Group undertakings	524	75
Fair value changes on derivative financial instruments and hedged items	-	2,719
	<b>524</b>	<b>2,794</b>

### 5. Interest payable and similar charges

	2018 £'000	2017 £'000
Interest payable and similar charges	1	8
Fair value changes on derivative financial instruments and hedged items	461	-
	<b>462</b>	<b>8</b>

### 6. Taxation

#### (a) Recognised in the profit and loss account

	2018 £'000	2017 £'000
<i>Foreign tax</i>		
Current tax on income for the period	212	-
<b>Total current tax</b>	<b>212</b>	<b>-</b>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	83	-
Adjustments in respect of prior periods	262	-
<b>Total deferred tax</b>	<b>345</b>	<b>-</b>
<b>Total income tax expense</b>	<b>557</b>	<b>-</b>

## Notes to the financial statements for the year ended 31 December 2018

### 6. Taxation (continued)

#### (b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The current taxation charge differs from the standard 19% (2017: 19.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below

	2018	2017
	£'000	£'000
Loss for the year	(284,567)	(89,917)
Total tax expense	557	-
Loss excluding taxation	(284,010)	(89,917)
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	(53,962)	(17,309)
Adjustments in respect of prior periods	262	-
Temporary difference not recognised	-	1,238
Non-deductible expenses	2,307	193
Effects of change in tax rate	(10)	-
Foreign tax suffered	212	-
Group relief surrendered for nil consideration	51,748	15,878
	557	-

The Company has a deferred taxation asset on gross temporary differences of £3,298,000 (taxation amount £561,000) (2017: £3,298,000 (taxation amount £561,000)) in relation to tax losses which are not recognised in the balance sheet because it is not sufficiently probable that it will be utilised in the foreseeable future.

## Notes to the financial statements for the year ended 31 December 2018

### 7. Intangible assets

	Research & Development	Assets under the course of development	Total
	£'000	£'000	£'000
<b>Cost</b>			
1 January 2018	-	-	-
Additions	2,078	23,985	26,063
<b>31 December 2018</b>	<b>2,078</b>	<b>23,985</b>	<b>26,063</b>
<b>Accumulated amortisation</b>			
1 January 2018	-	-	-
Charge for the year	212	-	212
<b>At 31 December 2018</b>	<b>212</b>	<b>-</b>	<b>212</b>
<b>Net book value</b>			
1 January 2018	-	-	-
<b>At 31 December 2018</b>	<b>1,866</b>	<b>23,985</b>	<b>25,851</b>

Included within assets under the course of development are internally developed assets with a carrying value of £23,985,000, representing expenditure incurred in product development and computer software.

### 8. Tangible assets

	Plant and Machinery	Fixtures and Fittings	Assets under construction	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
1 January 2018	20,560	2	6,450	27,012
Additions	8,924	-	24,436	33,360
Transfers	15,387	-	(15,387)	-
<b>31 December 2018</b>	<b>44,871</b>	<b>2</b>	<b>15,499</b>	<b>60,372</b>
<b>Accumulated depreciation</b>				
1 January 2018	11,010	2	-	11,012
Charge for the year	6,333	-	-	6,333
Impairment for the year	3,560	-	-	3,560
<b>At 31 December 2018</b>	<b>20,903</b>	<b>2</b>	<b>-</b>	<b>20,905</b>
<b>Net book value</b>				
1 January 2018	9,550	-	6,450	16,000
<b>At 31 December 2018</b>	<b>23,968</b>	<b>-</b>	<b>15,499</b>	<b>39,467</b>

## Notes to the financial statements for the year ended 31 December 2018

### 9. Investment

#### Shares in Group undertakings

	Share Class	% Direct Interest	% Subsidiary Interest	% Attributable Interest
<b><u>Unlisted - registered in Poland</u></b>				
Nicoventures Poland sp. z.o.o 1 Ordinary shares of 1 PLN Ul. Ilzecka 26, 02-135, Warsaw, Poland	Ordinary	0.1	0	0.1
<b><u>Unlisted - registered in United States</u></b>				
Nicoventures U.S. Limited 100 Ordinary shares of 1 USD Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington Delaware 19808, United States	Ordinary	100	0	100
<b><u>Unlisted - registered in China</u></b>				
British American (Shanghai) Enterprise Development Co., Ltd 15,000,000 Ordinary shares of NVP USD Room 436, No. 1000, Zhenchen Road, Baoshan District, Shanghai, China	Ordinary	100	0	100
<b><u>Unlisted - registered in China</u></b>				
British American Nico Business Consulting (Shanghai) Co., Ltd 90,000,000 Ordinary shares of NPV RMB Room 438, No. 1000, Zhenchen Road, Baoshan District, Shanghai, China	Ordinary	0	100	100

#### Share holdings at cost less provisions

	£'000
<b>Cost/ Net book value</b>	
1 January 2018	-
Additions	4,166
<b>31 December 2018</b>	<b>4,166</b>

During the year the Company has invested £4,166,000 into British American (Shanghai) Enterprise Development Co., Ltd to finance their principal activities.

## Notes to the financial statements for the year ended 31 December 2018

### 10. Deferred tax assets/ (liabilities)

	2018 £'000	2017 £'000
<b>Deferred tax assets</b>		
To be recovered within 1 year	-	-
To be recovered beyond 1 year	895	-
	<b>895</b>	<b>-</b>
<b>Deferred tax liabilities</b>		
To be recovered within 1 year	-	-
To be recovered beyond 1 year	1,889	-
	<b>1,889</b>	<b>-</b>

### 11. Stock

	2018 £'000	2017 £'000
Raw materials	-	108
Semi-finished goods	730	513
Finished goods	2,924	9,123
	<b>3,654</b>	<b>9,744</b>

Finished goods stock balances are shown net of a provision 2018: £652,000 (2017: £nil) against stock not compliant with the Classification, Labelling and Packaging legislation.

### 12. Debtors:

#### a) amounts falling due within one year

	2018 £'000	2017 £'000
Trade debtors	-	6,720
Amounts owed by Group undertakings	110,270	208,452
Tax receivable	4,900	-
Other debtors	1,465	-
Prepayments and accrued income	5,289	-
	<b>121,924</b>	<b>215,172</b>

Included within amounts owed by Group undertakings is an amount of £55,242,180 (2017: £140,455,518) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR.



## Notes to the financial statements for the year ended 31 December 2018

### 12. Debtors (continued):

#### b) amounts falling due after more than one year

	2018	2017
	£'000	£'000
Prepayments and accrued income	7,896	7,828
	<b>7,896</b>	<b>7,828</b>

Prepayments and accrued income represent amounts owed to the Company that will be recovered through future purchases of inventory.

### 13. Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Trade creditors	61,536	63,018
Amounts owed to Group undertakings	101,119	49,699
Accruals and deferred income	118,456	76,288
	<b>281,111</b>	<b>189,005</b>

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

### 14. Derivative financial instruments

	2018 Assets £000	2018 Liabilities £000	2017 Assets £000	2017 Liabilities £000
Cash flow hedges				
- Forward foreign currency contracts	22,007	16,632	17,303	13,077
Current	21,731	16,094	17,008	12,964
Non-current	276	538	295	113

The Company's operations expose it to currency risk as sales and purchases of inventory are denominated in foreign currencies other than sterling. The exposure is hedged with forward foreign exchange contracts. The total cash flow hedge movement for the year was a loss of £461,000.

## Notes to the financial statements for the year ended 31 December 2018

### 15. Called up share capital

	Number
1 January 2018	258,000,005
Issue of new shares	145,000,000
31 December 2018	403,000,005

Ordinary shares at £1 each	2018 £'000	2017 £'000
Allotted, called up and fully paid		
- value	403,000	258,000
- number	403,000	258,000

The Company issued 145,000,000 ordinary shares of £1 each to a fellow Group undertaking during 2018.

### 16. Pensions

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer funded scheme. Under FRS 101, where more than one employer participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the net defined benefit cost 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.

The last full triennial actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2017 by a qualified independent actuary. The valuation showed that the fund had a deficit of £23,000,000 (2014: £264,000,000).

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

The defined benefit pension scheme cost was £906,000 (2017: £263,600) for the year.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they are incurred. The defined contribution pension expense for the Company was £2,199,000 (2017: expense of £564,000).

## Notes to the financial statements for the year ended 31 December 2018

### 17. Share-based payments

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

#### Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Payout is subject to performance conditions based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. LTIPs were granted in March.

#### Deferred Share Bonus Scheme (DSBS)

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

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) and International Share Reward Scheme (ISRS)

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

#### Share-based payment expense

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

The weighted average share price on exercise of LTIP shares in 2018 was £38.90 (2017: £51.95). The weighted average share price on exercise of DSBS shares in 2018 was £40.00 (2017: £52.52).

The outstanding shares for the year ended 31 December 2018 had an exercise price range of £26.23 - £49.46 (2017: £48.43 - £52.52). The weighted average remaining contractual life are 8.1 years (2017: 8.1 years) for the LTIP shares and are 1.3 years (2017: 1.3 years) for the DSBS shares.

## Notes to the financial statements for the year ended 31 December 2018

### 18. Related party disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under FRS 101 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

### 19. Contingent liabilities

As at 31 December 2018, the Company was served as a defendant in the action 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 manufacture, import and sale of the glo device and of the NeoStik consumable in Japan, claiming that the glo devices directly infringe two Japanese patents that have been issued to the PMI affiliate and that the NeoStiks indirectly infringe those patents. Damages for the glo device and NeoStik are claimed in the court filing, to the amount of 100 million yen (approximately £715,650 or US\$911,452). PMI has also filed a request for injunction with respect to the glo device. BAT denies infringement and is challenging the validity of the two PMI Japanese patents.

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

#### Payment guarantee

The Company has provided a payment guarantee to a third party in respect of certain commitments entered into by its subsidiary undertaking in its normal course of business. Amounts paid and payable by the Company's subsidiary undertakings in the year ending 31 December 2018 were £nil. The maximum potential exposure to the Company under the payment guarantee will be £61,000,000 between 1 January 2019 and 31 December 2023.

### 20. Events subsequent to the year end

On 15 February 2019, the Company issued 300,000,000 £1 ordinary shares to its parent company, Nicoventures Holdings Limited for a consideration of £300,000,000. The proceeds will be used to support the activities of the Company.

On 6 August 2019, the Company issued 200,000,000 £1 ordinary shares to its parent company, Nicoventures Holdings Limited for a consideration of £200,000,000. The proceeds will be used to support the activities of the Company.

### 21. 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