

The background of the cover features a close-up photograph of large, green tobacco leaves, which are a central theme of the company's branding.

**ANNUAL REPORT  
AND FORM 20-F  
2019**



**DELIVERING  
FOR TODAY &  
INVESTING IN  
THE FUTURE**



# #CHOICE



At BAT we recognise that consumer and societal needs are changing. Expectations that evolve at an accelerated pace.

We are committed to delivering a broad range of consumer choice through our investment in new categories globally.

Central to that commitment is to shape a better tomorrow for our consumers, society, shareholders and employees.

# #PROGRESS



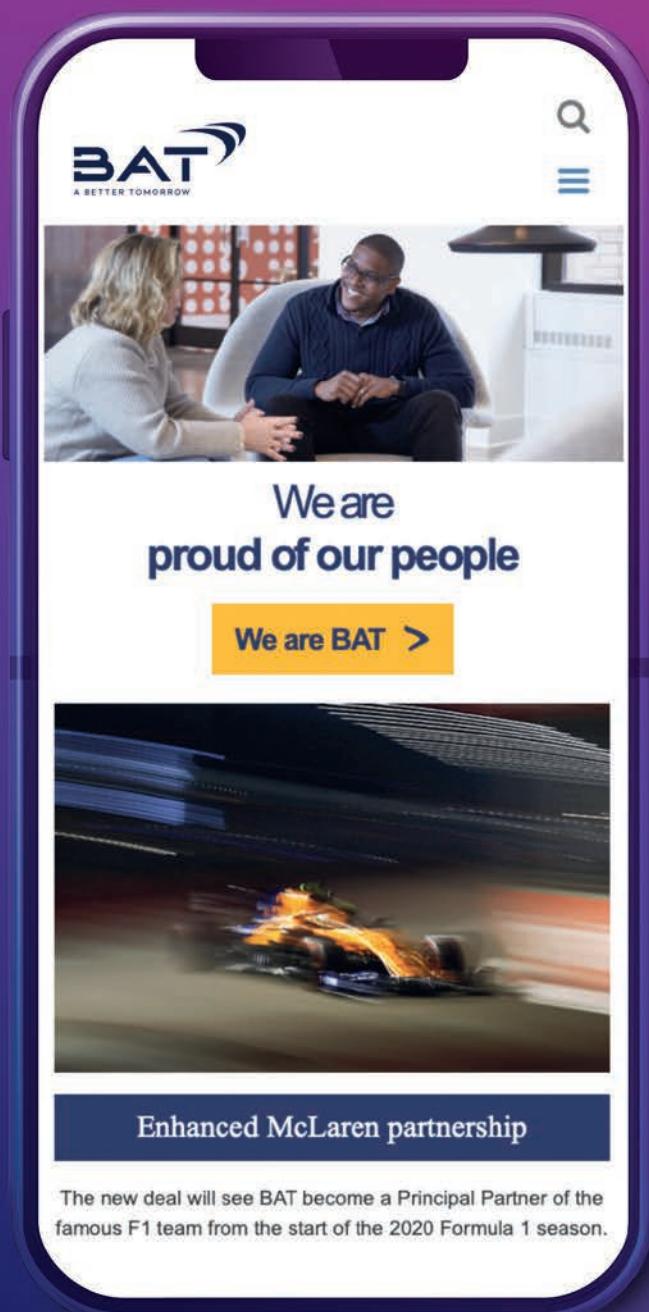
At BAT we are working hard to create A Better Tomorrow.  
We are clear about the challenges of transformation.

Our technology and innovation partnership with  
McLaren provides a global platform which enables  
the acceleration of our ambition.

Central to that ambition is shaping a better tomorrow  
for our consumers, society, shareholders and employees.



# DISCOVER MORE



**YOU CAN FIND OUT MORE ABOUT OUR GROUP ONLINE AT [BAT.COM/REPORTING](#) AND [BAT.COM/INVESTORS](#) OR DOWNLOAD OUR BAT IR APP**

This year's Annual Report and Accounts features a new corporate logo, and look and feel, that reflects changes in both the world around us and our business. Our previous logo has, for decades, served the company well as a strong symbol of a world-leading tobacco company.

Today, however, our purpose has evolved as we aim to reduce the health impacts of our business by offering consumers a greater choice of New Category products. Our dynamic new logo reflects our company today and our journey ahead: a unification of our international and American businesses and, moreover, the representation of our multi-category portfolio.

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British American Tobacco p.l.c. (No. 3407696)

Annual Report 2019

This document constitutes the Annual Report and Accounts of British American Tobacco p.l.c. (the 'Company') and the British American Tobacco Group prepared in accordance with UK requirements and the Annual Report on Form 20-F prepared in accordance with the US Securities Exchange Act of 1934 (the 'Exchange Act') for the year ended 31 December 2019, except that certain phrases, paragraphs or similar sections denoted with a <sup>®</sup> symbol do not form part of the Annual Report on Form 20-F as filed with the US Securities and Exchange Commission (the 'SEC') and certain phrases, paragraphs or similar sections denoted with a '®' symbol do not form part of the Annual Report and Accounts. In addition, the Report of Independent Registered Public Accounting Firm on pages 122-123 will only be included in the Annual Report on Form 20-F. Moreover, the information in this document may be updated or supplemented only for purposes of the Annual Report on Form 20-F at the time of filing with the SEC or later amended if necessary. Any such updates, supplements or amendments will also be denoted with a '®' symbol. Insofar as this document constitutes the Annual Report and Accounts, it has been drawn up and is presented in accordance with, and reliance upon, applicable English company law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

This document is made up of the Strategic Report, the Governance Report, the Financial Statements and Notes, and certain other information. Our Strategic Report, pages 2 to 62, includes our purpose and strategy, global market overview, business model, global performance, as well as our financial performance and principal group risks. The Strategic Report has been approved by the Board of Directors and signed on its behalf by Paul McCrory, Company Secretary. Our Governance Report on pages 63 to 114 contains detailed corporate governance information, our Committee reports<sup>®</sup> and our Responsibility of Directors<sup>®</sup>. The Directors' Report on pages 63 to 89 (the Governance pages)<sup>®</sup>, page 114 (Responsibility of Directors)<sup>®</sup> and 254 to 323 (the Additional disclosure and Shareholder information pages) has been approved by the Board of Directors and signed on its behalf by Paul McCrory, Company Secretary. Our Financial Statements and Notes are on pages 115 to 253. The Other Information section commences on page 254.

This document provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). We believe these APMs provide readers with important additional information on our business. We have included a Non-GAAP measures section on pages 258 to 268 which provides a comprehensive list of the APMs that we use, an explanation of how they are calculated, why we use them and a reconciliation to the most directly comparable IFRS measure where relevant.

British American Tobacco p.l.c. has shares listed on the London Stock Exchange (BATS) and the Johannesburg Stock Exchange (BTI), and, as American Depository Shares, on the New York Stock Exchange (BTI).

The Annual Report is published on bat.com. A printed copy is mailed to shareholders on the UK main register who have elected to receive it. Otherwise, shareholders are notified that the Annual Report is available on the website and will, at the time of that notification, receive a short Performance Summary (which sets out an overview of the Group's performance, headline facts and figures and key dates in the Company's financial calendar) and Proxy Form.

Specific local mailing and/or notification requirements will apply to shareholders on the South Africa branch register.

References in this publication to 'British American Tobacco', 'BAT', 'Group', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

The material in this Annual Report is provided for the purpose of giving information about the Company to investors only and is not intended for general consumers. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this material is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The material in this Annual Report is not provided for product advertising, promotional or marketing purposes. This material does not constitute and should not be construed as constituting an offer to sell, or a solicitation of an offer to buy, any of our products. Our products are sold only in compliance with the laws of the particular jurisdictions in which they are sold.

References in this document to information on websites, including the web address of BAT, have been included as inactive textual references only. These websites and the information contained therein or connected thereto are not intended to be incorporated into or to form part of the Annual Report and Form 20-F.

### Cautionary statement

This document contains forward-looking statements. For our full cautionary statement, please see page 298.

# CHAIRMAN'S INTRODUCTION



# A STRONG OPERATIONAL PERFORMANCE



Welcome to our combined Annual Report and Form 20-F for 2019. I'm pleased to report a strong operational performance with growth in revenue, as well as both value and volume share. Notwithstanding a number of one-off charges that led to a decline in reported profit from operations, performance was strong on an adjusted basis, growing on the back of our combustibles business and our continued progress in New Categories.

It has also been a busy year as we accelerate our ambition to transform our business. The Board and I are confident in the vision and focus of our new CEO, Jack Bowles, and his drive to satisfy evolving consumer preferences with new and innovative products.

Jack has already made great progress in his stated aim to simplify the Group and he and his management team have spent significant time looking at how we can accelerate the progress already made in our New Categories business. This has been instrumental in the Board's endorsement of an evolution of our strategy and I am excited and energised about the possibilities for the future.

## A sustainable and well-governed business

Our sustainability agenda is at the heart of our strategic plans to build a long-term sustainable business. We have made a clear commitment to providing consumers with a range of potentially less harmful products, which is central to our corporate purpose around which long-term growth is planned. I am proud to see that the continuing growth in our New Categories business reflects the significant success we have already made in this vital area.

However, we are also clear that long-term sustainability, as well as our ability to meet short-term financial and other targets, will be underpinned by successful delivery against other environmental, social and governance measures.

Last year, our newly-revised environmental targets gained the approval of the Science-Based Target initiative, and I'm very pleased to report that we are performing well against our goals. The Group's direct carbon dioxide equivalent emissions are already 10% lower than its 2017 baseline, and we have also been honoured to have been named on the Carbon Disclosure Project's prestigious 'A List' for climate change. This recognises our actions to cut emissions, mitigate climate risks and develop the low-carbon economy.

The Group's commitment to improving social conditions, from respecting Human Rights in every country in which we operate to our own workforce diversity, remains central to the business. Human rights commitments, in particular involving issues such as child labour, sit at the heart of both our Standards of Business Conduct and Supplier Code of Conduct, and we have an array of due diligence procedures to monitor our entire supply chain. Our management comprises 141 different nationalities, while women made up 51% of senior recruits in 2019.

The Group's governance practices promote transparent and responsible corporate behaviour. All our staff worldwide must comply with our Standards of Business Conduct, and we have continued to expand compliance training, which complements our internal 'Speak Up' channels.

Overall, the quality and success of our Sustainability Agenda continues to be recognised externally, and I am proud to report that we are once again the only company in the industry to have been included in the Dow Jones Sustainability Indices' prestigious World Index in 2019. This is our 18th consecutive year of inclusion in the Index series, which reflects BAT's long-standing commitment to delivering against ESG measures.

## Dividends

The Board has declared a dividend of 210.4p per ordinary share, payable in four equal instalments of 52.6p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to American Depository Shares (ADS) holders, each on the applicable record dates. The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates. Further information on dividends can be found on page 47 of the Financial Review and page 300 in the Shareholder information section.

## Board composition and outlook

I am very pleased to welcome Jerry Fowden to the Board this year. He brings with him a wealth of executive experience relating to operations, transformation and marketing, which will complement the expertise of the other two North American members of our Board, and we look forward to the insights he will provide as we grow our business.

Kieran Poynter will retire from the Board with effect from the conclusion of the Annual General Meeting on 30 April 2020. Mr Poynter has served as a Non-Executive Director since July 2010, as Senior Independent Director since October 2016, and is currently a member of the Audit and Nominations Committees.

As we enter 2020, I feel strongly that the business is in excellent shape. As I write this opening statement, the Group is closely monitoring the development of Covid 19 (Coronavirus). We believe that our business continuity plans will ensure the business is prepared to manage the challenges as and when they may develop. Notwithstanding Covid 19, with our new management team and strategy, I am confident that we are well placed to deliver sustainable growth for many years to come.

**Richard Burrows**  
Chairman

## CHIEF EXECUTIVE'S REVIEW

# DELIVERING TODAY AND BUILDING A BETTER TOMORROW



**Dear shareholders and stakeholders,**

I write this reflecting on my first year as Chief Executive of BAT. It is a privilege to lead the Group, with its record of achievements both past and present.

Since taking the helm in early 2019, I have focused the business on three clear priorities: driving value from combustibles, ensuring a step change in New Categories performance and simplifying the business. Stronger, simpler, faster.

My new management team has fully embraced these priorities and is already delivering against them.

In my first Annual Report as Chief Executive, I want to take this opportunity to set out my vision for BAT's future.

## CHIEF EXECUTIVE'S REVIEW

### CONTINUED



#### I HAVE FOCUSED THE BUSINESS ON THREE CLEAR PRIORITIES:

- DRIVING VALUE FROM COMBUSTIBLES
- ENSURING A STEP CHANGE IN NEW CATEGORIES PERFORMANCE
- AND SIMPLIFYING THE BUSINESS

**STRONGER, SIMPLER, FASTER.**



**OUR PURPOSE IS TO BUILD A BETTER TOMORROW BY REDUCING THE HEALTH IMPACT OF OUR BUSINESS THROUGH OFFERING A GREATER CHOICE OF ENJOYABLE AND LESS RISKY PRODUCTS FOR OUR CONSUMERS.**



**WE ARE ON A JOURNEY TO BECOME A BUSINESS THAT DEFINES ITSELF NOT BY THE PRODUCTS IT SELLS BUT BY THE CONSUMER NEEDS IT MEETS.**



#### Delivering today

In 2019, building on our foundations, we delivered strong operational results and cash generation, creating a solid base for delivering today and building a better tomorrow.

I am especially pleased to report 6% revenue growth (at current rates of exchange) of £1.4 billion to £25.9 billion. This growth was achieved while also increasing investment in the business, growing our New Categories business by 37%, and increasing our value and volume share by 30bps and 20bps respectively. <sup>@</sup>Operating cash conversion of 97% demonstrates our commitment to maximising cash to reduce leverage and invest in the business<sup>@</sup>.

Of course, we live in an age of relentless change. Consumers' desires and tastes evolve, while societal attitudes are changing. These changes are providing us with growth opportunities we could not previously have imagined.

#### A clear corporate purpose

Our purpose is to build a better tomorrow by reducing the health impact of our business through offering a greater choice of enjoyable and less risky products for our consumers.

We will evolve our growth model through the development of our portfolio in tobacco, nicotine and beyond, meeting our consumers' evolving need for enjoyment and satisfaction.

By building on our strong foundations, we will build a better tomorrow for consumers, employees, shareholders and society.

Our ambition is to increasingly transition our revenues from cigarettes to non-combustible products over time. We aim to achieve at least £5 billion in New Categories revenues in 2023/2024.

To achieve that, we need to continue to drive value from our combustible business and accelerate the growth of our New Categories.

Supporting this is our new 'ethos', which I am delighted to launch in 2020. Our ethos is about being bold, fast, empowered, responsible and diverse. This annual report is a showcase of our new ethos in action.

#### Acting responsibly

As a leading multinational business we understand our global impact, the importance of high standards of integrity, and our evolving societal responsibilities. As a result, we are moving from a business where sustainability has always been important, to one where it is front and centre in all that we do.

For our consumers, we want to offer a range of enjoyable and responsibly-marketed products in tobacco, nicotine and beyond.

For society, we aim to reduce the health and environmental impacts of our business.

For our suppliers and customers, we want to raise standards for everyone across our value chain.

For our employees, we want to create a dynamic, inspiring and purposeful place for them to work.

And for our shareholders, we want to deliver superior and sustainable returns.

#### Meeting consumer needs

Today, we see new opportunities to capture consumer moments which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences.

Consequently, we have evolved our strategy to put a sharper focus on delivering a step change in New Categories performance, fuelled by investment from the continued delivery of our combustible business.

Our evolved strategy is about anticipating and satisfying the ever-evolving consumer: providing pleasure, reducing risk, offering and increasing choice, and stimulating the senses of adult consumers worldwide.

BAT will satisfy consumer needs through a focused portfolio of products that offer sensorial enjoyment for a variety of moods and moments. We will build fewer but stronger global brands.

This strategy is underpinned by a unique view of the consumer across four categories, which is increasingly driven by powerful consumer data and analytics and we are accelerating our investment further.

Our business will be further enabled by simplifying our management structure, truly embracing digital transformation, rigorously managing our cost base, and enhancing our internal culture.

<sup>@</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

**WE BELIEVE IN A  
MULTI-CATEGORY  
STRATEGY TO BETTER  
MEET CONSUMER  
NEEDS AND LEVERAGE  
OUR SCALE.**

### Parameters of our developing portfolio

We will focus our developing portfolio on consumer offers that will capitalise on our core business capabilities.

Specifically, we consider there to be four key parameters that create the boundaries of our portfolio development.

First, we will leverage our unique global marketing reach and scale.

Second, we will build on our existing delivery platforms in vapour and modern oral where we have hard-earned technological expertise.

Third, given our well-developed regulatory and scientific expertise, we will operate in product categories that require those capabilities.

Finally, any portfolio investment will be judged by stringent strategic and financial metrics.

As we explore these portfolio development opportunities, our new corporate ventures team will accelerate the creation, development and commercialisation of new-to-world innovation on a test-and-learn basis.

### Strong foundations

As the world's largest international tobacco company by revenue, we are exceptionally well-placed for future growth. Our deep understanding of consumers, significant geographic spread, supply chain proficiency and experience engaging with diverse stakeholders are essential capabilities.

Few consumer goods companies can claim over 150 million consumer interactions every day; distribution in 11 million points of sale across a well-balanced, developed and emerging market footprint; and approaching 11 million consumers of non-combustible tobacco and nicotine products.

This year we have grown the New Categories revenue to £1.3 billion – a growth rate of 37% in 2019 (both at current rates of exchange) and more than double our revenues from two years ago. This provides us with a vital platform for the future.

### Maximising efficiencies

I have been clear that we need to simplify the business and I have been dedicated to that end in my first year as Chief Executive.

During 2019, we launched both a fundamental re-evaluation of how we are organised and a redesign of management layers that eliminated duplication and entrenched accountability. We called this Project Quantum and it is the first, not the last, step, as we will constantly need to refine our business as the Group evolves.

Project Quantum created new capabilities in the organisation, and will help us release valuable funds for further reinvestment in our growth ambition.

### Empowered and diverse

Our 53,000 plus people remain our most important asset. As we recast our structure, we are clarifying accountability and empowering real ownership to our teams.

As our business evolves, so too does our employee value proposition. Today, we are attracting a different and wider range of people and skillsets than we did before, injecting exciting new capability into the business. This is exemplified by our over 300 new specialist hires in 2019, who are bringing with them new capabilities in digital, product development and design.

For both our long-time BAT employees and those who have more recently joined, we are inspiring an ethos that is responsive to constant change and embodies a learning culture dedicated to continuous improvement.

### Sustainable future

I am honoured to be at the helm of an exceptional business with such a successful history. My responsibility is to ensure that it is faster, bolder and stronger in the years to come.

We now have a business with a new corporate identity that reflects our company today and our journey ahead. We are becoming a business that defines itself not by the products it sells but by the consumer needs it meets.

Our total commitment to a multi-category business powered by investment from our combustibles category will drive sustainable growth and underpin continued delivery of high single-digit earnings growth on an adjusted constant currency basis.

I am confident that we have a strategy for growth and sustainability which will deliver a better tomorrow.

Yours

**Jack Bowles**  
Chief Executive

**@ OUR FOCUS ON  
OPERATING CASH  
CONVERSION  
DEMONSTRATES OUR  
COMMITMENT TO  
REDUCE LEVERAGE  
AND INVEST.**

**WE WILL FOCUS  
OUR PORTFOLIO  
DEVELOPMENT  
ON CONSUMER  
OFFERS THAT WILL  
CAPITALISE ON OUR  
CORE BUSINESS  
CAPABILITIES.**

**OUR FUTURE IS  
ABOUT BEING BOLD,  
FAST, EMPOWERED,  
RESPONSIBLE AND  
DIVERSE.**

**WE HAVE A STRATEGY  
FOR GROWTH AND  
SUSTAINABILITY.**

**OUR TOTAL COMMITMENT  
TO A MULTICATEGORY  
BUSINESS POWERED  
BY INVESTMENT FROM  
OUR COMBUSTIBLES  
CATEGORY WILL  
DRIVE SUSTAINABLE  
GROWTH AND UNDERPIN  
CONTINUED DELIVERY  
OF HIGH SINGLE-DIGIT  
EARNINGS GROWTH.**

# THE FOUNDATIONS OF OUR EVOLVED STRATEGY

We are committed to providing a better tomorrow for all our stakeholders. Our ambition is to deliver long-term sustainable growth with a range of innovative and less harmful products that stimulate the senses of new adult generations.

## STRONG FOUNDATIONS



>180 markets in which we operate



>150m daily consumer interactions



>11m points of sale across over 180 markets

Our wide range of capabilities make us exceptionally well-placed for future growth:

- our unique global marketing and distribution reach;
- our track record of R&D strength and innovation;
- our decades' worth of consumer insights, and brand building expertise; and
- our £1.3 billion New Categories business built in just a few years.

## SATISFYING CONSUMER MOMENTS

### 20 years ago

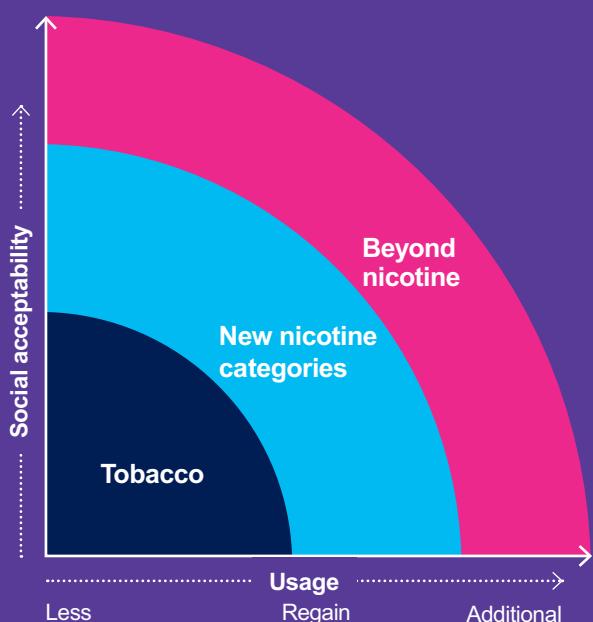
Traditional cigarettes fulfilled a multitude of consumer moments



For decades, cigarettes satisfied a need for sensorial enjoyment for many individuals. While occasions for tobacco consumption are now reduced, new opportunities have arisen:

- new products provide us with an opportunity to capture in a focused way the lost consumer moments previously associated with tobacco.
- evolving and fragmenting consumer needs provide us with opportunities for additional growth in a variety of new categories.

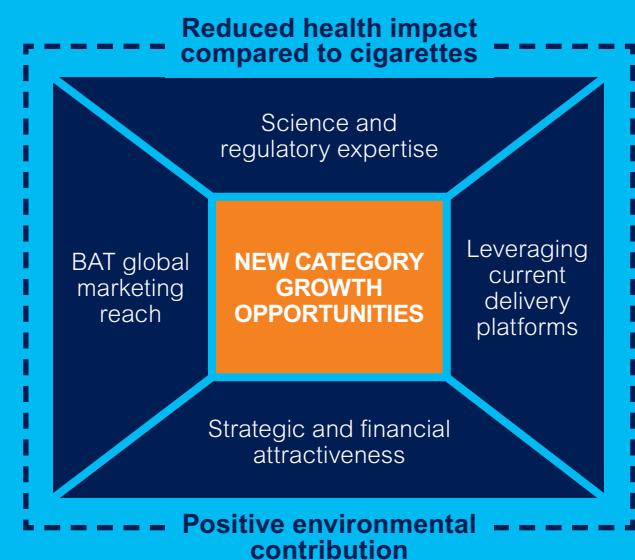
## A DEVELOPING PORTFOLIO



A wider portfolio of products that offer sensorial enjoyment for different moods and moments will allow us to capture the consumer moments previously associated with tobacco use, as well as satisfy new evolving consumer needs, through:

- traditional tobacco and nicotine products;
- new nicotine products; and
- ultimately, a portfolio of products beyond tobacco and nicotine that leverages our proven delivery technologies.

## PARAMETERS TO GUIDE GROWTH OPPORTUNITIES



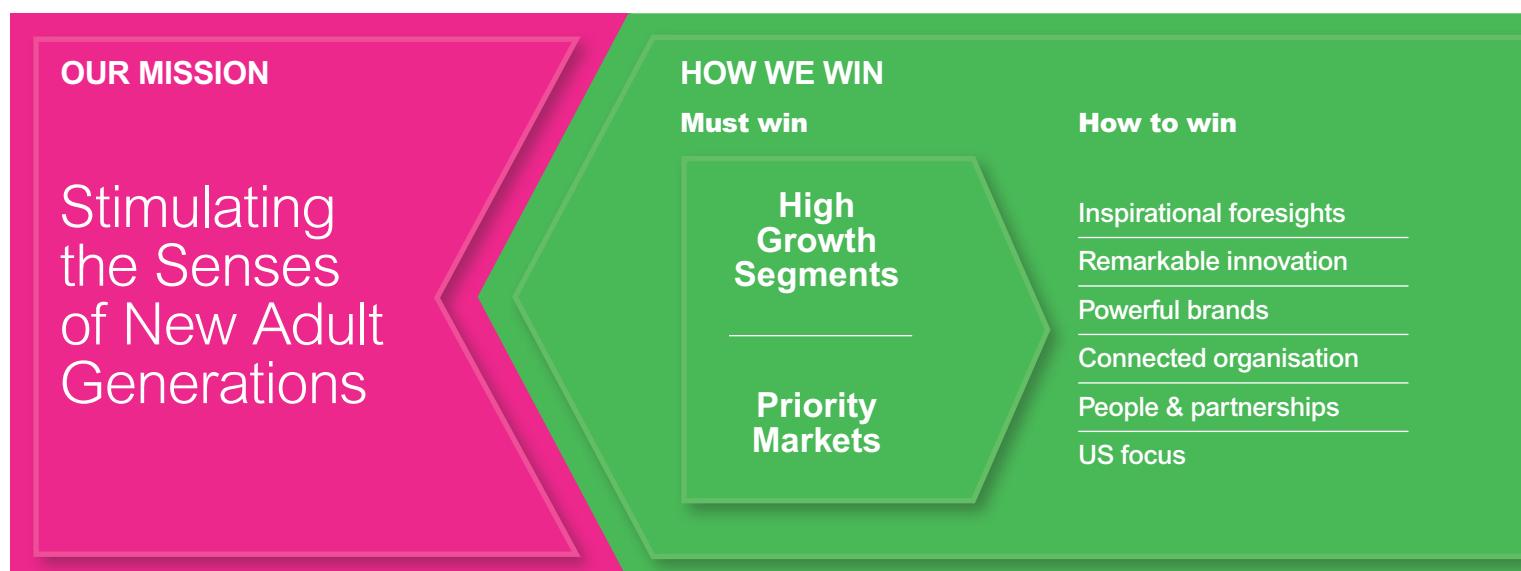
Our new growth opportunities will capitalise on our core business strengths, creating clear boundaries for our portfolio development:

- reducing the health and environmental impacts of our business;
- leveraging our global marketing reach and scale;
- building on existing delivery platforms and technological expertise;
- relying on our experience in managing complex regulatory and scientific matters; and
- meeting stringent strategic and financial metrics.

# A STRATEGY FOR ACCELERATED GROWTH

**While combustible tobacco will be at the core of our business for some time to come, we aim to generate an increasingly greater proportion of our revenues from products other than cigarettes, thereby reducing the health impact of our business.**

This will deliver a better tomorrow for our consumers who will have a range of enjoyable and potentially less risky choices for every mood and moment; for society through reducing the overall health and environmental impacts of our business; for our employees by creating a dynamic and purposeful place to work; and for our shareholders by delivering sustainable superior returns.



## OUR MISSION

### Stimulating the senses of new adult generations

Today, we see opportunities to capture consumer moments which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences.

Our mission is to anticipate and satisfy this ever-evolving consumer: provide pleasure, reduce risk, increase choice and stimulate the senses of adult consumers worldwide.

## MUST WINS

### High Growth Segments

Driven by our unique and data-driven consumer insight platform (PRISM), we will focus on product categories and consumer segments across our global business that have the best potential for long-term sustainable growth.

### Priority Markets

By relying on a rigorous market prioritisation system (MAPS), we will focus the strengths of our unparalleled retail and marketing reach, as well as our regulatory and scientific expertise, on those markets and marketplaces with the greatest opportunities for growth.

## HOW WE WIN

### Inspirational foresights

As one of the most long-standing and established consumer goods businesses in the world, we have a unique view of the consumer across four product categories, which is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products is fit to satisfy consumer needs.

### Remarkable innovation

As consumer preferences and technology evolve rapidly, we rely on our growing global network of digital hubs, innovation super centres, world-class R&D laboratories, external partnerships and an upcoming corporate venturing initiative to stay ahead of the curve.



**OUR STRATEGY PUTS THE CONSUMER FIRST, FOCUSING ON UNDERSTANDING ADULT CONSUMER CHOICE AND ENJOYMENT. WE WILL CAPTURE LOST CONSUMER MOMENTS WITH A PORTFOLIO IN TOBACCO, NICOTINE AND BEYOND. THIS WILL ENABLE SUSTAINABLE, LONG-TERM GROWTH WITH A CLEAR FOCUS ON FORESIGHTS, INNOVATION, BRANDS, ACTIVATION, TEAMS AND TECHNOLOGY. WE WILL BECOME A BUSINESS THAT DEFINES ITSELF NOT BY THE PRODUCTS IT SELLS BUT BY THE CONSUMER NEEDS IT MEETS.**



**Kingsley Wheaton**  
Chief Marketing Officer



#### Powerful brands

For over a century, we have built trusted and powerful brands that satisfy our consumers and serve as a promise for quality and enjoyment. We will focus on fewer, stronger and global brands across all our product categories, delivered through our deep understanding and segmenting of our consumers.

#### Connected

Few companies can claim over 150 million daily consumers, over 11 million retail points of sale, as well as a network of expert and skilled employees around the world. Staying connected to all of them, especially through digital means (including e-commerce), ensures better consumer connections, access to markets and innovations that offer sensorial enjoyment and satisfy consumer needs.

#### People and partnerships

Our highly-motivated people are being empowered through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and customers are also key for ensuring sustainable future growth.

#### US focus

The United States comprises nearly half of our global business. It is also the single largest economy in the world, the largest single centre for technology and the key driver of global consumer trends, and is where we have the deep consumer understanding and financial strength to support the delivery of our mission to stimulate consumer senses around the rest of the world.

#### OUR PURPOSE

By stimulating the senses of new adult generations, our purpose is to create A Better Tomorrow for all our stakeholders. We will create A Better Tomorrow for:

##### Consumers

By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow;

##### Society

By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts;

##### Employees

By creating a dynamic, inspiring and purposeful place to work; and

##### Shareholders

By delivering sustainable and superior returns.

# PUTTING SUSTAINABILITY FRONT AND CENTRE

**As we evolve our Group strategy, we are also evolving our Sustainability Agenda. We are moving ourselves from a business where sustainability has always been important, to one where it is front and centre in all that we do.**

Our commitment to reduce the health impacts of our cigarette business – by providing a range of potentially less risky products – is central to our corporate purpose. This is underpinned by excellence in all other environmental, social and governance (ESG) measures.

Each year we engage with a wide range of stakeholders to understand the issues that are most important to them. 2019 was a significant year, with many stakeholders re-emphasising the importance of addressing the health impacts of our cigarette business and with governments and cities around the world declaring a climate emergency.

Consequently, we refreshed our Sustainability Agenda (as an integral part of our evolved Group Strategy) to reflect the prominence of tobacco harm reduction and also to place a greater emphasis on the importance of addressing climate change and environmental management. At the same time, we remain committed to delivering a positive social impact and ensuring robust corporate governance across the Group.

## New Sustainability Targets

We are committed to making a step-change in our sustainability ambition. As a result, we have announced a number of stretching targets that we are confident will deliver A Better Tomorrow for all our stakeholders.

These include:

- increasing our number of non-combustible product consumers from 11 million to 50 million by 2030;
- achieving carbon neutrality by 2030\*; and
- bringing forward our existing 2030 environmental targets to 2025.

\* Based on Scope 1 and 2 carbon dioxide equivalent (CO<sub>2</sub>e) emissions.

## OUR SUSTAINABILITY AGENDA

S

### Reducing the **HEALTH** impact of our business

Consumer choice

World-class science

Standards and regulation

E

Excellence in  
**ENVIRONMENTAL**  
management

Climate change

Water and waste

Sustainable agriculture

Circular economy

S

Delivering a positive  
**SOCIAL** impact

Human rights

Farmer livelihoods

Health and safety

People and culture

G

Robust corporate  
**GOVERNANCE**

Business ethics

Responsible marketing

Regulation and  
policy engagement

### Creating shared value for

 Consumers

 Society

 Employees

 Shareholders

# ETHOS

**Our purpose is to build a better tomorrow by reducing the health impact of our business through offering a greater choice of enjoyable and less-risky products for our consumers.**



**A KEY DRIVER TO DELIVER THIS WILL BE OUR ETHOS – AN EVOLUTION OF OUR GUIDING PRINCIPLES – WHICH GUIDES OUR CULTURE AND BEHAVIOURS ACROSS THE ENTIRE GROUP. IT HAS BEEN DEVELOPED WITH SIGNIFICANT INPUT FROM OUR EMPLOYEES, AND ENSURES AN ORGANISATION THAT IS FUTURE FIT FOR SUSTAINABLE GROWTH.**

**Hae In Kim**  
Director, Talent and Culture



We are  
**BOLD**



Dream big – with innovative ideas

Make tough decisions quickly and proudly stand accountable for them

Resilient and fearless to compete

We are  
**FAST**



Speed matters. Set clear direction and move fast

Keep it simple.  
Focus on outcomes

Learn quickly and share learnings

We are  
**EMPOWERED**



Set the context for our teams and trust their expertise

Challenge each other.  
Once in agreement, we commit collectively

Collaborate and hold each other accountable to deliver

We are  
**DIVERSE**



Value different perspectives

Build on each others' ideas, knowledge and experiences

Challenge ourselves to be open-minded recognising unconscious bias

We are  
**RESPONSIBLE**



Take action to reduce the health impact of our business

Ensure the best quality products for our consumers, the best place to work for our people, and the best results for shareholders

Act with integrity, never compromising our standards and ethics

# OUR PEOPLE

As our business evolves, so too does our employee value proposition. Today, as we have expanded our portfolio across a number of new categories, we are attracting a different and wider range of people and skillsets than we did before, injecting exciting new capabilities into the business.



**THERE ARE 141  
NATIONALITIES  
REPRESENTED AT  
MANAGEMENT LEVEL  
WITHIN OUR GROUP**



**OUR GLOBAL EMPLOYEE  
SURVEY RESULTS  
DEMONSTRATE THAT  
WE OUTPERFORM  
OUR FMCG  
COMPARATOR GROUP**





“

LAST YEAR WE RECEIVED OVER **60,000 APPLICATIONS TO OUR GLOBAL GRADUATE PROGRAMME**

”

“

WE WERE AWARDED '**BEST PLACE TO WORK FOR LGBTQ EQUALITY**' BY THE HUMAN RIGHTS CAMPAIGN FOUNDATION IN THE US, AND HAD SEVEN FINALISTS IN THE GLOBAL **WOMEN IN I.T. AWARDS**

”



“

**DIVERSITY MATTERS** TO THE GROUP BECAUSE IT MAKES GOOD COMMERCIAL SENSE

”



# BUILDING WORLD-CLASS CAPABILITIES FOR INNOVATION

To achieve a step-change in New Categories, we are building new capabilities around the world focused on science, innovation, and digital information.

Consumer preferences and technology are evolving rapidly, and we are staying ahead of the curve with our digital hubs, the creation of innovation super centres, and further development of our world-class R&D laboratories. We are also leveraging the expertise of our external partners, and are looking forward to exciting results from our upcoming venturing initiative.

- Key**
-  **Innovation**
  -  **R&D**
  -  **Science**
  -  **Digital**



**“**  
OUR CUTTING EDGE TECHNOLOGIES TURN CONSUMER INSIGHTS INTO INNOVATIVE AND OUTSTANDING PRODUCTS THAT MEET THEIR NEEDS

**Paul Lageweg**  
Director, New Categories

**”**



**“**  
I AM VERY PROUD OF OUR GLOBAL TEAM OF WORLD-CLASS SCIENTISTS AND WHAT THEY ARE DOING TO ENSURE THE PERFORMANCE, EFFICACY AND SAFETY OF OUR PRODUCTS

**David O'Reilly**  
Director, Research and Science

   Winston Salem  
US R&D Centre





**WE ARE EMBEDDING DIGITAL CAPABILITIES ACROSS BAT. THROUGH DATA AND E-LEARNING, THIS IS DELIVERING MORE EFFICIENT WAYS OF WORKING, AGILE SUPPLY CHAINS AND ENHANCED CONSUMER CONNECTIONS**



**Marina Bellini**  
Director, Digital and Information



## Four

New and upcoming tech hubs

**50+**  
toxicologists

**1,500+**  
R&D specialists

**600+**  
scientists  
and engineers

**300+**  
new specialist  
hires in 2019

**330**  
Global Graduate  
hires in 2019

**200+**  
external partners

**150+**  
PhDs



**© IN 2019, BUILDING ON OUR FOUNDATIONS,  
WE HAVE DELIVERED STRONG  
OPERATIONAL RESULTS, CREATING  
A SOLID BASE FOR DELIVERING TODAY  
WHILE BUILDING A BETTER TOMORROW**

**EXCLUDING CURRENCY, WE GREW  
OUR ADJUSTED REVENUE 5.6%,  
ADJUSTED PROFIT 6.6%**

**ADJUSTED OPERATING MARGIN  
GREW 50 BPS TO 43%**

**OPERATING CASH FLOW CONVERSION  
RATIO OF 97% GENERATED £1.9BN OF  
FREE CASH FLOW AFTER DIVIDENDS  
FUELLED DELEVERAGING OF 0.5X**

**Tadeu Marroco**  
Finance Director



# FINANCE DIRECTOR'S OVERVIEW



## CASH GENERATION FUELS DIVIDENDS, DELEVERAGING AND INVESTMENT



### **Our financial ambitions as fundamentals improve**

As we build A Better Tomorrow, we will be focused on three key priorities: releasing funds to support our growth agenda, maximising our marketing spend effectiveness and generating cash to continue to deleverage the balance sheet.

Our combustible portfolio and operational efficiencies will fuel our financial performance by providing the fire-power to invest in New Categories, both inorganically, mainly through our new corporate venturing initiative, and organically, in products that meet our consumers' changing needs.

We remain committed to consistent and sustainable long-term 3-5% revenue growth which will deliver high single figure earnings growth, on a constant currency basis, whilst targeting a minimum of 95% cash conversion and a dividend pay-out ratio of 65% of adjusted diluted EPS over the medium to long-term.

### **Pricing and New Categories drive revenue growth**

Revenue grew by 5.7% in 2019 to £25,877 million driven by pricing across the cigarettes portfolio (with price/mix of 9%) and an increase in revenue from Traditional Oral (up 15%, with 2018 up 127%) and New Categories (up 37%, 2018 up 138%), which more than offset a 4.7% reduction in cigarette volume. In 2018, revenue grew 25.2% at £24,492 million largely due to the full year effect of the RAI acquisition. Adjusting for the impact of acquisitions, excise on bought-in goods and the impact of currency, constant currency adjusted revenue grew 5.6% in 2019 (2018: up 3.5% on a representative constant rate basis).

### **Increased focus on operational efficiency**

Profit from operations was down 3.2% (2018: up 45.2%), as the improvement in revenue and operational efficiencies were more than offset by the charges related to Canada, Russia, other smoking and health litigation (including Engle in

the US) and Indonesia (as discussed on page 154), the impact of the restructuring programmes (including Quantum), the ongoing investment in New Categories and the impact of amortisation of acquired brands. 2018 was positively skewed by the inclusion of 12 months of results from RAI. Our operating margin declined in 2019 by 320 bps to 34.8% on a reported basis.

Adjusted profit from operations grew by 6.6% on a constant currency basis (2018: up 4.0% on a representative, constant rate basis). On an adjusted basis, operating margin increased by 50 bps to 43.1% (2018: 42.6%).

### **Focus on dividends**

Dividends per share for 2019 will be 210.4p, an increase of 3.6% (2018: 203.0p, up 4.0%), in line with our commitment of a 65% payout ratio on adjusted diluted earnings per share (2018: 68.4%).

Net finance costs increased 16% to £1,602 million partly due to a foreign exchange headwind and interest on leases recognised under IFRS16 (*Leases*). 2018 was up 26.2% to £1,381 million due to higher borrowings following the acquisition of RAI. Our banking facilities require a gross interest cover of at least 4.5 times. In 2019, our gross interest cover was 7.1 times (2018: 7.2 times).

On a reported basis, basic EPS was 5.4% lower than 2018 at 249.7p largely due to the reduction in profit from operations. EPS in 2018 declined 86% as 2017 was materially affected by a deemed gain (£23.3 billion) arising on the acquisition of RAI. Excluding the adjusting items and the effect of foreign exchange on the Group's results, adjusted diluted earnings per share, at constant rates, increased by 8.4% to 321.6p, with 2018 ahead of 2017 by 11.8%.

### **Cash delivery leads to deleveraging and investment**

In 2019, net cash generated from operating activities fell 12.6% to £8,996 million (2018: up 93% to £10,295 million), with 2018 positively impacted by the timing of payments related to the Master Settlement Agreement (MSA) in the US.

©Adjusted cash generated from operations (as defined on page 265) was £6,831 million, a decline of 15% on 2018, or 16% on a constant rate basis. Normalising for the timing of the MSA liability, adjusted cash generated from operations would have been 1.2% higher than 2018.®

Based upon net cash generated from operating activities, the Group's cash conversion ratio reduced from 111% in 2018 to 100% in 2019.

®Excluding the MSA timing impact (affecting 2018), operating cash flow conversion ratio (as defined on page 264) was 97% (2018: 100%).

Free cash flow is a measure the Group uses to assess total cash generated by the Group's operations, prior to the payment of dividends, repayment of borrowings or undertaking of investing activities. In 2019, free cash flow was £6,519 million. After paying the dividend in the year, free cash flow was £1,921 million demonstrating the Group's ability to service and repay borrowings which reduced in 2019 to £45,366 million from £47,509 million, whilst continuing to pay dividends to shareholders.®

Adjusted net debt to adjusted EBITDA, as defined on page 267 provides a measure to assess the Group's ability to meet its borrowing obligations. The Group continues to focus on a balanced approach of deleveraging, while investing for the future and providing a return via dividends to shareholders. This measure will be a key performance indicator in 2020 (replacing adjusted cash generated from operations)®, demonstrating our commitment to the deleveraging agenda. In 2019, the adjusted net debt to adjusted EBITDA ratio improved from 4.0 times to 3.5 times.

The Group continues to deliver against the financial objectives, which allows for growth in dividends while deleveraging and investing in A Better Tomorrow.

**Tadeu Marroco**  
Finance Director

The term 'representative' is used to compare the 2018 results against an equivalent 2017 if that year included results from RAI for the whole of that period, including certain additional adjusting items related to the acquired companies.

® Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# OUR YEAR IN NUMBERS

## Group cigarette (and tobacco heating products – THP) volume

+677bn  
-4.4%

2018: +3.3% (-3.5% representative<sup>4</sup>)  
2017: +3.2% (-2.6% organic<sup>3</sup>)

IFRS-GAAP

**Revenue**  
(£m)

**£25,877m**  
+5.7%

2019	£25,877m	+6%
2018	£24,492m	+25%
2017	£19,564m	+39%

**Definition:** Revenue recognised, net of duty, excise and other taxes.

In 2019, revenue includes £18,793 million of revenue from the Strategic Portfolio, an increase of 9% (2018: £17,257 million). Within the Strategic Portfolio, revenue from New Categories was £1,255 million (2018: £917 million).

KPI Non-GAAP

**Change in adjusted<sup>2</sup> revenue at constant rates<sup>1</sup> (%)**

**+5.6%**

2019	+6%
2018	+33%
2018 (rep <sup>4</sup> )	+4%
2017	+32%
2017 (org <sup>3</sup> )	+3%

**Definition:** Change in revenue before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

## Group volume share of Key Markets

+20 bps

2018: +40 bps  
2017: +40 bps

IFRS-GAAP  
**Profit from operations**  
(£m)

**£9,016m**  
-3.2%

2019	£9,016m	-3%
2018	£9,313m	+45%
2017	£6,412m	+38%

**Definition:** Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

KPI Non-GAAP

**Change in adjusted<sup>2</sup> profit from operations at constant rates<sup>1</sup> (%)**

**+6.6%**

2019	+7%
2018	+38%
2018 (rep <sup>4</sup> )	+4%
2017	+39%
2017 (org <sup>3</sup> )	+4%

**Definition:** Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

## Strategic Cigarette and THP volume

439bn  
-2.5%

2019	439bn
2018	451bn
2017	382bn

2018: +17.9% (+5.8% representative<sup>4</sup>)  
2017: +17.9% (+7.6% organic<sup>3</sup>)

IFRS-GAAP

**Net cash generated from operating activities** (£m)

**£8,996m**  
-12.6%

2019	£8,996m	-13%
2018	£10,295m	+93%
2017	£5,347m	+16%

**Definition:** Movement in net cash and cash equivalents before the impact of net cash used in financing activities, net cash used in investing activities and differences on exchange.

KPI Non-GAAP

**@Change in adjusted<sup>2</sup> cash generated from operations at constant rates<sup>1</sup> (%)**

**-16.3%**

2019	-16%
2018	+158%
2017	+0%

**Definition:** Change in adjusted cash generated from operations, as defined on page 265, before the impact of fluctuations in foreign exchange rates.<sup>@</sup>

## Modern Oral (no. pouches)

1.2bn  
+188%

2019	1.2bn
2018	0.4bn
2017	0.2bn

2018: +108%  
2017: n/a – no sales of modern oral in 2016

IFRS-GAAP

**Diluted earnings per share (EPS)**

(p)

**249.0p**  
-5.4%

2019	249.0p	-5%
2018	263.2p	-86%
2017	1827.60p	+633%

**Definition:** Profit attributable to owners of BAT p.l.c. over weighted average number of shares outstanding, including the effects of all dilutive potential ordinary shares.

KPI Non-GAAP

**Change in adjusted<sup>2</sup> diluted EPS (%)**

**+9.1%**

2019	+9%
2018	+5%
2017	+14%

**Definition:** Change in diluted earnings per share before the impact of adjusting items.

**Notes:** To supplement our results of operations presented in accordance with IFRS, the information presented also includes several non-GAAP measures used by management to monitor the Group's performance. See the section non-GAAP measures beginning on page 258 for information on these non-GAAP measures, including their definitions and reconciliations from the most directly comparable IFRS measure, where applicable. Certain of our measures are presented based on constant rates of exchange, on an adjusted basis, and on a representative basis and on an organic basis.

The information presented also includes several non-financial key performance indicators ("KPIs") used by management to monitor the Group's performance. The Group's Management Board believes that these KPIs provide information that enables investors to better understand the Group's performance across periods. See the section "Non-Financial KPIs" on page 257 for more information on these non-financial KPIs.

1. Where measures are presented 'at constant rates', the measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year results of the Group and, where applicable, its segments. See page 51 for the major foreign exchange rates used for Group reporting.

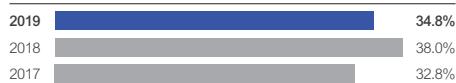
2. Where measures are presented as 'adjusted', they are presented before the impact of adjusting items. Adjusting items represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.

KPI Non-GAAP

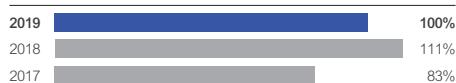
**Change in adjusted<sup>2</sup> revenue from the Strategic Portfolio at constant rates<sup>1</sup> (%)****+7.3%**

**Definition:** Change in revenue from the strategic portfolio before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

This measure was introduced in 2018, with no comparators provided.

**Operating margin (%)****34.8%**

**Definition:** Profit from operations as a percentage of revenue.

**Cash conversion (%)****100%**

**Definition:** Net cash generated from operating activities as a percentage of profit from operations.

KPI Non-GAAP

**Change in adjusted<sup>2</sup> diluted EPS at constant rates<sup>1</sup> (%)****+8.4%**

**Definition:** Change in diluted earnings per share before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

3. Where measures are presented as 'organic' or 'org', they are presented before the impact of the contribution of brands and businesses acquired during the comparator period, including Reynolds American, Bulgartabac, Winnington and Fabrika Duhana Sarajevo in 2017. There were no material acquisitions or disposals in 2018 or 2019.

KPI Non-GAAP

**Change in adjusted<sup>2</sup> revenue from New Categories at constant rates<sup>1</sup> (%)****+32.4%**

**Definition:** Change in revenue from New Categories before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

IFRS-GAAP

Denotes IFRS-GAAP financial measure

KPI

Denotes key performance indicator (KPI) measure

Non-GAAP

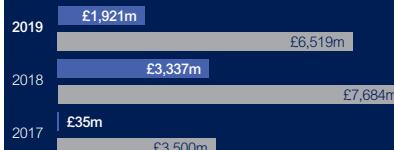
Denotes non-GAAP financial measure, see Non-GAAP measures on pages 258 to 268

**@Changes in 2019**

In 2019, the Group introduced the measure 'free cash flow before and after payment of dividends to shareholders'. This measure supplements the existing measures related to cash flow. It is used to demonstrate the level of net cash generated by the Group, in any one year, after payment of all operating expenses, interest, tax, capital expenditure and payments to non-controlling interests and inclusive of dividends received from associates. This provides users of the financial statements with the available cash generation from which dividends to shareholders are paid, with the remaining cash being available for other activities such as investment or repayment of debt.

<sup>④</sup> Denotes table and accompanying text that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

- After dividends paid
- Before dividends paid

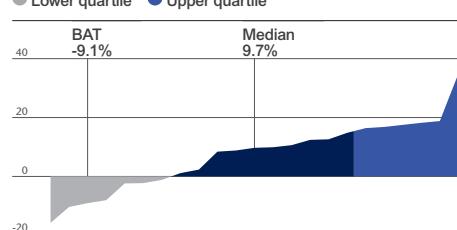
**Non-GAAP**  
**Free cash flow before and after dividends paid to shareholders (£m)**

**Definition:** The level of free cash flow, as defined on page 266, earned by the business in the year, before and after the payment of dividends to shareholders.

**KPI**  
**@Total shareholder return (TSR) of the FMCG group – 1 January 2017 to 31 December 2019 (%)**

The FMCG group comparison is based on three months' average values

- Lower quartile
- Upper quartile



**Definition:** Relative TSR to a peer group of international FMCG companies, with the constituent FMCG peer group listed on page 104.

**Total dividends per share (p)****210.4p  
+3.6%**

**Definition:** Dividends per share in respect of the financial year.

**Target:** To increase dividend in sterling terms, based upon the Group's policy to pay dividends of 65% of long-term sustainable earnings.

4. Where measures are presented as 'representative', 'rep' or 'on a representative basis', they are presented inclusive of the acquired businesses in the 2017 comparator period as though those businesses had been included in the consolidated results for the whole of that comparator period and including certain additional adjusting items related to the acquired companies.

# GLOBAL INDUSTRY OVERVIEW\*

**While the total tobacco and nicotine market comprises a growing user pool of over one billion individual adult consumers, global trends are shifting and our industry is experiencing a period of ongoing change.**

Generational differences, as well as shifting attitudes towards health and wellness, are expected to increase the growth of new categories of products including and beyond tobacco and nicotine, which are able to provide stimulation and pleasure for consumers in ways previously associated with cigarettes. This is expected to play a role in off-setting the predicted steady decline in cigarette consumption.

## Global combustible market

While combustible cigarettes remain the largest global tobacco category, their volumes have seen a gradual fall over many years driven by increased regulation and changing societal attitudes. Total tobacco consumption, including illicit, declined 2% from 2018 to 2019; this decline rate is forecasted to remain between 2%-3% over the next three years, while the retail value of tobacco sales is expected to increase by between 2%-4% each year, driven principally by pricing.

The most recent estimates for the legal global tobacco market (2018) indicate that sales are worth approximately US\$814 billion. More than US\$700 billion of this comes from the sale of conventional cigarettes, with over 5,300 billion cigarettes consumed per year by over 19% of the world's population.

A contributing factor to the decline of legal tobacco volumes is the continued rise in the consumption of illicit products. Cigarettes are a reliable source of tax revenue for governments worldwide, and price differentials between markets, regulatory changes and broader macroeconomic pressures have driven the establishment of a significant and growing illicit cigarette trade, now estimated to account for 11.2% of the global tobacco market.

It is generally accepted that there is a direct correlation between steep and ad hoc increases in taxes and an increase in illicit sales, with the current sanctions in many countries doing little to deter criminals for whom profits from the illegal sale of tobacco remain an appealing prospect. For example, following successive excise increases, the Australasia region has seen legal volumes decline substantially. However, in markets such as South Africa, where effective action has reduced the prevalence of illegal tobacco, legal volumes have been restored.

 See pages 58 to 62 to read more about our Principal Group risks

 For further discussion regarding the regulation of our business, please see pages 287 to 290

## Global combustible regulation

Tobacco is one of the world's most regulated and most taxed industries, contributing in excess of \$200 billion to government treasuries each year. Manufacturers are required to comply with a swath of regulations that vary considerably across markets.

Legislation and subsequent regulation has been focused mainly on the introduction of plain packaging, product-specific regulation, graphic health warnings on packs, tougher restrictions on smoking in enclosed public places and bans on shops displaying tobacco products at the point of sale.

In more recent years, governments have begun considering and adopting regulations aimed at menthol flavourings, as well as environmental concerns resulting from the litter associated with cigarette consumption.



**THE RETAIL VALUE OF TOBACCO SALES IS EXPECTED TO INCREASE BY BETWEEN 2% AND 4% EACH YEAR**



## Global New Categories market

The last five years have seen the global tobacco and nicotine market diversify beyond traditional combustible tobacco with the growth of vapour and tobacco heating products (THPs), and modern oral tobacco.

The success of these new categories is the result of their ability to offer consumer satisfaction in circumstances where the consumption of combustible tobacco is no longer permitted or socially acceptable, as well as to offer potentially reduced risk compared to traditional cigarettes. With new adult generations increasingly focused on health and lifestyle considerations, technological innovation, and personalised consumer experiences, it is expected that the growth of new categories will continue to accelerate as they can better meet consumer preferences and demands.

New category nicotine products have grown quickly across the world, with an estimated 54 million vapour consumers and 15 million THP consumers.

The latest global figures (2018) suggest that global vapour sales are worth \$15.7 billion, while global THP revenues stand at \$11.9 billion.

While traditional oral products show steady incremental growth, new modern oral products (which comprise tobacco-free nicotine pouches) are showing accelerated volume expansion in both Europe and the US.

There has also been growth in the market for wellbeing and 'new active' products. This growth is expected to continue as consumer tastes fragment and evolve.

Within this space, cannabidiol (CBD) oil is expected to gain wider use, as already evidenced by its recent growth in market size.

\* All data sources on this page are from Euromonitor International unless otherwise stated.

### New Categories regulation

The THP and vapour markets are relatively nascent. Regulation is in its early stages in many countries and, while many governments are considering regulation specific to this category, it has often not been enacted. Globally, there is a mix of attitudes between regulators who aim to encourage THPs and vapour as products that are potentially lower risk for smokers and those who view them with greater scepticism – including some countries where they are banned.

Although many jurisdictions have yet to implement clear regulations concerning new category products, an increasing number of governments are passing laws that allow and encourage the growth of these categories, while also balancing concerns regarding increased youth usage.

The UK is an example of what can happen with the support of regulators and public health bodies. Driven by influential reports from Public Health England and the Royal College of Physicians on the reduced risk potential of vapour products, the UK Government has implemented a balanced regulatory regime that discourages youth uptake while also encouraging adult smokers to migrate to potentially less harmful products.



**IT IS EXPECTED THAT THE GROWTH OF NEW CATEGORIES WILL CONTINUE TO ACCELERATE AS THEY CAN BETTER MEET CONSUMER PREFERENCES AND DEMANDS**



### Litigation

Legal and regulatory court proceedings continue in a number of forms against the tobacco industry, and more recently the vaping industry, with the most common being third-party reimbursement cases, class actions and individual lawsuits.

Special factors that led to product liability litigation in the US and Canada are not typically replicated in other countries, which is why large volume and high-value litigation has not generally spread to other parts of the globe. The industry has a proven track record of defending its rights and managing risks such as these.



**THE LAST FIVE YEARS HAVE SEEN THE GLOBAL TOBACCO AND NICOTINE MARKET DIVERSIFY BEYOND TRADITIONAL COMBUSTIBLE TOBACCO WITH THE GROWTH OF VAPOUR AND TOBACCO HEATING PRODUCTS, AS WELL AS MODERN ORAL TOBACCO**

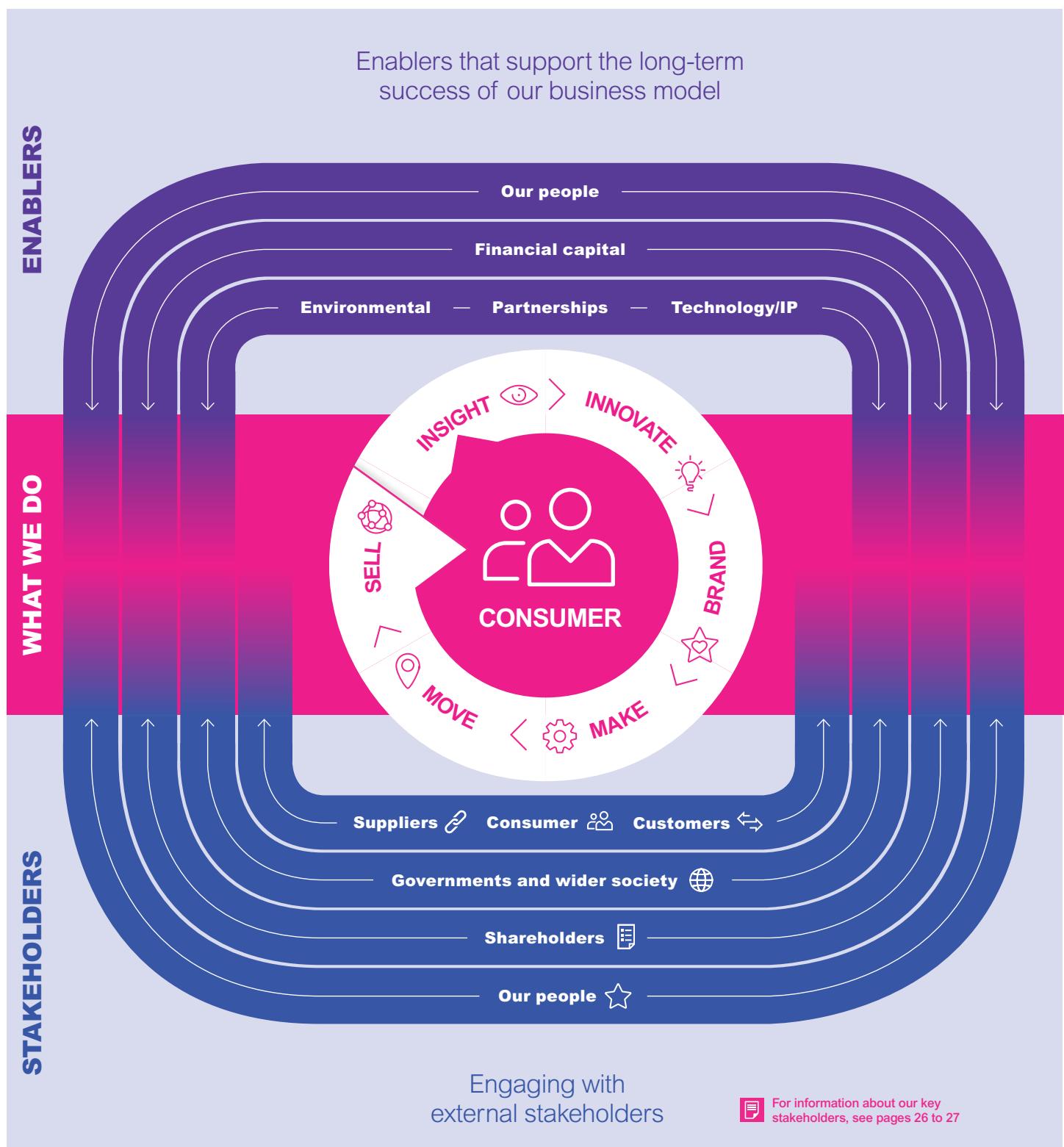


**THE TOBACCO INDUSTRY CONTRIBUTES IN EXCESS OF US\$200 BILLION IN TAXES TO GOVERNMENT TREASURIES EACH YEAR**



# OUR BUSINESS MODEL

**Our global business understands our diverse consumers, develops products to satisfy their preferences, and ultimately distributes them across over 200 markets.** Five key enablers support us in turning powerful insights into products that provide enjoyment to our consumers, while engagement helps our key stakeholders benefit from our sustainable growth.





## CONSUMER

**Consumers sit in the centre of our business model.** BAT strives to first identify consumer needs and desires, and ultimately provide satisfaction through the development and delivery of innovative products. With societal attitudes and regulatory restrictions narrowing the opportunities for tobacco-related consumer moments, we are committed to providing alternative products that consumers can enjoy in a variety of moods and moments.



## INSIGHT

Our global community of consumers is diverse and has differing needs. We have a deep understanding of our 150 million daily consumers and anticipate trends with powerful data and analytics. We reject a 'one size fits all' approach, and satisfy their evolving preferences with a broad portfolio that takes into account geographic and market differences, while leveraging our own strengths.



## INNOVATE

From combustibles to New Categories, exciting new products are the key to success. We make significant investments in research and development to deliver innovations that satisfy consumer tastes and generate growth for the business. Our new corporate ventures team will set a new benchmark for innovation by allowing us to assess, test and invest in new ideas, concepts and portfolio offers.



## BRAND

Our global brands communicate quality and value, and establish trust in our products. They are essential to our credibility around the world, and their scale provides far-reaching awareness of our products, while our diverse portfolio allows us to meet the needs of different consumer segments. We have a proven track record of building and managing some of the most iconic brands in history, and will continue to leverage this expertise to grow our business across all categories.



## MOVE

We distribute our products around the globe effectively and efficiently using a variety of different distribution models suited to local circumstances and conditions. Around half of our global cigarette volume is sold by retailers, supplied through our direct distribution capability or exclusive distributors. We continuously review our route to market for both combustibles and New Categories, including our relationships with wholesalers, distributors and logistics providers.



## MAKE

We manufacture high-quality cigarettes, THP consumables and oral tobacco products in facilities all over the world, and ensure that these products and the tobacco leaf we purchase are in the right place at the right time. Our vapour and tobacco heating product devices and liquids are manufactured in a mix of our own and third-party factories, and we work to ensure that our costs are globally competitive and that we use our resources as effectively as possible.



## SELL

We offer adult consumers a range of products including cigarettes, vapour, tobacco heating products, and oral products in markets around the world. Our range of high-quality products covers all segments, from value-for-money to premium, while also offering choices based on levels of potentially reduced risk. We are governed by our International Marketing Principles, which ensure that all of our products are marketed responsibly.

## Key performance indicators

Group volume share of Key Markets

Change in adjusted revenue at constant rates (%)

Change in adjusted revenue from the Strategic Portfolio at constant rates (%)

Change in adjusted revenue from New Categories at constant rates (%)

Change in adjusted profit from operations at constant rates (%)

@Change in adjusted cash generated from operations at constant rates (%)

Operating cash flow conversion ratio (%)@

Change in adjusted diluted EPS (%)

Change in adjusted diluted EPS at constant rates

Total shareholder return of the FMCG group

For more key detail on our key performance indicators, see pages 18-19

## DELIVERING MEASURABLE LONG-TERM SUSTAINABLE GROWTH

### Non-financial information statement

Non-financial information reporting required under the UK Companies Act is included in the Strategic Report as referenced below:

Our business model is set out on these pages. Pages 58 to 62 for Principal Group Risks

Our reporting in the following areas includes information about the policies and principles that govern our approach, due diligence processes, outcomes and non-financial performance indicators.

- |  |   |
|--|---|
| Environmental matters<br>pages 28 to 30                    | Social matters<br>pages 28 to 31  |
| Employees<br>pages 40 to 42                                | Respect for human rights<br>pages 30 to 31  |
| Anti-bribery and anti-corruption matters<br>pages 31 to 32 | Further details of our Group policies and principles can be found at <a href="http://www.bat.com">www.bat.com</a> |

# OUR GLOBAL BUSINESS

**BAT is a leading, multi-category consumer goods business dedicated to stimulating the senses of adult consumers worldwide.**

Our Strategic Portfolio comprises our key brands in both the combustible and new categories. This drives focus and investment on the brands and categories that will underpin the Group's future growth.

We also have a portfolio of international and local brands which, while not the focus of our investment, contribute valuable returns across several key markets.\*

## STRATEGIC PORTFOLIO

### Non-Combustible

#### New Categories

.....  
Vapour



.....  
Tobacco Heating



.....  
Modern Oral



#### Traditional Oral



### Combustible

#### Combustible Tobacco



\* These combustible brands include Vogue, Viceroy, 555, Benson and Hedges, Peter Stuyvesant, Double Happiness, Kool, and Craven A, while oral brands include Granit, Mocca, and Kodiak.

Our portfolio reflects our commitment to meeting the evolving and varied needs of today's consumer who seeks sensorial enjoyment for different moods and moments.

BAT's marketplace analysis delivers insights regarding consumer trends and segmentation, which ultimately facilitates our geographic brand prioritisation across over 180 markets. Our business is divided into four regions, and covers over 150 million consumers and 11 million retail points of sale, with a balanced presence in both high-growth emerging markets and highly profitable developed markets.

**United States  
of America**

**Americas and  
Sub-Saharan  
Africa**

**Europe and  
North Africa**

**Asia-Pacific  
and Middle East**



 for more key detail on our Regional performance,  
see pages 52 to 57

Map is representative of general geographic regions and does not suggest that the Group operates in each country of every region.

# ENGAGING WITH OUR STAKEHOLDERS



**CIVIC PARTICIPATION IS A FUNDAMENTAL ASPECT OF RESPONSIBLE BUSINESS AND POLICY MAKING, AND BRITISH AMERICAN TOBACCO EMPLOYEES WILL PARTICIPATE IN THE POLICY PROCESS IN A TRANSPARENT AND OPEN MANNER, IN COMPLIANCE WITH ALL LAWS AND REGULATIONS OF THE MARKETS IN WHICH IT OPERATES**

**Jerry Abelman** Director, Legal & External Affairs and General Counsel



**Consumers**



**Shareholders/  
Bondholders**



**Our people**

<p><b>Why this stakeholder is important to us</b></p>	<p>As preferences and attitudes change in an evolving industry, understanding our consumers is essential to both successful portfolio and business growth.</p>	<p>It is essential that we maintain the support of our shareholders and bondholders to maintain access to capital. This allows us to implement our strategy and achieve our business objectives.</p>	<p>A winning organisation is a core pillar of the Group's strategy. We understand the value of listening and responding to feedback from our people to maintain a fulfilling, rewarding and responsible work environment.</p>
<p><b>Examples of how we engaged in 2019</b></p>	<ul style="list-style-type: none"> <li>- Consumer panels and focus groups</li> <li>- Consumer product testing</li> <li>- Consumer care helplines</li> <li>- Responsible advertising and marketing</li> <li>- Pack inserts / product leaflets</li> <li>- Consumer feedback channels</li> <li>- Real-time feedback via digital platforms</li> </ul>	<ul style="list-style-type: none"> <li>- Annual General Meeting</li> <li>- Investor relations programme</li> <li>- Institutional shareholder meetings</li> <li>- Capital Markets Days</li> <li>- Investor roadshows</li> <li>- Results announcements</li> <li>- Annual Report &amp; Form 20-F</li> <li>- Sustainability Report</li> <li>- Stock exchange announcements</li> <li>- Shareholder information on website</li> </ul>	<ul style="list-style-type: none"> <li>- Director market and site visits</li> <li>- Employee town halls</li> <li>- Global and regional webcasts</li> <li>- 2019 'Your Voice' employee survey</li> <li>- Works councils and European Employee Council meetings</li> <li>- Graduate and management trainee events</li> <li>- Individual performance reviews</li> <li>- Speak Up channels</li> </ul>
<p><b>What matters to our stakeholders</b></p>	<ul style="list-style-type: none"> <li>- Product quality and innovation</li> <li>- Affordability, value and price</li> <li>- Product anxiety (addiction, harm, social considerations)</li> <li>- Responsible marketing</li> </ul>	<ul style="list-style-type: none"> <li>- Business performance</li> <li>- Corporate governance</li> <li>- Strength of Group leadership</li> <li>- Board succession planning</li> <li>- ESG considerations</li> </ul>	<ul style="list-style-type: none"> <li>- Reward</li> <li>- Career development</li> <li>- Diversity and inclusion</li> <li>- Corporate responsibility</li> <li>- Health and safety</li> <li>- Business ethics</li> </ul>
<p><b>How we respond</b></p>	<ul style="list-style-type: none"> <li>- Development of innovative products taking into account consumer feedback</li> <li>- Product quality and safety standards</li> <li>- Product stewardship</li> <li>- Clear and accurate product information</li> <li>- International Marketing Principles</li> </ul>	<ul style="list-style-type: none"> <li>- Regular dialogue with shareholders</li> <li>- Robust corporate governance</li> <li>- Enhanced ESG reporting</li> <li>- Continual improvement of our Delivery with Integrity programme</li> <li>- Our range of enjoyable and innovative products</li> <li>- Product quality and safety standards</li> <li>- Clear and accurate product information</li> <li>- International Marketing Principles</li> </ul>	<ul style="list-style-type: none"> <li>- Introduction of BAT Ethos, taking into account employee feedback</li> <li>- Board review of and feedback on workforce engagement</li> <li>- Training and development programme</li> <li>- Introduction of revised management incentive schemes (below Executive Director level)</li> <li>- Diversity &amp; Inclusion Strategy</li> <li>- Delivery with Integrity Programme</li> </ul>
<p><b>Strategic impact*</b></p>	  Growth Sustainability	   Productivity Growth Sustainability	  Sustainability Winning organisation
<p><b>Principal risk impact</b></p>	<ul style="list-style-type: none"> <li>- Market size reduction/ consumer downtrading</li> <li>- Inability to develop, commercialise and deliver New Categories strategy</li> </ul>	<ul style="list-style-type: none"> <li>- Solvency and liquidity</li> </ul>	<ul style="list-style-type: none"> <li>- Work place safety</li> </ul>

\* These engagement examples took place in 2019 and the strategic impact of engagement is measured against the strategic pillars in place for 2019. Reporting for FY2020 will measure against our evolved strategy discussed on pages 8 to 9.



**OUR 2019 'YOUR VOICE' GLOBAL EMPLOYEE  
OPINION SURVEY RESULTS SHOW WE CONTINUE  
TO OUTPERFORM OUR GLOBAL FMCG COMPARATOR  
GROUPS IN ALL CATEGORIES, INCLUDING  
THE SUSTAINABLE ENGAGEMENT AND HIGH  
PERFORMANCE INDICES**



 **Suppliers**

Effective relationships with farmers, and suppliers of leaf, direct materials and services are essential to an efficient, productive and secure supply chain.

 **Customers**

Our customers include distributors, wholesalers, and retailers. Engagement with our customers is essential for driving growth and embedding responsible marketing practices.

 **Governments and wider society**

We engage transparently with governments and regulators to share our views on regulation that impact our business whilst respecting the WHO's FCTC Article 5.3 provision. We actively cooperate with law enforcement and customs authorities, governments and regulators to combat the rise of illicit trade. We also engage with scientific and public health communities.

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

Our Directors have a duty, individually and collectively as the Board, to act as they consider most likely to promote the success of the Company for the benefit of our members as a whole. As part of this duty, our Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. Our Directors must also have regard for our employees' interests, business relationships with our wider stakeholders, the impact of our operations on the environment and communities in which we operate and the need to act fairly between shareholders.

Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

Our key stakeholders and primary ways in which we engage with them are set out in the table to the left. Pages 71 to 73 provide further explanation of our Board's approach to understanding stakeholder interests to enable relevant considerations to be drawn on in Board discussion and decision-making. Where the Board delegates authority for decision-making to management, our Group governance framework discussed on pages 69 to 70 mandates consideration of these factors and other relevant matters as a critical part of delegated authorities.

Just some of the ways that these factors have shaped Group strategy and initiatives during the year are illustrated in the table to the left. Examples of how these factors have been taken into account in Board decision-making and strategy development during the year are highlighted on pages 74 to 75.

- Ongoing farmer support, training and monitoring by our extension services
- Sustainable Tobacco Programme assessments, reviews and meetings
- Supplier reviews and audits
- Supplier Voice survey and dialogue
- Strategic partnerships
- Eliminating Child Labour in Tobacco Growing (ECLT) Foundation engagement

 Read more  
pages 29 to 31 and 38 to 39

- Ongoing dialogue, contract discussions and account management
- Customer Voice programme
- Audits and performance reviews
- Sales calls and visits by trade representatives
- Business-to-business programmes
- Performance tracking
- Participating in industry Digital Code and Tracking Association

- Face-to-face meetings and ongoing dialogue
- Presentations and submissions to government committees
- Participation in business, industry and multi-stakeholder groups
- Presentations and participation at conferences
- Submissions to peer-reviewed journals
- BAT External Scientific Panel
- Submissions to sustainability indices
- Stakeholder Sustainability Panel

- Costs and payment practices
- Efficiencies and forecasting
- Quality and crop yields
- Sustainable agriculture and farmer livelihoods
- Human rights

- Route-to-market planning
- Contingency planning
- Cost, price and quality
- Availability and stock levels
- Consumer buying behaviour
- Youth access prevention

- Public health impacts
- Tax, excise and illicit trade
- Corporate behaviour
- Youth access prevention
- Human rights, sustainable agriculture and economic development

- Supplier Code of Conduct
- 'Thrive' sustainable agriculture and farmer livelihoods programme
- Operational standards for child labour prevention
- Supplier and farmer training and capacity building

- Customer loyalty programmes and incentives
- Youth Access Prevention Guidelines

- Standards of Business Conduct (SoBC)
- International Marketing Principles
- Youth Access Prevention Guidelines
- Science-based carbon reduction targets
- Community investment projects



- Inability to develop, commercialise and deliver New Categories strategy
- Geopolitical tensions

- Inability to develop, commercialise and deliver New Categories strategy
- Geopolitical tensions

- Geopolitical tensions
- Competition from illicit trade
- Significant excise increases
- Regulation that inhibits growth

# DELIVERING OUR STRATEGY\*



## SUSTAINABILITY

### Our Sustainability Agenda is at the heart of our strategic plans to build a long-term sustainable business.

Within it, our clear commitment to providing our consumers with a range of potentially less risky products addresses the principal health impacts of our business.

We also know that our long-term sustainability will be driven by ensuring best-in-class delivery against all our other environmental, social and governance (ESG) measures.

In 2019, we refreshed our Sustainability Agenda to reflect the prominence of the health risks of smoking as our principal focus and to place greater emphasis on the importance of addressing climate change and environmental management.

Our priority areas are:

#### A commitment to reducing the health impact of our business

#### Excellence in environmental management

#### Delivering a positive societal impact

#### Robust corporate governance

### Highlights during the year

- growth of our New Categories revenues by 37% to £1.3 billion.
- a 9.5% reduction of our direct Scope 1 and 2 carbon dioxide equivalent (CO<sub>2</sub>e) emissions from our 2017 baseline.
- revised Group Standards of Business Conduct to strengthen controls around human rights and incorporate a new Lobbying and Engagement Policy.
- new independent research published into the impacts of tobacco growing and the role it plays in rural livelihoods.

Read more about our sustainability performance in each area at [www.bat.com/sustainabilityreport](http://www.bat.com/sustainabilityreport)

Emissions**	2019	2018	2017
Scope 1 CO <sub>2</sub> e emissions ('000 tonnes)	396	415	427
Scope 2 CO <sub>2</sub> e emissions ('000 tonnes)	386	426	438
Scope 3*** CO <sub>2</sub> e emissions ('000 tonnes)	n/a	7,547	8,254
Total statutory emissions (Scope 1 and 2 in '000 tonnes)	782	841	864
Intensity (tonnes per £ million of revenue)	30.4	32.6	34.7

All data is calculated on the basis of the Greenhouse Gas (GHG) Protocol Corporate Standard.

\*\* Scope 1 reporting includes: energy consumed at our factories and offices (coal, natural gas, wood, diesel and LPG), emissions from our dry ice expanded tobacco plants, and fuel consumed by our fleet vehicles.

Scope 2 reporting includes: electricity purchased and consumed at our factories and offices, purchased steam and hot water.

Scope 3 reporting includes: all 15 categories of the GHG Protocol.

\*\*\* Consolidation and verification of our 2019 Scope 3 data is ongoing to fully align with the GHG Protocol.

2019 data will be reported in the 2020 Annual Report and Form 20-F.

### New Sustainability Targets

We are committed to making a step-change in our sustainability ambition. As a result, we have announced a number of stretching targets that we are confident will deliver A Better Tomorrow for all our stakeholders.

These include:

- increasing our number of non-combustible product consumers from 11 million to 50 million by 2030;
- achieving carbon neutrality by 2030\*; and
- bringing forward our existing 2030 environmental targets to 2025.

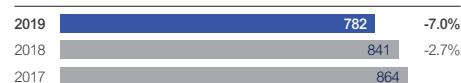
\* Based on Scope 1 and 2 carbon dioxide equivalent (CO<sub>2</sub>e) emissions.

#### CO<sub>2</sub>e emissions

(in '000 tonnes)

782

9.5% lower than 2017 baseline



**Definition:** Group Scope 1 and Scope 2 carbon dioxide equivalent (CO<sub>2</sub>e) emissions.

**Target:** To reduce our Scope 1 and Scope 2 CO<sub>2</sub>e emissions by 30% by 2025 compared to our 2017 baseline.

#### Water use

(total water withdrawn in mn metres<sup>3</sup>)

4.51

13.1% lower than 2017 baseline



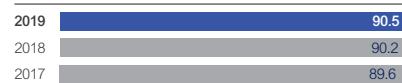
**Definition:** Group water use in million cubic metres.

**Target:** To reduce water use to 3.38 mn metres<sup>3</sup> by 2025, 35% lower than our 2017 baseline.

#### Recycling

(percentage of waste recycled)

90.5%



**Definition:** Total percentage of Group waste re-used or recycled against total waste generated.

**Target:** To recycle 95% or more by 2025 in each year.

\* This year's Annual Report and Accounts measures all backward-looking reporting against the strategy, which includes the four strategic pillars and KPIs, that was in place until March 2020. Next year's Annual Report and Accounts will measure our delivery against our evolved strategy, which is detailed on pages 8 to 9.

## A commitment to reducing the health impact of our business

As harm reduction is our most material ESG issue, we have long been committed to reducing the public health impact of smoking.

### Satisfying consumer moments

Smokers are more likely to switch to new products if they can find satisfying alternatives that offer sensorial enjoyment and recapture consumer moments long-associated with tobacco that have been lost to shifting trends. We have a deep understanding of our consumers and we use these insights to develop an exciting product portfolio across a range of categories, including Vapour, Tobacco Heating Products (THPs) and Modern Oral products.

### World-class science

The reduced-risk potential of new category products needs to be supported by sound science. We conduct cutting-edge research to evaluate our new category products and apply the highest standards for product safety and quality. Globally, we have over 1,500 scientists focused on researching and developing new category products and we openly share our science on bat-science.com. To date, we have published 59 peer-reviewed research papers on our new category products and the results indicate they have the potential to be significantly less risky than cigarettes. We are continuing to establish more evidence to support this.

### Standards and regulation

New category products can only meet their potential if they are widely available with the right regulatory and market conditions in place, alongside high standards and responsible practices across the industry.

To support the success of our new product categories, we advocate for regulation that enables market availability, applies the highest product quality and safety standards, allows communication of the potential benefits and risks, and ensures affordability for consumers by taxing them appropriately, while preventing youth appeal and access.

### Other ESG focus areas

In addition to our commitment to address the health impacts of smoking, we also continue to focus on a wide range of other important ESG issues.

 Read more about our ESG reporting on page 10

## Excellence in environmental management

We are committed to reducing our environmental impact across our operations and supply chain. Our Environment Policy is supported by a comprehensive Environmental, Health and Safety (EHS) management system which has been in place for many years and is based on international standards including ISO14001.

### Addressing the impacts of climate change

Climate change is one of the most important global issues facing the world today. We recognise that addressing the impacts of climate change is not only the right thing to do, but also makes sound business sense given how much we depend on natural resources for our products.

In 2019, our targets for reducing our CO<sub>2</sub> emissions by 2030 were given formal approval by the Science-Based Targets initiative (SBTi) and we have now brought forward our Scope 1 and 2 targets to 2025. Building on this, we are now setting ourselves an even more ambitious target: to be carbon neutral by 2030.

We are also committed to align our reporting with the Taskforce on Climate-related Financial Disclosures (TCFD) framework by 2022. We are also proud to have been named on the Carbon Disclosure Project's prestigious 2019 'A List' for our leading approach to climate change.

We have achieved a 7.0% year-on-year reduction in our Scope 1 and 2 carbon emissions in 2019. In total, these equalled 782,394 tonnes, 9.5% lower than 2017, our baseline year. Drivers include a 6.5% reduction in direct energy consumption and an increase in renewable energy use which now stands at 10.8%, an 1.6% increase over 2018.

Supporting our continued drive to reduce our emissions, we have developed a new Climate Change and Energy Standard which requires our subsidiaries to include renewables in their energy purchase agreements and we are also identifying opportunities to increase on-site energy generation and purchase more renewable energy certificates.

Meeting our ambitious climate targets will require collective effort across the Group and, given our Scope 3 emissions represent around 90% of our total carbon footprint, addressing impacts in our supply chain is also crucial. We are engaging with our largest suppliers to raise awareness of carbon reduction in our supply chain and we continue to make progress in the tobacco leaf supply chain, where more efficient curing technologies, smarter use of fertilisers and increases in yields are all contributing to reduced emissions.

In 2018, our Scope 3 emissions decreased by 3.3% compared to our 2017 baseline, driven by a reduction in purchase volume, changes to emissions factors and decreases in fertiliser and fossil fuel use for tobacco leaf curing.

### Water and waste

As well as a priority focus on carbon and energy, our approach to environmental management also addresses a wide range of issues, including water use and waste management.

We have been steadily decreasing our water use and increasing water recycling for several years and 2019 saw a 5.3% year-on-year reduction in total water withdrawn.

Additionally, our increased focus on environmental management has resulted in us bringing forward our existing 2030 target for water and waste to 2025.

We are committed to recycling at least 95% of our total waste generated, which is more challenging in locations with limited recycling and waste management facilities. Nevertheless, 28% of our manufacturing sites have already achieved zero waste to landfill and another 24% are recycling at least 95% of their waste.

### Sustainable agriculture

We have a long and proud history of working directly with farmers around the world to advance agriculture. We provide farmers with best practice environmental information and introduce them to new sustainable farming practices. For example, we have been successful in introducing drip irrigation technology to farmers in Brazil and Mexico, which has been shown to increase water usage efficiency by up to 90%, as well as reducing soil erosion and salination, and ultimately boosting yields.

We have an ongoing commitment to eliminate the use of unsustainable sources of wood by our contracted farmers for curing fuels. Monitoring of the last three years of our contracted farmers' wood use for curing has shown 99% was from sustainable sources.

We also support community-based afforestation programmes in a number of countries. For example, our afforestation programmes in Bangladesh and Pakistan date back to the early 1980s and have planted over 185 million tree saplings combined. Both are recognised to be among the largest private sector-driven programmes in these countries.

## DELIVERING OUR STRATEGY

### CONTINUED

#### Circular economy

Globally, there is growing concern around the use and disposal of plastics and other materials and increased pressure on businesses to address post-consumption waste. Adopting circular economy principles will deliver better products for our consumers, create efficiencies in our operations and reduce our overall impacts.

This is a new focus area for us and, in 2019, we established a cross functional project team, led by our Management Board, to develop a Group-wide circular economy strategy and oversee its implementation across all product categories. Initially, this is focusing on the recovery of post-consumption waste, reducing plastic waste in packaging and exploring opportunities to improve the recyclability of our products. Already, we have established new electronic device return and recycling schemes in France, Japan, Korea and Mexico.

#### Delivering a positive societal impact

Reducing the harm associated with smoking and the opportunity to have a positive impact on public health is the most material issue for our business, but as one of the world's most international businesses, we also have a larger role to play in delivering a positive societal impact.

#### Human Rights

Our integrated human rights strategy is aligned to the UN Guiding Principles and includes policies, due diligence, grievance channels and remediation procedures for our own business operations and supply chain, as well as working to understand and address the root causes. Our Human Rights policy forms part of our Group Standards of Business Conduct and is reflected in our Supplier Code of Conduct.

The most significant challenges for human rights are in our tobacco leaf supply chain and this has been a priority area for us for many years. The industry-wide Sustainable Tobacco Programme focuses on leaf supplier due diligence and compliance with international standards, and our own Thrive programme is focused at farm-level and seeks to identify and address the root causes and long-term challenges around human rights, including rural poverty.

To further enhance our understanding and ability to address human right issues in the tobacco supply chain, in 2019 we commissioned human rights impact assessments in tobacco growing areas in Indonesia and India, with two more planned for 2020 in Mozambique and Mexico. We will report on the results in a Human Rights Focus Report, to be published later in 2020.

All our other products materials and goods and services suppliers are subject to annual human rights risk assessments. Further independent audits are conducted on the highest risk by Intertek, our audit partner. In 2019, a total of 94 supplier audits in 31 countries were conducted, including 65 audits of tier 1 materials suppliers, 20 audits of tier 2 materials suppliers and nine audits of indirect goods and services suppliers.

The vast majority of issues identified in these audits were categorised by Intertek as 'moderate', relating to hours and wages, poor record keeping, and health and safety procedures. Eleven suppliers had issues identified that were categorised as 'major' by Intertek. These related to preventing worker interviews, excessive working hours, wages below the legal minimum, fire and emergency preparedness, lack of required permits or licences, poor record keeping and, in one case, retention of workers' original documents.

By the end of the year, 71% of corrective actions had been fully completed and verified by Intertek, in desktop reviews for the moderate issues and 11 on-site follow-up audits for the major issues. All outstanding actions are in progress and being closely monitored.

 Further details of our approach to human rights and our Modern Slavery Act statement are available at [bat.com/msa](http://bat.com/msa)

Sustainability: Our policies*	Summary of areas covered	Key stakeholder groups	
<b>Standards of Business Conduct (SoBC)</b>	Speak Up, conflicts of interest, anti-bribery and anti-corruption, gifts and entertainment, respect in the work place, human rights, lobbying and engagement, political and charitable contributions, corporate assets and financial integrity, competition and anti-trust, anti-money laundering and tax evasion, anti-illicit trade, data privacy and information security.	 Our People	 Governments and Wider Society
<b>Environmental Policy</b>	Our commitments to following high standards of environmental protection, adhering to the principles of sustainable development and protecting biodiversity covering our direct operations and supply chain, including agricultural, manufacturing and distribution operations.	 Our People  Consumers  Customers	 Suppliers  Governments and Wider Society
<b>Health and Safety Policy</b>	Our commitments to applying the highest standards of health and safety.	 Our People	
<b>Supplier Code of Conduct</b>	Standards required of our suppliers worldwide, including business integrity, anti-bribery and anti-corruption, environmental sustainability, anti-illicit trade and respect for human rights (covering equal opportunities and fair treatment, health and safety, prevention of harassment and bullying, child labour and modern slavery, conflict minerals and freedom of association).	 Our People  Customers	 Suppliers  Governments and Wider Society
<b>Strategic Framework for Corporate Social Investment (CSI)</b>	Sets out our Group CSI strategy and how we expect our local operating companies to develop, deliver and monitor community investment programmes within two themes: Sustainable Agriculture and Rural Communities; and Empowerment.		 Governments and Wider Society
<b>International Marketing Principles</b>	The standards that govern marketing across all our product categories and including the requirement for all our marketing to be targeted at adult consumers only.	 Consumers  Customers	 Suppliers  Our People

These policies and procedures are endorsed by our Board, apply to all Group companies and support the effective identification, management and mitigation of risks and issues for our business in these and other areas.

\* Further details of our Group policies and principles can be found at [www.bat.com/principles](http://www.bat.com/principles)

Further details of our Strategic Framework for Corporate Social Investment can be found at [bat.com/csi](http://bat.com/csi)

With the majority of our employees working in business areas where we have direct oversight and control, human rights challenges in our own operations are substantially avoided.

The challenges that do exist are mitigated by our robust policies and procedures in place across all Group companies. However, we recognise that we need to continually work to ensure these are effectively applied and that we carefully monitor the situation, particularly in countries assessed as higher risk, such as where regulation or enforcement regimes are limited, or there are higher levels of corruption, criminality or unrest. Our due diligence includes conducting an annual review of compliance with applicable Group policies and additional measures in place for operations in higher risk countries.

#### **Farmer livelihoods**

Rural poverty is recognised as a root cause for wider issues in agriculture, such as child labour, poor safety standards and urban migration. If we can support tobacco farmers to have prosperous livelihoods, we can help address these issues while also securing our tobacco leaf supply chain. We support our 90,000+ directly-contracted farmers through our Extension Services of expert field technicians. We develop new tobacco seed varieties that offer greater yields and higher quality and so help boost farmers' profits, as well as introducing them to more efficient farming technologies that save farmers time and money. Our Extension Services also provide training and advice and help our farmers to grow other crops to enhance food security and generate additional sources of income. For instance, in 2019 our leaf operations and strategic third-party suppliers reported that 92% of their contracted farmers grew other crops, including fruit, vegetables, wheat, maize, cotton and soy.

To further increase our understanding of the role tobacco plays in rural livelihoods, we commissioned IMC Worldwide, one of the world's leading international development consultancies, to conduct independent research in Bangladesh, Brazil and Kenya to identify if tobacco growing reduces resilience and prevents farmers and rural communities from prospering. Overall, IMC found no evidence of this: IMC concluded that tobacco growing plays an important and positive role in the livelihoods of tobacco farmers and labourers interviewed, while no evidence supporting a causal link between tobacco cultivation and poverty was found.

 Read more about the IMC Report at [bat.com/farmers/research](http://bat.com/farmers/research)

 Read more about our Group risk factors related to tobacco leaf supply on page 275

#### **Culture and workplace health and safety**

The health and safety of our employees and creating a great place to work are also key components of our Sustainability Agenda. We focus on building an inclusive and supportive culture that attracts, engages and retains diverse and talented people, develops the next generation of leaders, and creates a fulfilling, rewarding and responsible work environment.

We also have a comprehensive workplace health and safety approach based on risk management and assessment, employee training and awareness, and tailored initiatives for specific issues and higher-risk areas. You can read more about our culture on pages 40 to 42 and page 70. More information on our approach to workplace health and safety is set out on page 42.

#### **Community investment and social initiatives**

As an international business, we play an important role in countries around the world and have built close ties with local communities. We encourage our employees to play an active role both in their local and business communities. Our charitable contributions policy in our SoBC is supported by the Group Strategic Framework for CSI, which sets out our Group CSI strategy and how we expect our local operating companies to develop, deliver and monitor community investment programmes within two themes: Sustainable Agriculture and Rural Communities, and Empowerment.

Our Group Head of Sustainability has oversight of the Group CSI strategy, and Board-level governance is managed through our Audit Committee, which reviews the strategy and an analysis of activities (including investment and alignment to the Group's priorities) annually.

Our performance indicator in this area relates to the total amount of money contributed to charitable giving and CSI projects. In 2019, the Group contributed over £13 million in cash for charitable contributions and CSI projects, including £1.1 million given for charitable purposes in the UK. Much of this contribution is delivered through partnerships with external stakeholders including communities, NGOs, governments, development agencies, academic institutions, industry associations and peer companies.

#### **Corporate governance**

Robust corporate governance is key to our sustainable long-term growth. We are committed to achieving our business objectives in an honest, transparent and accountable way, and sustaining a culture of integrity in everything we do.

Our actions and behaviours impact all areas of our business, which is why corporate governance is such an important focus for us.

Our commitment to responsible corporate behaviour is underpinned by our SoBC which mandate high standards of integrity and require every Group company, joint venture which the Group controls and all staff worldwide, including senior management and the Board, to act with a high degree of business integrity, comply with applicable laws and regulations and ensure our standards are not compromised for the sake of results. We expect our contractors, secondees, trainees, agents and consultants to act in a way consistent with our SoBC and to apply similar standards within their own organisations.

Our SoBC comprise our global policies referenced on page 30 and are available in 12 languages. SoBC awareness and understanding is promoted through regular training and communications. Our SoBC are fully aligned with the provisions of applicable laws including the UK Bribery Act, the US Foreign Corrupt Practices Act and the UK Criminal Finances Act.

Corrupt practices are illegal, cause distortion in markets and harm economic, social and political development, particularly in developing countries. Our SoBC make it clear that it is wholly unacceptable for Group companies, our employees or our business partners to be involved or implicated in any way in corrupt practices. We keep our SoBC under regular review to maintain best practice and to take employee and stakeholder feedback into account. Our Board approved a revised version of the SoBC in 2019, which came into effect on 1 January 2020, supported by a global awareness campaign across the Group.

#### **Delivery with integrity**

Our Delivery with Integrity programme is focused on driving a globally consistent approach to compliance across the Group. This programme is led by our Business Conduct & Compliance Department reporting directly to the Director, Legal & External Affairs and General Counsel. This programme provides employees with ways to raise concerns without fear of retaliation and assurance that investigations will be fair and thorough. It drives a consistent approach to the mitigation of key compliance risk areas such as bribery and corruption, money laundering, tax evasion, competition law, sanctions, and data protection through tools and guidance for Group company employees and business units.

 Read more about our Group risk factors related to corporate behaviour and compliance with sanctions regimes and competition laws on pages 279 and 281

## DELIVERING OUR STRATEGY

### CONTINUED

We monitor regulatory developments to ensure the continued evolution of our Delivery with Integrity programme.

Mitigating third-party risk is a key component of our compliance programme. We do this through a Third-Party Anti-Bribery and Corruption Procedure (the ABAC Procedure) which assists business units in identifying and mitigating bribery and corruption risks. The ABAC Procedure mandates a consistent methodology for due diligence of third parties, complemented by mandatory mitigation packages for third parties assessed as medium and high risk. In 2019, this due diligence procedure was applied retrospectively to over 4,500 existing third parties engaged by Group companies. In addition, given the challenges associated with intermediaries engaged to interface with public officials on the Group's behalf, detailed due diligence and mitigation measures were completed for 903 service providers with external input and oversight. In 2019 we also launched an ABAC risk assessment tool to assist our markets to identify, assess and evaluate bribery and corruption risks.

In 2019, over 25,000 Group company employees completed our annual SoBC sign-off and e-learning through the online SoBC portal. Other Group company employees (over 30,000) who do not have easy online access completed the SoBC sign-off in face-to-face sessions which included training. In 2019, our SoBC e-learning through the online portal resulted in 10,800 training hours and it included scenarios covering product diversion, money laundering and bribery and corruption risks. To further increase awareness and accessibility, in 2019 we launched a new SoBC app, which provides easy access to our SoBC, Speak Up channels, procedures and guidance.

Information on compliance with our SoBC is gathered at a regional and global level and reported to the Regional Audit and CSR Committees, Corporate Audit Committee and to the Audit Committee.

#### **Speak Up channels**

We encourage anyone working for, or with, any Group company to raise concerns, including regarding accounting or auditing matters, through our Speak Up channels, which are independently managed and available 24 hours a day online, by text or telephone. The channels can be used in confidence, and anonymously where preferred, and are available in multiple local languages. Speak Up channels contact information is promoted through staff training and communications and through our SoBC app and Supplier Code of Conduct. Our Speak Up policy makes it clear no one will suffer any direct or indirect reprisal for speaking up about actual or suspected wrongdoing, even if they are mistaken.

Our Speak Up policy is supplemented by local procedures throughout the Group, providing staff with further guidance on reporting matters and raising concerns, and the channels through which they can do so. We do not tolerate the harassment or victimisation of anyone raising concerns or anyone who assists them. Such conduct is itself a breach of our SoBC and a serious disciplinary matter. In 2019, our global 'Your Voice' employee survey, completed by 90% of Group company employees, found that 79% strongly agreed they "can report concerns about actual or suspected wrongdoing at work without fear of reprisal", 8% higher than the FMCG comparator norm.

Not all contacts made via our SoBC Portal involve SoBC allegations; some contacts relate to questions regarding the SoBC or other matters. There were 497 SoBC contacts in 2019, representing a 40% increase on the total number of SoBC contacts in 2018 (355 contacts).

In the year ended 31 December 2019, 359 of the 497 SoBC contacts were assessed as SoBC allegations and reported to the Audit Committee, representing a 35% increase on 2018 SoBC allegations (266). Of the 359 SoBC allegations reported, 130 were established as breaches and appropriate action taken (2018: 126). In 179 cases, an investigation found no wrongdoing (2018: 140). In 50 cases, the investigation continued at year-end (2018: 69), including investigation through external legal advisers of allegations of misconduct. Disciplinary action taken as a result of the 130 established SoBC breaches resulted in 80 dismissals (2018: 92). In 184 of the 359 SoBC allegations (51%), the person raising the allegation chose to remain anonymous.

Please refer to the Governance Report for more information about Board and Audit Committee oversight and monitoring of compliance with our SoBC. Our SoBC, and information on the total number of incidents reported under it, are available at [bat.com/sobc](http://bat.com/sobc).

#### **Responsible marketing**

Our International Marketing Principles (IMP) govern marketing across all our product categories and require all our marketing to be responsible, accurate and not misleading, targeted at adult consumers, transparent and compliant with all applicable laws.

Our IMP are applied consistently everywhere we operate, even when more stringent than applicable local laws. Through our long-standing IMP, responsible marketing is well embedded in the culture of our organisation and inherent to the way we operate. We continually evolve our IMP to reflect developments in marketing, our product portfolio, technology, changing regulations and stakeholder expectations, and the Board approved a revised version of the IMP in 2019.

To support our strict requirement to only direct marketing at adult consumers, all Group companies are required to adhere to our global Youth Access Prevention (YAP) Guidelines. These apply to all markets where our products are sold, including where distributed through third parties and include a mandatory requirement to provide retailers with point-of-sale materials with YAP messaging (unless prohibited by local laws). In 2019, 100% of Group companies to which our YAP Guidelines apply reported compliance.

#### **Regulatory engagement**

Truly effective regulation needs cooperation between governments and industry, and we have a legitimate role to play in policy-related debate that affects our business. We also respect the World Health Organization's FCTC 5.3 provision, which calls for transparent and accountable interaction between governments and the tobacco industry.

By conducting all our engagement with politicians, policy makers and regulators transparently and with high regard for accuracy and integrity, we can make a valuable contribution to policy development and help enable the best information to be used as a foundation for decisions in policy making.

Our Principles for Engagement have long provided clear guidance for our external engagement with regulators, politicians and other third parties. In 2019, these were incorporated into a new Lobbying and Engagement Policy in our SoBC. The revised SoBC took effect from January 2020 and all lobbying and engagement activities across the Group are now subject to our SoBC compliance procedures.

**Our sustainability efforts and commitment to high standards have received notable independent recognition over the years, including the following.**



#### **CDP Climate A List**

These recognise our actions to cut emissions, mitigate climate risks and develop the low-carbon economy, as well as engaging with our suppliers to manage climate risk and reduce Scope 3 carbon emissions in our supply chain.



In collaboration with a RobecoSAM brand

#### **Dow Jones Sustainability Indices**

BAT is the only company in our industry listed in the prestigious World Index, representing the world's top 10% ESG performers. We have achieved inclusion in the DJSI for 18 consecutive years.



#### **Global Top Employer**

We have been accredited as a Global Top Employer for three consecutive years, acknowledging our commitment to providing best-in-class working environments and career opportunities.



#### **SEAL Awards**

BAT has been awarded with the SEAL Organizational Impact Award, which recognises overall corporate sustainability performance and represents the 50 most sustainable companies globally.



#### **Top 5 FTSE ranking for our Modern Slavery Statement**

The Business and Human Rights Resource Centre and Development International ranked BAT as being among the top five highest scoring companies in the FTSE for the detailed disclosure and action reflected in our Modern Slavery Statement.



#### **Diversity leader in the Financial Times Diversity Leaders report**

BAT was ranked in the top 10% of the total of 8,000 organisations covered by this inaugural report. It was compiled from extensive research, with 80,000 people surveyed across 10 European countries.



#### **Leader status in the Global Child Forum's benchmark study**

In the Global Child Forum's 2019 benchmarking study of children's rights across the work place and supply chain, we were awarded 'leader' status with a score of 9.2 out of 10, compared to 'industry' and 'all companies' averages of just 5.6.



#### **International Women's Day Best Practice Winner**

Our global campaigns for International Women's Day have been recognised for two consecutive years as examples of best practice and featured as case studies by the International Women's Day Association.

## DELIVERING OUR STRATEGY CONTINUED



### GROWTH

**Our multi-category portfolio of brands continued to deliver strong growth in 2019, driven by our Strategic Portfolio.**

Growth remains a key focus of our evolved strategy, and will be delivered by our inspirational foresights, remarkable innovation and powerful brands.

#### Highlights during the year:

- group revenue grew by 6%, driven by price mix and growth in New Categories;
- New Categories revenue grew 37%; and
- Strategic Portfolio revenue grew 9%, driven by robust cigarette pricing and growth from New Categories and Traditional Oral.

#### New Categories

##### Vapour



THP



##### Modern oral



KPI Non-GAAP

**Change in adjusted revenue from New Categories, at constant rates (%)**

**+32.4%**

2019		+32%
2018		+143%
2018 (rep)		+97%

**Definition:** Change in revenue from New Categories before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

#### Traditional Oral



Non-GAAP

**Change in adjusted revenue from Traditional Oral, at constant rates (%)**

**+10.2%**

2019		+10%
2018		+135%
2018 (rep)		+8%

**Definition:** Change in revenue from Traditional Oral before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

#### Combustibles



NATURAL AMERICAN SPIRIT



Non-GAAP

**Change in adjusted revenue from combustibles, at constant rates (%)**

**+4.6%**

2019		+5%
2018		+30%
2018 (rep)		+2%

**Definition:** Change in adjusted revenue from Combustibles before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

### Volume by product category

	Units	2019 units	vs 2018 %	2018 units	vs 2017 (rep) %	2017 (rep) units
Cigarette	Sticks (bn)	<b>668</b>	-5%	701	-4%	732
Other (incl RYO/MYO)	Sticks (bn)	<b>21</b>	-7%	22	-8%	24
Combustibles	Sticks (bn)	<b>689</b>	-5%	723	-4%	756
New categories:						
Vapour	10ml units/pods (mn)	<b>226</b>	+19%	189	+35%	140
THP	Sticks (bn)	<b>9</b>	+32%	7	+217%	2
Modern oral	Pouches (mn)	<b>1,194</b>	+188%	414	+108%	199
Traditional oral	Stick equivalent (bn)	<b>8</b>	-1%	8	-0.4%	9

### Revenue by product category

	2019 £m	vs 2018 %	Adjusting items £m	Impact of exchange £m	2019 adjusted at constant rates £m	vs 2018 (adjusted) %	2018 £m	vs 2017 %	vs 2017 constant rates %
Combustibles	<b>23,001</b>	+4%	(50)	(59)	<b>22,892</b>	+5%	22,072	+22%	+2%
New Categories:									
Vapour	<b>401</b>	+26%	–	(9)	<b>392</b>	+23%	318	+89%	+26%
THP	<b>728</b>	+29%	–	(35)	<b>693</b>	+23%	565	+180%	+184%
Modern oral	<b>126</b>	+267%	–	3	<b>129</b>	+273%	34	+127%	+140%
Total New Categories	<b>1,255</b>	+37%	–	(41)	<b>1,214</b>	+32%	917	+140%	+98%
Traditional oral	<b>1,081</b>	+15%	–	(45)	<b>1,036</b>	+10%	941	+127%	+8%
Other	<b>540</b>	-4%	–	1	<b>541</b>	-4%	562	-5%	-10%
<b>Revenue</b>	<b>25,877</b>	+6%	(50)	(144)	<b>25,683</b>	+6%	24,492	+25%	+4%

### Combustibles

Group cigarette volume declined 4.7% in 2019 to 668 billion sticks (2018: up 2.6% to 701 billion, or a 4.1% decrease on a representative basis). In 2019, growth in Japan, the Middle East, South Africa, Romania and Poland was more than offset by Russia (partly due to the one-off stock reduction), Egypt (largely due to the change in local taxes impacting Pall Mall), Venezuela (due to the ongoing macro-economic challenges) and the impact of market decline in the US, Indonesia, Pakistan and Ukraine.

2018 volume was positively impacted by the full year effect of the RAI acquisition. The decline in 2018, on a representative basis, was despite growth in a number of markets, including Pakistan (as the market recovered following the revision to excise), Turkey, Poland, Romania and Egypt. This growth was more than offset by lower volume in Saudi Arabia (due to down-trading and market contraction following the 2017 excise-led price increase), the US (partly due to the impact of fuel price rises on disposable income, the change in excise in California and the growth of vapour), Brazil (primarily due to down-trading to illicit trade) and Russia (largely due to both market contraction and inventory movements in the supply chain).

Group cigarette value share increased 20 bps, with volume share up 20 bps in 2019, maintaining the momentum of 8 successive years of growth, and building on the 40 bps increase in 2018.

Cigarette volume share in 2019 was higher in Japan (driven by Lucky Strike and Kool), Pakistan (as Pall Mall outperformed the declining market), Bangladesh (as the Group's portfolio outperformed the declining market), Mexico (driven by Pall Mall), Ukraine (driven by Kent and Rothmans) and Russia (driven by Rothmans which outperformed the declining market).

Volume of the strategic cigarette brands collectively declined 3.0% (2018: up 16.7%, or an increase of 4.8% on a representative basis). Volume share of the strategic cigarette portfolio grew 70 bps in 2019, benefiting from migrations in Brazil and Colombia. Excluding migrations, the increase in strategic cigarette volume share was 30 bps (2018: up 40 bps) with growth in all regions:

- Dunhill's overall volume share was stable (2018: stable) as growth in Bulgaria, Netherlands and Romania was offset by down-trading in Malaysia, South Africa, South Korea and Saudi Arabia. Volume was 5.5% lower (2018: down 6.1%) as growth in Bulgaria and Netherlands was more than offset by the effect of the down-trading noted above and industry contraction in Indonesia, Malaysia and South Korea;

- Kent's volume share grew 10 bps, (2018: up 40 bps) with volume down 1.3% (2018: down 2.2%), as growth in the Middle East, Turkey, Uzbekistan, Romania and Peru was more than offset by lower volume in Russia, due to the one-off stock reduction;

- Lucky Strike's volume share was in line with 2018 (2018: up 20 bps), as growth in Colombia, Japan, Spain, Bulgaria and Argentina was offset by Chile, Belgium and Indonesia. Volume was 3.5% down (2018: 1.0% down) as growth in Japan was more than offset by the impact of industry contraction in Indonesia;

- Rothmans' volume share continued to grow, increasing 50 bps (2018: up 110 bps) with volume 2.5% higher (2018: up 19.7%), driven by Pakistan, Colombia, Bulgaria and the full year effect of migrations in Brazil and Poland, which more than offset lower volume in Russia and Ukraine which were impacted by competitive pricing and higher illicit trade;

- Pall Mall volume share was up 10 bps, as higher share in Pakistan, Australia, Chile, South Africa and Mexico was offset by reductions in the US and Turkey. Volume declined 6.7% as growth in Kenya, South Africa, Australia and Romania was more than offset by lower volume in Egypt (largely due to the change in local taxes), Pakistan (following the excise-led price increases), Venezuela (partly due to market contraction driven by the macroeconomic climate) and in the US (partly due to the competitive pricing in the low-price segment).

## DELIVERING OUR STRATEGY

### CONTINUED

In 2018, Pall Mall volume increased 20.4% due to the full year impact of the US acquisition, with volume up 9.9% on a representative basis partly due to the strong volume and market share growth in the Middle East following a period of down-trading arising from the excise-led price increases in 2017.

The Group's US strategic combustible portfolio performed well in a market that was estimated to be down 5.3% in volume:

- Newport volume share increased 40 bps (2018: up 10 bps), while volume declined 3.9% (2018: down 4.6% representative);
- Natural American Spirit performed well with volume share, including premium volume share, up 10 bps (2018: up 20 bps). Volume was up 0.5% against 2018, (2018: 3.5% increase on a representative basis); and
- Camel's volume share declined 10 bps in the US (2018: flat) with volume lower by 6.0% (2018: down 4.4% representative), as the capsule and menthol variants performed well but were more than offset by a decline in the remainder of the Camel portfolio.

Volume of other tobacco products (OTP) declined 7.1% to 20.6 billion sticks equivalent (2018: 6.6% decline, or 7.5% on a representative basis), being 3% of the Group portfolio (2018: 3%).

Revenue from combustibles grew 4.2% to £23,001 million driven by higher pricing across the Group notably in the US (including a reduction in discounting), Canada, Kenya, Mexico, Nigeria, Saudi Arabia, Japan, Pakistan, Australia, New Zealand, Germany, France, Turkey and Ukraine. An improved performance in high value markets such as Japan, South Africa, Romania and Australia which, combined with reduced volumes in lower value markets such as Pakistan and Egypt, led to an enhanced geographic mix. These were offset by an unfavourable portfolio mix due to the relative growth of lower value products such as Rothmans and Pall Mall.

In 2018, revenue from combustibles increased by 21.5% to £22,072 million largely due to the full year inclusion of RAI and pricing in a number of markets, which more than offset a translational foreign exchange headwind of 6%.

After adjusting for the short-term impact of excise on bought-in goods and the translational foreign exchange tailwind of 0.6%, adjusted revenue from combustibles at constant rates of exchange was up 4.6% to £22,892 million. In 2018, this was an increase of 30% or 1.8% on an adjusted, representative constant currency basis.

2019 is the last year where the Group will adjust for the excise on bought-in goods as short-term contract manufacturing agreements in ENA, to which such adjustments relate, have either ended in 2019 or will be immaterial in 2020.

### Tobacco heating products

The Group's THP portfolio continued to grow, with consumable volume up 32% to 9.0 billion sticks (2018: up 217% to 6.8 billion sticks) while revenue increased 28.9% to £728 million (2018: up 180% to £565 million). Excluding the impact of the relative movements in sterling, at constant rates of exchange, this was an increase of 22.7% in 2019 and 184% in 2018.

- In Japan, the Group's volume share grew to 5.0% in December 2019, an increase of 60 bps on 2018, while the Group's THP category volume share reached 19.6%. Consumable volume grew 21% against 2018 driven by the launch of new device upgrades, 'glo pro', 'glo nano' and 'glo sens' together with a new range of consumables which achieved national distribution by the end of 2019. After an encouraging launch of 'glo sens', the Group will be reviewing the in-market execution, broadening device penetration and driving increased consumer uptake in 2020. The Group's integrated, cross category approach to marketing has seen the Group's volume share of total nicotine increase to 18.9% in December 2019 (up 210 bps from December 2018).

- In other markets, the Group continued to grow volume and glo is above 1% volume share in key cities in Eastern Europe, including Moscow. The Group's THP products are now available in 17 markets with further expansion planned for 2020.

### Vapour

By December 2019, the Group's vapour products were present in a total of 27 markets as the Group continued to expand its geographic footprint during 2019, with the Group the leading vapour company in the key European markets.

The Group's vapour portfolio continues to perform strongly despite a slowdown in the category growth rate in the US and in a number of other markets in the second half of 2019, partly impacted by the US regulatory environment. The Group welcomes the US FDA's recent actions to clarify regulations in the US vapour market.

Total volume of vapour consumables was up 19% to 226 million units in 2019, driving vapour revenue up 26.1% to £401 million. In 2018, revenue was £318 million (up 89%) with volume 100% higher to 189 million units partly due to the full year impact of RAI. Excluding the movement of foreign exchange and adjusting for the impact of RAI (on 2018's growth rate), this was an increase, at constant rates of exchange, of 23% in 2019 and 26% in 2018 (on a representative basis).

In the US, total revenue from vapour was £207 million, an increase of 12% on 2018, (2018: up 149% at £184 million). On a constant currency basis, this was an increase of 7% in 2019, with the US up 20% in 2018 after adjusting for currency and on a representative basis. Alto increased vapour value share to 15.4% in December 2019, driving total Vuse vapour value share higher to 21.2% in December 2019 (December 2018: 12.5%), despite a 6.2% decline in consumable volume.

On 2 January 2020, the US FDA announced that all flavoured cartridges/pods (excluding menthol and tobacco flavours) must be withdrawn until they have cleared through the Premarket Tobacco Application (PMTA) process. A Group subsidiary in the US has submitted a PMTA for Vuse Solo and the Group believes it is well positioned to submit applications for the remaining Vuse portfolio and a range of flavours by 12 May 2020. It is expected that, as required by the PMTA process to remain on the market, all these will be shown to be appropriate for the protection of public health. There is no intention to submit a PMTA for the Vapewild portfolio and consequently the Group has recognised an impairment charge in respect of the trademarks of £37 million.

Vype continued to perform strongly, largely driven by the success of ePen3 and ePod.

In the UK, the Group maintained value leadership of the category with 38% vapour value share driven by Vype which performed well, with vapour value share increasing 290 bps to 12% (December 2019), due to the success of ePen3 (launched in 2018) with 10% vapour value share in December 2019.

In France, vapour value share reached 23% (December 2019), an increase of 1,210 bps (versus December 2018), driven by ePen3 and ePod, which was launched during the year.

In Germany, Vype continues to grow with an increase in Vype's total share of vapour consumers to 17%.

In South Africa, Twisp, a leading vaping products company, was acquired in 2019. Twisp has close to 70 dedicated stores nationally, nationwide retailer distribution and a modern e-commerce platform.

In Canada, following a period of value share decline as competitors reacted to the legalisation of the market, Vype returned to growth and is the fastest growing vapour brand in Canada in the second half of the year, with value share in December 2019 of 28.2% (34.7% December 2018).

Following the announcement on 28 November 2019 regarding the intention to simplify the New Categories product portfolio, the Group expects to migrate certain vapour brands (including Vype, Chic, Highendsmoke and ViP) to Vuse during 2020, where possible, and has recognised an impairment charge of £29 million, as discussed on page 153.

## Modern Oral

The Group is the leader in Modern Oral (on a pouch basis), with volume of 1.2 billion pouches in 2019. This was an increase of 188% on 2018, when volume was 0.4 billion pouches, itself an increase of 108% on 2017. Revenue increased 267% to £126 million (2018: up 127% to £34 million). Excluding the impact of foreign exchange, this was an increase of 273% in 2019 and 140% in 2018, on a representative, constant rates basis. This was driven by:

- The expansion, in 2019, in the US of Velo to over 100,000 retail outlets, achieving a category volume share of 10.1% in December 2019;
- Norway, where volume share (of the total oral category) grew, in 2019, to 14%, building on the growth in 2018 to 8%;
- Switzerland, where volume share of the total oral category reached 41% in 2019, having reached 17% in 2018;
- Denmark, where the Group continues to lead the development of the oral category with 75% volume share of the total oral category; and
- Russia where, following the launch in 2019, the Group achieved 27% volume share (December 2019) within the total oral category, in tracked channels. In December 2019, following concerns in Russia regarding irresponsible marketing by our competitors, all sales of modern oral have been temporarily suspended. There is no indication of a concern regarding the Group's products or practices and we expect a regulatory framework will be implemented in 2020.

In line with the simplification agenda, the Group expects to migrate the majority of its modern oral portfolio to Velo during 2020.

## Traditional Oral

In 2019, volume was marginally lower than the prior year (down 0.6% to 8.4 bn stick equivalents), with 2018 0.4% lower than 2017. Total revenue grew by 15% to £1,081 million (2018: up 127% to £941 million), driven by pricing in 2019, with the movement in 2018 due to the acquisition of RAI. On a constant rates basis, this was an increase in 2019 of 10% and 8% in 2018 (driven by pricing), after also adjusting for the RAI acquisition uplift effect in that year.

In the US, moist value share grew 80 bps in 2019, largely due to the performance of Grizzly with total volume share of moist up 10 bps. Total volume declined 1.5%. In 2018, volume in the US declined 2.3% on a representative basis.

The Modified Risk Tobacco Products (MRTP) application for Camel Snus was discussed by the Tobacco Products Scientific Advisory Committee (TPSAC) in September 2018. A response is expected soon.

Outside the US, volume was higher in Sweden in 2019 with volume share increasing 50 bps to 10.9% of the total oral category, driven by growth in Lundgrens.

## DELIVERING OUR STRATEGY CONTINUED



## PRODUCTIVITY

We have continued our drive towards a more effective and efficient globally-integrated organisation, in large part through the consolidation of our Global Supply Chain Service Centre. This global integration allows for the lowest possible overheads cost, and has resulted in a more agile and responsive supply chain.

This increased flexibility and agility will play an important role in delivering our new strategy, which we look forward to reporting on next year.

### Highlights during the year

- another year of substantial productivity savings and RAI acquisition savings delivered ahead of schedule;
- consolidation of our Global Supply Chain Service Centre; and
- challenges of Track and Trace and plain packaging regulations successfully overcome.

### Agile global operations model

The 2018 completion of our Global Supply Chain Service Centre resulted in the synchronisation of our end-to-end supply network, with Leaf supply chain, procurement, manufacturing, planning, logistics, and the introduction of new products all consolidated. In 2019, we built on these strong existing capabilities to leverage cross-functional synergies.

Our fast-paced geographic expansion of our New Categories business has necessitated a prioritisation of flexibility and agility. As a result, we have developed a more responsive supply chain, which involved developing different supply chain models to meet the different demand models that arise in our increasingly multicategory business.

This has improved response to markets, which has supported NTO growth in New Categories.

In 2019, supply chain flexibility and agility were also proven in response to both plain packaging regulation in Canada, as well as Tobacco Products Directive (TPD) regulations in the EU. In response to TPD regulations that mandated the traceability of all products and packs from manufacture to retail outlet, our supply chain was successfully adapted to ensure full compliance across 14 factories, 6,400 external warehouses, and 900,000 retailers. Similar successful flexibility was demonstrated by significant changes to ensure compliance while protecting revenue following strict new packaging regulations in Canada.



**OUR FAST-PACED GEOGRAPHIC EXPANSION OF OUR NEW CATEGORIES BUSINESS HAS NECESSITATED A PRIORITISATION OF FLEXIBILITY AND AGILITY**

**Alan Davy**  
Director, Operations



IFRS-GAAP

### Profit from operations (£m)

**£9,016m**  
**-3.2%**

2019	£9,016m	-3%
2018	£9,313m	+45%
2017	£6,412m	+38%

**Definition:** Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

KPI Non-GAAP

### Change in adjusted profit from operations at constant rates (%)

**+6.6%**

2019	+7%
2018	+38%
2018 (rep)	+4%
2017	+39%
2017 (org)	+4%

**Definition:** Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

KPI Non-GAAP

### Operating cash flow conversion ratio® (%)

**97%**

2019	97%
2018	113%
2017	79%

**Definition:** Operating cash flow, as defined on page 264 as a percentage of adjusted profit from operations.

IFRS-GAAP

### Net cash generated from operating activities (£m)

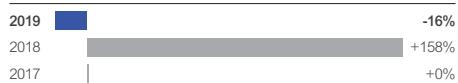
**£8,996m**  
**-12.6%**

2019	£8,996m	-13%
2018	£10,295m	+93%
2017	£5,347m	+16%

**Definition:** Movement in net cash and cash equivalents before the impact of net cash used in financing activities, net cash used in investing activities and differences on exchange.

® Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

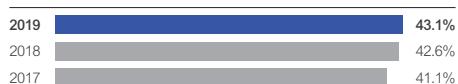
KPI Non-GAAP

**Change in adjusted cash generated from operations at constant rates<sup>®</sup> (%)****-16.3%**

**Definition:** Change in adjusted cash generated from operations, as defined on page 265, before the impact of fluctuations in foreign exchange rates.

**Operating margin (%)****34.8%**

**Definition:** Profit from operations as a percentage of revenue.

**Adjusted operating margin (%)****43.1%**

**Definition:** Adjusted profit from operations as a percentage of adjusted revenue.

**Continued optimisation of manufacturing and leaf footprint**

In 2019, we continued to optimise our manufacturing footprint and at the end of the year had 45 cigarette factories in 43 countries. The Group also has facilities that are manufacturing New Categories products and are co-located with the cigarette factories. In ENA, the Group also has two facilities manufacturing Modern Oral and one facility producing vapour liquids.

Cigarette factories were closed in Saratov, Russia and Phnom Penh, Cambodia.

While the Group does not own tobacco farms or directly employ farmers, it sources over 400,000 tonnes of tobacco leaf each year directly from over 90,000 contracted farmers and through third-party suppliers mainly in developing countries and emerging markets.

We continually strive to improve farmer sustainability and viability with a focus on improved quality, reduced costs of production and increased yield. As a result, we review our contracts on an annual basis to ensure that production is aligned to the needs of both the farmer and the Group.

The Group also purchases a small amount of tobacco leaf from India where the tobacco is bought over an auction floor. The price of tobacco in US dollars varies from year-to-year driven by domestic inflationary pressures, supply, demand and quality. The Group believes there is an adequate supply of tobacco leaf in the world markets to satisfy its current and anticipated production requirements.

**Increasing productivity savings**

By operating globally, exploiting our systems and striving for results, the Group delivered substantial productivity savings in 2019, supported in large part by the acquisition of Reynolds American Inc. with annualised savings of over US\$400 million delivered by the end of 2019, a year ahead of schedule.

These savings are returned to the business for re-investment and to increase shareholder return. The Group considers all opportunities for productivity savings in the supply chain, including procurement, international logistics and leaf operations:

**Procurement**

Global visibility of forward demand and product specifications in one system has delivered significant benefits with the tender at a global level of print materials and tow being notable examples. In addition to the benefits of lower product cost, the development of long-term supplier relationships with key suppliers has improved security of supply and enabled higher flexibility in the supply chain.

**International logistics**

Whether by road, air or sea, our logistics are organised and controlled centrally. This facilitates opportunities to negotiate globally with third-party providers and allows us to benefit from our scale. Furthermore, this maximises the use of return shipments and economic order quantities to allow for maximum efficiency while maintaining the flexibility for fast response to market opportunities.

**Leaf operations**

These are similarly managed globally to ensure that the Group works with reliable, efficient and responsible farmers in our source countries. Our Global Leaf Pool operation aggregates demand to meet supply across all internationally traded tobacco. This approach balances the lowest possible working capital investment while reducing our exposure to crop failure (from changes in climate) and guaranteeing the best quality leaf to meet consumer demands.

In 2019, we continued to improve our productivity in all areas of our supply chain and elsewhere in the Group. As a result, we have increased our profitability and continue to deliver returns to our shareholders today and invest in the future.

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## DELIVERING OUR STRATEGY

### CONTINUED



## WINNING ORGANISATION

**We enable growth by having a winning and agile organisation. We inspire diverse teams of committed and engaged people by:**

- investing in our people;
- attracting the best;
- developing high-performing leaders; and
- offering a fulfilling, rewarding and responsible work environment.

### Highlights during the year

- accelerated talent development and attraction in growth markets and growth categories including tobacco heating products, vapour and modern oral;
- celebrated our first year anniversary of B United, a network for our LGBT+ employees;
- top Employer recognition in Europe, Africa, and Asia-Pacific; and
- recognised as a Diversity Leader in 2019 by the UK Financial Times in its inaugural Diversity Leaders report, highlighting progress in promoting diversity across our organisation.

### Investing in leaders

As our industry continues to transform, the way we attract and develop talent continues to evolve to meet these new challenges. Our increasingly data-led and digitally-enabled approach focuses on bringing new skills and capabilities to our teams.

We continue to reshape our employer brand to attract and retain capabilities needed to deliver our strategy, supported by our strong social media position that grew followership by over 20% in 2019. Our employee value proposition remains strong and the Group was awarded Global Top Employer recognition for the third consecutive year with special recognition in 35 countries, as well as the National Undergraduate Employability Award in the UK.

Developing critical capabilities is at the highest of the Group's priorities and we are focused on personalised digital opportunities for upskilling employees.

You can read about our Group risk factor related to talent on page 274

To support our people, in 2019 we launched a new Digital Learning platform called The Grid, which consolidates our internal and external learning content together in one place for ease of access. Additionally, we launched the micro-learning mobile app Ed, which is available to all our Group company employees in marketing and provides mobile access to our New Category products learning portfolio. As a result, more than 6,700 marketers and trade marketing representatives regularly use the app to support their daily sales visits to retail outlets and wholesalers.

### Growth through diversity

Diversity matters to the Group because it makes good commercial sense. Having a diverse workforce means we are better able to understand and meet the varied preferences of our global consumers. We are proud of our Diversity and Inclusion Strategy, which is built on the three pillars of:

1. driving ownership and accountability;
2. building diverse talent pools; and
3. creating enablers;

all of which are underpinned by an inclusive culture.

#### 1. Driving ownership and accountability

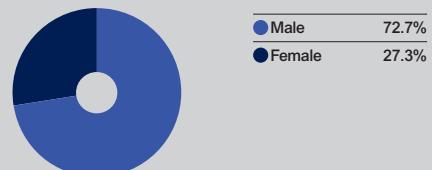
Ensuring ownership of and accountability for our Diversity and Inclusion Strategy across the Group is key to driving progress. Our regions, markets and business units have specific diversity action plans and initiatives in place to support diversity across the Group and to develop a pipeline of diverse talent at all levels of our organisation.

Our Director, Talent and Culture, has overall responsibility for all employee and human resources matters, while our Management Board oversees the development and management of talent within the Group's regions and functions, and monitors progress against our key objectives and performance indicators. Our Board reviews progress on our Diversity and Inclusion Strategy and initiatives and diversity reporting forms a key part of all Functional and Regional Leadership Team meetings, with quarterly reviews.

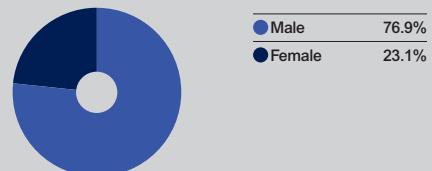
### Group diversity as at 31 December 2019

	Total	Male	Female
Main Board	11	8	3
Senior management	576	443	133
Total Group employees	53,185	38,402	14,783

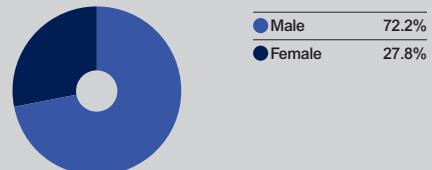
#### Main Board



#### Senior management



#### Total Group employees



#### Nationalities represented

	Total
Main Board	8
Global headquarters	83
Management level globally	141

#### Senior managers: Companies Act 2006

For the purposes of disclosure under Section 414C(8) of the Companies Act 2006, the Group had 190 male and 30 female senior managers as at 31 December 2019. Senior managers are defined here as the members of the Management Board (excluding the Executive Directors) and the Directors of the Group's principal subsidiary undertakings. The principal subsidiary undertakings, as set out in the Financial Statements, represented approximately 70% of the Group's employees and contributed over 76% of Group revenue and 78% of profit from operations in 2019.

## 2. Building diverse talent pools

We are a diverse employer. There are 141 nationalities represented at management level within our Group, and we are pleased with the continuous progress we are making and the sustainable pipeline we are building in terms of nationality diversity.

We are also continuing to work hard to improve gender diversity within the Group. Women represent 27% of our Board and 15% of our Management Board, and comprised 24% of our senior recruits and 23% of our internal promotions in 2019. We support women's development into senior roles through a variety of initiatives, including our Women in Leadership programme and participation in the 30% Club mentoring programme. We have female executives on all our senior functional and geographical leadership teams, and 49% of our 2019 graduate intake were women, supporting the development of a sustainable pipeline of women for senior management roles.

 Read about our Global Graduate Programme at [www.bat-careers.com/graduates](http://www.bat-careers.com/graduates)

## 3. Creating enablers

To realise our diversity ambitions, we know we must develop enablers to provide a supportive environment for people to thrive. One of the ways we do this is by maintaining networks to share experiences. We currently support 13 women's networks across all levels of our organisation, including Women in BAT UK network. We also partnered with the International Women's Day Association for the second year on the #BalanceforBetter campaign.

'B United' celebrated its first anniversary in 2019. 'B United' is a Group network that provides our LGBT+ employees with a safe forum to share experiences, mentoring opportunities and help with overcoming hurdles, such as those relating to adoption or travelling abroad with same sex partners.

### Employee engagement index

82%

FMCG comparator group 75%

**Definition:** Results from our 'Your Voice' employee opinion survey, carried out in 2019, enabled us to calculate our employee engagement index – a measure that reflects employees' level of commitment, energy and connection towards the organisation.

**Objective:** To achieve a more positive score than the norm for FMCG companies in our comparator benchmark group.

Our other key metrics in this area include:

- Employee retention: In 2019, total voluntary turnover of management-grade employees was 1,085, representing 8.1% of the total management population.
- Diversity: Representation of women in senior management roles increased from 16% in 2016, and 21% in 2017, to 23% in 2019.

### Inclusive culture

We can only truly harness the benefits of a diverse workforce if we have an inclusive culture that enables all our employees to flourish regardless of their gender, ethnicity, culture or other differences.

We were proud to be recognised as a Diversity Leader by the Financial Times in its inaugural Diversity Leaders report. The report, which lists the top 700 companies across 10 European countries, recognises organisations that have achieved a diverse and inclusive workforce across a number of criteria.

## Workforce engagement

The Group has a range of well-established engagement channels worldwide covering the Group's global workforce. We define the Group's workforce as comprising all Group company employees and individuals contracted on a fixed term basis to undertake permanent roles.

Our workforce engagement channels include market and site visits by our Directors and Management Board members to meet local employees, town hall sessions, works councils, European Employee Council meetings, our 'Your Voice' global employee survey, global, functional and regional webcasts and webcasts with the Chief Executive. These engagement channels are implemented as appropriate for the composition of local workforce populations, at market, business unit, functional or regional levels. Our Speak Up channels are also available to our workforce worldwide and are discussed further on page 32.

The Board has taken account of the requirements of the UK Corporate Governance Code in its approach to engagement with the Group's workforce. Given the spread, scale and diversity of the Group's workforce, the Board considers it effective to use the established channels referred to above, and has augmented these from January 2019 by introducing Group-wide reporting structures to capture feedback from engagement channels at market, business unit, functional and regional levels.

To ensure the Board understands the views of our workforce, the Board now reviews consolidated feedback from these engagement channels annually. Feedback from the Board, with associated action planning, is cascaded back across our workforce and the Board is kept updated on progress against identified actions during the year. This approach supplements the Directors' direct engagement, including through market and site visits, discussed further at page 72.

Our policies and principles*	Summary of areas covered	Key stakeholder groups
<b>Employment Principles</b>	Employment practices, including commitments to diversity, reasonable working hours, family-friendly policies, employee wellbeing, talent, performance and equal opportunities, and fair, clear and competitive remuneration and benefits.	 Our People
<b>Health and Safety Policy</b>	Health, safety and welfare of all employees, other members of our workforce and third-party personnel.	 Our People  Customers 
<b>Standards of Business Conduct (SoBC)</b>	Respect in the work place, including promoting equality and diversity, preventing harassment and bullying, and safeguarding employee wellbeing.	 Our People
<b>Group Data Privacy Policy</b>	The manner in which BAT processes personal data about all individuals, including consumers, employees, contractors and employees of suppliers.	 Our People  Consumers  Customers

These policies and procedures are endorsed by our Board, apply to all Group companies and support the effective identification, management and mitigation of risks and issues for our business in these and other areas.

\* Further details of our Group policies and principles can be found at [www.bat.com/principles](http://www.bat.com/principles)

## DELIVERING OUR STRATEGY

### CONTINUED

Our global 'Your Voice' employee survey is conducted across the Group every two years, most recently in 2019. The results from 2019 demonstrate that we continue to outperform our global FMCG comparator group in all areas surveyed, including our employee engagement index at 7% higher than our FMCG comparator group and our high performance index at 13% above our FMCG comparator group. Our Group results are also significantly ahead of our FMCG comparator group in the categories of corporate responsibility, diversity & inclusion and talent development.

### Our Employment Principles

Our Employment Principles set out a common approach for our Group companies' policies and procedures, recognising that each Group company must take account of local labour law and practice, and the local political, economic and cultural context.

In developing our Employment Principles, we have sought the views of a cross-section of internal and external stakeholders, and have consulted with employee representatives and (where relevant) with our works councils. All Group companies have adopted our Employment Principles and, through our internal audit processes, are required to demonstrate how these are embedded into the work place.

In addition to our Employment Principles, our Board Diversity Policy specifically applies to our Board and Management Board and is discussed further at pages 81 to 82.

### Equal opportunities for all

We are committed to providing equal opportunities to all employees. We do not discriminate when making decisions on hiring, promotion or retirement on the grounds of race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics or disability. We are committed to providing training and development for employees with disabilities.

### Rewarding people

Reward is a key pillar in ensuring that we have the right people to drive the business forward. Reward is necessarily local and we strongly support this through global frameworks to ensure leading edge policies, processes and technology are available to all markets.

Base pay rewards core competence relative to skills, experience and contribution to the Group, while annual bonuses, long-term incentives, recognition schemes and ad hoc incentives provide the right mix to ensure that sustained high performance is recognised and rewarded. We also offer our UK employees the chance to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme, and operate several similar schemes for senior management in our Group companies.

Our approach to rewarding Group company employees is set out further on pages 95 to 96. Further information on the Company's Remuneration Policy for Directors can be found on pages 93 to 113.

### Gender pay

Since 2018, we have published data relating to UK gender pay in accordance with statutory requirements.

 You can learn more about our published data relating to UK gender pay in line with statutory requirements at [www.bat.com/genderpayreport](http://www.bat.com/genderpayreport)

### Safe place to work

#### Operating in challenging environments

Providing a safe working environment for all our employees and contractors is paramount. As a global business, operating in diverse markets including some of the world's most volatile regions, this can also be challenging.

Safety risks vary across our business. For example, our manufacturing sites carry lower risks, while the vast majority of all Group accidents are in Trade Marketing & Distribution (TM&D), which involves the distribution and sale of our products. We have close to 30,000 vehicles and motorcycles out on the road every day, often in environments with difficult social or economic conditions. Our goods have a high street value, and in a small number of markets this carries high risk of armed robbery and assault. Poor road infrastructure and wide variations in driving standards and behaviour provide further challenges.

Although these challenges will always exist, our goal is zero accidents across the Group. To help achieve this, we have a comprehensive approach based on risk management and assessments, employee training and awareness, and tailored initiatives for specific issues.

Since 2017, we have implemented a range of additional initiatives, such as ensuring drivers carry less stock, together with extra security measures for route planning and vehicle tracking. We use in-vehicle 'telematics' monitoring systems to analyse driver behaviour data, and use the insights to tailor our training programmes and improve driving skills and hazard perception.

In markets where we have introduced distribution by motorcycle, we provide training programmes to reduce risk. These provide practical techniques for different road conditions and types of traffic, safe speeds and distances, and how to spot a potential problem and take action to deal with it safely.

We are pleased to report that our actions are producing improvements. While vehicle-related incidents remained flat in 2019, we saw an 18% reduction in injuries reported across TM&D, driven by a 40% decrease in the number of assaults on our people.

Relatedly, the number of fatalities fell significantly from 12 in 2018 to one across the Group in 2019. This was primarily a result of our concerted effort to address the rise in attacks on our field-force. However, we recognise that changing local conditions, such as increased levels of violence and civil unrest, continue in certain markets and that this requires continuous assessments to ensure the learnings from other markets are rapidly deployed to mitigate any rising trends in potential threats to our people.

We are making every effort to further address these challenges in 2020, notably through sharing best-practice examples across our regions.

 You can read about our Principal Group risk relating to workplace health & safety on page 62

### Health and Safety Policy

Our Health and Safety Policy recognises the importance of the health, safety and welfare of all our employees and third-party personnel in the conduct of our business operations. We are committed to the prevention of injury and ill-health, and strive for continual improvement in health and safety management and performance. This policy is supported by our Environmental, Health and Safety (EHS) management system, outlined on page 29.

Overall responsibility for Group health and safety is held by the Director, Operations. The Director, Group Talent and Culture, has overall responsibility for all employee and human resources matters.

Our key metrics\* in this area include:

- Lost Workday Case Incident Rate (LWCIR): There was a decrease in our LWCIR from 0.29 in 2018 to 0.27 in 2019.
- Lost workday cases (LWC): The number of work-related accidents (including assaults) resulting in injury to employees and to contractors under our direct supervision, causing absence of one shift or more, decreased from 213 in 2018 to 186 in 2019.
- Serious injuries and fatalities: The total number of serious injuries and fatalities to employees and contractors decreased from 54 in 2018 to 38 in 2019.

\* 2018 LWC data has been restated to include Health and Safety data from our recent acquisitions.

# FINANCIAL PERFORMANCE SUMMARY



## STRONG OPERATIONAL PERFORMANCE DRIVES DELEVERAGING

**Tadeu Marroco**  
Finance Director



### Non-GAAP measures

In the reporting of financial information, the Group uses certain measures that are not defined by IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

The principal non-GAAP measures which the Group uses are adjusted revenue, adjusted revenue from New Categories, adjusted revenue from the Strategic Portfolio, adjusted profit from operations, adjusted diluted earnings per share, <sup>®</sup>operating cash flow conversion ratio and adjusted cash generated from operations<sup>®</sup>. Adjusting items are significant items in revenue, profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. As an additional measure to indicate the results of the Group before the impact of exchange rates on the Group's results, the movement in adjusted revenue, adjusted revenue from the Strategic Portfolio, adjusted profit from operations and adjusted diluted earnings per share are shown at constant rates of exchange. The Group also includes, where appropriate, measures termed 'representative' or 'organic' to provide the user with the Group's performance without the potentially distorting effects of acquisitions, particularly RAI. These non-GAAP measures are explained on pages 258 to 268.

### Highlights

- Group revenue was up 5.7% with profit from operations 3.2% lower than 2018;
- At constant rates of exchange, adjusted revenue grew 5.6% with adjusted profit from operations up 6.6%;
- Diluted earnings per share decreased 5.4%. Adjusted diluted earnings per share was up 9.1%, or 8.4% at constant rates;
- Dividend per share was up 3.6% at 210.4p;
- Net cash generated from operating activities declined 12.6%, <sup>®</sup>with adjusted cash generated from operations at constant rates down 16.3%; and
- Cash conversion at 100%, <sup>®</sup>with operating cash flow conversion ratio at 97%<sup>®</sup>.

### Revenue

In 2019, revenue grew 5.7% to £25,877 million (2018: £24,492 million, up 25.2% on 2017). The higher revenue in 2019 was due to pricing across the cigarettes portfolio (with price mix of 9%) and an increase in revenue from Traditional Oral (up 15%, 2018 up 127%) and New Categories (up 37%, 2018 up 138%), which more than offset a 4.7% decline in cigarette volume (2018: increase of 2.6%). The growth in 2018 was mainly due to the inclusion of RAI as a wholly-owned subsidiary from the acquisition date as 2017 only included approximately five months of revenue from RAI. 2018 revenue was also driven by price mix of 6% (on the combustible brands) and the growth of the New Categories portfolio. Revenue was also affected by the movements of foreign exchange on our reported results which was a tailwind of 0.6% in 2019, compared to a headwind in 2018 of approximately 6%.

After adjusting for the short-term uplift to revenue due to the treatment of excise on bought-in goods and the effect of exchange on the reported result, on a constant currency basis, in 2019 adjusted revenue was up 5.6% as combustibles pricing and the growth of New Categories more than offset a decline in cigarette volume of 4.7%. Excluding the variance created to the Group's results from the acquisition of RAI and other businesses in 2017, in 2018 adjusted revenue grew 3.5% on an adjusted, constant currency, representative basis as pricing and the growth in New Categories more than offset the decline in combustibles volume on a representative basis.

### Revenue (£m)

**£25,877m**  
**+5.7%**

2019	£25,877m	+6%
2018	£24,492m	+25%
2017	£19,564m	+39%

**Definition:** Revenue recognised, net of duty, excise and other taxes.

In 2019, revenue includes £18,793 million of revenue from the Strategic Portfolio, an increase of 9% (2018: £17,257 million). Within the Strategic Portfolio, revenue from New Categories was £1,255 million (2018: £917 million).

IFRS-GAAP

### Change in adjusted revenue at constant rates (%)

**+5.6%**

2019	+	+6%
2018	+	+33%
2018 (rep)	+	+4%
2017	+	+32%
2017 (org)	+	+3%

**Definition:** Change in revenue before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

### Reconciliation of revenue to adjusted revenue at constant rates

	2019 £m	Change % (vs 2018)	2018 £m	Change % (vs 2017)	2017 £m
Revenue	25,877	+5.7%	24,492	+25%	19,564
Adjusting items	(50)	–	(180)	–	(258)
Add impact of acquisition (for representative calculation)	–	–	–	–	5,577
Adjusted revenue (2017 shown on a representative basis)	25,827	+6.2%	24,312	-2.3%	24,883
Impact of exchange	(144)	–	1,448	–	–
Adjusted revenue at constant rates	25,683	+5.6%	25,760	+3.5%	24,883

# INCOME STATEMENT

## Profit from operations

Profit from operations fell by 3.2% to £9,016 million, compared to an increase of 45% to £9,313 million in 2018. This was driven by the recognition of charges related to Quebec Class Action in Canada (£436 million), the settlement of an excise dispute in Russia (£202 million), amortisation and impairment of trademarks and similar intangibles (£481 million), the impairment of Indonesian goodwill (£172 million), other smoking and health litigation costs of £236 million (which included *Engle* progeny in the US) and costs related to the restructuring programmes, which includes Quantum (£264 million). The growth in 2018 was driven by the inclusion of RAI midway through 2017.

**Raw materials and other consumables costs** declined 1.4% to £4,599 million in 2019 mainly due to the end of the contract manufacturing agreement which, due to excise recognition, led to an increase in revenue and in raw materials and other consumables costs. In 2018, this was an increase of 3.2% to £4,664 million due to the higher volume following the acquisition in 2017 of RAI as well as an increase in THP volume, and a year-on-year movement benefiting from a charge of £465 million recognised in 2017 related to the purchase price allocation adjustment to inventory which did not repeat in 2018.

**Employee benefit costs** increased by 7.2% to £3,221 million in 2019, which includes charges in relation to Quantum of £264 million. In 2018, this was an increase of 12.2% to £3,005 million, due to the acquisition of RAI in 2017.

**Depreciation, amortisation and impairment costs** increased by £474 million to £1,512 million in 2019 and by £136 million to £1,038 million in 2018. This includes the amortisation and impairment charges of £481 million (2018: £377 million) largely related to the trademarks and similar intangibles capitalised following acquisitions (including RAI, TDR, Skandinavisk Tobakskompagni A/S (ST) and VapeWild).

## Profit from operations (£m)

**£9,016m**

-3.2%

2019	£9,016m	-3%
2018	£9,313m	+45%
2017	£6,412m	+38%

**Definition:** Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

Also included in 2019 are goodwill impairment charges in relation to Bentoel in Indonesia (£172 million) recognised in the year following a change in excise rates impacting forecast future performance. The increase in 2018 reflects the full year effect of RAI, with depreciation increasing in 2017 due to the higher depreciation charges following the consolidation of RAI in that year.

**Other operating expenses** increased by £1,183 million to £7,851 million in 2019 mainly due to the recognition of the charges in respect of Quebec Class Action in Canada (£436 million), Russia excise dispute (£202 million) and other litigation (including *Engle* progeny in the US) of £236 million. 2018 was up £1,986 million to £6,668 million, largely due to the consolidation of RAI, including charges in relation to the MSA.

**Expenditure on research and development** was £376 million in 2019 (2018: £258 million) with a focus on products that could potentially reduce the risk associated with smoking conventional cigarettes.

**Adjusted profit from operations** is the Group's profit from operations before adjusting items. Adjusting items were £2,114 million in 2019 (2018: £1,034 million), including the charges related to trademark amortisation and impairment (discussed above), and restructuring and integration costs of

## KPI Non-GAAP Change in adjusted profit from operations at constant rates (%)

**+6.6%**

2019	+7%
2018	+38%
2018 (rep)	+4%
2017	+39%
2017 (org)	+4%

**Definition:** Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

£565 million (2018: £363 million), of which Quantum incurred £264 million (2018: £nil). Quantum will simplify the business and create a more efficient and agile organisation to support the growth of New Categories. The charge in 2018 included costs related to the implementation of the operating model, integration costs associated with the acquisition of RAI and factory rationalisations (in Germany, Russia and APME).

In 2019, the Group also incurred a £436 million charge in respect of the Quebec Class Action in Canada, amortisation and impairment of trademarks and similar intangibles (£481 million), a charge of £202 million related to an excise dispute in Russia, impairment of goodwill in Indonesia (£172 million) and other smoking and health litigation costs of £236 million, including *Engle* progeny in the US.

In 2018, the Group incurred an impairment of assets in Venezuela due to the accounting revaluation (related to hyperinflationary accounting) of £110 million and £178 million charge due to *Engle* progeny cases in the US.

In 2019, adjusted profit from operations grew by 7.6% to £11,130 million or 6.6% to £11,032 million on a constant currency basis. This compared to an increase of 38% in 2018 which was largely driven by the full year effect of the acquisition of RAI in 2017. On a representative basis, adjusted profit from operations at constant rates increased by 4.0% in 2018.

## Analysis of profit from operations, net finance costs and results from associates and joint ventures

	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC £m	2019		2018	
						Reported £m	Adjusting items £m	Reported £m	Adjusting items £m
<b>Profit from operations</b>									
US	4,410	626	5,036	(238)	4,798	4,006	505	4,511	
APME	1,753	306	2,059	43	2,102	1,858	90	1,948	
AmSSA	1,204	638	1,842	70	1,912	1,544	194	1,738	
ENA	1,649	544	2,193	27	2,220	1,905	245	2,150	
Total regions	9,016	2,114	11,130	(98)	11,032	9,313	1,034	10,347	
Net finance (costs)/income	(1,602)	80	(1,522)	56	(1,466)	(1,381)	(4)	(1,385)	
Associates and joint ventures	498	(25)	473	(7)	466	419	(32)	387	
Profit before tax	7,912	2,169	10,081	49	10,032	8,351	998	9,349	

## Operating margin

Operating margin in 2019 declined by 320 bps to 34.8% as the growth in revenue was more than offset by continued investment in the development of New Categories and the impact of the charges related to Quebec, Russia, Indonesia, amortisation of trademarks, other litigation and Quantum as described in note 3 in the Notes on the Accounts.

In 2018, operating margin was ahead of 2017 by over 500 bps to 38.0%, as the Group's performance and the full year impact of RAI more than offset the increased spend related to the New Category portfolio and restructuring and integration costs incurred.

In 2019, adjusted operating margin grew by 50 bps driven by combustibles pricing and cost management initiatives, fuelling the investment into New Categories.

In 2018, adjusted operating margin grew by 150 bps largely due to the full year effect of RAI. On a representative basis, this was an increase of 40 bps as the impact of pricing more than offset the investment into New Categories and inflation on the cost base.

## Net finance costs

In 2019, net finance costs increased £221 million to £1,602 million, largely driven by higher short-term borrowings required to fund the timing of payments, interest on leases recognised under IFRS 16, working capital movements in the period and the impact of the translational headwind on costs due to the relative weakness of sterling against the US dollar. In 2018, net finance costs increased by £287 million to £1,381 million, largely due to the full year effect of servicing higher level of debt following the acquisition of RAI.

## Operating margin

(%)

**34.8%**

2019		34.8%
2018		38.0%
2017		32.8%

Definition: Profit from operations as a percentage of revenue.

## Adjusted operating margin

(%)

**43.1%**

2019		43.1%
2018		42.6%
2017		41.1%

Definition: Adjusted profit from operations as a percentage of adjusted revenue.

## Associates and joint ventures

Associates in 2019 largely comprised the Group's shareholding in its Indian associate, ITC. The Group's share of post-tax results of associates and joint ventures, included at the pre-tax level under IFRS, increased 19% to £498 million largely due to improved operational performance of ITC and the benefit from lower corporate tax following the change in rates in India. In 2018, this was a decline of 98% to £419 million, as 2017 included the results of RAI prior to the acquisition, after which it was consolidated as a wholly-owned subsidiary, with 2017 also including the recognition of a gain of £23.3 billion, which arose as the Group was deemed, under IFRS, to have disposed of RAI as an associate in that period.

Excluding the effect of adjusting items, including a gain arising on the deemed disposal of part of the Group's shareholding in ITC (due to issuances to employee trusts), the Group's share of associates and joint ventures on an adjusted, constant currency basis was 20% higher in 2019, at £466 million. In 2018, this was a decline of 58.5% to £420 million as the Group ceased to recognise the results of RAI as an associate.

## Analysis of profit from operations, net finance costs and results from associates and joint ventures

	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC £m	2018					2017
						Reported £m	Adjusting items £m	Adjusted £m	Uplift due to acq £m	Adjusted repres £m	
<b>Profit from operations</b>											
US	4,006	505	4,511	175	4,686	1,165	763	1,928	2,502	4,430	
APME	1,858	90	1,948	151	2,099	1,902	147	2,049	25	2,074	
AmSSA	1,544	194	1,738	184	1,922	1,648	134	1,782	22	1,804	
ENA	1,905	245	2,150	67	2,217	1,697	473	2,170	29	2,199	
Total regions	9,313	1,034	10,347	577	10,924	6,412	1,517	7,929	2,578	10,507	
Net finance (costs)/income	(1,381)	(4)	(1,385)	(30)	(1,415)	(1,094)	205	(889)			
Associates and joint ventures	419	(32)	387	33	420	24,209	(23,197)	1,012			
Profit before tax	8,351	998	9,349	580	9,929	29,527	(21,475)	8,052			

## INCOME STATEMENT

### CONTINUED

#### Tax

In 2019, the tax charge in the Income Statement was £2,063 million, compared to £2,141 million in 2018 and a credit of £8,129 million in 2017. The 2017 credit was largely due to the impact of the change in tax rates in the US which led to a credit of £9.6 billion related to the revaluation of deferred tax liabilities arising on the acquired net assets of RAI, and described below. The tax rates in the Income Statement are therefore a charge of 26.1% in 2019, a charge of 25.6% in 2018 and a credit of 27.5% in 2017. These are also affected by the inclusion of adjusting items described earlier and the associates and joint ventures' post-tax profit in the Group's pre-tax results. Excluding these items and the deferred tax credit in 2017, the underlying tax rate for subsidiaries was 26.0% in 2019, 26.4% in 2018 and 29.7% in 2017. See the section Non-GAAP measures on page 263 for the computation of underlying tax rates for the periods presented.

#### Tax strategy

The Group's global tax strategy is reviewed regularly by the Board. The operation of the strategy is managed by the Finance Director and Group Head of Tax with the Group's tax position reported to the Audit Committee on a regular basis. The Board considers tax risks that may arise as a result of our business operations. In summary, the strategy includes:

- complying with all applicable laws and regulations in countries in which we operate;
- being open and transparent with tax authorities and operating to build mature professional relationships;
- supporting the business strategy of the Group by undertaking efficient management of our tax affairs in line with the Group's commercial activity;
- transacting on an arm's-length basis for exchanges of goods and services between companies within the Group; and
- engaging in pro-active discussions with tax authorities on occasions of differing legal interpretation.

Where resolution is not possible, tax disputes may proceed to litigation. The Group seeks to establish strong technical tax positions. Where legislative uncertainty exists, resulting in differing interpretations, the Group seeks to establish that its position would be more likely than not to prevail. Transactions between Group subsidiaries are conducted on arm's-length terms in accordance with appropriate transfer pricing rules and OECD principles.

The tax strategy outlined above is applicable to all Group companies, including the UK Group companies. Reference to tax authorities includes HMRC.

The publication of this strategy is considered to constitute compliance with the duty under paragraph 16(2) Schedule 19 Part 2 of the UK Finance Act 2016.

The taxation on ordinary activities for 2019 was a charge of £2.1 billion, compared to a charge of £2.1 billion in 2018 and a credit of £8.1 billion in 2017. Corporation tax paid (due to the timing of corporation tax instalment payments which straddle different financial years) was £2.2 billion in 2019 (2018: £1.9 billion, 2017: £1.7 billion).

Our tax footprint extends beyond corporation tax, including significant payment of employment taxes and other indirect taxes including customs and import duties.

The Group also collects taxes on behalf of governments (including tobacco excise, employee taxes, VAT and other sales taxes). The total tax paid in 2019 of £41.4 billion (2018: £39.9 billion, 2017: £37.4 billion) therefore consists of both taxes borne and taxes collected as shown in the table provided.

In addition to the major taxes, there are a host of other taxes the Group bears and collects such as transport taxes, energy and environmental taxes, and banking and insurance taxes.

In 2017, as part of the acquisition of RAI, the Group acquired the assets and liabilities of the RAI Companies. These are required to be fair valued at the date of acquisition. The fair value of the net assets acquired created a deferred tax liability, valued at the prevailing rate of corporation tax at the date of acquisition, being 25 July 2017. Subsequently, on 22 December 2017, the US federal corporate tax rate was changed to 21%, effective from 1 January 2018. This revised rate was used to revalue the deferred tax liability at the balance sheet date, reducing the liability and providing a credit to the income statement in 2017 of £9.6 billion. Due to the scale of the impact, this credit was treated as an adjusting item in that period.

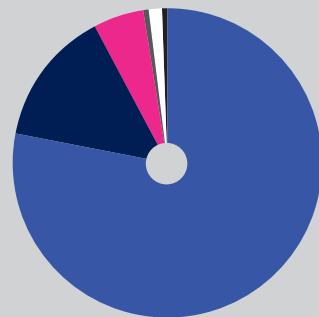
#### Deferred tax asset/(liability)

	2019 £m	2018 £m	2017 £m
<b>Opening balance</b>	(17,432)	(16,796)	(216)
Difference on exchange	680	(1,011)	852
Recognised on acquisition of RAI	–	–	(27,065)
Impact of US tax reforms	–	–	9,620
Changes in tax rates	47	70	–
Other (charges)/credits to the income statement	(55)	304	152
Other credits/(charges) to other comprehensive income	138	(7)	(133)
Other movements	(4)	8	(6)
<b>Closing balance</b>	(16,626)	(17,432)	(16,796)

#### Major taxes paid 2019

(£bn)

£41.4bn



#### Major taxes paid

	2019 £bn	2018 £bn
● Tobacco excise (collected)	32.4	31.1
● Net VAT and other sales taxes (collected)	5.8	5.9
● Corporation tax (borne)	2.2	1.9
● Customs and import duties (borne)	0.3	0.3
● Taxes paid by employees (collected)	0.5	0.5
● Employment taxes (borne)	0.2	0.2
<b>41.4</b>	<b>39.9</b>	

The movements in deferred tax, taken through other comprehensive income, mainly relate to the change in the valuation of retirement benefits in the year, as disclosed in note 12 in the Notes on the Accounts.

## Earnings per share

Profit for the year was £5,849 million, a 5.8% decline compared to £6,210 million in 2018 (itself a decline of 84% on 2017). The movement in 2019 was driven by the recognition of charges in relation to Quebec, Russia, Indonesia, the impairment of acquired brands, other litigation charges, Quantum and higher net finance costs, as previously discussed, which more than offset an increase in revenue across all product categories. The movement in 2018 was largely due to accounting gains in 2017 related to the acquisition of RAI and the deferred tax credit arising from the US tax reform, which both arose in the prior year.

Consequently, and after accounting for the movement in non-controlling interests in the year, basic earnings per share were 5.4% lower at 249.7p (2018: 264.0p, 2017: 1,833.9p). After accounting for the dilutive effect of employee share schemes, diluted earnings per share were 249.0p, 5.4% lower than 2018 (2018: 263.2p, 2017: 1,827.6p).

Earnings per share are impacted by the adjusting items discussed above. Adjusted diluted EPS, as calculated in note 7 in the Notes on the Accounts, was up against the prior year by 9.1% at 323.8p, with 2018 ahead of 2017 by 5.2% at 296.7p. Adjusted diluted EPS at constant rates would have been 8.4% ahead of 2018 at 321.6p, with 2018 up 11.8% against 2017.

## Dividends

The Group pays its dividends to shareholders over four quarterly interim dividends. Quarterly dividends provide shareholders with a more regular flow of dividend income and allow the Company to spread its substantial dividend payments more evenly over the year. The dividends align better with the cash flow generation of the Group and so enable the Company to fund the payments more efficiently.

The Board has declared an interim dividend of 210.4p per ordinary share of 25p, payable in four equal quarterly instalments of 52.6p per ordinary share in May 2020, August 2020, November 2020 and February 2021. This represents an increase of 3.6% on 2018, (2018: 203.0p per share), and a payout ratio, on 2019 adjusted diluted earnings per share, of 65.0% (2018: 68.4%).

The quarterly dividends will be paid to shareholders registered on either the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates.

Under IFRS, the dividend is recognised in the year that it is approved by shareholders or, if declared as an interim dividend by directors, in the period that it is paid. Following a review of the Group's 2018 Annual Report and Accounts conducted by the Financial Reporting Council (FRC), an error was identified whereby the Group had previously recognised the interim dividend that would be paid in the subsequent period as a liability on the balance sheet. The effect was to overstate liabilities and reduce equity by £1.0 billion in 2017 and £1.1 billion in 2018. Assessing the nature of the error, it was considered to be immaterial by the Directors as it did not affect the primary users of the financial statements (see page 130) as there was no impact to the amount or timing of the dividends received.

In 2019, the Group revised the recognition of the dividend in the accounts to be in accordance with IFRS. The 2019 Statement of Changes in Equity reflects the remaining three quarterly dividends that were paid in the period, which, in total amount to £3,476 million (2018: £4,463 million). The cash flow, prepared in accordance with IFRS, reflects the total cash paid in the period. Further details of the total amounts of dividends paid in 2019 (with 2018 comparatives) are given in note 18 in the Notes on the Accounts.

Dividends are declared and payable in sterling except for those shareholders on the branch register in South Africa, where dividends are payable in rand. The equivalent dividends receivable by holders of ADSs in US dollars are calculated based on the exchange rate on the applicable payment date.

Further details of the quarterly dividends and key dates are set out under 'Shareholder information' on pages 300 and 301.

IFRS-GAAP

## Diluted earnings per share (EPS)

(p)

**249.0p**  
-5.4%

2019	249.0p	-5%
2018	263.2p	-86%
2017	1827.60p	+633%

**Definition:** Profit attributable to owners of BAT p.l.c. over weighted average number of shares outstanding, including the effects of all dilutive potential ordinary shares.

KPI Non-GAAP

## Change in adjusted diluted EPS

(%)

**+9.1%**

2019		+9%
2018		+5%
2017		+14%

**Definition:** Change in diluted earnings per share before the impact of adjusting items.

KPI Non-GAAP

## Change in adjusted diluted EPS at constant rates (%)

**+8.4%**

2019		+8%
2018		+12%
2017		+9%

**Definition:** Change in diluted earnings per share before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

The discussion of 2017 results that are not necessary to an understanding of the Group's financial condition, changes in financial condition and results of operations is excluded from this Financial Review in accordance with applicable US Securities laws. Discussion of such 2017 metrics is contained in the Group's Annual Report on Form 20-F 2018, which is available at bat.com/annualreport and has been filed with the SEC. Information contained in pages 33 to 47 of the Annual Report on Form 20-F 2018 are accordingly incorporated by reference into this Annual Report on Form 20-F 2019 only to the extent such information pertains to the Group's financial condition and results of operations for the fiscal year ended 31 December 2017.

# TREASURY AND CASH FLOW

## Treasury, liquidity and capital structure

The Treasury Function is responsible for raising finance for the Group and managing the Group's cash resources and the financial risks arising from underlying operations. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the Group's treasury policy. All these activities are carried out under defined policies, procedures and limits, reviewed and approved by the Board, delegating oversight to the Finance Director and Treasury Function. See note 22 in the Notes on the Accounts for further detail.

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of sources. The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2019, the average centrally managed debt maturity was 9.1 years (2018: 8.8 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 18.6% (2018: 18.4%).

The only externally imposed capital requirement the Group has is in respect of its centrally managed banking facilities, which require a gross interest cover of 4.5 times. The Group targets a gross interest cover, as calculated under its key central banking facilities, of greater than 5 times. For 2019, it was 7.1 times (2018: 7.2 times).

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on a net basis (at least 50% fixed on a net basis in the short to medium term). At 31 December 2019, the relevant ratios of floating to fixed rate borrowings were 18:82 (2018: 21:79) on a net basis.

As part of the management of liquidity, funding and interest rate risk, the Group regularly evaluates market conditions and may enter into transactions, from time to time, to repurchase outstanding debt, pursuant to open market purchases, tender offers or other means.

The Group has early adopted the Amendments to IFRS 9 *Financial Instruments* in respect of the Interest Rate Benchmark Reform as a result of the UK Financial Conduct Authority's announcement on 27 July 2017.

Considering the relevant hedge relationships impacted by these amendments, as at 31 December 2019, the Group has floating rate borrowings with nominal value £1,929 million and US\$750 million (£566 million) that are due to mature in January 2022 and August 2022, respectively.

In relation to the Group's floating rate borrowings and hedge instruments, there is exposure to uncertainty arising from changes in the USD LIBOR, EURIBOR and GBP LIBOR benchmarks. The Group believes that its contracts with interest rates based on these benchmarks adequately provide for alternate calculations of interest in the event that they are unavailable. The Group believes that any resulting ineffectiveness consequent to the Interest Rate Benchmark Reform is likely to be immaterial. Although these calculations may cause an administrative burden, the Group does not believe that these would materially adversely affect the Group or its ability to manage its interest rate risk.

The Group continues to maintain investment-grade credit ratings\*, with ratings from Moody's/S&P at Baa2 (stable outlook)/BBB+ (stable outlook), respectively, with a medium-term rating target of Baa1/BBB+. The strength of the ratings has underpinned debt issuance and the Group is confident of its ability to successfully access the debt capital markets. All contractual borrowing covenants have been met and these covenants are not expected to inhibit the Group's operations or funding plans.

The Group maintains a two-tranche £6 billion revolving credit facility. This consists of a £3 billion 364-day revolving credit facility (which, in July 2019, was extended to mature in July 2020) and a £3 billion revolving credit facility maturing in 2021. On 12 March 2020, the Group refinanced the existing two-tranche £6 billion revolving credit facility with a new two-tranche £6 billion revolving credit facility. This consists of a £3 billion 364-day tranche (with two one-year extension options and a one-year term-out option), and a £3 billion five-year tranche (with two one-year extension options).

In July 2019, the Group also arranged short-term bilateral facilities with some of its core banks for a total amount of £745 million.

The Group also maintains a £25 billion EMTN programme, and US (US\$4 billion) and European (£3 billion) commercial paper programmes to accommodate the liquidity needs of the Group.

At 31 December 2019, the revolving credit facility was undrawn (2018: undrawn) with £1,056 million of commercial paper outstanding (2018: £536 million).

In July 2019, the Group filed a shelf registration statement on Form F-3 with the SEC pursuant to which B.A.T Capital Corporation and B.A.T. International Finance p.l.c. may issue debt securities guaranteed by certain members of the Group from time to time. This forms part of the Group's strategy to ensure flexible and agile access to capital markets and the registration statement is initially valid for three years.

Management believes that the Group has sufficient working capital for present requirements, taking into account the amounts of undrawn borrowing facilities and levels of cash and cash equivalents, and the ongoing ability to generate cash.

## Cash flow

### Net cash generated from operating activities

In 2019, net cash generated from operating activities declined by £1,299 million (or 12.6%) largely due to the timing of part of the 2018 MSA payment (£1.4 billion) which was paid in 2017 and due to working capital movements, particularly in Australia where the payment terms related to excise were changed in the year, removing bonded warehousing and increasing inventory values.

In 2018, net cash generated from operating activities increased by £4,948 million to £10,295 million, principally due to the full year effect from RAI, compared to approximately five months' contribution to 2017, the timing of payments related to the MSA in the US and an increase in debtor factoring by approximately £300 million. These more than offset a reduction in dividends from associates following the acquisition of RAI. Other movements include:

- the increase in inventory in 2018 was predominantly related to the timing of leaf purchases and inventory movements in Romania, Turkey and Russia;
- the increase in trade and other payables was driven by higher excise payables which are impacted by the timing of inventory movements in the supply chain; and
- the final quarterly payments in relation to the Quebec Class Action in 2017.

### Net cash used in investing activities

In 2019, net cash used in investing activities declined by £382 million to £639 million (2018: £1,021 million), largely due to a net inflow of £148 million from short-term investment products, including treasury bills (2018: £153 million net outflow) and a reduction in purchases of property, plant and equipment of £94 million.

\* A credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

Included within investing activities is gross capital expenditure which includes purchases of property, plant and equipment and certain intangibles. This includes the investment in the Group's global operational infrastructure (including, but not limited to, the manufacturing network, trade marketing software and IT systems). In 2019, the Group invested £807 million, a decrease of 8.6% on the prior year (2018: £883 million). The Group expects gross capital expenditure in 2020 of £650 million, mainly related to the ongoing investment in the Group's operational infrastructure including the expansion of our New Categories portfolio.

#### **Net cash used in financing activities**

Net cash used in financing activities was an outflow of £8,593 million in 2019 (2018: £9,630 million outflow).

The 2019 outflow was mainly due to the repayment (at maturity) or early redemption (as part of the Group's liquidity management strategy) of bonds in the year totalling £5.1 billion, discussed below. This more than offset the inflow from the four bonds issued (totalling US\$3.5 billion or £2.7 billion) in September 2019, following the shelf registration in the US referred to on page 48. The 2019 outflow also included the increased dividend payment of £4,598 million (2018: £4,347 million) due to the higher dividend per share and interest paid in the year of £1,601 million (2018: £1,557 million).

In March and June 2019, the Group repaid €820 million and US\$750 million of bonds at maturity, respectively.

As part of the liquidity management strategy, the Group redeemed, prior to their maturity in 2020, US\$2.25 billion and US\$1.25 billion of bonds in September 2019 and November 2019, respectively. The Group also repaid US\$650 million of bonds (in September 2019) and £500 million of bonds (in December 2019) at maturity.

The 2018 outflow was also due to the payment of a €0.4 billion bond (in March 2018) and three bonds totalling US\$2.5 billion (in June 2018) at maturity, the repayment of £0.6 billion, under the revolving credit facility and £1.2 billion of commercial paper outstanding in each case at 31 December 2017.

Eight series of US\$ denominated bonds totalling US\$17.25 billion were issued in August 2017 pursuant to Rule 144A with registration rights, whereby the Group committed to investors that the bonds would be exchangeable for registered notes. In October 2018, investors were offered to exchange their unregistered bonds for registered bonds in line with the registration rights. The exchange offer was completed in November 2018 with 99.7% of the bonds exchanged.

#### **Free cash flow (before and after dividends paid to shareholders)®**

Free cash flow (before dividends paid to shareholders), as defined on page 266, was £6,519 million, a decrease of 15% on the prior year (2018: £7,684 million; 2017: £3,500 million). This movement was driven by the timing of the 2018 MSA payment (brought forward to 2017) which impacts the comparator periods and more than offsets the enhanced delivery across the remainder of the Group.

After payment of dividends to shareholders, free cash flow was £1,921 million (2018: £3,337 million; 2017: £35 million).

2018 was also impacted by the full year inclusion of results from RAI, which led to higher interest payments and a reduction in dividends from associates (due to the change in accounting recognition of RAI in 2017).

#### **Adjusted cash generated from operations (Adjusted CGFO)®**

Adjusted CGFO is defined on page 265. Adjusted CGFO was £6,831 million, a decrease of 15% (2018: £8,071 million, 2017: £3,282 million), or 16% at constant rates of exchange. The decrease in 2019 was driven by the timing of the 2018 MSA payment, paid in 2017 as it was tax deductible at 2017 tax rates.

Excluding the timing impact of this payment, adjusted cash generated from operations would have increased by 1.2% in 2019 and 43%, in 2018. See page 265 for further information on this measure.

#### **Cash flow conversion**

The conversion of profit from operations to net cash generated from operating activities may indicate the Group's ability to generate cash from the profits earned. Based upon net cash generated from operating activities, the Group's conversion rate decreased from 111% to 100% in 2019. This was largely due to the timing of the payment for the MSA in December 2017 (positively impacting 2018 conversion).

®Operating cash flow conversion ratio (based upon adjusted profit from operations) decreased in 2019 to 97% from 113% in 2018, as 2018 was positively impacted by the timing of the MSA payment which was brought forward to December 2017. Normalising for this timing difference in both 2018 and 2017, the operating cash flow conversion ratio would have been 97% in 2019 and 100% in 2018, reflecting the Group's ability to deliver cash from the operating performance of the business. See page 264 for further information on this measure.

® Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

#### **Summary cash flow**

	2019 £m	2018 £m	2017 £m
<b>Cash generated from operations</b>	<b>10,948</b>	11,972	6,119
Dividends received from associates	252	214	903
Tax paid	(2,204)	(1,891)	(1,675)
<b>Net cash generated from operating activities</b>	<b>8,996</b>	10,295	5,347
<b>Net cash used in investing activities</b>	<b>(639)</b>	(1,021)	(18,544)
<b>Net cash (used in)/from financing activities</b>	<b>(8,593)</b>	(9,630)	14,759
Differences on exchange	(57)	(138)	(391)
<b>(Decrease)/increase in net cash and cash equivalents</b>	<b>(293)</b>	(494)	1,171

#### **Reconciliation of net cash generated from operating activities to free cash flow and adjusted cash generated from operations®**

	2019 £m	2018 £m	2017 £m
<b>Net cash generated from operating activities</b>	<b>8,996</b>	10,295	5,347
Dividends paid to non-controlling interests	(157)	(142)	(167)
Net interest paid	(1,550)	(1,533)	(1,004)
Net capital expenditure	(774)	(845)	(767)
Trading loans to third party	4	(93)	101
Other	–	2	(10)
<b>Free cash flow</b>	<b>6,519</b>	7,684	3,500
Net cash impact of adjusting items	564	601	685
Dividends and other appropriations from associates	(252)	(214)	(903)
<b>Adjusted cash generated from operations</b>	<b>6,831</b>	8,071	3,282

## TREASURY AND CASH FLOW

### CONTINUED

#### Borrowings and net debt

Total borrowings decreased to £45,366 million in 2019 (2018: £47,509 million) largely due to the repayment of borrowings in the year, driven by the cash flow generated by the business and a foreign exchange tailwind of £1,566 million, partly offset by the recognition of lease liabilities under IFRS 16 (£607 million), which are included in 'borrowings' and the payment of dividends to shareholders in the period. The 4% decrease in 2018 was largely due to the repayment, on maturity, of a €400 million bond in March 2018 and three bonds totalling US\$2,500 million in June 2018.

Total borrowings includes £848 million (31 December 2018: £944 million) in respect of the purchase price adjustments related to the acquisition of RAI.

As discussed on page 48, the Group remains confident about its ability to access the debt capital markets successfully and reviews its options on a continuing basis.

Net debt is a non-GAAP measure and is defined as total borrowings, including related derivatives, less cash and cash equivalents and current investments held at fair value.

Net debt, at 31 December 2019, was £42,574 million (2018: £44,351 million; 2017: £45,571 million), with the movement in net debt largely due to the repayment of the outstanding bonds and a foreign exchange benefit of £873 million largely due to the movement of US\$ to sterling (2018: £1,963 million headwind).

<sup>(@)</sup>The movement in net debt also includes the free cash flow before dividends earned in the year (2019: £6,519 million; 2018: £7,684 million) as described on page 49. This is partly offset by dividends paid to owners of the parent of £4,598 million (2018: £4,347 million).<sup>(@)</sup>

#### Adjusted net debt to adjusted EBITDA

The Group uses adjusted net debt to adjusted EBITDA, as defined on page 267, to assess its level of adjusted net debt in comparison to the earnings generated by the Group. This is deemed by management to reflect the Group's ability to service and repay borrowings. In 2019, the ratio of adjusted net debt to adjusted EBITDA was 3.5 times, representing an improvement from 4.0 times at the end of 2018. The improvement in 2018 from 5.3 times in 2017 was due to the additional adjusted net debt arising as part of the acquisition of RAI in 2017, with only five months of RAI contribution to adjusted EBITDA recognised in that year.

The Group's adjusted net debt to adjusted EBITDA ratio is subject to the fluctuations in the foreign exchange market by virtue of the Group's foreign currency denominated earnings and the exposure of the debt portfolio to, predominantly, the US dollar. In 2019, due to the relative movement in the US dollar against sterling, the sterling value of adjusted net debt declined by £873 million. Excluding the impact of foreign exchange on the Group's reported results, adjusted net debt to adjusted EBITDA declined 0.4x in 2019 (2018: decline 0.4x) on a constant rate basis.

Refer to page 267 for a full reconciliation from borrowings to adjusted net debt, profit for the year to adjusted EBITDA and the ratio of adjusted net debt to adjusted EBITDA, at both current and constant rates of exchange.

#### @Return on capital employed (ROCE)

The Group's ROCE, calculated in accordance with our reported numbers was 7.1% (2018: 7.3%) with the reduction partly due to the lower profit from operations, discussed earlier.

On an adjusted basis, as defined on page 268, including dividends from associates and joint ventures (as a proxy to a return in the period, given the inclusion of the investment in associates and joint ventures in the Group's calculation of capital employed), adjusted ROCE grew from 8.3% in 2018 to 9.0% in 2019. This was partly due to the higher adjusted profit from operations in the year and foreign exchange tailwind reducing average capital employed largely due to the relative value of US\$ to sterling. In 2018, adjusted ROCE declined from 11.5% in 2017 to 8.3%, largely due to higher average capital employed in 2018 following the acquisition of RAI in 2017 and translational foreign currency headwinds.<sup>(@)</sup>

#### Retirement benefit schemes

The Group's subsidiaries operate over 190 retirement benefit arrangements worldwide. The majority of the scheme members belong to defined benefit schemes, most of which are funded externally and many of which are closed to new entrants. The Group also operates a number of defined contribution schemes.

The present total value of funded scheme liabilities as at 31 December 2019 was £11,726 million (2018: £11,317 million), while unfunded scheme liabilities amounted to £1,135 million (2018: £1,106 million). The schemes' assets declined to £11,925 million in 2018 (largely due to actuarial losses of £531 million) and declined to £11,860 million in 2019, partly due to the pension buy-in in the UK (discussed on page 159). After excluding unrecognised scheme surpluses of £28 million (2018: £20 million), the overall net liability for all pension and healthcare schemes in Group subsidiaries amounted to £1,029 million at the end of 2019, compared to £518 million at the end of 2018. Contributions to the defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, taking into account regulatory environments.

#### Litigation and settlements

As discussed in note 27 in the Notes on the Accounts, various legal proceedings or claims are pending or may be instituted against the Group.

#### Government activity

The marketing, sale, taxation and use of tobacco products have been subject to substantial regulation by government and health officials for many years. For information about the risks related to regulation, see page 59 and pages 276 to 281.

#### Reconciliation of total borrowings to adjusted net debt

	2019 £m	2018 £m	2017 £m
<b>Total borrowings</b>	<b>45,366</b>	47,509	49,450
Derivatives in respect of net debt:			
– assets	(527)	(647)	(640)
– liabilities	384	269	117
Cash and cash equivalents	(2,526)	(2,602)	(3,291)
Current investments held at fair value	(123)	(178)	(65)
<b>Net debt</b>	<b>42,574</b>	44,351	45,571
Purchase price adjustment (PPA) to RAI debt	(848)	(944)	(947)
<b>Adjusted net debt</b>	<b>41,726</b>	43,407	44,624

<sup>(@)</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# OTHER

## Off-balance sheet arrangements and contractual obligations

Except for certain indemnities, the Group has no significant off-balance sheet arrangements. The Group has contractual obligations to make future payments on debt guarantees. In the normal course of business, it enters into contractual arrangements where the Group commits to future purchases of goods and services from unaffiliated and related parties. See page 270 for a summary of the contractual obligations as at 31 December 2019.

## Accounting policies

The application of the accounting standards and the accounting policies adopted by the Group are set out in the Group Manual of Accounting Policies and Procedures (GMAPP).

GMAPP includes the Group instructions in respect of the accounting and reporting of business activities, such as revenue recognition, asset valuations and impairment testing, adjusting items, the accrual of obligations and the appraisal of contingent liabilities, which include taxes and litigation. Formal processes are in place whereby central management and end-market management confirm adherence to the principles and the procedures and to the completeness of reporting. Central analyses and revision of information are also performed to ensure and confirm adherence.

In order to prepare the Group's consolidated financial information in accordance with IFRS, management has used estimates and assumptions that affect the reported amounts of revenue, expenses, assets and the disclosure of contingent liabilities at the date of the financial statements.

The critical accounting estimates are described in note 1 in the Notes on the Accounts and include:

- review of asset values, including goodwill and impairment testing;
- estimation and accounting for retirement benefit costs; and
- estimation of provisions, including as related to taxation and legal matters.

## Foreign exchange rates

	Average			Closing		
	2019	2018	2017	2019	2018	2017
Australian dollar	<b>1.836</b>	1.786	1.681	<b>1.885</b>	1.809	1.730
Brazilian real	<b>5.035</b>	4.868	4.116	<b>5.329</b>	4.936	4.487
Canadian dollar	<b>1.694</b>	1.730	1.672	<b>1.718</b>	1.739	1.695
Euro	<b>1.140</b>	1.130	1.142	<b>1.180</b>	1.114	1.127
Indian rupee	<b>89.898</b>	91.227	83.895	<b>94.558</b>	88.916	86.343
Japanese yen	<b>139.234</b>	147.376	144.521	<b>143.967</b>	139.733	152.387
Russian rouble	<b>82.623</b>	83.677	75.170	<b>82.282</b>	88.353	77.880
South African rand	<b>18.437</b>	17.643	17.150	<b>18.525</b>	18.321	16.747
US dollar	<b>1.277</b>	1.335	1.289	<b>1.325</b>	1.274	1.353

The critical accounting judgements are described in note 1 in the Notes on the Accounts and include:

- identification and quantification of adjusting items;
- determination as to whether to recognise provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims;
- determination that an error, identified following a review by the FRC (and discussed on page 175) was immaterial and did not require restatement of the prior periods as, whilst the effect was to overstate liabilities and reduce equity by £1.0 billion in 2017 and £1.1 billion in 2018, it did not affect the primary users of the financial statements (see page 175) as there was no impact to the amount or timing of the dividends received;
- determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exist in relation to investments held by the Group; and
- review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency or multiple exchange rates.

## Accounting developments

Other than as stated below, there were no further material changes to the accounting standards applied in 2019 from those applied in 2018.

**IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers** became effective from 1 January 2018, and the impact of these changes is also disclosed in note 1 in the Notes on the Accounts.

IFRS 16 Leases was published in January 2016 with a mandatory effective date of 1 January 2019. The effect is that virtually all leasing arrangements are brought on to the balance sheet as financial obligations and 'right-of-use' assets. The impact of applying the Standard to the Group's reported profit in 2019, 2018 or 2017 would not have been material.

## Foreign exchange rates

The principal exchange rates used to convert the results of the Group's foreign operations to sterling, for the purposes of inclusion and consolidation within the Group's financial statements, are indicated in the table below.

Where the Group has provided results at constant rates of exchange this refers to the translation of the results from the foreign operations at rates of exchange prevailing in the prior period – thereby eliminating the potentially distorting impact of the movement in foreign exchange on the reported results.

## Going concern

A description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position, together with the factors likely to affect its future development, performance and position, are set out in this Annual Report and Form 20-F.

The key Group risks include analyses of financial risk and the Group's approach to financial risk management. Notes 19 and 22 in the Notes on the Accounts provide further detail on the Group's borrowings and management of financial risks.

The Group has, at the date of this report, sufficient existing financing available for its estimated requirements for at least the next 12 months. This, together with the ability to generate cash from trading activities, the performance of the Group's Strategic Portfolio, its leading market positions in a number of countries and its broad geographical spread, as well as numerous contracts with established customers and suppliers across different geographical areas and industries, provides the Directors with the confidence that the Group is well placed to manage its business risks successfully in the context of current financial conditions and the general outlook in the global economy.

After reviewing the Group's annual budget, plans and financing arrangements for the next three years, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing the Annual Report and Form 20-F.

# REGIONAL REVIEW

**Operational growth demonstrates inherent business model strength in all regions – offset by short-term headwinds**

## UNITED STATES



### Volume

	2019 units	vs 2018 %	2018 units	vs 2017 %	2017 units
Cigarettes (bn sticks)	73	-6.0%	77	-5.3%	82
Other (bn sticks eq)*	—	—	—	—	—
Combustibles (bn sticks)	73	-6.0%	77	-5.3%	82
New Categories:					
Vapour (10ml/pods)	103	-6.2%	109	+36.0%	80
THP (bn sticks)	—	—	—	—	—
Modern Oral (mn pouches)	112	—	—	—	—
Traditional Oral (bn sticks eq)	8	-1.5%	8	-2.3%	8

\* Other combustibles includes MYO/RYO

### Revenue

	vs 2018			vs 2017 (adj repres at cc) %		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	repres at cc) %
Combustibles	9,078	+8.6%	+3.8%	8,358	+128%	+0.8%
New Categories:						
Vapour	207	+12.4%	-7.4%	184	+149%	+20%
THP	1	-7.7%	-11.7%	1	—	—
Modern Oral	9	n/m	n/m	—	—	—
Total New Categories	217	+17.1%	+11.9%	185	+149%	+20%
Traditional Oral	1,052	+14.5%	+9.5%	919	+129%	+7.1%
Other	26	-21.2%	-27.1%	34	+88%	-28%
Revenue	10,373	+9.2%	+4.4%	9,495	+128%	+1.5%

### Profit from operations/Operating margin

	vs 2018			vs 2017 (adj repres at cc) %		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	repres at cc) %
Profit from operations	4,410	+10.1%	+6.4%	4,006	+244%	+5.8%
Operating margin (%)	42.5%	+30 bps		42.2%	+1,420 bps	

## AMERICAS AND SUB-SAHARAN AFRICA



### Volume

	2019 units	vs 2018 %	2018 units	vs 2017 %	2017 units
Cigarettes (bn sticks)	152	-3.1%	157	-5.4%	166
Other (bn sticks eq)*	2	-8.2%	2	-17.4%	3
Combustibles (bn sticks)	154	-3.1%	159	-5.6%	169
New Categories:					
Vapour (10ml/pods)	14	+191%	5	n/m	—
THP (bn sticks)	—	n/m	—	n/m	—
Modern Oral (mn pouches)	8	n/m	—	n/m	—
Traditional Oral (bn sticks eq)	—	n/m	—	n/m	—

\* Other combustibles includes MYO/RYO

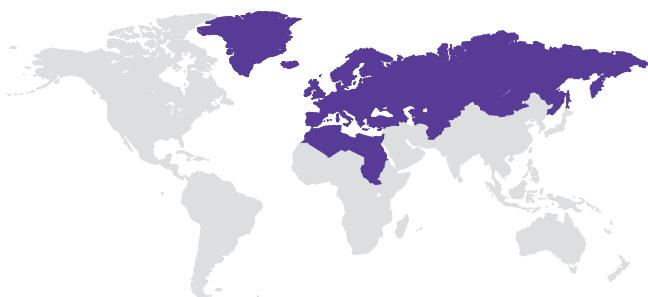
### Revenue

	vs 2018			vs 2017 (adj repres at cc) %		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	repres at cc) %
Combustibles	3,992	+2.7%	+8.5%	3,886	-4.9%	+5.3%
New Categories:						
Vapour	43	+120%	+117%	20	n/m	n/m
THP	—	n/m	n/m	—	n/m	n/m
Modern Oral	1	n/m	n/m	—	n/m	n/m
Total New Categories	44	+119%	+116%	20	n/m	n/m
Traditional Oral	—	n/m	n/m	—	n/m	n/m
Other	225	+10.2%	+13.1%	205	-14%	+1.0%
Revenue	4,261	+3.6%	+9.2%	4,111	-4.9%	+5.6%

### Profit from operations/Operating margin

	vs 2018			vs 2017 (adj repres at cc) %		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	repres at cc) %
Profit from operations	1,204	-22.0%	+10.0%	1,544	-6.3%	+6.5%
Operating margin (%)	28.3%	-930 bps		37.6%	-60 bps	

## EUROPE AND NORTH AFRICA



### Volume

	2019 units	vs 2018 %	2018 units	vs 2017 %	2017 units
Cigarettes (bn sticks)	230	-6.3%	246	-5.3%	260
Other (bn sticks eq)*	17	-7.9%	18	-8.2%	19
Combustibles (bn sticks)	247	-6.4%	264	-5.6%	279
New Categories:					
Vapour (10ml/pods)	108	+44%	75	+26.3%	59
THP (bn sticks)	1.1	+334%	—	n/m	—
Modern Oral (mn pouches)	1,071	+157%	414	+108%	199
Traditional Oral (bn sticks eq)	1	+8.3%	1	+23.3%	1

\* Other combustibles includes MYO/RYO

### Revenue

	vs 2018			vs 2017		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	(adj at cc) %
Combustibles	5,544	-0.7%	+3.0%	5,585	-3.1%	+3.3%
New Categories:						
Vapour	147	+29.2%	+30.1%	114	+22%	+15%
THP	56	+200%	+200%	19	n/m	n/m
Modern Oral	116	+234%	+246%	34	+139%	+146%
Total New Categories	319	+91.0%	+93.6%	167	+55%	+48%
Traditional Oral	29	+33.4%	+38.5%	22	+51%	+58%
Other	198	-14.2%	-14.3%	230	+4.3%	-14.1%
Revenue	6,090	+1.4%	+5.0%	6,004	-1.7%	+3.5%

### Profit from operations/Operating margin

	vs 2018			vs 2017		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	(adj at cc) %
Profit from operations	1,649	-13.4%	+3.3%	1,905	+12.3%	+0.8%
Operating margin (%)	27.1%	-460 bps		31.7%	+390 bps	

## ASIA-PACIFIC AND MIDDLE EAST



### Volume

	2019 units	vs 2018 %	2018 units	vs 2017 %	2017 units
Cigarettes (bn sticks)	213	-3.7%	221	-1.3%	224
Other (bn sticks eq)*	2	+1.5%	2	+10.4%	2
Combustibles (bn sticks)	215	-3.7%	223	-1.2%	226
New Categories:					
Vapour (10ml/pods)	1	n/m	—	n/m	—
THP (bn sticks)	8	+20.1%	7	+208%	2
Modern Oral (mn pouches)	3	n/m	—	n/m	—
Traditional Oral (bn sticks eq)	—	n/m	—	n/m	—

\* Other combustibles includes MYO/RYO

### Revenue

	vs 2018			vs 2017		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	(adj at cc) %
Combustibles	4,387	+3.4%	+4.4%	4,243	-8.9%	-1.2%
New Categories:						
Vapour	4	+906%	+902%	—	n/m	n/m
THP	671	+23.2%	+16.8%	545	+170%	+175%
Modern Oral	—	—	—	—	n/m	n/m
Total New Categories	675	+23.9%	+17.5%	545	+170%	+175%
Traditional Oral	—	—	—	—	—	—
Other	91	-3.5%	-6.9%	94	-20%	-14%
Revenue	5,153	+5.6%	+5.6%	4,882	-1.8%	+5.7%

### Profit from operations/Operating margin

	vs 2018			vs 2017		
	2019 £m	vs 2018 %	(adj at cc) %	2018 £m	vs 2017 %	(adj at cc) %
Profit from operations	1,753	-5.7%	+7.9%	1,858	-2.3%	+1.2%
Operating margin (%)	34.0%	-410 bps		38.1%	-20 bps	

**REGIONAL REVIEW**

CONTINUED

**UNITED STATES**

## COMBUSTIBLES PRICING DRIVES STRONG REVENUE GROWTH

**Ricardo Oberlander**  
President and CEO (RAI)

**Volume and share**

The cigarette industry volume was estimated to be 5.3% lower than 2018, with 2018 down 4.5% on 2017. In 2019, this was largely due to the growth of vapour and the timing and frequency of pricing in the year. In 2018, the decline was largely driven by the impact of higher fuel prices on disposable income, the growth of the vapour category and the full year effect of the change in excise in 2017 in California.

Total cigarette value share increased 30 bps (2018: up 25 bps) with volume share from the strategic cigarette portfolio up 20 bps (2018: up 10 bps) driven by Newport and Natural American Spirit (which combined to drive premium volume share up 50 bps; 2018: up 30 bps). This was partly offset by Pall Mall. Total cigarette volume share was down 10 bps as the strategic cigarette portfolio performance was more than offset by declines across the remainder of the portfolio.

In 2019, cigarette volume from the US business was 73 billion sticks, a decline of 6.0% on 2018, largely driven by the market contraction. In 2018, cigarette volume was 77 billion sticks, an increase of 118% due to the recognition of a full year's volume from RAI. On a representative basis, this was 5.3% lower than in 2017.

In vapour, the Vuse portfolio performed well as the category faced a number of challenges in the US. Alto vapour value share increased to 15.4% in December 2019. This drove an increase in the total Vuse value share to 21.2% in December 2019 (December 2018: 12.5%), despite a 6.2% decline in consumable volume, which had grown 36% in 2018 (due to the impact of a product recall on the Vibe variant due to an isolated issue with batteries in 2018).

Value share of Traditional Moist Oral increased 80 bps, largely due to the performance of Grizzly, with total volume share of moist up 10 bps. Total volume of Traditional Oral declined 1.5% (2018: down 2.3% on a representative basis). 2018 volume was down on a representative basis as 2017 benefited from a competitor's product recall in 2017.

In the Modern Oral category, Velo was rolled out to over 100,000 retail outlets, achieving a category volume share of 10.1% in December 2019.

**Revenue**

Reported revenue increased 9.2% to £10,373 million (2018: £9,495 million, an increase on 2017 of 128%), with growth across all categories (discussed below) and a favourable currency tailwind due to the relative strength of the US dollar against sterling of approximately 5%. The 2018 movement was largely due to the 12-month inclusion of results from RAI, compared to approximately five months in 2017.

Excluding the impact of currency on the reported results, adjusted revenue on a constant currency basis was up 4.4% on 2018, with 2018 up 1.5% on 2017 on a constant currency, representative basis.

In 2019, revenue from combustibles grew 8.6% as pricing led to an increase in price/mix on cigarettes of 10%. This more than offset a decline in cigarette volume. In 2018, this was a growth of 128%, due to the full year effect of the RAI acquisition. On a constant currency and, in 2018, representative basis, combustibles grew 3.8% in 2019 and 0.8% in 2018.

In 2019, revenue from vapour grew by 12.4% to £207 million, driven by the success of Alto. In 2018, this was an increase of 149% to £184 million. On a constant currency and, in 2018, representative basis, vapour revenue grew 7.4% in 2019 and 20% in 2018.

In 2019, revenue from Traditional Oral grew 14.5% to £1,052 million, or 9.5% on a constant currency basis, as pricing more than offset a decline in volume. In 2018, revenue from Traditional Oral was up 129% on 2017, driven by the full year effect of the RAI acquisition. On a constant currency, representative basis, this was an increase of 7.1%.

In 2019, following the national roll-out of Velo, revenue from Modern Oral reached £9 million. There was no equivalent revenue in 2018 or 2017.

**Profit from operations**

Reported profit from operations was £4,410 million, an increase of 10.1% on 2018. This was due to the growth in revenue and lower MSA charges in the year which more than offset an increase in marketing investment behind New Categories.

The performance also benefited from efficiencies delivered since the acquisition of RAI, with total annualised savings of over US\$400 million fully realised by the end of 2019, a year ahead of the Group's initial schedule. In 2018, revenue was £4,006 million, an increase of 244% on 2017, largely due to the full year's inclusion in the Group's results.

Excluding adjusting items related to litigation (including Engle), the impairment of certain acquired brands including VapeWild, Quantum and the impact of currency on the Group's results, adjusted profit from operations grew 6.4% to £4,798 million on a constant currency basis. In 2018, this was an increase, after adjusting for the impact of the acquisition in 2017, of 5.8%. These increases reflect the growth in revenue from the portfolio and cost reductions since the acquisition of RAI.

**Regulatory environment**

The Group continues to welcome reasonable regulation that supports the use of our products by adults. In December 2019, an amendment to the Federal Food, Drug, and Cosmetic Act (as enforced by the FDA) was signed into law that increased the federal minimum legal age to purchase tobacco products from 18 to 21. It is our understanding that approximately 40% of industry cigarette volume is sold in states where the legal age to acquire tobacco was already over 21 prior to the beginning of 2019.

On 2 January 2020, the US FDA announced that all flavoured cartridges/pods (excluding menthol and tobacco flavours) must be withdrawn until they have cleared through the Premarket Tobacco Application (PMTA) process. A Group subsidiary in the US has submitted a PMTA covering 15 products. On 2 November, a letter from the US FDA was received, accepting the Vuse SOLO PMTAs for substantive scientific review. The Group believes it is well positioned to submit applications for the remaining Vuse portfolio and a range of flavours by 12 May 2020. It is expected that, as required by the PMTA process to remain on the market, these will be shown to be appropriate for the protection of public health. There is no intention to submit a PMTA for the VapeWild products.

# AMERICAS AND SUB-SAHARAN AFRICA



## STRATEGIC CIGARETTE BRANDS PERFORM VERY WELL

**Luciano Comin**  
Regional Director

**Key markets:** Argentina, Brazil, Canada, Chile, Colombia, Mexico, Nigeria, South Africa

### Profit from Operations

In 2019, reported profit from operations was down 22% to £1,204 million, mainly due to the £436 million charge in relation to Quebec (as described on page 165), charges related to Quantum and the translational foreign exchange headwinds. Excluding these effects, adjusted profit from operations on a constant currency basis grew 10.0% to £1,912 million, driven by increases in Brazil, Canada, Chile, Nigeria and Mexico, despite the investment in New Categories, specifically related to ePod.

In 2018, profit from operations was down 6.3% to £1,544 million, as the effect of currency headwinds more than offset growth across the region. Excluding adjusting items (mainly related to a £110 million asset impairment to recoverable value in Venezuela arising from hyperinflationary accounting and costs related to the Group's ongoing restructuring programme) and the effect of currency, adjusted profit from operations on a representative, constant currency basis grew by 6.5% to £1,922 million, driven by Nigeria, Mexico and Chile, partly offset by the effect of the lower duty paid market and down-trading in South Africa.

### Volume and share

In 2019, cigarette value share was up 20 bps, driven by growth in the strategic cigarette brands volume share of 465 bps largely driven by the migrations in Brazil and Colombia. Excluding migrations, the increase was 50 bps. Total cigarette volume share was down 10 bps, as growth in Colombia (driven by Lucky Strike and Rothmans), Mexico (driven by Pall Mall) and Canada (driven by Pall Mall) was more than offset by Brazil and South Africa, where growth in Rothmans and Pall Mall, respectively, was outweighed by lower volume share in the remainder of the portfolio.

In 2018, the cigarette volume share decline was 20 bps despite growth in Kent (migration from Free) in Brazil, Dunhill in South Africa, Rothmans in Colombia, Argentina and Brazil (following the migration from Mustang and Minister, respectively, to strengthen the consumer proposition), and from Pall Mall in Mexico, which were more than offset by declines in the local portfolio in South Africa and Brazil (largely due to the growth in illicit trade during 2018).

In 2019, cigarette volume was 3.1% lower at 152 billion sticks as higher volume in South Africa (due to lower illicit trade) was more than offset by the continued difficult macroeconomic environment in Venezuela, continued growth in illicit trade (albeit at a reduced rate) in Brazil and the impact of market contraction in Canada.

The annual decline rate moderated versus 2018 (5.4% decline on 2017 to 157 billion sticks) as 2018 was largely driven by the growth of illicit trade in Brazil and South Africa in that year, the termination of a third-party licence agreement in Mexico and market contraction in Canada, Colombia and Venezuela. South African volumes stabilised in the second half of 2018 after a period of decline.

In vapour, following a period of value share decline in Canada as the competition reacted to the legalisation of the category, Vype returned to growth and was the fastest growing vapour brand in the second half of the year, with value share in December 2019 of 28.2% (34.7% in December 2018).

Twisp, a South African vaping products company, was acquired by the Group in 2019. Twisp has close to 70 dedicated stores nationally, nationwide retailer distribution and a modern e-commerce platform. Modern oral was launched in Kenya, in Nairobi and other key cities, with full national expansion planned in early 2020.

### Revenue

In 2019, revenue grew 3.6% to £4,261 million, led by pricing in combustibles across the region (notably in Canada, Kenya, Chile, Mexico and Nigeria) and the growth of revenue from New Categories, particularly from vapour which was up 120% to £43 million (2018: £20 million) driven by Canada and Mexico. These more than offset the lower total cigarette volume and the translational foreign exchange headwind of 6%. On a constant currency basis, revenue grew by 9.2% to £4,491 million.

In 2018, revenue declined 4.9% to £4,111 million, due to the translational foreign exchange headwind of approximately 10%. On a constant currency, representative basis, adjusted revenue grew by 5.6% to £4,560 million, as pricing across the region (notably in Mexico, Brazil, Chile and Nigeria) more than offset the lower total volume and the negative impact of mix due to the growth of lower-priced products following the significant excise-led price increases in a number of markets.

**REGIONAL REVIEW**

CONTINUED

**EUROPE AND NORTH AFRICA****MODERN ORAL AND VAPOUR PERFORMANCE DRIVES GROWTH****Johan Vandermeulen**

Regional Director

**Key markets:** Algeria, Belgium, Bulgaria, Egypt, Czech Republic, Denmark, France, Germany, Italy, Kazakhstan, Morocco, Netherlands, Poland, Romania, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine, UK

**Volume and share**

In 2019, cigarette value share was marginally higher with strategic cigarette volume share up 50 bps. Total cigarette volume share was up 10 bps as growth in Rothmans (which outperformed the market in Ukraine and Russia), Kent (in Ukraine) and higher total cigarette volume share in Italy, Poland, Romania and Spain was partially offset by a reduction in Kazakhstan and the UK.

This compares to 2018 when volume share was flat against 2017 as increases in Kent (led by Ukraine, Turkey, Kazakhstan and regaining premium segment leadership in Russia), and Rothmans (Ukraine, Russia, Poland, Spain, Bulgaria and Italy) were offset by both the continued reduction in Pall Mall (Poland, Germany and Belgium) and a decline in the low-price portfolio in Russia.

In 2019, cigarette volume declined 6.3% to 230 billion sticks as growth in Poland, Romania, Denmark and Spain was more than offset by lower volume in Russia (partly due to a one-off reduction in stock), Ukraine (largely due to the growth of illicit trade and competition in the low-price segment) and Egypt (driven by excise-led price increases in the low-price segment particularly affecting Pall Mall).

In 2018, volume declined 4.7% to 246 billion sticks, which was a reduction of 5.3% on a representative basis, as volume from assets acquired (from Bulgartabac and FDS) in 2017 combined with growth in Turkey, Egypt, Poland and Romania was more than offset by Russia (partly due to inventory movements and the growth of illicit trade), Ukraine (due to market contraction following the excise-led price increase, leading to an increase in illicit trade), Italy (partly due to impact of higher prices) and France (following the excise-led price increase).

In 2019, THP volume was up over 330%, with growth in Russia, Ukraine and Kazakhstan while also developing in the other launch markets of Romania, Italy, Czech Republic, Bulgaria and Poland.

Vapour volume was 44% higher in 2019 than in 2018. Vapour in both years was driven by the success of Vype (particularly ePen3) in the UK (where the Group's portfolio of products maintained value leadership in 2019 with 38% vapour value share in December 2019), France (where ePen3 and ePod combined reached 20% vapour value share in December 2019) and in Germany (where Vype reached 17% share of total vapour consumers).

The Group's Modern Oral portfolio increased volume by 157% to 1.1 billion pouches in 2019 (2018: 0.4 billion pouches, an increase of 44% on 2017), largely due to higher volume in Denmark and Norway, reaching 75% and 14% volume share of the total oral category, respectively. In Russia, Lyft achieved 27% volume share of the total oral category (in tracked channels) in December 2019.

In December 2019 following concerns in Russia regarding the irresponsible marketing by our competitors, all sales of modern oral have been temporarily suspended in Russia. There is no indication of a concern regarding the Group's products or practices and we expect a regulatory framework will be implemented in 2020.

In Sweden, the Group's total oral portfolio performed well, increasing total volume share of the oral category to 13.2%. This was driven by the Traditional Oral brands, up 50 bps to 10.9%, principally due to the success of Lundgrens, and the Modern Oral products (Lyft) which increased to 2.3% volume share of the total oral category following the launch in 2018.

**Revenue**

In 2019, reported revenue increased 1.4% to £6,090 million (2018: decline of 1.7% to £6,004 million) as strong combustibles pricing in 2019 across the region (notably in Germany, Turkey and Ukraine) and an increase in revenue from New Categories by 91% (to £319 million) were partly offset by the end of a contract manufacturing arrangement (which led to a short-term increase in revenue due to the recognition by the Group of excise within revenue in prior periods), lower regional volume and translational foreign exchange headwinds of 1.3% (2018: translational foreign exchange headwind of 5%).

Adjusted revenue, at constant rates, increased 5.0% to £6,118 million in 2019 (2018: up 3.5% on a representative basis). This was driven by pricing across the combustible portfolio as noted earlier, as well as the 94% growth in revenue from New Categories to £324 million (2018: £167 million) driven by:

- vapour revenue increasing 30% to £148 million (2018: £114 million) due to the performance of Vype in the UK, France and Germany;
- THP revenue growing 200% driven by Russia, Ukraine and Kazakhstan; and
- modern oral revenue increasing 246% to £120 million (2018: £34 million) following the increase in volume in Norway and Denmark, and the launch in Russia.

**Profit from operations**

In 2019, reported profit from operations fell 13.4% to £1,649 million, as the Group increased investment behind New Categories, recognised a charge of £202 million in respect of the Russian excise dispute as discussed on page 143, recognised additional impairment charges of £29 million related to the Group's brand consolidation programme to simplify the New Categories portfolio and incurred charges in relation to Quantum. Profit from operations was up in Germany, Turkey, Romania, Denmark and Poland, which more than offset declines in Russia and the UK. Excluding adjusting items (referred to above) and the impact of the foreign currency headwind, adjusted profit from operations at constant rates was up 3.3% at £2,220 million.

In 2018, profit from operations grew 12.3% to £1,905 million. This was due to an improvement in the operating performance in Germany, Romania and Ukraine and a one-off charge of £69 million in 2017 in relation to a third party in Croatia that does not repeat in 2018. Excluding adjusting items (related to the factory closure in Germany, amortisation of acquired brands, other costs related to the Group's ongoing restructuring programme and the 2017 impairment in Croatia) and the impact of the foreign currency headwind, adjusted profit from operations at constant rates, on a representative basis was up 0.8%, at £2,217 million.

# ASIA-PACIFIC AND MIDDLE EAST



## COMBUSTIBLES AND THP COMBINE TO ACCELERATE GROWTH

**Guy Meldrum**  
Regional Director

**Key markets:** Australia, Bangladesh, Indonesia, Japan, Malaysia, Middle East (incl KSA), New Zealand, Pakistan, South Korea, Taiwan, Vietnam

### Volume and share

In 2019, cigarette and THP value share increased 30 bps, driven by the strategic cigarette and THP portfolio, which increased volume share by 20 bps. Total cigarette and THP volume share was up 50 bps (2018: up 90 bps), led by Japan (driven by Kool, Lucky Strike and glo), Vietnam (driven by Craven A) and Pakistan (driven by Pall Mall). This more than offset lower Lucky Strike volume share in Indonesia and Dunhill volume share in Malaysia and South Korea.

The movement in 2018 was driven by Japan, an increase in Dunhill and Lucky Strike in Indonesia, growth of Pall Mall in Pakistan, Australia and particularly in Saudi Arabia and Rothmans in Malaysia. Total market share increased in Bangladesh. This combined growth was partially offset by lower volume share in South Korea, due to a reduction in Dunhill and a reduction in Taiwan driven by Dunhill and Pall Mall.

In 2019, cigarette volume declined 3.7% as growth in Japan (due to the success of Lucky Strike and Kool), Vietnam (driven by the growth of Craven A) and the Middle East (driven by Kent) was more than offset by the impact of industry contraction (following excise-led price increases) in Bangladesh and Pakistan, and macroeconomic pressures impacting consumer disposable income in Indonesia.

In 2018, cigarette volume was down 1.3% at 221 billion sticks as the recovery in the combustibles volume in Pakistan (following the revision to the excise structure that negatively impacted the equivalent period in 2017) was more than offset by lower volume in the Middle East, largely due to the impact of a 2017 excise-led price increase in Saudi Arabia and the difficult trading environment in a number of countries in the Middle East. Volume was lower in Bangladesh due to higher illicit trade following an increase in excise, with Indonesia lower due to market contraction. Volume decreases slowed in Malaysia in 2018 after a period of accelerated decline following the excise changes in prior years.

THP volume increased 20% to 7.9 billion sticks (2018: 6.5 billion) driven by the continued growth of glo neo in Japan following the launch of glo 'pro', glo 'nano' and glo 'sens', with volume share increasing 60 bps to 5.0% in December 2019. 'glo pro' introduced a new induction heating technology, improving consumer satisfaction and their sensorial experience. With regards to 'glo sens', after an encouraging launch, the Group will be reviewing the in-market execution and seeking to broaden device penetration and drive increased consumer uptake in 2020. The Group's share of nicotine in Japan increased from 17% (December 2018) to 19% (December 2019).

### Revenue

In 2019, reported revenue grew 5.6% to £5,153 million. This was partly driven by pricing in a number of markets, including Saudi Arabia, Japan, Australia, Pakistan and New Zealand. New Categories revenue grew by 23.9% driven by the higher THP volume, notably in Japan, which, combined with combustibles pricing, more than offset the impact of lower cigarette volume. On a constant currency basis, revenue grew 5.6%.

In 2018, revenue declined 1.8% to £4,882 million, as pricing, higher THP volume (discussed earlier) and the positive mix effect, was offset by the impact of lower cigarette volume, down-trading in Saudi Arabia and by the foreign exchange headwinds related to the relative strength of sterling. Excluding the translational foreign exchange headwind and at constant currency rates, adjusted revenue on a representative basis grew 5.7%.

### Profit from operations

In 2019, profit from operations decreased 5.7% to £1,753 million. Growth in Japan (driven by an increase in combustibles revenue and higher THP volume which more than offset an increase in marketing related to the launch of the new THP products) and Middle East (driven by pricing and volume) was more than offset by lower volume in Bangladesh and Malaysia, and the impact of the impairment to Indonesian goodwill (£172 million) following the substantial change in excise which is applicable from 2020 and is anticipated to affect the total market. Excluding adjusting items, which primarily relate to Indonesia goodwill, Quantum, the ongoing factory rationalisation programme (principally in South East Asia) and the impact of foreign exchange on the regional results, adjusted profit from operations grew 7.9% to £2,102 million, at constant rates of exchange.

In 2018, profit from operations declined 2.3% to £1,858 million, as the performance was negatively affected by foreign exchange headwinds and adjusting items related to the ongoing costs of the Group's restructuring programme. Adjusted profit from operations on a representative constant currency basis grew 1.2% to £2,099 million driven by an improvement in Japan, where the performance of both combustibles and THP more than offset the higher marketing investment, and increases in Australia, Pakistan and Bangladesh. These were partly offset by Saudi Arabia which was negatively impacted by down-trading, described above, and South Korea.

# PRINCIPAL GROUP RISKS

## Overview

The principal risks that may affect the Group are set out on the following pages.

Each risk is considered in the context of the Group's strategy and business model, as set out in this Strategic Report on pages 8 to 9, and 22 to 23. Following a description of each risk, its potential impact and management by the Group is summarised. Clear accountability is attached to each risk through the risk owner.

The Group has identified risks and is actively monitoring and taking action to manage the risks. This section focuses on those risks that the Directors believe to be the most important after assessment of the likelihood and potential impact on the business. Not all of these risks are within the control of the Group and other risks besides those listed may affect the Group's performance. Some risks may be unknown at present. Other risks, currently regarded as less material, could become material in the future.

The risks listed in this section and the activities being undertaken to manage them should be considered in the context of the Group's internal control framework. This is described in the section on risk management and internal control in the corporate governance statement on pages 87 to 88. This section should also be read in the context of the cautionary statement on page 298.

A summary of all the risk factors (including the principal risks) which are monitored by the Board through the Group's risk register is set out in the Additional disclosures section on pages 272 to 286.

## Assessment of Group risk<sup>®</sup>

During the year, the Directors have carried out a robust assessment of the principal risks, uncertainties and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The principal risks facing the Group have remained broadly unaltered over the past year with regards to marketplace, excise and tax, operations, regulation and litigation risks.

The viability statement below provides a broader assessment of long-term solvency and liquidity. The Directors have considered a number of factors that may affect the resilience of the Group. Except for the risk 'injury, illness or death in the work place' the Directors have also assessed the potential impact of the principal risks that may impact the Group's viability.

## Time frame

Short term 

Medium term 

Long term 

## Strategic impact

Growth 

Productivity 

Winning organisation 

Sustainability 

## Considered in viability statement<sup>®</sup>

Yes 

No 

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## Viability statement<sup>®</sup>

The Board has assessed the viability of the Group taking into account the current position and principal risks, in accordance with provision 31 of the 2018 UK Corporate Governance Code. While the Board believes the Group will be viable over a longer period, owing to the inherent uncertainty arising due to ongoing litigation and regulation, the period over which the Board has formed the reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due is three years.

In making its assessment of the Group's prospects, the Board has considered the Group's continued strong cash generation from operating activities. This assessment included a robust review of the principal risks that may impact the Group's viability (as indicated on pages 59 to 62) which are considered, with the mitigating actions, at least once a year. The Board also took account of the Group's operational and financial processes, which cover both short-term (1-2 year financial forecasts, 2-3 year capacity plans) and longer-term strategic planning. The assessment included reverse stress testing core drivers that underpin the specific risks to ensure the business is able to continue in operation, while not breaching the required gross interest cover of 4.5 times (see page 48). Each impact would, individually, have to be between 5 times and 10 times worse than a prudent annual forecast, or would all have to arise simultaneously with no mitigating or corrective actions to affect the Group's ability to meet the liabilities as they fall due.

Due to the level of borrowings carried on the balance sheet, the Group may be exposed to movements in interest rates. The Board noted that, as stated in note 22 in the Notes on the Accounts, the Group sets a minimum of 50% of interest rate as fixed on short- to medium-term borrowings, minimising the risk of interest rate fluctuation impacting viability over the period. At 31 December 2019, the ratio of floating to fixed rate borrowings was 18:82 (2018: 21:79).

The Board noted that the Group would be able to adjust certain capital requirements, including but not limited to the investment in the Group's manufacturing infrastructure in the short term and access the £6 billion credit facility (2019 undrawn), to mitigate the impact of the effect of the above principal risks, each of which have specific mitigation activities as disclosed on pages 59 to 62.

The Group is subject to inherent uncertainties with regards to regulatory change and litigation, the outcome of which may have a bearing on the Group's viability. The Group maintains, as referred to in note 27 in the Notes on the Accounts 'Contingent Liabilities and Financial Commitments', that, while it is impossible to be certain of the outcome of any particular case, the defences of the Group's companies to all the various claims are meritorious on both law and the facts. If an adverse judgment is entered against any of the Group's companies in any case, an appeal may be made, the duration of which can be reasonably expected to last for a number of years.

## Risks

### Competition from illicit trade

Increased competition from illicit trade – either local duty evaded, smuggled illicit white cigarettes or counterfeits.

Time frame	Strategic impact	Considered in viability statement®
Long term	 Growth	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		<b>Mitigation activities®</b>
Erosion of brand equity, with lower volumes and reduced profits. Reduced ability to take price increases. Investment in trade marketing and distribution is undermined.		Dedicated Anti-Illlicit Trade (AIT) teams operating at global and country levels; internal cross-functional levels; compliance procedures and best practice shared. Active engagement with key external stakeholders. Cross-industry and multi-sector cooperation on a range of AIT issues. Global AIT strategy supported by a research programme to further the understanding of the size and scope of the problem. AIT Engagement Teams (including a dedicated analytical laboratory) works with enforcement agencies in pursuit of priority targets.

### Tobacco, New Categories and other regulation interrupts growth strategy

The enactment of regulation that significantly impairs the Group's ability to communicate, differentiate, market or launch its products.

Time frame	Strategic impact	Considered in viability statement®
Medium term	 Growth and Sustainability	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		<b>Mitigation activities®</b>
Erosion of brand value through commoditisation, the inability to launch innovations, differentiate products, maintain or build brand equity and leverage price. Regulation in respect of menthol, nicotine levels and New Categories may adversely impact individual brand portfolios. Adverse impact on ability to compete within the legitimate tobacco, nicotine or New Categories industry and with illicit traders. Reduced consumer acceptability of new product specifications, leading to consumers seeking alternatives in illicit markets. Shocks to share price on the announcement or enactment of restrictive regulation. Reduced ability to compete in future product categories and make new market entries. Increased scope and severity of compliance regimes in new regulation leading to higher costs, greater complexity and potential reputational damage or fines for inadvertent breach. Proposed EU Directive on single-use plastics could result in increased operational costs and/or a decline in sales volume.		Engagement and litigation strategy coordinated and aligned across the Group to drive a balanced global policy framework for the nicotine category. Stakeholder mapping and prioritisation, developing robust compelling advocacy materials (with supporting evidence and data) and regulatory engagement programmes. Regulatory risk assessment of marketing plans to ensure decisions are informed by an understanding of the potential regulatory environments. Advocating the application of integrated regulatory proposals to governments and public health practitioners based on the harm reduction principles. Development of an integrated regulatory strategy that spans conventional combustibles and New Categories.

 Please refer to pages 287 to 290 for details of tobacco and nicotine regulatory regimes under which the Group's businesses operate

### Disputed taxes, interest and penalties

The Group may face significant financial penalties, including the payment of interest, in the event of an unfavourable ruling by a tax authority in a disputed area.

Time frame	Strategic impact	Considered in viability statement®
Short/Medium term	 Productivity	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		<b>Mitigation activities®</b>
Significant fines and potential legal penalties. Disruption and loss of focus on the business due to diversion of management time. Impact on profit and dividend.		End market tax committees. Internal tax function provides dedicated advice and guidance, and external advice sought where needed. Engagement with tax authorities at Group, regional and individual market level.

 Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group

® Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## PRINCIPAL GROUP RISKS

### CONTINUED

#### Risks continued

##### Inability to develop, commercialise and deliver the New Categories strategy

Risk of not capitalising on the opportunities in developing and commercialising successful, safe and consumer-appealing innovations.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
Long term	 Growth and Sustainability	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Failure to deliver Group strategic imperative and 2024 growth ambition.		<b>Mitigation activities<sup>@</sup></b> Focus on product stewardship to ensure high-quality standards across portfolio.
Potentially missed opportunities, unrecoverable costs and/or erosion of brand.		Collaboration between internal legal, external affairs and R&D in order to identify current and future regulations and align the innovation pipeline.
Reputational damage and recall costs may arise in the event of defective product design or manufacture.		Retail transformation strategy embedded.
Loss of market share due to non-compliance of product portfolio with regulatory requirements.		Investment on consumer insights and foresight.

##### Market size reduction and consumer down-trading

The Group is faced with steep excise-led price increases and, due in part to the continuing difficult economic and regulatory environment in many countries, market contraction and consumer down-trading is a risk.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
Short/Medium term	 Growth	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Volume decline and portfolio mix erosion.		<b>Mitigation activities<sup>@</sup></b> Geographic spread mitigates impact at Group level.
Funds to invest in growth opportunities are reduced.		Close monitoring of portfolio and pricing strategies, ensuring balanced portfolio of strong brands across key segments.
		Overlap with many mitigation activities undertaken for other principal risks facing the Group, such as competition from illicit tobacco trade and significant excise increases or structure changes.
		New Category growth and multi category approach.

##### Litigation

Product liability, regulatory or other significant cases may be lost or compromised resulting in a material loss or other consequence.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
Long term	 Growth	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Damages and fines, negative impact on reputation, disruption and loss of focus on the business.		<b>Mitigation activities<sup>@</sup></b> Consistent litigation and patent management strategy across the Group.
Consolidated results of operations, cash flows and financial position could be materially affected, in a particular fiscal quarter or fiscal year, by region or country, by an unfavourable outcome or settlement of pending or future litigation.		Expertise and legal talent maintained both within the Group and external partners.
Inability to sell products as a result of patent infringement action may restrict growth plans and competitiveness.		Ongoing monitoring of key legislative and case law developments related to our business. Delivery with Integrity compliance programme.

 Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group

<sup>@</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## Significant increases or structural changes in tobacco, nicotine and New Categories related taxes

The Group is exposed to unexpected and/or significant increases or structural changes in tobacco, nicotine and New Categories related taxes in key markets.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
	 Growth	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Long term	Consumers reject the Group's legitimate tax-paid products for products from illicit sources or cheaper alternatives.  Reduced legal industry volumes.	<b>Mitigation activities<sup>@</sup></b> Requirement for Group companies to have in place formal pricing and excise strategies, including contingency plans, with annual risk assessments.  Pricing, excise and trade margin committees in markets, with regional and global support.
	Reduced sales volume and/or portfolio erosion.  Partial absorption of excise increases.	Engagement with local tax, customs authorities, IMF and WHO where appropriate, in particular in relation to the increased risk to excise revenues from higher illicit trade.  Portfolio reviews to ensure appropriate balance and coverage across price segments.  Monitoring of economic indicators, government revenues and the political situation.

## Foreign exchange rate exposures

The Group faces translational and transactional foreign exchange (FX) rate exposure for earnings/cash flows from its global businesses.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
	 Productivity	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Short/Medium term	Fluctuations in FX rates of key currencies against sterling introduce volatility in reported earnings per share (EPS), cash flow and the balance sheet driven by translation into sterling of our financial results and these exposures are not normally hedged.  The dividend may be impacted if the payout ratio is not adjusted.  Differences in translation between earnings and net debt may affect key ratios used by credit rating agencies.  Volatility and/or increased costs in our business, due to transactional FX, may adversely impact financial performance.	<b>Mitigation activities<sup>@</sup></b> While translational FX exposure is not hedged, its impact is identified in results presentations and financial disclosures; earnings are re-stated at constant rates for comparability.  Debt and interest are matched to assets and cash flows to mitigate volatility where possible and economic to do so.  Hedging strategy for transactional FX and framework is defined in the treasury policy, a global policy approved by the Board.  Illiquid currencies of many markets where hedging is either not possible or uneconomic are reviewed on a regular basis.

## Geopolitical tensions

Geopolitical tensions, civil unrest, economic policy changes, global health crises, terrorism and organised crime have the potential to disrupt the Group's business in multiple markets.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
	 Growth and Productivity	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Medium term	Potential loss of life, loss of assets and disruption to supply chains and normal business processes.  Increased costs due to more complex supply chain arrangements and/or the cost of building new facilities or maintaining inefficient facilities.  Lower volumes as a result of not being able to trade in a country.  Higher taxes or other costs of doing business as a foreign company or the loss of assets as a result of nationalisation.	<b>Mitigation activities<sup>@</sup></b> Physical and procedural security controls are in place, and constantly reviewed in accordance with our Security Risk Management process, for all field force and supply chain operations, with an emphasis on the protection of Group employees.  Globally integrated sourcing strategy and contingency sourcing arrangements.  Security risk modelling, including external risk assessments and the monitoring of geopolitical and economic policy developments worldwide.  Insurance cover and business continuity planning, including scenario planning and testing, and risk awareness training.

<sup>@</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## PRINCIPAL GROUP RISKS

### CONTINUED

#### Risks continued

##### Solvency and liquidity

Liquidity (access to cash and sources of finance) is essential to maintaining the Group as a going concern in the short term (liquidity) and medium term (solvency).

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
Short/Medium term	 Productivity and Sustainability	<input checked="" type="checkbox"/> Yes
<b>Impact</b>		
Inability to fund the business under the current capital structure resulting in missed strategic opportunities or inability to respond to threats.		
Decline in our creditworthiness and increased funding costs for the Group.		
Requirement to issue equity or seek new sources of capital.		
Reputational risk of failure to manage the financial risk profile of the business, resulting in an erosion of shareholder value reflected in an underperforming share price.		
<b>Mitigation activities<sup>@</sup></b>		
Group policies include a set of financing principles and key performance indicators including the monitoring of credit ratings, interest cover, solvency and liquidity with regular reporting to the Corporate Finance Committee and the Board.		
The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year.		
The Group holds a two-tranche revolving credit facility of £6 billion syndicated across a wide banking group, consisting of a 364-day tranche (with two one-year extension options and a one-year term-out option) and a £3bn five year tranche (with two one-year extension options).		
Liquidity pooling structures are in place to ensure that there is maximum mobilisation of cash liquidity within the Group.		
Going concern and viability support papers are presented to the Board on a regular basis.		

##### Injury, illness or death in the work place

The risk of injury, death or ill health to employees and those who work with the business is a fundamental concern of the Group and can have a significant effect on its operations.

Time frame	Strategic impact	Considered in viability statement <sup>@</sup>
Short term	 Sustainability	<input type="checkbox"/> No
<b>Impact</b>		
Serious injuries, ill health, disability or loss of life suffered by employees and the people who work with the Group.		
Exposure to civil and criminal liability and the risk of prosecution from enforcement bodies and the cost of associated fines and/or penalties.		
Interruption of Group operations if issues are not addressed immediately.		
High staff turnover or difficulty recruiting employees if perceived to have a poor Environment, Health and Safety (EHS) record.		
Reputational damage to the Group.		
<b>Mitigation activities<sup>@</sup></b>		
Risk control systems in place to ensure equipment and infrastructure are provided and maintained.		
EHS strategy aims to ensure that employees at all levels receive appropriate EHS training and information.		
Behavioural-based safety programme to drive operations' safety performance, culture and closer to zero accidents.		
Analysis of incidents undertaken regionally and globally by a dedicated team to identify increasing incident trends or high potential risks that require coordinated action.		

The Strategic Report was approved by the Board of Directors on 17 March 2020 and signed on its behalf by Paul McCrory, Company Secretary.

<sup>@</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# CHAIRMAN'S INTRODUCTION ON GOVERNANCE



**DURING 2019, THE BOARD  
OVERSAW THE SUCCESSFUL  
TRANSITION TO OUR  
NEW EXECUTIVE TEAM**



## Dear Shareholder

The Group has delivered a strong operational performance in 2019, with volume share and value share and revenue growing on the back of our combustibles business and continued progress in New Categories.

During 2019, the Board oversaw the successful transition to our new executive team, with Jack Bowles taking over from Nicandro Durante as Chief Executive in April, and Tadeu Marroco succeeding Ben Stevens as Finance Director in August. Jack's immediate drive to embed a stronger, simpler and faster business culture, with revisions to our governance framework facilitating this, has been endorsed by the Board.

Our focus on culture and governance this year has also been guided by the revised UK Corporate Governance Code, with its emphasis on aligning business culture with purpose, strategy and values. The Board has carefully considered the revised Code, in letter and spirit. This year we are reporting to you on our application of its principles and our compliance with its provisions.

In relation to our strategy, Jack and his management team have devoted significant attention in 2019 to developing plans to accelerate progress already made in our New Categories business and the Board has given its full endorsement to the evolution of our Group strategy presented in the Strategic Report.

Stakeholder engagement, and our broader sustainability agenda, has been to the fore this year. The Board assessed how it engages with, and understands the views of, our shareholders, our people, and wider stakeholders to inform our decision-making, strategy development and risk assessment.

The Board has also reinforced how our people should approach external engagement with stakeholders across our business by adopting a new Lobbying and Engagement Policy. It emphasises our values of openness and transparency, and comprises part of our revised Group Standards of Business Conduct (SoBC).

### Board composition and succession

Effective succession planning by the Board is essential to our long-term sustainable success. In our Nominations Committee report on page 79, you can read more about the selection process conducted by the Committee leading to Tadeu's appointment as Finance Director. The Board is pleased at the speed with which both Jack and Tadeu have taken up the reins in their respective roles.

Having overseen a successful transition of the executive team, the Nominations Committee has turned its focus to the process for identifying a successor for my own role as Chairman, mindful of the provisions of the revised Code. Details of the process for identifying my successor are set out in the Nominations Committee report on page 80.

The Board welcomed Jerry Fowden as a new Non-Executive Director in September. Jerry's experience with strategic corporate transformations and FMCG operations in the US will augment the expertise of the Board in these strategic focus areas.

Promoting diversity in our senior management pipeline has long been the Board's aim. I was delighted to see the Group noted as a Diversity Leader in 2019 by the UK Financial Times in its inaugural Diversity Leaders report, highlighting progress in promoting diversity broadly across our organisation. The Board will continue its commitment to realising our ambitions in this area, in line with our Board Diversity Policy and Group Employment Principles.

The objectives of our Board Diversity Policy and our progress against these are set out on page 82.

### Culture and values

The Board recognises its role in shaping and overseeing the Group's culture and values, and has been proactive in supporting our Chief Executive to create a stronger, simpler, more agile organisation through a programme of restructuring and simplification. In 2019, the Board adopted a revised Group Statement of Delegated Authorities aimed at empowering people at the right level of our organisation, and enhancing accountability and ownership. This is discussed further on page 70.

We are equally focused on ensuring that integrity remains paramount. The revised version of our SoBC, approved by the Board in 2019, emphasises that every line manager across our business must act as a role model for high standards of behaviour. You can read more about our Delivery with Integrity programme on pages 31 to 32.

Our Board does not tolerate any failure to comply with our legal obligations or with our SoBC. Through external legal advisers, we are rigorously investigating allegations of misconduct and we continue to cooperate with relevant authorities.

### Stakeholder engagement

Our Directors understand the importance of effective engagement with our shareholders, our people and our wider stakeholders. In 2019, the Board completed a thorough review of how we engage with all key stakeholders, how the Board is kept informed of stakeholder perspectives, and the impact of engagement. This review is discussed on page 72.

One of the outcomes from the review was to establish Non-Executive Directors' attendance at our external Sustainability Stakeholder Panel, which I attended in November, to discuss the Group's sustainability initiatives directly with key opinion leaders. Our Sustainability Stakeholder Panel is discussed further on page 73.

## CHAIRMAN'S INTRODUCTION ON GOVERNANCE

### CONTINUED

The Executive Directors and I regularly update the Board on our own dialogue with shareholders to ensure the whole Board understands their perspectives. In 2019, key topics raised by shareholders and discussed by the Board included US regulatory developments, our New Categories strategy and performance, our leverage and our Quantum transformation project. Our Remuneration Committee Chairman also engaged extensively with shareholders on our new Directors' Remuneration Policy, approved at our 2019 AGM.

My fellow Board members and I look forward to meeting further with shareholders in the lead up to, and at, our 2020 AGM in April.

#### **Engagement with our people**

As reported in our Annual Report and Form 20-F for 2018, from January 2019 we adopted an enhanced approach to engaging with our people worldwide to ensure the Board maintains meaningful and regular dialogue with them, in view of the geographical span, scale and diversity of our organisation. Our approach builds on the range of well-established workforce engagement channels already in place across the Group, augmented by new organisational reporting structures.

During 2019, the Board reviewed and gave feedback on outcomes from the Group's range of workforce engagement channels, including the 2019 'Your Voice' global employee survey. Our new Executive Directors presented several global webcasts in the year, including discussion of strategy, performance and culture with live Q&A. Our Directors also took the opportunity to engage directly with employees on market and site visits, and as part of specific events. You can read more about the Board's workforce engagement activities on page 72.

#### **Board effectiveness**

Board effectiveness is evaluated in detail annually. This year, the evaluation of the Board, its Committees and each individual Director was externally facilitated by Independent Audit Limited.

Having considered the output of this year's evaluation discussed on page 78, the Board considers that it continues to function effectively and its working relationships with its Committees continue to be sound.

#### **Internal controls**

The Group is subject to US compliance obligations under NYSE rules and US securities laws as the Company is a 'foreign private issuer'. In 2019, our Audit Committee played a key role in monitoring the Group's compliance with the Sarbanes-Oxley Act of 2002 (SOx) and had oversight of the management assessment of the effectiveness of our internal controls over financial reporting.

We explain our internal controls framework and SOx compliance programme on pages 87 to 88.

#### **Looking ahead**

Following the Remuneration Committee's review of our management compensation structures in 2019, and to enhance alignment of management incentive schemes with our strategy and values, the Board will present scheme rules for a new restricted stock long-term incentive plan for consideration at our 2020 AGM.

On the external front, increased public awareness of climate change and its impacts means that our shareholders and wider stakeholders are understandably keen to know how we as a business are responding to climate change. The Board has been briefed on the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and has endorsed the Group's full alignment with those recommendations by 2022.

On behalf of the Board, I confirm that we believe that this combined Annual Report and Form 20-F presents a fair, balanced and understandable assessment of the Company's position and performance, and its business model and strategy.

#### **Richard Burrows**

Chairman

# GOVERNANCE

Throughout the year ended 31 December 2019, we applied the Principles of the July 2018 version of the UK Corporate Governance Code (the Code). The Company was compliant with all provisions of the Code during the year.

The Board considers that this Annual Report and Form 20-F, and notably this Governance section, provides the information shareholders need to evaluate how we have complied with our obligations under the Code.

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## Disclosure guidance and transparency rules

We comply with the Disclosure Guidance and Transparency Rules requirements for corporate governance statements by virtue of the information included in this section, together with the information contained in the Other Information section.

For ease of reference, we prepare a separate voluntary annual compliance report by reference to each Principle and Provision of the Code, available at [www.bat.com/governance](http://www.bat.com/governance)

The Code is available at [www.frc.org.uk](http://www.frc.org.uk)

## US corporate governance

As a result of the listing of the Company's American Depository Shares (ADSs) on the NYSE, the Company is required to meet certain NYSE requirements relating to corporate governance matters.

Certain exceptions to these requirements apply to the Company as a foreign private issuer. For a discussion of the significant differences between the NYSE requirements and the Company's practices, please see page 295.

# BOARD OF DIRECTORS

AS AT 17 MARCH 2020



**Richard Burrows**



Chairman (74)

**Nationality:** Irish

**Position:** Chairman since November 2009; Non-Executive Director since September 2009.

**Skills, experience and contributions:** Richard brings considerable consumer goods and international business experience to the Board, having been Chief Executive of Irish Distillers and Co-Chief Executive of Pernod Ricard. Prior to joining the Board, Richard was Governor of the Bank of Ireland. He is an experienced non-executive director and brings a variety of perspectives to the Board. Richard is a Fellow of the Institute of Chartered Accountants of Ireland.

**Other appointments:** Supervisory Board member and Chairman of the Remuneration Committee at Carlsberg A/S.

**Jack Bowles**

Chief Executive (56)

**Nationality:** French

**Position:** Chief Executive since 1 April 2019; Executive Director since 1 January 2019.

**Skills, experience and contributions:** Jack brings significant experience in management, innovation and strategic leadership to the Board, developed through his previous roles across many of the Group's key geographies and areas of business. He joined the Group in 2004 and was appointed as Chairman of British American Tobacco France in 2005, before becoming Managing Director of British American Tobacco Malaysia in 2007. He joined the Management Board as Regional Director for Western Europe in 2009, becoming Regional Director for the Americas in 2011, then Regional Director for Asia-Pacific in 2013. Jack became Chief Operating Officer in 2017 and Chief Executive Designate in November 2018, before being appointed to the Board in January 2019.

**Other appointments:** No external appointments.



**Tadeu Marroco**

Finance Director (53)

**Nationality:** Brazilian

**Position:** Finance Director since 5 August 2019.

**Skills, experience and contributions:** Tadeu brings broad experience gained in various national, regional and global finance and general leadership roles, having joined the Group in Brazil in 1992. These experiences make Tadeu particularly well-placed to contribute to the Group's transformation and broader strategic agenda. He joined the Management Board as Director, Business Development in 2014, becoming Regional Director, Western Europe in 2016, then Regional Director, Europe and North Africa in January 2018. He was appointed Director, Group Transformation in January 2019 and, in addition to this role, he was appointed Deputy Finance Director in March 2019, before joining the Board as Finance Director in August 2019.

**Other appointments:** No external appointments.



**Sue Farr**

Non-Executive Director (64)

**Nationality:** British

**Position:** Non-Executive Director since February 2015.

**Skills, experience and contributions:** Sue contributes considerable expertise in relation to marketing, branding and consumer issues, which are key areas of focus for the Board. Prior to joining the Chime Group in 2003, where she was Director, Strategic and Business Development until 2015, Sue held a number of senior marketing and communications positions, including: Director of Marketing BBC, Corporate Affairs Director of Thames Television and Director of Communications of Vauxhall Motors. Sue is a former Chairwoman of both the Marketing Society and the Marketing Group of Great Britain.

**Other appointments:** Special Adviser, Chime Group; Non-Executive Director and Chair of the Remuneration Committee of Accsys Technologies PLC; Non-Executive Director of Helical plc; Non-Executive Director and Chair of the Remuneration Committee of DNEG Limited.



**Jerry Fowden**



Non-Executive Director (63)

**Nationality:** British

**Position:** Non-Executive Director since 1 September 2019.

**Skills, experience and contributions:** Jerry brings extensive experience in leadership and strategic transformation to the Board and contributes considerable insight in relation to US operational issues, an important market for the Group. He is Chairman of Primo Water Corporation ('Primo') (formerly Cott Corporation), a US pure-play water solutions provider, having been CEO from 2009 until December 2018. Prior to joining Primo, Jerry held a variety of executive roles, including: CEO of Auto Trader Group; a number of roles at AB InBev, including CEO of Bass Breweries in the UK, Global Chief Operating Officer and European President; Executive Director of The Rank Group; and CEO of the Beverage Division at the Hero Group.

**Other appointments:** Chairman of Primo; Non-Executive Director and Chair of the Compensation and Human Resources Committee of Constellation Brands, Inc.



**Dr Marion Helmes**



Non-Executive Director (54)

**Nationality:** German

**Position:** Non-Executive Director since August 2016.

**Skills, experience and contributions:** Marion brings significant financial expertise and operational experience gained at an international level, having spent her working life managing businesses across Europe, the Americas and Asia. Her extensive career includes Chief Financial Officer positions at Celesio, Q-Cells and ThyssenKrupp Elevator Technology and, more recently, as a member of a variety of supervisory boards, which enables Marion to bring a range of insights to the Board's discussions.

**Other appointments:** Vice Chairwoman of the Supervisory Board and Co-Chairwoman of the Presiding and Nomination Committee of ProSiebenSat.1 Media SE; Supervisory Board member and Chairman of the Audit Committee of Heineken N.V.; Supervisory Board member of Siemens Healthineers AG and Uniper SE.



**Luc Jobin**



Non-Executive Director (60)

**Nationality:** Canadian

**Position:** Non-Executive Director since July 2017.

**Skills, experience and contributions:** Luc contributes extensive financial and strategic experience to the Board, including in the US tobacco sector as an independent director of RAI from 2008 until the acquisition in 2017. Luc was President and Chief Executive Officer of Canadian National Railway Company from July 2016 until March 2018, having served as Executive Vice President and Chief Financial Officer since 2009. He was Executive Vice President of Power Corporation of Canada from 2005 to 2009. Luc was Chief Executive Officer of Imperial Tobacco Canada, a subsidiary of the Company, from 2003 to 2005 and Executive Vice President and Chief Financial Officer from 1998 to 2003.

**Other appointments:** Independent Director of Hydro-Québec and Gildan Activewear Inc.; Independent Consultant providing executive leadership advisory services to corporate clients.



**Holly Keller Koeppel**



Non-Executive Director (61)

**Nationality:** American

**Position:** Non-Executive Director since July 2017.

**Skills, experience and contributions:** Holly's extensive international operational and financial management experience in a range of industry sectors enables her to make important contributions to the Board. Holly served as an independent director on the Board of RAI from 2008 until the acquisition in 2017. From 2010 until her retirement in 2017, she was Managing Partner and Head of Citigroup's Infrastructure Investor Fund (CII and its successor, Gateway Infrastructure) with operations on three continents. Prior to 2010, she held a number of global operational positions with Consolidated Natural Gas Company and American Electric Power Company, Inc. (AEP), ultimately serving as Chief Financial Officer of AEP.

**Other appointments:** Non-Executive Director of Vesuvius plc; Director and Chair of the Governance Committee of AES Corporation; Director of Arch Coal Inc.

**Savio Kwan**

Non-Executive Director (72)

**Nationality:** British**Position:** Non-Executive Director since January 2014.**Skills, experience and contributions:**  
Savio brings significant business leadership experience to the Board, together with a deep knowledge of Greater China and Asia, an important region for the Group. During his extensive career he has worked broadly in technology for General Electric, BTR plc and Alibaba Group, China's largest internet business, where he was both Chief Operating Officer and, later, a Non-Executive Director.**Other appointments:** Co-Founder and CEO of A&K Consulting Co Ltd, advising entrepreneurs and their start-up businesses in China; Member of the Governing Body of the London Business School; Non-Executive Director of the Alibaba Hong Kong Entrepreneur Fund and Crossborder Innovative Ventures International Limited; and a Non-Executive Director and Advisory Board member of Homaer Financial.**Dimitri Panayopoulos**

Non-Executive Director (68)

**Nationality:** Greek/British**Position:** Non-Executive Director since February 2015. Dimitri will become Senior Independent Director at the conclusion of the AGM on 30 April 2020.**Skills, experience and contributions:**  
Dimitri has extensive general management and international sales and brand building expertise, which enables him to make valuable contributions to Board discussions on these important topics. He was Vice Chairman and Adviser to the Chairman and CEO of Procter & Gamble (P&G), where he started his career in 1977. During his time at P&G, Dimitri led on significant breakthrough innovations and continued to focus on this, speed-to-market and scale across all of P&G's businesses while Vice Chairman of all the Global Business Units.**Other appointments:** Senior Adviser at The Boston Consulting Group; Advisory Board member of JBS USA; Board Member of IRI.**Kieran Poynter**

Senior Independent Director (69)

**Nationality:** British**Position:** Senior Independent Director since October 2016; Non-Executive Director since July 2010. Kieran will retire at the conclusion of the AGM on 30 April 2020.**Skills, experience and contributions:**  
Kieran brings a wealth of financial and international experience to the Board. He was Chairman and Senior Partner of PricewaterhouseCoopers from 2000 to his retirement in 2008, having started as a graduate trainee in 1971, and is a former Chairman of Nomura International PLC. Kieran is a Chartered accountant.**Other appointments:** Non-Executive Director and Chair of the Audit and Compliance Committee of International Consolidated Airlines Group S.A.; Chairman and Chair of the Nominations, Audit and Compliance and Risk and Remuneration Committees of BMO Asset Management plc (previously called F&C Asset Management plc).

- A** Audit Committee
- N** Nominations Committee
- R** Remuneration Committee
- Committee Chairman
- Executive Director
- Non-Executive Director

**Attendance at Board meetings in 2019<sup>1</sup>**

Name	Director since	Attended/Eligible to attend	
		Scheduled <sup>4</sup>	Ad hoc
Richard Burrows	2009	6/6	2/2
Jack Bowles <sup>3(b)</sup>	2019	6/6	2/2
Nicandro Durante <sup>3(e)</sup>	2008-2019	1/1	2/2
Tadeu Marroco <sup>3(c)</sup>	2019	2/2	0/0
Ben Stevens <sup>3(f)</sup>	2008-2019	4/4	2/2
Sue Farr <sup>2(a)</sup>	2015	6/6	1/2
Jerry Fowden <sup>3(d)</sup>	2019	2/2	0/0
Dr Marion Helmes <sup>2(c)</sup>	2016	6/6	2/2
Luc Jobin <sup>2(b)</sup>	2017	6/6	1/2
Holly Keller Koeppel	2017	6/6	2/2
Savio Kwan	2014	6/6	2/2
Dimitri Panayopoulos	2015	6/6	2/2
Kieran Poynter	2010	6/6	2/2

**Notes:**

1. Number of meetings in 2019: The Board held eight meetings in 2019, two of which were ad hoc and convened at short notice, one to discuss Board Committee appointments and one to discuss the status of litigation in Quebec province. Part of the October Board meeting was held off-site at the Group's R&D facilities in Southampton, UK, to review Group strategy and product portfolios.

2. (a) Sue Farr did not attend the ad hoc Board meeting in January due to prior commitments; (b) Luc Jobin did not attend the ad hoc Board meeting in January due to prior commitments; and (c) Marion Helmes did not attend the 2019 AGM due to prior commitments.

3. Composition: (a) the Board of Directors is shown as at the date of this Annual Report and Form 20-F; (b) Jack Bowles joined the Board on his appointment as an Executive Director on 1 January 2019; (c) Tadeu Marroco joined the Board on his appointment as Finance Director on 5 August 2019; (d) Jerry Fowden joined the Board on his appointment as a Non-Executive Director on 1 September 2019; (e) Nicandro Durante retired from the Board on his retirement as Chief Executive on 1 April 2019; and (f) Ben Stevens retired from the Board on his retirement as Finance Director on 5 August 2019.

4. Number of meetings in 2020: Six Board meetings are scheduled for 2020.

# MANAGEMENT BOARD

AS AT 17 MARCH 2020



**Jerome Abelman**

Director, Legal & External Affairs and General Counsel (56)

**Nationality:** American

Jerry was appointed Director, Legal & External Affairs and General Counsel in May 2015, having joined the Management Board as Group Corporate & Regulatory Affairs Director in January 2015. Jerry was Regional General Counsel, Asia-Pacific from 2010 to 2014, before becoming Assistant General Counsel – Corporate & Commercial. He was a member of the Board of RAI from February 2016 until July 2017.



**Marina Bellini**

Director, Digital and Information (46)

**Nationality:** Italian/Brazilian

Marina joined the Management Board as Director, Digital and Information in January 2019. She joined the Group as Chief Information Officer (CIO) in 2018, having previously served as Global CIO and Global Business Services SVP at Anheuser-Busch InBev, where she was responsible for information technology transformation, including consumer digital marketing.



**Luciano Comin**

Regional Director, Americas and Sub-Saharan Africa (51)

**Nationality:** Italian/Argentinian

Luciano joined the Management Board as Regional Director, Americas and Sub-Saharan Africa in January 2019. He joined the Group in 1992 and has held a wide range of roles, including Marketing Director in Venezuela, Marketing Director in Mexico and General Manager of BAT Mexico. Luciano was also Regional Marketing Manager for Western Europe and then Regional Head of Marketing, Americas and Sub-Saharan Africa before his appointment to the Management Board.



**Alan Davy**

Director, Operations (56)

**Nationality:** British

Alan joined the Management Board as Group Operations Director in March 2013. He joined the Group in 1988 and has held various roles in manufacturing, supply chain and general management. Alan previously held the position of Group Head of Supply Chain.



**Hae In Kim**

Director, Talent and Culture (46)

**Nationality:** Korean

Hae In joined the Management Board as Director, Talent and Culture Designate in January 2019 and became Director, Talent and Culture in April 2019. She was previously Group Head of Talent and Organisational Effectiveness and has held several other senior HR roles in the Group, including Regional HR Director, Asia-Pacific, and HR Director, Japan and North Asia. Prior to joining the Group in 2008, she gained experience at Samsung, IBM Consulting Services and PricewaterhouseCoopers.



**Paul Lageweg**

Director, New Categories (51)

**Nationality:** Dutch

Paul joined the Management Board as Director, New Categories in January 2019. He has been with the Group for 14 years in various senior roles, including Regional Marketing Manager, Asia-Pacific and Middle East, Area Director, East Asia and Global Head of Marketing Futures.



**Guy Meldrum**

Regional Director, Asia-Pacific and Middle East (48)

**Nationality:** New Zealand

Guy joined the Management Board as Regional Director, Asia-Pacific and Middle East in January 2019. Previously he was Area Director, Australasia Area. Guy joined BAT in 1993 and has held several senior roles in the Group including Area Director, North Asia Area and Marketing Director, Russia.



**Dr David O'Reilly**

Director, Research and Science (53)

**Nationality:** British

David was appointed Director, Research and Science in January 2019, having joined the Management Board as Group Scientific Director in 2012, leading R&D's focus on potentially reduced-risk products. He has been with the Group for more than 20 years and was previously Head of International Public Health and Scientific Affairs, responsible for engagement with scientific, medical and public health communities.



**Ricardo Oberlander**

President and CEO, Reynolds American Inc. (56)

**Nationality:** Brazilian

Ricardo was appointed President and CEO of RAI in January 2018, having joined the Management Board as Regional Director for the Americas in 2013. He has held various senior marketing roles in the Group and was General Manager in France. He was Chairman of Souza Cruz S.A. from 2013 until 2016 and a RAI Board member from 2014 until July 2017. Ricardo is a member of the Chief Marketing Officer Council North America Advisory Board and an Advisory Board member of Coast Capital LLC.



**Johan Vandermeulen**

Regional Director, Europe and North Africa (52)

**Nationality:** Belgian

Johan was appointed Regional Director, Europe and North Africa in January 2019. He joined the Management Board in 2014 as Regional Director for Eastern Europe, Middle East and Africa, then became Regional Director, Asia-Pacific and Middle East in January 2018. He has been with the Group for more than 25 years and his previous roles include General Manager in Russia, General Manager in Turkey and Global Brand Director for the Kent brand.



**Kingsley Wheaton**

Chief Marketing Officer (47)

**Nationality:** British

Kingsley was appointed Chief Marketing Officer in January 2019. He joined the Group in 1996 and held various senior marketing positions, prior to being General Manager in Russia. He was appointed to the Management Board as Corporate and Regulatory Affairs Director in 2012. In January 2015, he was appointed Managing Director, Next Generation Products and then as Regional Director, Americas and Sub-Saharan Africa in January 2018.

	Strategic Report	Governance	Financial Statements	Other Information
	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
				Remuneration

# LEADERSHIP AND PURPOSE

## Our Board

Our Board is collectively responsible to our shareholders for the long-term sustainable success of the Company and for the Group's strategic direction, purpose, values and governance. Our Board provides the leadership necessary for the Group to meet its business objectives within a robust framework of internal controls.

### Primary Board responsibilities include:

- Group strategy and ensuring resources are in place to meet objectives
- Setting Group performance objectives and monitoring performance
- Significant corporate activities
- Group budget
- Risk management and internal control
- Board, Management Board and Company Secretary appointments and succession
- Periodic financial reporting
- Annual Report & 20-F approval
- Dividend policy
- Corporate governance
- Group policies
- Effective engagement with shareholders, our workforce and wider stakeholders
- Assessing and monitoring culture and its alignment with Group purpose, values and strategy
- Ensuring workplace policies and practices align with values and support sustainable success
- Review of Speak Up channels and reports arising therefrom

 The statement of matters reserved for the Board is available at [bat.com/governance](http://bat.com/governance)

## Board programme and activities

The Board has a comprehensive annual programme of meetings to monitor and review the Group's strategy across all the elements of the Group's business model. The Chairman sets a carefully structured agenda for each meeting in consultation with the Chief Executive and Company Secretary.

The key activities of the Board in 2019 are detailed on pages 74 and 75. These activities are discussed under the strategy pillars of Sustainability, Growth, Productivity and Winning Organisation. The Board's strategic priorities for 2019 are identified within the key performance indicators set out on pages 18 and 19.

During the year, the Board also devotes considerable attention to Group corporate governance, including internal control and compliance matters.

The Board considers stakeholder interests in its decision-making on an ongoing basis. Examples of the Board considering the long-term consequences of decisions, stakeholder interests, the impact of our operations on the environment and corporate reputation (amongst other factors) are discussed on pages 74 and 75.

### Collective decision-making

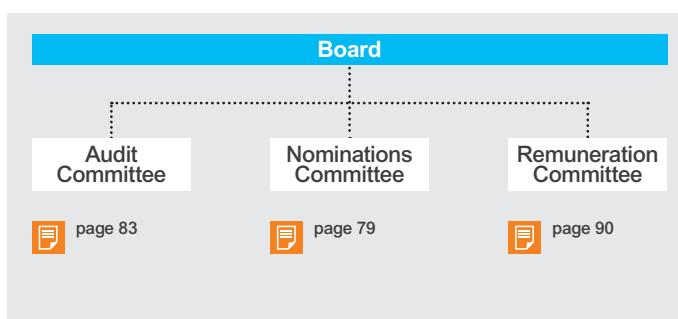
The Chairman seeks a consensus at Board meetings but, if necessary, decisions are taken by majority. If any Director has concerns on any issues that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2019.

### How our governance framework supports our strategy

As part of our internal controls framework, the Board has delegated certain authorities to executive management through our Group Statement of Delegated Authorities to enable effective delivery of Group strategy. The Board's approach to delegation of authorities is discussed further on page 70.

## Board Committees

The Board has three principal Board Committees to which it has delegated certain responsibilities. The roles, memberships and activities of these Committees are described in their individual reports in this section.



The Chairman of each Committee provides updates to the Board, including on decisions made and key matters discussed, following each Committee meeting. Copies of the minutes of all Committees are circulated to all Board members to the extent appropriate.

Each Committee has its own terms of reference, available at [bat.com/governance](http://bat.com/governance). Committee terms of reference are regularly reviewed and updated, most recently to align with the UK Corporate Governance Code 2018.

## Management Board

The Management Board is responsible for overseeing the implementation of Group strategy and policies set by the Board, and creating the framework for Group subsidiaries' day-to-day operations.

The Management Board is chaired by the Chief Executive and comprises the Executive Directors and 11 senior Group executives whose names and roles are described on page 68.

Giovanni Giordano and Naresh Sethi stepped down from the Management Board with effect from 31 March 2019.

### Primary Management Board responsibilities include:

- Developing Group strategy for the Group's product portfolio for approval by the Board
- Monitoring Group operating performance
- Ensuring Group, regional and functional strategies and resources are effective and aligned
- Managing the central functions
- Overseeing the management and development of Group talent

# OUR CULTURE AND VALUES

## Shaping and overseeing culture

Our Board shapes and oversees not just Group strategy, but also its culture and ethos. Since becoming Chief Executive in April, Jack Bowles has focused on creating a stronger, simpler, faster business, with a culture reflecting our ethos, set out on page 11. Our ethos is the thread that must run through everything we do and how we do it, and we believe it empowers our people, fosters a vibrant and rewarding work place, and promotes sustainable long-term value. Our Board is therefore committed to supporting Jack and our Management Board to drive our ethos in every area of our business.

The Board leads by example, establishing revised governance structures across the organisation which took effect in January 2020. Our revised Group Statement of Delegated Authorities (SoDA) aims to empower people at the right level of our organisation with an enhanced degree of accountability and ownership. These changes support our Quantum transformation project, to reduce management layers, speed up and enhance decision-making, and create a more focused Group.

Overseeing the implementation of Group strategy through the SoDA is one of the ways that the Board promotes good corporate governance, risk management and internal control across our Group. The SoDA supports our Board members in managing their responsibility for promoting the success of the Company, in line with their directors' duties. Where the Board delegates authority for decision-making to management, the SoDA mandates regard for the likely long-term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with our wider stakeholders, the impact of our operations on the environment and communities in which we operate, and other relevant factors.

## Delivery with integrity

How we execute our strategy is as important as its successful delivery, and our Board is focused on ensuring that in every aspect of our business we deliver with integrity. In an organisation as diverse as ours, it is essential to the Group's continued success that all our people act with consistently high standards of behaviour. We articulate this through our Group Standards of Business Conduct (SoBC). Compliance with our SoBC, in letter and spirit, is mandatory for all our people worldwide.

We keep our SoBC under regular review to maintain best practice and to take employee and stakeholder feedback into account. The Board approved a revised version of our SoBC in 2019, which came into effect in January 2020, supported by a global awareness campaign.

Our revised SoBC emphasises that every line manager across our business must act as a role model for high standards of behaviour and includes a refreshed Speak Up policy, reflecting the range of Speak Up channels through which any concerns may be raised in confidence (anonymously if preferred) and without fear of reprisal. Our revised SoBC includes our Lobbying and Engagement Policy (replacing our Group Principles for Engagement), reinforcing the requirement for all our engagement activities with governments, regulators and other external stakeholders to be conducted with transparency, openness and integrity.

Our Audit Committee is regularly updated on SoBC incidents. The Committee reports to the Board to enable Board oversight of behaviour falling short of our standards and the corrective action taken, particularly where relevant to culture and values.

 Read more about our commitment to delivery with integrity and our Group Standards of Business Conduct on pages 31 to 32

## Monitoring culture

Our Board is satisfied that the culture of the Group is aligned with its purpose, values and strategy and that workplace policies and practices are consistent with those.

Our Board looks at organisational culture in a variety of contexts during the year, and examples of this in 2019 are highlighted below. During 2019, Board oversight and monitoring of culture has been supported by the introduction of a Group culture dashboard review, which our Board will now monitor annually. The dashboard draws together a range of focused insights that can be measured over time, including employee engagement, leadership stability, employee retention and turnover, diversity balance across the organisation, business conduct, Speak Up reporting, and workplace health & safety.

Outside of the boardroom, the Directors regularly participate in market and site visits during the year, providing them with direct experience of our organisational culture in context.

## Examples of the Board's focus on culture in 2019

### Board review: Digital strategy

Supporting enhanced engagement with consumers and customers and developing a digitally literate organisation ('Digital in our DNA').

### Non-Executive Director visit: Denmark and Sweden

Meeting representatives from regional and local management teams, visiting local Trade Marketing and Distribution operations in Copenhagen, and touring factory operations in Malmö.

### Board strategy sessions: Culture and talent

In-depth review of Group culture, culture dashboard insights, alignment of Group workplace policies and practices with Group purpose, strategy and values; and talent strategy for accelerating Group transformation, including building diverse talent pipelines.

### Board review: Quantum project

Oversight of project objectives, including enhancing employee empowerment and transformation of organisational ways of working, with due regard to employee interests in project design and implementation.

### Board review: Standards of Business Conduct

Approving a revised version of the SoBC emphasising line manager responsibility for role-modelling high standards of behaviour, a refreshed Speak Up policy, and new Lobbying and Engagement Policy.

### Board review: Group workforce engagement

Review of Group workforce engagement channels, feedback from the 2019 Your Voice global employee survey and other channels, and considering areas for future focus or action in light of these insights.

### Board strategy sessions: Global R&D Centre, UK

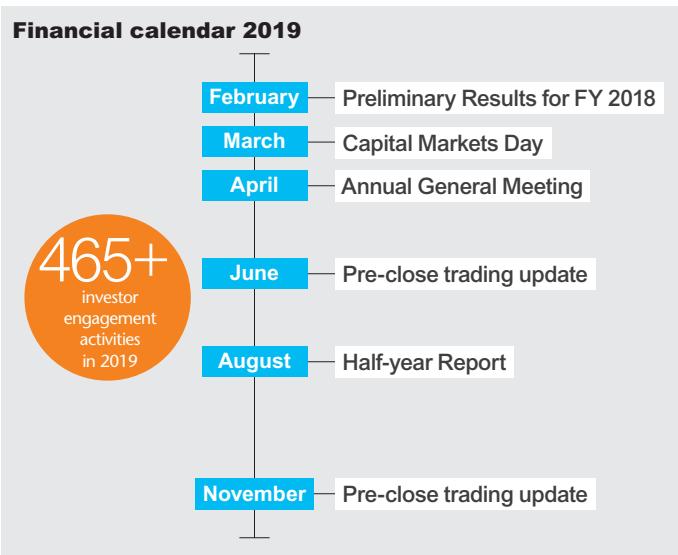
Meeting representatives from our New Categories and Research & Science teams in Southampton, UK to discuss technologies and insights underpinning pipeline development.

### Non-Executive Director visit: Japan

Understanding consumer perspectives on New Categories products, meeting representatives from the regional and local management teams and visiting local Trade Marketing and Distribution operations in Tokyo.

### Board and Committee evaluations

This review considered management engagement with the Board, monitoring wider business culture, supporting the executive team, collaborative ways of working and opportunities to enhance effectiveness further.

Strategic Report	Governance	Financial Statements	Other Information												
Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control												
Remuneration	Responsibility of Directors														
<h1>BOARD ENGAGEMENT WITH STAKEHOLDERS</h1>															
<p>Our Directors value all engagement with our shareholders and wider stakeholders to understand their views and inform the Board's decision-making, strategy development and risk assessment. Our key stakeholders are set out on pages 26 to 27, with an overview of why they are important to our long-term, sustainable success, what matters to them, and how we engage and respond to their views.</p>															
<h2>Shareholder and investor engagement</h2> <h3>Dialogue with our shareholders</h3> <p>The Board is committed to open and transparent dialogue with shareholders to ensure their views are understood and considered. The Chairman and Executive Directors' annual engagement programme is discussed below. The Senior Independent Director and other Non-Executive Directors are also available to meet with major shareholders on request. Our AGM is an opportunity for further shareholder engagement and for the Chairman to explain the Company's progress and, with other members of the Board, answer questions. All Directors attend our AGM, unless illness or pressing commitments prevent them. All Directors attended our AGM in 2019, except Dr Marion Helmes due to a prior commitment. Details of our 2020 AGM are set out on page 323.</p>															
<h3>Annual investor relations programme</h3> <p>A global engagement programme is conducted annually with shareholders, potential investors and analysts. This is led by the Chairman and the Executive Directors, with our Head of Investor Relations. The Chairman and the Executive Directors met with shareholders throughout the year. Prior to his appointment as Finance Director, Tadeu Marroco also attended shareholder meetings as Deputy Finance Director.</p> <p>As part of the investor relations programme in 2019, meetings were held with institutional shareholders representing the majority of the Company's issued share capital, primarily in the UK, US and South Africa. A wide range of topics were discussed, including Group strategy, performance, corporate governance and sustainability. In the past year, over 465 investor engagement activities took place, primarily through face-to-face meetings and calls. The Executive Directors also presented regular investor updates, which are published on bat.com with all results presentations. Results presentations are also available to all our shareholders by webcast.</p> <p>The development of the new Directors' Remuneration Policy was an area of focus for our investor relations programme in advance of the Company's 2019 AGM. The Remuneration Committee Chairman led engagement on the policy proposals, supported by the Chairman, including dialogue on the development of policy proposals to take into account shareholder feedback.</p>															
<p><b>Update on 2019 AGM voting results</b></p> <p>All resolutions were passed at the Company's AGM held on 25 April 2019 with the requisite majority of votes. However, we acknowledge that a significant minority of our shareholders did not support the resolution to renew the Directors' authority to allot shares.</p> <p>We appreciate that some shareholders are unable to support an allotment authority at the level sought, and the reasons why. During 2019, we engaged with a range of shareholders that voted against this resolution and the Board considered their views.</p> <p>The Board fully understands the difference in approach between prevailing UK market practice (to retain an authority to allot in line with the UK Investment Association's share capital management guidelines) and governance policies maintained by those shareholders voting against. This includes shareholders in South Africa, who either do not support a general allotment authority or only support a general authority at lower levels.</p>															
<p>An Investor Day was held in London in March 2019, with the Management Board in attendance. Jack Bowles led the event, setting out a comprehensive overview and outlook for the business. The event featured presentations by a number of Management Board members and senior leaders. Around 200 delegates attended, representing our key investors and market analysts. The content covered objectives to accelerate delivery of our 'transforming tobacco' agenda, with clear targets attached to New Category growth and performance of the business over the next two to three years.</p> <p>For debt investors, there is a microsite on bat.com with comprehensive bondholder information on credit ratings, debt facilities, outstanding bonds and maturity profiles.</p> <p><b>How the Board considers shareholder views</b></p> <p>The Chairman and the Executive Directors regularly update the Board on their dialogue with shareholders. The Board also receives regular updates from the Head of Investor Relations and our brokers on key issues raised by shareholders, and on the Company's share price performance. Shareholder perspectives considered by the Board during 2019 included, amongst others, regulatory developments in the US market, the Group's New Categories strategy and performance, Group debt and business transformation. The Board discusses key issues raised and takes shareholder feedback into account in developing Group strategy.</p> <p> For disclosures required by paragraph 7.2.6 of the Disclosure Guidance and Transparency Rules and the Companies Act 2006 see the Other Information section</p>															
<p><b>Financial calendar 2019</b></p>  <table border="1"> <tr> <td>February</td> <td>Preliminary Results for FY 2018</td> </tr> <tr> <td>March</td> <td>Capital Markets Day</td> </tr> <tr> <td>April</td> <td>Annual General Meeting</td> </tr> <tr> <td>June</td> <td>Pre-close trading update</td> </tr> <tr> <td>August</td> <td>Half-year Report</td> </tr> <tr> <td>November</td> <td>Pre-close trading update</td> </tr> </table>				February	Preliminary Results for FY 2018	March	Capital Markets Day	April	Annual General Meeting	June	Pre-close trading update	August	Half-year Report	November	Pre-close trading update
February	Preliminary Results for FY 2018														
March	Capital Markets Day														
April	Annual General Meeting														
June	Pre-close trading update														
August	Half-year Report														
November	Pre-close trading update														
<p>This level of authority continues to be supported by the majority of our shareholders and the level of authority maintained is in line with prevailing UK market practice. Although there is no present intention to exercise this authority, the Board considers that this level of authority is appropriate to maintain flexibility for the Company.</p> <p>We will maintain dialogue with shareholders for which this authority continues to present concerns and keep best practice under review.</p>															

## BOARD ENGAGEMENT WITH STAKEHOLDERS

### CONTINUED

#### Wider stakeholder engagement

Our Board conducted a review of key business stakeholders in 2019. A broad range of stakeholders are important to the Group at local, regional and functional levels. Key stakeholders that are essential to our ability to generate long-term, sustainable value are identified by applying an established stakeholder engagement framework. This takes into account Group strategic objectives, risks to the Group and emerging risks.

The 2019 stakeholder review included how engagement is conducted across the Group, stakeholders' primary concerns and how the Board is kept informed of those where engagement is not conducted at Board level.

Following the review, the Board decided to establish Non-Executive Director participation in meetings with our independent Sustainability Stakeholder Panel to enhance their understanding of evolving issues for our stakeholders and obtain more detailed insight on how they are addressed and communicated in our annual Sustainability Report.

Our Board is satisfied that there is effective and well-established engagement with the Group's key stakeholders. The Board will conduct a stakeholder review annually and monitor the continued effectiveness of engagement.

Day-to-day engagement with our key stakeholders, and other local stakeholder groups, is conducted at the level and in a format best suited to the context. This may be locally, regionally or functionally, or by the Board or senior management, depending on the stakeholder. Our Group governance framework, including our Group Standards of Business Conduct and specific frameworks for stakeholder engagement, mandate openness, transparency and integrity, and define requirements for appropriate management oversight.

 [Read more about our key business stakeholders and how we engage](#)  
Pages 26 to 27

Where the Board does not engage directly with our stakeholders, it is kept updated so Directors maintain an effective understanding of what matters to our stakeholders and can draw on these perspectives in Board decision-making and strategy development. Examples of how the Board engaged with wider key stakeholders and maintained its understanding of their interests during the year include:

#### Consumers

Our consumers are at the core of everything we do, and over 150 million consumers interact with Group products every day.

The Board is regularly briefed by the Executive Directors and senior management on how we are developing our product portfolio to satisfy an increasingly varied set of adult consumer preferences across our traditional and New Categories businesses.

Through strategy and product portfolio 'deep dives' in 2019, the Board devoted significant time to considering how consumer insights, product preferences, longer-term trends and the Group's approach to product stewardship can help deliver a step-change by offering innovative products that will recapture consumer moments lost to shifting trends.

The Board sees this for themselves through their review of evolving consumer spaces, participation in product 'look and feel' exploration sessions, and by speaking directly to product developers to understand how they integrate in-depth scientific knowledge with consumer insights to build a superior product pipeline.

 [Read more about our approach to engaging with consumers](#)  
Page 26

#### Our People

The Board absorbs the views of our workforce through a combination of engagement methods, across multiple channels at different levels of our organisation. These include Board market and site visits, town halls, works councils, global webcasts, and our 'Your Voice' global employee survey. These are discussed further on pages 41 to 42.

#### Director market and site visits in 2019\*



\* Total visits/events by location in 2019 that one or more Directors attended.

The Board has taken account of the requirements of the UK Corporate Governance Code in its approach to engagement with the workforce and has adopted a combination of methods as permitted by the Code. Given the spread, scale and diversity of the Group's workforce, the Board considers it effective to use the established channels referred to above, and has augmented these from January 2019 by introducing Group-wide reporting structures to capture feedback from engagement forums covering all Group company employees and individuals contracted on a fixed-term basis to undertake permanent roles worldwide.

The Board now reviews these engagement channels and consolidated feedback from them annually. In 2019, this also included review of insights from our 2019 Your Voice global employee survey. Focus and action areas reviewed by the Board are then cascaded to our workforce. Key areas of feedback from engagement channels reviewed by the Board during 2019 focused on business transformation, product innovation and ways of working, and the BAT ethos has been developed with significant workforce input.

Directors attended market and site visits, including to Denmark (Copenhagen), Japan (Tokyo), Sweden (Malmö factory) and UK (Global R&D facilities in Southampton) to meet local management and representatives from marketing and operations. Our Executive Directors presented several global webcasts following their appointments to the Board which included discussions on strategy, business outlook, performance, culture and the Quantum transformation project, including live Q&A. Our Directors take other opportunities to engage directly with employees to support the Group's diversity and inclusion. In 2019, examples include Director participation in our global webcast campaign #BalanceForBetter on International Women's Day and our annual event for 'B United', the Group's LGBT+ network.

The statement of matters reserved for the Board reflects the Board's responsibility to understand the views of our global workforce, and to keep effectiveness of mechanisms for engagement with the workforce under review, in accordance with the UK Corporate Governance Code.

 [Read more about workforce engagement across our Group](#)  
Pages 26, 41 and 42

#### UK Companies Act: Employee engagement

This section summarises the Directors' approach to engaging with the Group's workforce, including employees of UK Group companies, and how the Directors have regard to their interests. Further information is provided on pages 26 to 27 and 41 to 42. Information regarding the effect of that regard is provided on pages 74 and 75.

Strategic Report	Governance	Financial Statements	Other Information
Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
Remuneration	Responsibility of Directors		

## Suppliers

Our relationships with suppliers and farmers are managed day-to-day by the Group's Operations function and at local market level. The Board periodically reviews the Group's supply chain strategies, supplier footprint and progress of sustainable agriculture and farmer livelihoods programmes, in particular the industry-wide Sustainable Tobacco Programme, and the Group's THRIVE programme which takes into account insights from supplier and farmer engagement.

In 2019, updates to the Board included the Group's combustibles supply chain strategy and the Group's approach to building strategic relationships with research partners to support New Categories development. The Board also discussed new ways of working to build relationships with corporate venturing partners to foster innovation and build capabilities in New Categories.

As part of the Board's review of our annual Modern Slavery Statement, it discussed actions being taken by the Group to address the risk of human rights issues across our business and supply chains. In the context of the Board's review of the revised SoBC in 2019, it was briefed on enhanced alignment of our Human Rights policy with the ILO Declaration on fundamental principles and rights at work and UK modern slavery legislation.

 [Read more about how we engage with our suppliers and farmers](#)  
Pages 27, 31 and 39

## Customers

Whilst retailer, wholesaler and distributor relationships are managed at local market and business unit levels, the Board is regularly briefed on the Group's retail footprint, route to market strategies and developments in the global retail environment.

In 2019, this was primarily achieved through regular updates from the Chief Executive on product roll-out plans and the Board's annual product portfolio 'deep dives'. Focus areas for Board discussions included US wholesaler and retailer approaches to preventing youth access to vapour products and the Group's actions to ensure responsible partnerships with trade customers. The Audit Committee also regularly reviews the Group's Youth Access Prevention activities and action plans.

 [Read more about how we engage with our customers](#)  
Page 27

## Governments and wider society

At every regular Board meeting, the Board reviews a report from our Legal & External Affairs Director covering regulatory engagement, progress in anti-illicit trade initiatives, litigation, compliance and other legal matters across the Group. The Board is briefed on evolving product regulation through its annual product portfolio 'deep dives' with senior management.

The Audit Committee is regularly updated on the status of engagement with tax authorities on material Group tax matters. The Non-Executive Directors regularly attend meetings of the Group's Corporate Audit Committee and Regional Audit & CSR Committees, where societal and community perspectives on various topics at regional and local levels are discussed further. Feedback from those Committees is reviewed by the Audit Committee.

The Chairman participates in the Confederation of British Industry, the Multinational Chairman Group and the Whitehall & Industry Group; these are all forums enabling engagement with the UK Government on topics such as global trade, Brexit and cyber security.

The Audit Committee reviews the Group's sustainability performance annually, including our investment in community and charitable initiatives under the Group's strategic framework for corporate social investment.

The Chairman also participates in the annual meeting of the Global Leadership Foundation (GLF), a network of government and NGO stakeholders helping developing countries improve governance.

The Board is briefed on scientific engagement with public health bodies, scientific communities and the media. In 2019, this included the launch of the new BAT-science website.

As part of the Board's review of the Group's new environmental targets and environmental reporting, the Board was briefed on stakeholder expectations in relation to carbon emissions commitments and alignment to Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

 [Read more about our engagement with governments and wider society](#)  
Pages 27 and 32

## UK Companies Act: Business relationships

This section summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders. Further information is provided on pages 26 and 27. Information regarding the effect of that regard is provided on pages 74 and 75.

## Sustainability Stakeholder Panel

To enhance its understanding of what matters to our stakeholders, the Board established Non-Executive Director participation in meetings with our Sustainability Stakeholder Panel in 2019.

The Panel is formed of key opinion leaders in the areas of harm reduction, environment, human rights and business ethics. It was established in 2016 to provide independent and objective feedback on our sustainability agenda, priorities and our Sustainability Report.

In November 2019, Richard Burrows and Sue Farr, with members of senior management, met the Panel to review developments in sustainability initiatives, evolving sustainability issues that could impact our wider stakeholders, and Group sustainability performance. Feedback was provided to the Board and Non-Executive Director participation in meetings with the Panel will continue in 2020.



# BOARD ACTIVITIES IN 2019



## Sustainability

The Board emphasises the need for our business, strategy and product portfolio to be sustainable for the long term and meet stakeholder expectations.

### Activities in 2019

- reviewing the Group Risk Register, Group risk appetite in the context of its strategic objectives, emerging risks to the Group, and Group insurance coverage;
- determining Group viability for reporting purposes taking into account current position and principal risks;
- reviewing Group stakeholders, methods of engagement, issues that matter to those stakeholders and how the Group responds;
- reviewing the Group's approach to product stewardship and the science underpinning development of New Category products;
- reviewing Group regulatory engagement activities and evolving global product regulation;
- reviewing New Category products environment, with particular focus on the US vapour environment and the status of FDA proposals to regulate flavours in vapour products;
- approving revised versions of the International Marketing Principles and Group Standards of Business Conduct (including the Speak Up and Lobbying and Engagement policies);



## Growth

Growth remains our key strategic focus. Continued investment in, and development of, our strategic focus areas is central to the Board's annual agenda.

### Activities in 2019

- reviewing the status of litigation proceedings involving Group companies, including updates on the class-actions in Quebec Province against Group subsidiary Imperial Tobacco Canada and associated CCAA filing, the Fox River and Kalamazoo River proceedings, and claims brought by RAI dissenting shareholders following acquisition of the remaining shares in RAI;
- reviewing updates on compliance matters, including allegations of misconduct, reports from Speak Up channels, and progress of the Group's 'Delivery with Integrity' compliance programme;
- reviewing health and safety performance for the preceding year, targets for the coming year and action plans;
- reviewing performance against environmental targets set for the preceding year, approving revised long-term targets and endorsing plans for enhanced climate change reporting; and
- reviewing the Group's annual Modern Slavery Act statement and approving it for adoption by the Company.
- reviewing Group strategy and its implementation across the Group's regions;
- review of the evolution of the Group's strategy to accelerate New Category growth;
- approval of Group budget and oversight of resource allocation activities, including for combustible product portfolios, to support strategy execution;
- reviewing Group financial performance against the key performance metrics, current outlook throughout the year, key challenges faced and opportunities for growth in each region;
- reviewing Group half-year results, year-end results and the Annual Report and Form 20-F;
- reviewing New Category product portfolios, innovation pipeline, roll-out plans and Group strategy for developing intellectual property;
- reviewing Group product portfolio performance in the context of strategic focus areas and the competitor landscape;
- reviewing the Group's information and digital technology (IDT) strategy, including progress of the Group's digital transformation agenda, risk management and cyber security;
- oversight of establishment of the Group's corporate venture capital unit, 'Better Tomorrow Ventures', and approval of specific delegated authorities to support the unit in creating innovative and agile strategic relationships with venture capital partners;
- reviewing the Company's share price performance, investor and broker perspectives, and analysis of factors impacting share price performance;
- reviewing the impact of foreign exchange rates on Group financial performance, including measures taken by management to mitigate foreign exchange risks; and
- reviewing financial performance of the associates of the Group periodically.

Examples of how the Board considered stakeholders, the environment, corporate reputation, and the long-term impact of decisions

### Environmental targets and climate change reporting

The Board approved new environmental targets aimed at significantly reducing the greenhouse gas emissions of the Group and its supply chain. The targets were based on the most up-to-date climate science and were formally endorsed by the Science-Based Targets initiative, reflecting the Board's commitment to reducing the impact of our operations in the long term and working with external stakeholders to achieve this. Building on this initiative, the Board has also endorsed the Group's alignment with the TCFD reporting recommendations on the financial impacts of climate change by 2022.

### Key stakeholders

- Shareholders/  
Bondholders
- Consumers
- Our people
- Suppliers
- Customers
- Governments  
and wider society

### Budget and resource allocation

The Board approved the 2020 budget, weighing the balance between the long-term corporate and consumer benefits of New Categories investment and continued portfolio and geographic expansion with our commitment to significant deleveraging. The budget reflects our considerable work to better understand and anticipate evolving consumer preferences at a transformational time for our sector, and factors in our commitment to strong product stewardship, research and collaborative innovation to meet those needs.

### Key stakeholders

- Shareholders/  
Bondholders
- Consumers
- Our people
- Suppliers
- Customers
- Governments  
and wider society

Strategic Report		Governance		Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors

## Productivity

The Board pays close attention to the Group's operational efficiency and our programmes are aimed at delivering a globally integrated enterprise with cost and capital effectiveness.

### Activities in 2019

- reviewing operating performance on a Group, regional and key market level across the product portfolio, including combustibles and New Categories;
- reviewing Group cash flow performance, including monitoring the progress to realise opportunities and optimise the balance sheet, to ensure the Group can invest for the future while reducing the carrying value of debt;
- reviewing the SEC-registered shelf programme for US debt issuance, summarised on page 48, and approving the transaction documentation to establish the programme;
- reviewing the Quantum transformation project and its objectives, and approving changes to the Group's delegated authorities to implement organisational change;

- reviewing Group compliance with its financing principles, including in relation to Group liquidity, capital allocation, adjusted net debt/EBITDA, the Group's revolving credit facilities, planned refinancing and other treasury activities;
- reviewing US business performance following the acquisition of RAI, progress in achieving anticipated synergies discussed further at page 39, implementation of operational integration, and outlook for the US business;
- reviewing Group supply chain strategy and optimisation programmes; and
- reviewing other business transformation programmes relating to finance, human resources and global business services to implement operational efficiencies.

## Winning organisation

Setting the 'tone from the top' is an important part of the Board's role, helping to foster a culture centred on our ethos.

### Activities in 2019

- approving the appointment of Tadeu Marroco and Jerry Fowden to the Board and revising the composition of Board Committees on the recommendation of the Nominations Committee;
- determining the independence of Non-Executive Directors prior to proposing them for re-appointment (or appointment for the first time) at the Company's AGM;
- reviewing feedback from the Remuneration Committee on development of the new Directors' Remuneration Policy and shareholder perspectives, and adopting the new policy for proposal to shareholders at the Company's 2019 AGM;
- monitoring corporate culture and its alignment with the Group's purpose, strategy and values;
- reviewing the Group's talent, diversity and inclusion strategies and the progress of initiatives supporting their objectives;
- reviewing the BAT ethos, an evolution of the Group's Guiding Principles, developed with significant input from Group company employees;
- considering feedback from the range of workforce engagement mechanisms in place across the Group, including outcomes from the 'Your Voice' global 2019 employee survey, discussing plans for implementing feedback and attending market and site visits;
- reviewing Speak Up mechanisms and the reports arising from them;
- approving changes to the Group's existing short-term and long-term management incentive schemes (below Executive Director level) to enhance alignment with Group strategy and values, and adopting rules for a new employee restricted share long-term incentive plan for proposal to shareholders at the Company's 2020 AGM;
- reviewing the funding positions relating to the Group's retirement benefit schemes; and
- review and discussion of the outcomes from the evaluation of the effectiveness of the Board and its Committees in 2019.

### Business transformation

The Board reviewed the Quantum transformation project and its objectives and approved changes to the Group's governance framework to support project delivery and realise its benefits. The project, while creating a leaner organisation, was conceived with due regard to employee interests and is ultimately designed to empower our people going forward, promote agility in their decision-making, and support funding for future growth. A consumer-centric approach is at the heart of this, reflecting the Group's strategy.

### Key stakeholders

-  Shareholders/  
Bondholders
-  Consumers
-  Our people

### Group incentive schemes

The Remuneration Committee reviewed the Group's wider reward strategy (below Executive Director level), leading to a simplified annual salary review process and revised management incentive scheme structures. As competition for talented employees intensifies and we build our capabilities to succeed in New Categories and growth markets, the Committee endorsed these changes to better align incentive schemes below Executive Director level with the Group's strategy and values, enhance talent acquisition and retention and take into account employee feedback.

### Key stakeholders

-  Shareholders/  
Bondholders
-  Consumers

# DIVISION OF RESPONSIBILITIES

## Introduction

This section sets out the roles, and effective division of responsibilities, between the Chairman, Chief Executive and Non-Executive Directors, and outlines the support the Directors receive to assist them in meeting their responsibilities under the UK Corporate Governance Code and discharging their directors' duties, both individually and collectively.

## Leadership

### Chairman

- Leadership of the Board
- Ensures Board effectiveness
- Facilitates the productive contribution of the Directors
- Sets the Board agenda
- Interfaces with shareholders
- Ensures effective shareholder engagement
- Representational duties on behalf of the Company

### Chief Executive

- Overall responsibility for Group performance
- Leadership of the Group
- Enables planning and execution of Group objectives and strategies
- Stewardship of Group assets
- Drives the cultural tone of the organisation

 The responsibilities of the Chairman, Chief Executive, Senior Independent Director are available at [www.bat.com](http://www.bat.com)

## Oversight

### Non-Executive Directors

- Oversee Group strategy
- Scrutinise and hold to account performance against objectives
- Monitor Group performance
- Review management proposals and provide strategic guidance
- Bring external perspective and effective challenge to management

### Senior Independent Director (SID)

- Leads review of the Chairman's performance
- Presides at Board meetings in the Chairman's absence
- Chairs the Nominations Committee when Chairman succession considered
- Sounding board for the Chairman
- Intermediary for other Directors
- Available for meet with shareholders

### Non-Executive Director meetings

When required, the Non-Executive Directors, led by the Chairman, meet prior to or following Board meetings. Regular meetings led by the Chairman are scheduled in the Board calendar without the Executive Directors present.

The Executive and the Non-Executive Directors also meet annually, led by the Senior Independent Director and without the Chairman present, to discuss the Chairman's performance.

## Independence

The Board considers all Non-Executive Directors to be independent, as they are free from any business or other relationships that could interfere materially with, or appear to affect, their judgement.

In respect of Luc Jobin and Holly Keller Koeppel, who were originally appointed to the Board following the acquisition of RAI and pursuant to the Agreement and Plan of Merger with RAI, the Board determined each of them to be independent Directors, having taken into account their respective periods of service on the board of RAI as independent, non-executive directors.

The Board has also considered the independence requirements outlined in the NYSE's listing standards and has determined that these are met by the Chairman and all the Non-Executive Directors.

### Directors information and advice

- Directors receive papers for review in good time ahead of each Board and Committee meeting.
- Papers and presentations to the Board and its Committees include discussion of specific stakeholder considerations as applicable
- The Company Secretary ensures effective information flow within and between the Board and its Committees, and between the Non-Executive Directors and senior management.
- The Company Secretary, in conjunction with external advisers where appropriate, advises the Board on all governance matters.
- All Directors have access to the advice and services of the Company Secretary. The appointment and replacement of the Company Secretary is a matter for the Board.
- A procedure is in place for all Directors to take independent professional advice at the Company's expense if required.
- Each of the three principal Committees of the Board may obtain independent legal or other professional advice, at the Company's expense, and secure attendance at meetings of outsiders if needed.

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation

## Commitment

Before appointing prospective Directors, the Board takes into account their other commitments and significant time commitments are disclosed prior to appointment. The letters of appointment for the Chairman and Non-Executive Directors set out their expected time commitment to the Company. Any additional external appointments following appointment to the Board require prior approval by the Board in accordance with the UK Corporate Governance Code 2018. The Board assesses the significance of any additional external appointment notified by a Director, supported by the Company Secretary.

During 2019, the Board considered and gave approval to the new external appointments of the Non-Executive Directors. Sue Farr's appointment as a non-executive director of Helical plc with effect from 5 June 2019 was considered by the Board to be a significant additional appointment. Such appointment was, however, not considered to impair her ability to serve as a Director of the Company in view of the anticipated time commitment and as Ms Farr ceased to be a non-executive director of Dairy Crest Group plc on 15 April 2019. Including the Company, Sue Farr is a non-executive director of a total of three listed companies.

In 2019, the Board also considered and gave approval to Luc Jobin's proposed appointment as an independent director of Gildan Activewear Inc., effective from 18 February 2020. The Board considered the appointment to be a significant additional appointment, however it was not considered to impair Mr Jobin's ability to serve as a Director of the Company in view of Mr Jobin's total of two listed company mandates which is within the voting guidelines of leading corporate governance agencies. Following this appointment, Mr Jobin is a Non-Executive Director of two listed companies, including the Company.

## Conflicts of interests

The Board has formal procedures for managing conflicts of interest. Directors are required to give advance notice of any conflict issues to the Company Secretary. These are considered either at the next Board meeting or, if the timing requires it, at a meeting of the Board's Conflicts Committee.

Each year, the Board also considers afresh all previously authorised situational conflicts. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest.

## Board induction

On joining the Board, all Directors receive a full induction tailored to their individual requirements

### Finance Director induction 2019

Tadeu Marroco completed his Executive Director induction programme in preparation for his appointment to the Board on 5 August 2019.

Mr Marroco's induction included in-depth briefings from senior management, the external auditors and external advisers.

These briefings covered a range of topics, including the Company's corporate governance structures, responsibilities as Finance Director and directors' duties more generally, Board and Committee processes, UK and US regulatory frameworks applicable to listed issuers, shareholder and wider stakeholder engagement programmes and stakeholder perspectives, external audit procedures and legal matters.

## Professional development

Non-Executive Directors receive a full programme of briefings annually across all areas of the Company's business from the Executive Directors, members of the Management Board, the Company Secretary and other senior executives.

Focus areas in 2019 included a recap on directors' duties under Section 172 of the UK Companies Act 2006, and new corporate reporting requirements introduced in 2018 associated with the discharge of those duties. These briefings were provided in the context of the Board's review of key business stakeholders. The Board was also updated on the implementation of revisions to the Group's governance framework to align with the UK Corporate Governance Code, following the Board's approval of those revisions in 2018.

During the year, the Audit Committee has been updated on the progress of UK government reviews and consultations in relation to the UK audit market and proposed reform of the UK Financial Reporting Council.

Non-Executive Directors regularly attend meetings of the Group's Regional Audit and Corporate and Social Responsibility Committees and Corporate Audit Committee to gain an enhanced understanding of the Group's regions and central functions and the risks faced by the business at market, regional and functional levels.

Non-Executive Directors also attend by rotation an annual meeting of our Sustainability Stakeholder Panel to enhance their understanding of wider stakeholder considerations.

The Chairman meets with each Non-Executive Director individually towards the end of each year, to discuss their individual training and development plans.

All Directors receive a thorough and personalised induction upon joining the Board. Individual inductions conducted in 2019 are highlighted below.

### Non-Executive Director induction 2019

Jerry Fowden completed his Non-Executive Director induction programme in 2019 following his appointment to the Board on 1 September 2019.

Mr Fowden's induction included a series of briefings from senior management, the external auditors and external advisers on the Group's strategy, business regions, product portfolios, corporate governance, directors' duties, the Group's shareholder and wider stakeholder engagement programmes and stakeholder perspectives, evolving regulation impacting the Group's business, and treasury, risk and legal matters.

Mr Fowden also visited our Global R&D Centre in Southampton to gain insight into the Group's product innovation pipeline and science supporting it directly from our scientists and product developers.

# BOARD EVALUATION

## Review process

The performance and effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman were evaluated externally in 2019, facilitated by Independent Audit Limited ('Independent Audit'). Independent Audit has no connections with the Company or its Directors other than in respect of facilitation of Board evaluation.

Independent Audit undertook the evaluations through a series of detailed questionnaires, observation of meetings of the Board and Audit and Remuneration Committees, and review of Board and Committee papers for the previous 12 months. The Chairman is responsible for the overall evaluation process and each Committee Chair is responsible for the evaluation of the performance and effectiveness of their Committee.

All Directors (except for Jerry Fowden, who had just joined the Board) participated in the evaluation process, assessing the Board, the Committees of which they were a member or regularly attended in 2019, and each of the Directors individually.

In addition, several members of the Management Board and other senior management participated in elements of the evaluation.

Anonymised reports specifying the findings of the evaluations were prepared by Independent Audit for the Board and each Committee. The Board and Committees then reviewed and discussed their respective reports and identified action areas for 2020 taking into account the evaluation findings. Discussions of evaluation findings were facilitated by Independent Audit.

The Chairman received reports from Independent Audit on the performance and effectiveness of all Executive and Non-Executive Directors (other than himself) in 2019 and he provided individual feedback to each Director.

The Senior Independent Director received a report from Independent Audit on the Chairman's performance and effectiveness, and led a discussion reviewing the Chairman's effectiveness with the other Directors (without the Chairman present). The Senior Independent Director then provided feedback to the Chairman.

## 2019 evaluation: outcomes and actions

The Board considers that it, and its Committees, continue to function effectively and that the working relationships between the Board and its Committees continue to be sound.

### Leadership and culture

Positive feedback was provided on management's degree of engagement with the Board, linked with an open dynamic with the new Chief Executive and Finance Director.

Leveraging the collective knowledge and experience of the Board to best effect was also discussed, with the openness of the new executive team's interaction with the Board and the inclusiveness of the Board's strategy sessions cited as positive factors.

Oversight of organisational culture was identified to be an area for continued focus for the Board, particularly in light of the Quantum transformation project. Director market and site visits were identified as a useful means of achieving this, and positive feedback was provided by Directors on market visits in 2019.

### Actions for 2020

- review sources of insight provided to the Board on culture to ensure this supports Board oversight in the most effective manner
- develop the programme of market and site visits for Non-Executive Directors to continue to spend time in the business

### Strategy

The good start made by the new Chief Executive and Finance Director in articulating and communicating strategy was noted. The Non-Executive Directors welcomed their increased level of involvement in strategic planning. The Board's approach to monitoring the organisation's financial health is well regarded.

The strategic opportunities and risks associated with big trends driving the industry, including new technology, were areas identified for focus for the Board, as was continued review of reward strategy by the Remuneration Committee.

### Actions for 2020

- review of industry trends on a macro-level, including technology
- continuing review by the Remuneration Committee of the Group's reward strategy in 2020 to ensure ongoing effectiveness

### Risk management

Oversight of risk management is viewed to be handled well. Stress-testing of scenario analysis and crisis preparation, and insight on management's response plans and backup systems, were identified as focus areas. Cyber and IT security risk are areas where crisis management is felt to be key. Continued engagement with management and experts was considered essential to the Board's understanding and oversight.

### Actions for 2020

- targeted assessment of crisis scenarios and mitigation plans
- Audit Committee deep dive on information, technology and cyber risks

### Dynamics and information

Board and Committee meetings are considered to be chaired effectively, with effective support from the Company Secretariat. Opportunities were identified to enhance meeting effectiveness through more focused presentations. There is also opportunity to enhance the effectiveness of Board and Committee papers by including clear linkage to strategy and reducing operational detail.

### Actions for 2020

- maintain balance between presentation and discussion in meetings
- additional guidance to management on preparation of Board and Committee papers to enhance effectiveness of pre-read

### Composition and succession

Executive succession was unanimously agreed to be an area of strength and the Nominations Committee was praised for its handling of executive transition. Executive talent management was also well regarded. Areas for refining the Non-Executive Director appointments process were identified, including continued focus on Board diversity.

### Actions for 2020

- develop profile of Non-Executive Directors needed for the future, for Nominations Committee reference in Board succession planning

Independent Audit has reviewed this section and has confirmed it presents a fair summary of the review process.

	Strategic Report	Governance	Financial Statements	Other Information
	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
				Remuneration

# NOMINATIONS COMMITTEE



**Richard Burrows**  
Chairman of  
the Nominations  
Committee

## Nominations Committee current members

Richard Burrows (Chairman)	Holly Keller Koeppel
Sue Farr	Savio Kwan
Jerry Fowden	Dimitri Panayotopoulos
Dr Marion Helmes	Kieran Poynter
Luc Jobin	

## Attendance at meetings in 2019<sup>1(a)</sup>

Name	Member since	Attended/Eligible to attend	
		Scheduled	Ad hoc
Richard Burrows <sup>1(b)</sup>	2009	2/2	3/3
Sue Farr <sup>1(c)</sup>	2015	2/2	3/4
Jerry Fowden <sup>2(b)</sup>	2019	0/0	2/2
Dr Marion Helmes	2016	2/2	4/4
Luc Jobin <sup>1(d)</sup>	2017	2/2	3/4
Holly Keller Koeppel	2017	2/2	4/4
Savio Kwan <sup>1(e)</sup>	2014	2/2	3/4
Dimitri Panayotopoulos	2015	2/2	4/4
Kieran Poynter	2010	2/2	4/4

### Notes:

1. Number of meetings in 2019: (a) the Committee held six meetings, four of which were ad hoc and convened at short notice; (b) Richard Burrows was recused from the ad hoc meeting in November which discussed succession planning for the role of Chairman; (c) Sue Farr did not attend the ad hoc meeting in January due to prior commitments; (d) Luc Jobin did not attend the ad hoc meeting in January due to prior commitments; and (e) Savio Kwan did not attend the ad hoc meeting in November due to prior commitments.
2. Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with UK Corporate Governance Code 2018 Provisions 10 and 17, applicable US federal securities laws and NYSE listing standards; and (b) Jerry Fowden became a member of the Committee on 1 September 2019 on his appointment as a Non-Executive Director.
3. Other attendees: the Chief Executive, the Director, Talent and Culture, and Group Head of Talent & Organisation Effectiveness regularly attend meetings by invitation but are not members.

## Nominations Committee terms of reference

Revised Nominations Committee terms of reference have been adopted by the Board to align with the requirements of the UK Corporate Governance Code 2018.

 For the Committee's terms of reference  
[see bat.com/governance](http://see bat.com/governance)

## Role

### As set out in the Terms of Reference, the Nominations Committee is responsible for:

- reviewing the structure, size and composition of the Board and Management Board on a regular basis to ensure both have an appropriate balance of skills, expertise, knowledge and Board independence;
- reviewing the succession plans for appointments to the Board, the Management Board and Company Secretary to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of both the Board and the Management Board;
- making recommendations to the Board on suitable candidates for appointments to the Board, the Management Board and Company Secretary, and ensuring that the procedure for those appointments is rigorous, transparent, objective and merit-based and has regard for diversity;
- assessing the time needed to fulfil the roles of Chairman, Senior Independent Director and Non-Executive Director, and ensuring Non-Executive Directors have sufficient time to fulfil their duties;
- overseeing the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers; and
- implementing the Board Diversity Policy and monitoring progress towards the achievement of its objectives, summarised on page 82.

## Key activities in 2019

- Identifying a successor to the Finance Director and recommending to the Board the appointment of Tadeu Marroco as Deputy Finance Director from 1 March 2019 and then as Finance Director from 5 August 2019, discussed further on page 80.
- Making recommendations to the Board in respect of Board and Committee appointments, including to appoint Jerry Fowden as a Non-Executive Director and to the Audit and Nominations Committees from 1 September 2019.
- Succession planning for the role of Chairman, discussed further on page 80.
- Making recommendations to the Board in relation to Directors' annual appointment and re-election at the AGM, discussed further on page 80.
- Reviewing the Executive Directors' and Management Board members' annual performance assessments.
- Succession planning for the Board and for the Management Board, having regard to the Board Diversity Policy.
- Reviewing the Group talent strategy, talent development priorities and the programmes underpinning the Group's commitment to investment in engaging, developing and retaining talent.
- Reviewing the Group's Diversity & Inclusion strategy, specific diversity initiatives to further develop a diverse and gender-balanced work place, and progress made in the development of a diverse senior management succession pipeline.
- Assessing the progress of development plans for candidates for Management Board roles.
- Assessing the Committee's effectiveness in 2019, following the externally facilitated evaluation of the Committee, discussed further on page 78.

## NOMINATIONS COMMITTEE

### CONTINUED

#### Board appointments

The Committee is responsible for identifying candidates for Board positions, taking into account the Board Diversity Policy discussed on page 82. This includes a full evaluation of candidates' attributes to ensure the Board maintains an appropriate balance of skills, expertise and knowledge, and generally involves interviews with several candidates, supported by independent, specialist external search firms where applicable, to shortlist appropriate candidates.

The Committee identified the successor to Ben Stevens as Finance Director, taking into account potential candidates' skills, experience and diversity of attributes. The Board approved the Committee's recommendation to appoint Tadeu Marroco as Deputy Finance Director with effect from 1 March 2019 and as Finance Director with effect from 5 August 2019.

The Committee also led the selection process leading to the appointment of Jerry Fowden as a Non-Executive Director on 1 September 2019. This selection process was supported by Heidrick & Struggles (UK) Limited<sup>1</sup>, an independent executive search consultancy compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms. The selection process for this role included careful consideration of candidates' skills, expertise, knowledge and diversity of attributes, and a specific requirement for candidates to have strong US market experience to enhance the Board's US expertise.

#### Terms of appointment to the Board

Details of the Directors' terms of appointment to the Board and the Company's policy on payments for loss of office are contained in the Directors' Remuneration Policy, which is set out in full in the Remuneration Report 2018, contained in the Company's Annual Report and Form 20-F for 2018 available at bat.com

The Executive Directors have rolling one-year contracts. The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for one year, with an expected time commitment of 25–30 days per year.

#### Board retirements

Nicandro Durante retired from the Board with effect from 1 April 2019, on his retirement as Chief Executive. Ben Stevens retired from the Board with effect from 5 August 2019, on his retirement as Finance Director.

Kieran Poynter will retire from the Board with effect from the conclusion of the Company's AGM on 30 April 2020.

#### Board succession planning

The Board considers the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time. Non-Executive succession planning remains a priority for the Committee in 2020.

The Chairman will have served as a Director for just over 10 years at the time of the 2020 AGM. The Committee has given careful consideration to Director transitions to ensure orderly Board succession.

During 2018 and 2019, the Nominations Committee prioritised effective succession planning for the Chief Executive and the Finance Director. Having overseen the orderly transition for both those roles, the Nominations Committee has focused on succession planning for the role of Chairman, mindful of the provisions of the UK Corporate Governance Code (the Code) and that Richard Burrows has served as a Director for just over 10 years.

While recognising that the Code generally limits the tenure of the Chairman to nine years from first appointment, the Code permits extension of the Chairman's tenure for a limited time to facilitate effective succession planning. In the context of the recent transitions for both the Chief Executive and the Finance Director, and to enable effective succession planning for the Chairman, the Board considers the interests of the Company's shareholders to be best served by Mr Burrows continuing as Chairman for a limited time.

It is intended that Mr Burrows will retire from the Board at or prior to the AGM in 2021 and that he will continue to lead the Board in the interim. Accordingly, the Board will be proposing Mr Burrows for re-election as Chairman at the forthcoming 2020 AGM.

In relation to the role of Senior Independent Director, the Board accepted the recommendation of the Nominations Committee to appoint Dimitri Panayotopoulos to succeed Mr Poynter as the Company's Senior Independent Director on Mr Poynter's retirement from the Board with effect from the conclusion of the Company's forthcoming AGM. To ensure an effective transition in the leadership of succession planning for the role of Chairman, Mr Panayotopoulos has taken over responsibility from Mr Poynter for leading this process.

Spencer Stuart & Associates Limited<sup>2</sup> and Korn Ferry (UK) Limited<sup>3</sup> have been engaged to support the succession planning process for the role of Chairman. Both Spencer Stuart and Korn Ferry are independent executive search consultancies compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms. The Senior Independent Director chairs the Nominations Committee when dealing with discussions relating to the appointment of a successor to the Chairman.

The Committee's approach to succession planning for the Executive Directors and other members of senior management is set out further on page 81.

#### Annual General Meeting 2020

With the exception of Mr Poynter, the Company will be submitting all eligible Directors for re-election and, in the case of Jerry Fowden, election for the first time.

Prior to making recommendations to the Board in respect of Directors' submissions for election or re-election (as applicable), the Committee carried out an assessment of each Director, including their performance, contribution to the long-term sustainable success of the Company and, in respect of each of the Non-Executive Directors, their continued independence.

The Chairman's letter accompanying the AGM Notice confirms that all Non-Executive Directors being proposed for election or re-election (as applicable) are effective and that they continue to demonstrate commitment to their roles as Non-Executive Directors.

#### Notes:

1. Heidrick & Struggles has no connections with the Company or its Directors other than in respect of provision of executive search services.

2. Spencer Stuart has no connections with the Company or its Directors other than in respect of provision of executive search services.

3. Korn Ferry has no connections with the Company or its Directors, other than in respect of the provision of executive search and other human resources advisory and consulting services.

	Strategic Report	Governance	Financial Statements	Other Information
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## Balance and diversity

The Board appreciates the benefits of diversity in all of its forms, within its own membership and at all levels across the Group. Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Short biographies of the Directors are set out on pages 66 and 67.

The Nominations Committee is responsible for regularly reviewing the composition of the Board and Management Board to ensure both boards have an appropriate balance of skills, expertise and knowledge, and ensuring that all appointments are made on merit against objective criteria and with due regard for the benefits of diversity. These principles were applied by the Nominations Committee in identifying and recommending Tadeu Marroco and Jerry Fowden for appointment to the Board.

The Hampton-Alexander Review set recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 Boards by 2020. Women currently represent 27.3% of our Board and 15.4% of our Management Board. Our Board Diversity Policy, discussed on page 82, sets out the Board's ambition to progress towards further gender diversity.

The Parker Review Committee published its final report on ethnic diversity in UK boards in 2017, recommending there be at least one director from a Black, Asian and Minority Ethnic (BAME) background on every FTSE 100 company board by 2021.

Applying the Parker Review assessment guidelines, currently one of our Directors is from a BAME background.

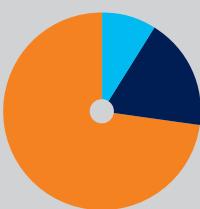
The Nominations Committee reviews the succession plans and talent pool at short and longer-term time horizons for the Executive Directors, other Management Board members, and certain other members of senior management. In 2019, particular emphasis was placed on the talent pipeline for senior management over the next two years and the importance of maintaining gender diversity within the succession pipeline. Progress in 2019 against our objective to develop a pipeline of diverse, high-performing senior managers is set out on page 82.

More broadly, and recognising the need for diverse talent to be developed at all levels across the Group, the Board regularly reviews the progress of our Group diversity and inclusion initiatives. In 2019, this included a review of our Women in STEM programme launched in 2019 (to attract, develop and retain more women in our R&D, Operations and Information & Digital Technology functions), our IGNITE initiative planned for 2020 (to support professionals to re-enter the workforce after career breaks), and an update on the Group's recognition as a Diversity Leader by the UK Financial Times in its inaugural Diversity Leaders report 2019.

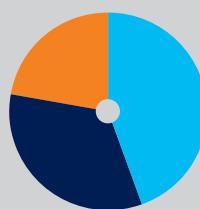
Our Strategic Report discusses our Diversity & Inclusion strategy and Group diversity initiatives further, and provides details of the representation of women in our total workforce and in our senior manager population on pages 40 and 41.

## Balance at 31 December 2019

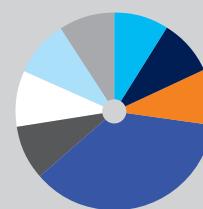
**Balance of Non-Executive Directors and Executive Directors**



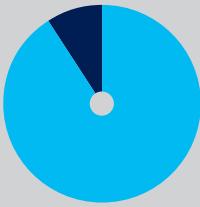
**Length of tenure of Non-Executive Directors**



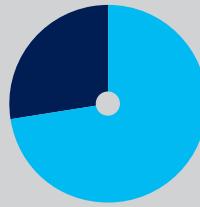
**Nationality of Directors**



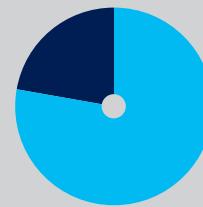
**Directors: Ethnicity balance**



**Directors: Gender balance**



**Senior Management<sup>†</sup> and their direct reports: Gender balance**



\* Applying the Parker Report guidance.

† Senior Management comprises the Management Board and Company Secretary in accordance with the Code.

## NOMINATIONS COMMITTEE

### CONTINUED

#### Board Diversity Policy

Our commitment to promoting diversity is reflected in our Group Employment Principles discussed further on pages 41 to 42, and diversity is taken into consideration in determining the composition of our Board and Management Board.

We believe that talent is our competitive advantage and diversity is a critical component of our success. 'We are diverse' is one of the five core values of the BAT ethos, set out on page 11.

Our Board Diversity Policy is aligned with our Group ethos. Our Board Diversity Policy expresses how we think of diversity in its widest sense, as those attributes that make each of us unique. These include our race, ethnicity, cultural and social backgrounds, geographical origin, gender, age, any disability, sexual orientation, religion, skills, experience, education and professional background, perspectives and thinking styles.

Our Board Diversity Policy sets out the Board's commitment to the following objectives:

- considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board;
- considering a wide pool of candidates of both genders for appointment to the Board;
- maintaining at least 30% representation of women on our Board, with the ambition of progressing towards further gender balance;
- giving preference, where appropriate, to engaging executive search firms that are accredited under the Standard and Enhanced Codes of Conduct for Executive Search Firms, which include gender diversity; and
- oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers, through the activities of the Nominations Committee.

Progress against these objectives in 2019 is set out below.

#### Board Diversity Policy progress update

Objective	Progress in 2019
Considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board.	<ul style="list-style-type: none"> <li>– The Nominations Committee has regard to diversity in its broadest sense, including gender, social and ethnic background, and cognitive and personal strengths, when undertaking these activities.</li> </ul>
Considering a wider pool of candidates of both genders for appointment to the Board.	<ul style="list-style-type: none"> <li>– Executive search firms are engaged to support Board and Management Board succession planning where applicable and are required to provide gender-balanced shortlists of candidates. Succession planning for Executive Directors and Management Board members takes into account potential internal candidates from across the Group and potential external candidates.</li> </ul>
Maintaining at least 30% female Board representation, with the ambition of progressing towards further gender balance.	<ul style="list-style-type: none"> <li>– The representation of women on the Board was 27.3% as at 31 December 2019 and remains so currently. Non-Executive Director succession planning has close regard to the Board's ambition to progress towards further gender diversity.</li> </ul>
Giving preference, where appropriate, to engagement of executive search firms accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms, including on gender diversity.	<ul style="list-style-type: none"> <li>– Only executive search firms accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms were engaged to provided executive search services to support Board and Management Board succession planning in 2019.</li> </ul>
Oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.	<ul style="list-style-type: none"> <li>– The representation of women on the Management Board was 15.4% as at 31 December 2019 and remains so currently.</li> <li>– Emphasis is placed on building diverse talent pools at all levels of the organisation through recruiting, developing and retaining high-performing female talent.</li> <li>– In 2019, 45% of the Group's external recruits were women, including 24% into senior leadership roles, helping to bring new skills and capabilities to drive business transformation. The Women in Leadership programme has been supporting the development of female employees across the Group for the last six years. The Group also participates in various external initiatives to support high-potential female employees.</li> <li>– Please refer to pages 40 to 41 for further information about the Group's Diversity &amp; Inclusion strategy.</li> </ul>

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# AUDIT COMMITTEE



**Holly Keller Koeppel**  
Chairman of the Audit Committee

## Audit Committee current members

Holly Keller Koeppel (Chairman from 14 January 2019)

Luc Jobin (from 14 January 2019)

Jerry Fowden (from 1 September 2019)

Kieran Poynter (Chairman to 14 January 2019)

## Attendance at meetings in 2019<sup>2</sup>

Name	Member since	Attended/Eligible to attend	
		Scheduled	Ad hoc
Holly Keller Koeppel <sup>1</sup>	2017	5/5	0/0
Jerry Fowden <sup>1, 3(b)</sup>	2019	2/2	0/0
Dr Marion Helmes <sup>3(c)</sup>	2016–2019	0/0	0/0
Luc Jobin <sup>1, 3(d)</sup>	2019	5/5	0/0
Kieran Poynter <sup>1</sup>	2012	5/5	0/0

### Notes:

1. Holly Keller Koeppel, Luc Jobin and Kieran Poynter each have recent and relevant financial experience in accordance with the UK Corporate Governance Code 2018. Holly Keller Koeppel, Luc Jobin and Kieran Poynter are each designated as an audit committee financial expert in accordance with applicable US federal securities laws and NYSE listing standards. Each Committee member has been determined to meet the financial literacy requirements applicable under NYSE listing standards. The members of the Committee as a whole have competence relevant to the sectors in which the Group operates.
2. Number of meetings in 2019: the Committee held five meetings in 2019.
3. Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2018 Provisions 10 and 24, applicable US federal securities laws and NYSE listing standards; (b) Jerry Fowden became a member of the Committee on 1 September 2019 on his appointment as a Non-Executive Director; (c) Dr Marion Helmes ceased to be a member of the Committee with effect from 14 January 2019; and (d) Luc Jobin became a member of the Committee on 14 January 2019.
4. The Finance Director attends all meetings of the Committee but is not a member. Other Directors may attend by invitation. The Director, Legal & External Affairs and General Counsel, the Group Head of Internal Audit and the external auditors also attend meetings on a regular basis.
5. The Committee meets alone with the external auditors and, separately, with the Group Head of Internal Audit at the end of every Committee meeting. The Committee also meets periodically with management.

## Audit Committee terms of reference

Revised Audit Committee terms of reference have been adopted by the Board to align with the requirements of the UK Corporate Governance Code 2018.

 For the Committee's terms of reference see [www.bat.com/governance](http://www.bat.com/governance)

## Introduction

I am pleased to present the 2019 Audit Committee report, setting out our role and work this year. I took over as Chair in January 2019, and in September 2019 we welcomed Jerry Fowden to the Committee.

We looked at a number of important topics this year, most significantly the impact of implementing IFRS 16 (*Leases*) from January 2019, the carrying value of goodwill and intangibles particularly in the context of potential US regulatory changes relating to flavours, the appeal court judgment in the Quebec Class Action lawsuits against Group subsidiary Imperial Tobacco Canada and accounting treatment impacts, and assessment of risks associated with the Group's New Category product portfolio and digital strategies.

We robustly reviewed the effectiveness of both our external auditors and Internal Audit function, the latter being supported by an External Quality Assurance review.

The Committee has approved the internal audit plan for 2020 and fully endorses its sharper focus on transformation projects, digital risks and New Categories. These are areas that will continue to be scrutinised by the Committee in 2020, and beyond.

You can find more detail on each of these areas, and our other activities, further below.

## Role

### As set out in the Terms of Reference, the Audit Committee monitors and reviews the:

- integrity of the Group's financial statements and any formal announcements relating to the Company's performance, considering any significant financial reporting issues, significant judgments and estimates reflected in them, before their submission to the Board;
- consistency of the Group's accounting policies;
- effectiveness of, and makes recommendations to the Board on, the Group's accounting, internal accounting and other financial controls, auditing matters and business risk management systems;
- effectiveness of the Group's internal audit function; and
- independence, performance, effectiveness and objectivity of the Company's external auditors, making recommendations as to their re-appointment (or for a tender of audit services where appropriate), and approving their terms of engagement and the level of audit, audit-related and non-audit fees.

## Key activities in 2019

### Regular work programme – reviewing:

- the Group's annual results, half-year results, the application of accounting standards, and the external auditors' reports where results are audited;
- the Group's external auditors' year-end audit, including the key audit matters, critical audit matters, materiality assessments and the Group's control environment, and confirming the independence of the Group's external auditors;
- the basis of preparation and accounting judgements;
- adjusting items, applicable accounting treatment and the use of alternative performance measures;
- the annual assessment of goodwill impairment;
- the accounting applicable to retirement benefits liabilities and assets;
- the Group's liquidity position, current facilities and financing needs;
- the steps taken to validate the Group's 'going concern' assessment at half-year and year-end and agreeing on the process and steps taken to determine the Group's viability statement at year-end;

## AUDIT COMMITTEE

### CONTINUED

- the Group's Risk Register, including prioritisation and categorisation of, and mitigating factors in respect of, Group risks;
- specific risks, and their mitigations, arising from major change initiatives including those related to IT systems and the Quantum transformation project;
- the internal processes followed for the preparation of the Annual Report and Form 20-F and confirming that the processes appropriately facilitated the preparation of an Annual Report and Form 20-F that is "fair, balanced and understandable";
- regular reports from the Group Head of Internal Audit on internal audits of markets, processes and operations, management responses to internal audit findings and action plans put in place to address any issues raised;
- the 2020 internal audit plan and progress against the 2019 plan;
- the Group's sustainability performance on an annual basis, including the Group's Youth Access Prevention activities and the Group's corporate social contributions in the focus areas of empowerment, civic life, and sustainable agriculture and environment, in countries and communities in which the Group operates;
- periodic reports from the Group's Corporate Audit Committee and Regional Audit and Corporate Social Responsibility Committees;
- annual and interim reports on the Group Business Conduct & Compliance programme, Speak Up channels and compliance with the Group Standards of Business Conduct (SoBC);
- the annual report from the Group Head of Security on security risks, losses and fraud arising during the preceding year;
- half-year and year-end reports on political contributions; and
- the Committee's effectiveness, following the annual evaluation of the Committee discussed further at page 78.

#### FRC Review of 2018 Report & Accounts

During the year, as an outcome of the Financial Reporting Council's (FRC's) review of the Group's 2018 Annual Report and Accounts, the Group received correspondence related to a number of areas, including the accounting treatment for interim dividends, the Group's assessment of goodwill and intangible values and certain other observations with regards to disclosures. As discussed in note 18 in the Notes on the Accounts, Capital and reserves, it was agreed that the recognition of an accrual at the year-end in respect of the dividend paid in February 2018 and February 2019 was incorrect. Accordingly, the Group has changed the accounting treatment. The Group has also enhanced a number of other disclosures, including those related to goodwill to provide the users greater insight as to the sensitivities required prior to impairment of certain investments.

The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

#### Further specific matters considered by the Committee in relation to the financial statements:

- impact of implementing IFRS 16 (*Leases*) to Group accounting with effect from 1 January 2019: review of the methodology for the Group's implementation of IFRS 16 (*Leases*), the revisions to the Group's accounting policies (as shown in note 1 in the Notes on the Accounts), and the impact on the Group's financial statements; and
- **revenue reporting:** disaggregation of revenue by product type (combustibles; New Categories; Traditional Oral; other) at Group and regional levels for 2019.

#### Significant accounting judgements considered by the Committee in relation to the 2019 financial statements:

- **the Group's significant tax exposures:** updates on corporate tax matters and reports from the Group Head of Tax on the status of the Franked Income Investment Group Litigation Order (FII GLO) and issues in various markets. These included tax disputes in Brazil, South Africa, Russia and the Netherlands. The Committee agreed with management's assessments and disclosures in respect of these (see note 27 in the Notes on the Accounts);

- **contingent liabilities, provisions and deposits in connection with ongoing litigation:**

Quebec: the Committee concurred with management's judgement that no provision is currently required in respect of all other ongoing tobacco-related litigation to which Group subsidiary Imperial Tobacco Canada (ITCAN) is a defendant, as it is not possible to reasonably estimate the amount of any potential settlement (see note 27 in the Notes on the Accounts) and that, whilst ITCAN is subject to the Canadian Companies' Creditors Arrangement Act ('CCAA') proceedings, it remains appropriate to consolidate ITCAN's financial results in the Group financial statements;

Fox and Kalamazoo rivers: the Committee reassessed the provision in respect of the Fox River clean-up costs and related legal expenses and confirmed that the provision would be retained at the prior year level (see note 3 in the Notes on the Accounts), although inherent uncertainties remain (see note 27 in the Notes on the Accounts). The Committee reviewed the position in respect of the Kalamazoo River claim and agreed with management's assessment that no provision should be recognised on the basis set out at note 27 in the Notes on the Accounts;

Impact of Russian tax assessment: the Committee considered the impact of an excise and VAT assessment in relation to Group operations in Russia during 2015 to 2017 for additional production volumes that took place prior to local excise tax increases. The Committee assessed and concurred with management's treatment of the assessment as a charge in the 2019 Accounts, to be treated as an adjusting item (see note 3 in the Notes on the Accounts); and

RAI group companies: the Committee considered and supported management's approach to accounting for the Master Settlement Agreement, the Engle class-action and progeny cases and claims brought by RAI dissenting shareholders seeking determination of 'fair value' for their shares following acquisition of the remaining shares in RAI (see note 27 in the Notes on the Accounts);

**foreign exchange:** as the Group has operations in certain jurisdictions with severe currency restrictions where foreign currency is not readily available, including in Venezuela and Zimbabwe, the Committee assessed management's approach to applicable accounting treatment and confirmed that methodologies used to determine relevant exchange rates for accounting purposes were appropriate;

**goodwill and intangibles impairment review:** the Committee reviewed management's assessment of the carrying value of intangibles, including goodwill. The Committee specifically considered potential regulatory changes in the US in relation to flavours (including flavourings in vapour products and menthol in cigarettes) and age restrictions, and agreed that the performance of the US business was sufficient at this time to more than offset the risks associated with such changes, concluding no impairment to goodwill or the value of the Newport brand was required. The Committee also agreed that, despite the ongoing proceedings (including the CCAA process) in respect of Group subsidiary ITCAN in Canada, there was no indication of impairment to goodwill at this time. Finally, the Committee concurred with management's assessment regarding the impairment of Indonesia (£172 million)

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following a substantial change in excise and the impairment of acquired brands (including VapeWild) following the Group's announcements to rationalise certain brands within New Categories (see note 3 in the Notes on the Accounts)

– **Quantum transformation project:** impact of staff redundancies associated with implementation of the project with a charge of £264 million recognised in 2019 and treated as an adjusting item (see note 3 in the Notes on the Accounts; and

– **Prior period error in respect of interim dividend accrual:** as discussed on page 84, following a review by the FRC, a prior period error was identified related to the accrual of interim dividends. The Committee concurred with the management's assessment that, after considering IAS 1 and IAS 8, the impact of the error, while over the Group's materiality threshold (£330 million in 2017 and £420 million in 2018), would not influence the economic decisions of the users of the financial statements and would be corrected only on a prospective basis.

#### **Other specific matters considered by the Committee:**

- review of the Company's status as a Foreign Private Issuer for the purposes of US securities laws;
- progress on the Group's 'Delivery with Integrity' compliance programme (discussed further on pages 31 to 32) and monitoring SoBC incident reporting and the effectiveness of 'Speak Up' channels, prior to review by the Board; and
- review of the outcomes from the 2019 assessments of key countries of concern to the Group from a human rights perspective, including local compliance with Group policies and standards and details of local measures in place to enhance human rights management.

#### **Risk topics considered by the Committee included:**

- oversight of the programme established to ensure ongoing SOx compliance (discussed further at page 88);
- the judgment of the Quebec Court of Appeal in the Quebec Class Action lawsuits against Group subsidiary ITCAN and the status of the Canadian CCAA proceedings under which ITCAN filed for protection in March 2019 (see note 27 in the Notes on the Accounts);
- assessing current and emerging risks in the context of the Group's digital strategy, technology architecture and data management, including the threat of cyber-attack and the Group's implementation of enhanced defence capabilities to protect its information systems and data;
- revisions to the Group's risk appetite framework as it relates to the Group's strategic objectives and regular review of emerging risks to the Group prior to Board consideration;
- the report on the effectiveness of the Company's risk management system;
- risks associated with the Group's New Categories business and the integration of those risks into the Group Risk Register;
- risks associated with increased exposure to interest rate changes on net finance costs, arising from existing and future refinanced debt;
- periodic reassessment of the risks faced by the Group as a consequence of the UK's exit from the EU ('Brexit') in the context of the Group Risk Register, which include risks relating to increased costs of capital, foreign exchange rate exposures, supply chain continuity, taxation and changes in customs duty, and talent acquisition and retention;
- Group anti-bribery and anti-corruption controls and compliance programme; and
- review of the Group-wide programme established to support EU General Data Protection Regulation (GDPR) compliance and oversight of completion of programme implementation.

 For further information please refer to the Principal Group risks on pages 58 to 62 and the Group risk factors on pages 272 to 286

#### **External auditors**

KPMG LLP (KPMG) were appointed as the Company's auditors with effect from 23 March 2015, following a competitive tender process carried out in 2015. The Committee continually reviews its relationship with the auditors, including consideration as to when it next intends to complete a competitive tender process for the Company's external audit.

The Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness.

In view of this, and having considered the continued independence and objectivity of the auditors, the Committee does not currently anticipate that it will conduct an audit tender before it is required to do so, in accordance with applicable law and regulations, in respect of the 2025 financial year.

The Committee considers this to be in the best interests of the Company's shareholders for the reasons outlined above and will continue to monitor this annually to ensure timing for the audit tender remains appropriate, taking into account the effectiveness and independence of the auditors.

#### **UK Competition and Markets Authority Audit Order**

The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2019.

#### **Group Auditor Independence Policy (AIP)**

The Group has an established AIP, reflecting the requirements of applicable laws, to safeguard the independence and objectivity of the Group's external auditors and to specify the approval processes for the engagement of the Group's external auditors to provide audit, audit-related and other non-audit services.

The key principle of the AIP is that the Group's external auditors may only be engaged to provide services in cases where the provision of those services does not impair auditor independence and objectivity. The Committee recognises that using the external auditors to provide services can be beneficial given their detailed knowledge of our business.

However, the AIP does not permit the Committee to delegate its responsibilities to the external auditors and the external auditors are only permitted to provide audit, audit-related and non-audit services in accordance with the AIP.

The AIP does not permit the external auditors to maintain a financial, employment or business relationship with any Group company, or provide services to any Group company, which:

- creates a mutual or conflicting interest with any Group company;
- places the external auditors in the position of auditing their own work;
- results in the external auditors acting as a manager or employee of any Group company; or
- places the external auditor in the position of advocate for any Group company.

Audit services are approved in advance by the Committee on the basis of an annual engagement letter and the scope of audit services is agreed by the Committee with the external auditors.

Subject to the restrictions specified in the AIP, the external auditors may also provide certain non-audit services with the prior approval of the Committee. The requirement for the Committee's pre-approval of non-audit services may be waived only if the aggregate amount of all non-audit services provided is less than 5% of the total amount paid to the external auditors during the reporting year, where those services were not recognised to be non-audit services at the time of engagement, and provided those services are promptly brought to the attention of the Committee and their provision is approved prior to completion of the audit in the relevant reporting year.

## AUDIT COMMITTEE

### CONTINUED

The provision of permitted non-audit services must be put to tender if expected spend exceeds limits specified in the AIP, unless a waiver of this requirement, in accordance with the terms of the AIP, is agreed by the Finance Director and notified to the Committee.

The AIP:

- requires Committee pre-approval for all audit, audit-related and other non-audit services, except in respect of non-audit services falling within the exceptions described above;
- prohibits the provision of certain types of services by the external auditors, including those with contingent fee arrangements, expert services unrelated to audit and other services prohibited by US securities laws and the Public Company Accounting Oversight Board;
- prohibits the Chief Executive, Finance Director, Group Financial Controller and Group Chief Accountant from having been employed by the external auditors in any capacity in connection with the Group audit for two years before initiation of an audit;
- specifies requirements in respect of audit partner rotation, including for both the lead and the concurring external audit partners to rotate off the Group audit engagement at least every five years, and not to recommence provision of audit or audit-related services to the Group for a further five years; and
- provides authority for the Committee to oversee any allegations of improper influence, coercion, manipulation or purposeful misleading in connection with any external audit, and to review any issues arising in the course of engagement with the external auditors.

#### External audit fees

The Committee reviews a schedule identifying the total fees for all audit and audit-related services, tax services and other non-audit services expected to be undertaken by the external auditors in the following year. Tax services and other non-audit services in excess of the tender thresholds referred to above must be itemised. Updated schedules are also submitted to the Committee at mid-year and year-end, so that it has full visibility of the Group spend on services provided by the Group's external auditors.

A breakdown of audit, audit-related, tax and other non-audit fees paid to KPMG firms and associates in 2019 is provided in note 3(c) in the Notes on the Accounts and is summarised as follows:

#### Services provided by KPMG firms and associates 2019

	2019 £m	2018 £m
Audit services	<b>15.8</b>	15.1
Audit of defined benefit schemes	<b>0.4</b>	0.4
Audit-related assurance services	<b>8.5</b>	9.4
<b>Total audit and audit-related services</b>	<b>24.7</b>	24.9
Other assurance services	<b>0.5</b>	0.3
Tax advisory services	–	–
Tax compliance	–	–
Other non-audit services	–	–
<b>Total non-audit services</b>	<b>0.5</b>	0.3

**Notes:** In 2019, non-audit fees paid to KPMG amounted to 2.0% of the audit and audit-related assurance fees paid to them (2018: 1.2%). All audit and non-audit services provided by the external auditors in 2019 were pre-approved by the Committee.

#### External auditor effectiveness

The Committee, on behalf of the Board, is responsible for the relationship with the external auditors. The Committee carries out an annual assessment of the Group's external auditors, covering qualification, expertise and resources, and objectivity and independence, as well as the effectiveness of the audit process. This assessment takes into account the Committee's interactions with, and observations of, the external auditors and gives regard to factors including:

- experience and expertise of the external auditors in their direct communication with, and support to, the Committee;
- their mindset and professional scepticism;
- their effectiveness in completing the agreed external audit plan;
- their approach to handling significant audit and accounting judgements;
- content, quality and robustness of the external auditors' reports; and
- their provision of non-audit services, as noted above, and other matters that may impact independence.

The Committee's assessment is also informed by an external audit satisfaction survey completed by members of the Group's senior management. No material issues were identified during the external auditor assessment in 2019. The Committee is satisfied with the qualification, expertise and resources of its external auditors, and that the objectivity and independence of its external auditors, are not in any way impaired by the non-audit services which they provide. The Committee has recommended to the Board the proposed re-appointment of KPMG at the 2020 AGM.

The Committee Chairman, Finance Director, Director, Legal & External Affairs and General Counsel, Group Head of Internal Audit and the Company Secretary all meet with the external auditors regularly throughout the year to discuss relevant issues as well as the progress of the external audit. Any significant issues are included on the Committee's agenda.

Strategic Report	Governance	Financial Statements	Other Information
Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
Remuneration	Responsibility of Directors		

## Risk management and internal control

### Overview

The Company maintains its system of risk management and internal control with a view to safeguarding shareholders' investment and the Company's assets. It is designed to identify, evaluate and manage risks that may impede the Company's objectives. It cannot, and is not designed to, eliminate them entirely. The system therefore provides a reasonable, not absolute, assurance against material misstatement or loss. A description of the principal risks that may affect the Group's business is provided in our Strategic Report on pages 58 to 62.

The main features of the risk management processes and system of internal control operated within the Group are described below. These have been in place throughout the year under review and remain in place to date. These do not cover associates of the Group.

### Board oversight

During the year, the Board considered the nature and extent of the principal risks that the Group is willing to take to achieve its strategic objectives (its 'risk appetite') and for maintaining sound risk management and internal control systems. Risk appetite is reviewed annually by the Board to ensure that it is appropriate. Alongside the principal risks, the Board also considers the emerging risks which may challenge the Group's ability to achieve its strategic objectives in the future. Each emerging risk is assessed by the Board on its potential impact and relevance and, where applicable, incorporated into the Group's Risk Register with appropriate mitigating activities. Emerging risks are otherwise kept under regular review by the Committee, prior to Board consideration.

With the support of the Committee, the Board also conducts a review of the effectiveness of the Group's risk management and internal control systems annually. This review covers all material controls including financial, operational and compliance controls and risk management systems.

### Audit and CSR Committee framework

The Group's Regional Audit and CSR Committee framework underpins the Board's Audit Committee. It provides a flexible channel for the structured flow of information through the Group, with committees for each of the three Group regions, for the US business, and for locally-listed Group entities and specific markets where considered appropriate. The Regional Audit and CSR Committees are supported by Risk and Control Committees established at business unit level, and within certain Group functions where considered appropriate. This framework ensures that significant financial, social, environmental and reputational risks faced by the Group are appropriately managed and that any failings or weaknesses are identified so that remedial action may be taken.

The Group's Regional Audit and CSR Committees are all chaired by a member of the Management Board and regularly attended by one or more Non-Executive Directors. The Corporate Audit Committee focuses on the Group's risks and control environment that fall outside the regional committees' remit, for example head office central functions, global programmes and projects. It comprises members of the Management Board and is chaired by a Regional Director. One or more of the Non-Executive Directors also regularly attend meetings of the Corporate Audit Committee.

External and internal auditors attend meetings of these committees and regularly have private audiences with members of the committees after meetings. Additionally, central, regional and individual market management, along with Internal Audit, support the Board in its role of ensuring a sound control environment.

### Risk management

Risk registers, based on a standardised methodology, are used at Group, directly-reporting business unit (DRBU), and individual market levels to identify, assess and monitor the risks (both financial and non-financial) faced by the business at each level. Information on prevailing trends, for example if a risk is considered to be increasing or decreasing over time, is provided in relation to each risk and all identified risks are assessed and prioritised at three levels by reference to their impact (high/medium/low) and likelihood (probable/possible/unlikely).

Mitigation plans are required to be in place to manage the risks identified, and progress against those plans is monitored. The risk registers are reviewed on a regular basis. DRBU risk registers are reviewed regularly by the relevant Regional Audit & CSR Committee or the Corporate Audit Committee, as appropriate.

At the Group level, specific responsibility for managing each identified risk is allocated to a member of the Management Board. The Group Risk Register is reviewed regularly by a committee of senior managers, chaired by the Finance Director. In addition, it is reviewed annually by the Board and twice yearly by the Committee. The Board and the Committee review changes in the status of identified risks, assessing the changes in impact and likelihood. The Committee also conducts 'deep dives' into selected risks, meeting senior managers responsible for managing and mitigating them, so that it can consider those risks in detail.

The Board noted that the Group's principal risks remained broadly unaltered during 2019.

 [The Board also considered the Group Viability Statement see page 58 of the Strategic Report®](#)

 [For more information on risks see the Principal Group risks on pages 58 to 62 and the Group risk factors on pages 272 to 286](#)

### Internal control

Group companies and other business units are annually required to complete a controls self-assessment, called Control Navigator, of the key controls that they are expected to have in place. Its purpose is to enable them to self-assess their internal control environment, assist them in identifying any controls that may need strengthening and support them in implementing and monitoring action plans to address control weaknesses. The Control Navigator assessment is reviewed annually to ensure that it remains relevant to the business and covers all applicable key controls. In addition, at each year-end, Group companies and other business units are required to:

- review their system of internal control, confirm whether it remains effective and report on any material weaknesses and the action being taken to address them; and
- review and confirm policies, and procedures to promote compliance with the SoBC are fully embedded within the Group company or business unit and identify any material instances of non-compliance.

The results of these reviews are reported to the relevant Regional Audit and CSR Committees or to the Corporate Audit Committee, and to the Committee, to ensure that appropriate remedial action has been, or will be, taken where necessary. They are also considered by the SOx Steering Committee and the Disclosure Committee in determining management's opinion on the internal controls over financial reporting (ICFR).

## AUDIT COMMITTEE

### CONTINUED

#### **Internal Audit function**

The Group's Internal Audit function is responsible for carrying out risk-based audits of Group companies, other business units, and in relation to global processes. There is a separate Business Controls Team which provides advice and guidance to the Group's businesses on best practices in controls systems.

The Group's Internal Audit function maintains a rolling 18-month audit plan, which is reviewed by the Committee on an annual basis. The Internal Audit plan is aligned to the Group's Risk Register and prioritises principal risk areas in relation to the Group's business.

In 2019, internal audits covered various markets, Group manufacturing facilities, functional transformation programmes (including the Quantum transformation project), IT infrastructure and cyber security and supply network and retail operations. The Committee considered internal audit findings and action plans established to address any issues identified. The Committee has approved the Internal Audit plan for 2020, which emphasises audits relating to New Categories and the ways in which Internal Audit will respond, evolve and innovate to remain effective. It retains thorough coverage of core business activities, lines of defence and IT controls. The Committee has assessed the alignment of the Internal Audit plan with the Group's Risk Register. The scope of each internal audit is assessed for SOx impact and audit of applicable SOx controls is included where relevant. Reviews of SOx controls and their effectiveness are primarily conducted by the Group's Business Controls Team and assurance is also undertaken by the Group's external auditors, as referred to below.

The Committee reviews the effectiveness of the Group's internal audit function annually. In 2019, the Committee did so through an external quality assessment conducted by PwC LLP. This assessment was carried out against the Institute of Internal Audit (IIA) standards, using interviews, analysis and peer benchmarking. It concluded that the Internal Audit function performs well, is highly regarded by key stakeholders, and generally meets their expectations to provide an independent view of the Group's control environment. It noted recommendations to ensure that Internal Audit remains relevant and valuable to BAT, a number of which are already being addressed by Internal Audit with a plan to address the remaining recommendations.

#### **Financial reporting controls**

The Group has in place a series of policies, practices and controls in relation to the financial reporting and consolidation process, which are designed to address key financial reporting risks, including risks arising from changes in the business or accounting standards and to provide assurance of the completeness and accuracy of the Annual Report and Form 20-F.

A key area of focus is to assess whether the Annual Report and Form 20-F and financial statements are 'fair, balanced and understandable' in accordance with regulatory requirements, with particular regard to:

**Fair:** Consistency of reporting between the financial statements and narrative reporting of Group performance and coverage of an overall picture of the Group's performance;

**Balanced:** Consistency of narrative reporting of significant accounting judgements and key matters considered by the Committee with disclosures of material judgements and uncertainties noted in the financial statements; appropriate prominence and explanation of primary and adjusted measures; and

**Understandable:** Clarity and structure of the Annual Report and Form 20-F and financial statements, appropriate emphasis of key messages, and use of succinct and focused narrative with strong linkage throughout the report, to provide shareholders with the information needed to assess the Group's business, performance, strategy and financial position.

The Group Manual of Accounting Policies and Procedures sets out the Group accounting policies, its treatment of transactions and its internal reporting requirements.

The internal reporting of financial information to prepare the Group's half-yearly and year-end financial statements is signed off by the heads of finance responsible for the Group's markets and business units.

The heads of finance responsible for the Group's markets and all senior managers must also confirm annually that all information relevant to the Group audit has been provided to the Directors and that reasonable steps have been taken to ensure full disclosure in response to requests for information from the external auditors.

The Committee Chairman participated in the 2019 Annual Report and Form 20-F drafting and review processes, and engaged with the Finance Director and the Group Head of Internal Audit during the drafting process.

#### **SOx compliance oversight**

Following the registration of Company securities in 2017 under the US Securities Act of 1933, as amended (the Securities Act), the Company is subject to certain rules and regulations of US securities laws, including the US Securities Exchange Act 1934 and SOx. SOx places specific responsibility on the Chief Executive and the Finance Director to certify or disclose information applicable to the financial statements, disclosure controls and procedures (DCP) and ICFR. This includes our Chief Executive and Finance Director giving attestation in respect of ICFR effectiveness under §404 of SOx.

The Committee has oversight of processes established to ensure full and ongoing compliance with applicable US securities laws, including SOx. Two committees provided assurance during 2019 with regard to applicable SOx certifications. The Disclosure Committee reviews the Company's financial statements for appropriate disclosure and designs and maintains DCPs and reports to, and is subject to the oversight of, the Chief Executive and the Finance Director. A sub-committee of the Disclosure Committee, the SOx Steering Committee, provides assurance that ICFR have been designed, and are being implemented, evaluated and disclosed appropriately, in accordance with applicable requirements and subject to the oversight of the Chief Executive and Finance Director. The activities of this sub-committee are directly reported to the Disclosure Committee.

The outputs from the Disclosure Committee and SOx Steering Committee were presented to and reviewed by the Committee. No material weaknesses were identified and the Committee was satisfied that, where areas for improvement were identified, processes are in place to ensure that remedial action is taken and progress is monitored.

In 2019, the Committee also reviewed the scope of the external auditors' SOx procedures, and received reports on their progress with their independent assessment of ICFR across the Group.

#### **Code of Ethics for the Chief Executive and Senior Financial Officers**

The Company has adopted a Code of Ethics applicable to the Chief Executive, the Finance Director, and other senior financial officers, as required by US securities laws and NYSE listing standards. No waivers or exceptions to the Code of Ethics were granted in 2019.

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	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors

## Annual review

The Financial Reporting Council's 'Guidance on Risk Management and Internal Control and Related Business Reporting' provides guidance in relation to issues of risk and internal control management and related financial and business reporting.

The processes described above, and the reports that they give rise to, enable the Board and the Committee to monitor risk and internal control management on a continuing basis throughout the year and to review its effectiveness at the year-end. The Board, with advice from the Committee, has completed its annual review of the effectiveness of that system for 2019.

The Board is satisfied that the system of risk and internal control management accords with the UK Corporate Governance Code 2018 and satisfies the requirements for internal controls over financial reporting.

## Group Standards of Business Conduct

The Committee is responsible for monitoring compliance with the SoBC, and reports on this to the Board. The SoBC requires all staff to act with a high degree of business integrity, comply with applicable laws and regulations, and ensure that standards are never compromised for the sake of results. Every Group company and all staff worldwide, including senior management and the Board, are expected to adhere to the SoBC. The SoBC and the Group's 'Delivery with Integrity' programme are discussed further on pages 30 to 32.

All Group companies have adopted the SoBC or local equivalent. Information on compliance with the SoBC is gathered at a regional and global level and SoBC incidents reports, including details of the channels through which incidents are reported, are provided on a regular basis to the Regional Audit and CSR Committees, Corporate Audit Committee, and to the Committee. A breakdown of SoBC contacts and SoBC allegations reported across the Group in 2019 is set out at page 32.

The SoBC and information on the total number of SoBC contacts and SoBC allegations reported in 2019 (including established breaches) is available at [bat.com/sobc](http://bat.com/sobc)

## Speak Up

The Group maintains Speak Up channels which enable concerns regarding SoBC compliance matters, including concerns about possible improprieties in financial reporting, to be raised in confidence (and anonymously should an individual wish) without fear of reprisal.

The SoBC includes the Group's Speak Up policy, which is supplemented by local procedures throughout the Group that provide staff with further guidance on reporting matters and raising concerns, and the channels through which they can do so. The Board periodically reviews the Group's Speak Up policy and reports arising from Speak Up channels. The Board is satisfied that the Group's Speak Up policy and procedures enable proportionate and independent investigation of matters raised, and ensure that appropriate follow-up action is taken.

 Further information about the Group's Speak Up channels and Speak Up reports in 2019 is provided at page 32

## Political contributions

The Group does not make contributions to UK or European Union (EU) political organisations or incur UK or EU political expenditure. The total amount of political contributions made to non-UK and non-EU political parties in 2019 was £4,466,171 (2018: £3,718,540) as follows:

RAI Companies reported political contributions totalling £4,466,171 (US\$5,703,300) for the full year 2019 to US political organisations and to non-federal-level political party and candidate committees, in accordance with their contributions programme. No corporate contributions were made to federal candidates or party committees and all contributions were made in accordance with applicable laws.

All political contributions made by RAI Companies are assessed and approved in accordance with RAI's policies and procedures to ensure appropriate oversight and compliance with applicable laws.

In accordance with the US Federal Election Campaign Act, RAI Companies continue to support an employee-operated Political Action Committee (PAC), a non-partisan committee registered with the US Federal Election Commission that facilitates voluntary political donations by eligible employees of RAI Companies. According to US federal finance laws, the PAC is a separate segregated fund and is controlled by a governing board of individual employee-members of the PAC. In 2019, RAI Companies incurred expenses, as authorised by US law, in providing administrative support to the PAC.

No other political contributions were reported.

# ANNUAL STATEMENT ON REMUNERATION



**Dimitri  
Panayotopoulos**  
Chairman of the  
Remuneration  
Committee

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The following Annual Report on Remuneration has been prepared in accordance with the relevant provisions of the Companies Act 2006 and as prescribed in The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the UK Directors' Remuneration Report Regulations). Where required and for the purpose of the audit conducted in accordance with International Standards on Auditing (ISA) data has been audited by KPMG and this is indicated appropriately.®

## Introduction

I am pleased to present to you the Directors' Remuneration Report for the year ended 31 December 2019. The report contains:

- a summary of the current Directors' Remuneration Policy, approved at the 2019 AGM; and
- the Annual Remuneration Report, explaining how the policy has been implemented during 2019, and how it will be implemented in 2020.

## Remuneration and strategy

The Directors' Remuneration Policy was approved in April 2019 with significant support from our shareholders. The Remuneration Committee has primarily focused this year on ensuring that the new policy is fully implemented together with reviewing the links to the Company's long-term strategy delivery through our incentive schemes.

Our focus is to ensure that the Directors' Remuneration Policy enables the Company to:

- attract and retain top quality talent in the global marketplace;
- reward high levels of sustainable long-term performance in both an appropriate and competitive manner to the benefit of shareholders and wider stakeholders;
- create close long-term links between the Company's senior management and its shareholders; and

- incorporate best practice policy features into the remuneration strategy while maintaining policy elements which remain appropriate for the Company.

The Remuneration Committee considers these objectives carefully when deciding on executive and Group-wide remuneration matters, to ensure there is an appropriate balance between competitiveness, fairness, sustainability and pay for performance.

The Remuneration Committee looks to ensure that the performance metrics within the short and long-term incentive schemes continue to be aligned to objectives integral to the Company's long-term strategy. Performance measures are reviewed every year to ensure the Company is providing focus, incentivising the right behaviours and creating value. To that end, the Remuneration Committee has decided to make some important changes to the performance metrics for the 2020 short-term incentive scheme:

- The introduction of a new metric 'Deleveraging excluding foreign exchange', with a 30% weighting attached to it. This metric will provide a more holistic approach to cash management and capital allocation, which underpins the Group's commitment to drive performance in this area following the acquisition of RAI in 2017. Further details are provided on page 50.
- The new metric will replace the 'adjusted cash generated from operations' metric.
- The Group share of key markets metric is retained with the current weighting of 10%. The 'adjusted revenue growth from the strategic portfolio' metric and the 'adjusted profit from operations' metric are both retained with their current weightings of 30%.

These changes to the performance metrics will apply to the short-term incentive scheme in operation for the Executive Directors and the Group's wider senior management population, covering approximately 1,200 employees. This will ensure the Group has a consistent, aligned short-term incentive footprint globally to provide focus, alignment with Group strategy and to promote effective engagement and collaboration across its global management population. These changes are set out in full on page 104.

## Stakeholder engagement

The Board takes its corporate responsibilities very seriously. Our programme of shareholder and wider stakeholder engagement in 2019 helped re-shape our Directors' Remuneration Policy. Our Directors' Remuneration Policy is strongly aligned with shareholder interests and is reflective of best practice in the marketplace across key policy areas such as pension alignment with the wider workforce, shareholding requirements both during employment and post cessation, malus and clawback provisions in our incentive plans and the transparency of remuneration disclosures. We have continued our programme of engagement into 2020 regarding the remuneration of the Finance Director and I would like to thank our shareholders and wider stakeholders for their feedback.

We value dialogue and diversity of opinion. This year, the Directors have engaged our global workforce through a variety of channels including our global Your Voice survey, which has again provided a rich body of feedback capturing employees' opinions on a broad range of topics including the Company's performance, strategy, culture and remuneration. Our approach to workforce engagement is explained in the Strategic Report, on pages 26 and 41.

We have taken the opportunity to review our Directors' Remuneration Report and have restructured and shortened it where possible to simplify content, which we hope readers will find helpful.

Strategic Report	Governance	Financial Statements	Other Information
Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
Remuneration	Responsibility of Directors		

## Group performance

Our incentive plans are closely aligned to our strategy and the performance metrics align with the key performance indicators stated in the Strategic Report.

The Group has once again delivered an excellent operational performance in 2019, building on the long-term strategic growth agenda and surpassing the stretching targets set by the Remuneration Committee. In 2019, the Group exceeded performance expectations, with volume share gains in the Asia-Pacific Middle East and Europe North Africa regions together with increases in adjusted revenue growth from the Strategic Portfolio, adjusted profit from operations and adjusted cash generated from operations (at constant rates of exchange) on a Group basis. In addition, the Group delivered a very strong set of results with growth in adjusted, diluted EPS, revenue growth and a strong cash flow conversion rate.

These results are reflected positively in the outcomes for the Group's Short-Term Incentive Scheme (STI), the International Executive Incentive Scheme (IEIS), for which the corporate result across the four measures (adjusted profit from operations, Group's share of key markets, adjusted revenue growth from the Strategic Portfolio and adjusted cash generated from operations) was 96%.

The 2017 Long-Term Incentive Plan (LTIP) award, based on results across adjusted diluted EPS, relative TSR, adjusted revenue growth and the operating cash flow conversion ratio, will vest in March 2020 at 69.3%. The Remuneration Committee has considered the vesting result and concluded that this is an accurate reflection of the strong, sustained underlying performance of the Company in challenging and volatile market conditions. It is also reflective, through the relative TSR measure, of the movement in the Group's share price during the performance period. Consequently, the absolute value attached to the awards at the close of the three-year performance period is circa 55% lower than the face value of the 2017 awards at grant.

Following the determination of the outcomes for both the 2019 IEIS and 2017 LTIP, the Remuneration Committee considered the results against the underlying performance of the Group, and whether the movements in the Group's share price across the preceding three-year period should be reflected in the IEIS and LTIP outcomes for Directors. The Remuneration Committee considered that further adjustment to the IEIS and LTIP outcomes was not appropriate, in recognition of:

- the strong underlying performance of the Group;
- the structure of the LTIP being already designed to ensure that the value delivered to Directors is affected by share price movements, through fixing the maximum number of shares at the time of grant; and
- share price movements are also reflected in the three tranches of deferred bonus held by each of the Directors.

The performance of our key metrics that delivered the remuneration outcomes is summarised on page 97.

## Executive Director remuneration

For 2020, the Remuneration Committee considered salary increases for the Executive Directors in the context of their current positions relative to the market, their development in their roles, their individual performance and the level of pay increases for UK employees (which ranged between 0% and 6.5%, based on performance in the prior year, with an average increase of 2.5%).

At the time of Jack Bowles' and Tadeu Marroco's appointments, the Remuneration Committee set remuneration at a level to reflect the fact that these were their first Executive Director appointments and significantly below the levels for previous incumbents in both roles and in the wider market.

Jack Bowles has now been in his role for a year and in the Board's view has made an excellent start. He has led the Group to deliver a very strong operational performance in 2019, exceeding the stretching performance expectations set by the Remuneration Committee which translated into the performance delivery against key financial and strategic metrics. Further, he has successfully initiated and delivered a strategic review of the Group's global operating model and organisation, re-purposing the business both in terms of its commercial focus and driving cultural change across the Group while accelerating the development of new, strategic capabilities for the future. The view of the Board is that Jack Bowles has established himself successfully and is already demonstrating a track record of delivering strongly against his priorities for the business.

In recognition of these points we believe it is the right time to ensure that this continued development and performance is reflected appropriately in his remuneration. The Remuneration Committee has decided that the salary increase for Jack Bowles should be 9.5%. Whilst this exceeds the top of the range of the salary increases for UK-based employees, this approach is in line with our approved Policy in respect of recently appointed Executive Directors. Consequently, with effect from 1 April 2020 Jack Bowles' salary will be £1,287,000.

Upon appointment to the role of Finance Director on 5 August 2019, Tadeu Marroco's salary was set at £750,000. In reviewing the remuneration for Tadeu Marroco, the Remuneration Committee has considered both salary and the composition of the total remuneration package. Tadeu Marroco has now been in his role for eight months and in the Board's view has made an immediate and material contribution to the delivery of Group results and performance against key financial metrics. In addition, he has played a key role in overseeing the Group's transformation agenda while bringing fresh impetus to the Group's approach to stakeholder engagement.

Following engagement with shareholders in the first quarter of the year, the Remuneration Committee has decided to adjust the LTIP award level for the Finance Director from 350% of annual basic salary to 400% of annual basic salary, from 2020 onwards. The adjustment in award level is commensurate with the responsibilities for the Finance Director role and will enable a more appropriate balance between the fixed and variable elements of remuneration in the future. During engagement with shareholders on the Directors' Remuneration Policy in 2019 we discussed our intent to maintain an appropriate level of differentiation with award levels between the Chief Executive and the Finance Director and this very much remains our intention and is reflected in the proposed change to the LTIP award level. The Remuneration Committee is satisfied that the new award level is set appropriately, in particular relative to the Chief Executive, and does not intend to review the award level again while the current Directors' Remuneration Policy is in place.

## ANNUAL STATEMENT ON REMUNERATION

### CONTINUED

Consequently, the shareholding requirements for the Finance Director will be increased as follows:

- During service as a Director, the shareholding requirement will be increased to 400% of salary (from 350% of salary); and
- This requirement will also apply in full after ceasing service as a Director until the second anniversary of cessation of employment.

In this context, the Remuneration Committee decided that the salary increase for Tadeu Marroco should be 3%. Consequently, with effect from 1 April 2020, Tadeu Marroco's salary will be £772,500.

In its annual appraisal of the remuneration of Executive Directors, the Remuneration Committee intends to keep their salaries under review, to ensure they progress in line with development and performance such that remuneration may be brought more closely into line with the market over time. The Remuneration Committee may award increases above the average for UK employees over the next two years, while remaining within the range of increases available for the wider UK population, subject to the performance and development of the Executive Directors in their roles and with consideration of pay matters among our wider workforce. This approach is consistent with how the Company reviews the remuneration of all its employees as they develop and progress in their roles.

#### **Incentive plan awards from 2020**

Following the downward adjustment to the 2019 LTIP award, the basis for awards made under the LTIP in 2020 will return to the Company's usual practice where the share price for new awards is an average of the mid-market price across the three trading days prior to the award being made. The Remuneration Committee is satisfied that this return to the Group's established practice will result in awards which are in proportion with previous awards made to the Directors. The Remuneration Committee retains discretion to review the formulaic LTIP outcome at vesting.

#### **Pay and transparency**

The Remuneration Committee is very aware of the continued debate on executive remuneration and corporate governance, the emphasis on long-term alignment with shareholder interests and the importance of considering executive compensation in the broader context of the Group's employees.

In March 2020, we will be publishing data relating to UK Gender Pay in line with the statutory requirements. Upon reviewing the data prior to publication, the Remuneration Committee noted that while men and women are rewarded equally for similar roles, the Group does have a 'gender pay gap' as defined by the UK legislation. The pay gap is largely a reflection of having more men than women in senior roles and the Group has a comprehensive set of diversity initiatives in place to drive progress on this issue. These are explained further on pages 41 and 81 and in our Gender Pay Report. As a result of our continued focus we have seen an increase in the proportion of women in our upper pay quartile in 2019, from 24% to 27%, contributing towards reducing our median pay gap from 35% to 33%, and we will continue our efforts in this area.

This year we are publishing for the first time our CEO to employee pay ratio for the 2019 financial year. We have adopted calculation method A which we believe to be the most robust and comprehensive means of assessment and is also reflective of shareholder preferences. For the 2019 period, the CEO single figure used in the calculation is a combination of remuneration data for both Nicandro Durante and Jack Bowles, recognising the transition in the Group's leadership which took place in 2019. Consequently, the Group's CEO to employee pay ratio for 2019 was 86:1 at the median level, reflecting the diversity of our business footprint and employee population across the UK. Further details can be found on page 103.

#### **Other initiatives in 2019**

The Remuneration Committee has devoted a considerable amount of time in 2019 to reviewing the Group's remuneration strategy and related policies for its wider workforce. The Remuneration Committee has focused on ensuring there is an appropriate degree of alignment between Group workforce remuneration and the Directors' Remuneration Policy, to make sure the Group's remuneration agenda, practices and policies are both relevant across our markets and supportive of Group strategy and ethos.

An important area of focus has been our competitive position across key markets. The Company sources talent globally and remuneration is a critical part of attracting and retaining the best people to lead our business in an increasingly competitive global marketplace. In this context, the significant pay differential between the US and the UK continues to be challenging considering the international mobility of the senior talent pool. Geographic differences in pay levels present challenges for the Group as a substantial part of our business is based in the United States, which we will keep under close review.

The Remuneration Committee has reviewed both the short and Long-Term Incentive Plan arrangements below the Executive Director level during 2019. As part of this review, the Remuneration Committee considered it appropriate to establish a new Restricted Share Plan which will better align the remuneration strategy with our Group strategy and ethos and recognises employee feedback in this area. The Group will put forward a resolution for shareholder approval at its forthcoming AGM to establish the new Restricted Share Plan for its senior management population, excluding the Executive Directors.

During 2019, the Remuneration Committee conducted a detailed review of the Group's legacy defined benefit pension arrangements in the UK and the Company is now consulting with employees in the UK concerning proposals to close defined benefit arrangements to future accrual during 2020.

In 2019, the Company initiated a competitive tender exercise for the provision of remuneration advisory services to the Remuneration Committee. Following the tender process, the Remuneration Committee has appointed PwC LLP as the adviser to the Remuneration Committee from 15 January 2020. In addition, Meridian Compensation Partners LLC will be appointed to provide specific advice and expertise in relation to the US market.

#### **Our focus in 2020**

On behalf of the Remuneration Committee, I acknowledge the scope of the tasks for the year ahead as we continue to embed our new Remuneration Policy and we continue our work to ensure the policy remains strongly aligned with the Company's long-term strategy and shareholder interests. We were very pleased to receive a strong vote in favour of our Directors' Remuneration Policy last year and this year's Annual Remuneration Report will be put forward for your consideration and approval by an advisory vote at the AGM on 30 April 2020. The Board places great value on the direct engagement and feedback from our shareholders and advisory bodies on our remuneration policy and practices and I look forward to continuing this dialogue in 2020.

#### **Dimitri Panayotopoulos**

Chairman, Remuneration Committee

17 March 2020

Strategic Report	Governance	Financial Statements	Other Information
Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
Remuneration	Responsibility of Directors		

# ANNUAL REPORT ON REMUNERATION

## 1 Summary of our Directors' Remuneration Policy

The Remuneration Policy for the Executive Directors and the Non-Executive Directors was approved by shareholders at the AGM on 25 April 2019.

The full Directors' Remuneration Policy is set out in the Remuneration Report 2018 contained in the Annual Report for the year ended 31 December 2018, which is available at bat.com

To assist in reviewing our Annual Report on Remuneration, we have summarised the key elements of the Directors' Remuneration Policy as it principally applies to remuneration paid during 2019.

### Directors' Remuneration Policy summary: our remuneration strategy

The Remuneration Committee's remuneration principles seek to reward the delivery of the Group's strategy in a simple and straightforward manner which is aligned to shareholders' long-term sustainable interests.

The remuneration structure comprises fixed and variable elements. These rewards are structured and designed to be both transparent and stretching while recognising the skills and experience of the Executive Directors and ensuring rewards are competitive in the global marketplace. The fixed elements comprise base salary, pension and other benefits. The variable elements are provided via two performance-based incentive schemes (a single short-term cash and share incentive annual bonus plan (STI), and a single Long-Term Incentive Plan (LTIP)).

In applying these principles, the Remuneration Committee maintains an appropriate balance between fixed pay and the opportunity to earn performance-related remuneration with the performance-based elements forming, at maximum opportunity, between 80% and 90% of the Executive Directors' total remuneration. An annual review is conducted to ensure application and alignment of the Directors' Remuneration Policy with the business needs to promote the long-term success of the Group.

Strategic Purpose	Key Features
<b>Salary</b>	<ul style="list-style-type: none"> <li>– Normally paid in 12 equal monthly instalments during the year;</li> <li>– Reviewed annually in February (changes effective from April) or subject to ad-hoc review on significant change of responsibilities;</li> <li>– Reviewed taking into account the factors including individual performance and appropriate market data based on a Pay Comparator Group;</li> <li>– Annual increases will generally be in the range of the increases in the base pay of other UK-based employees in the Group and will not exceed 10% per annum; and</li> <li>– Recently appointed Executive Directors' base salaries may exceed the top of the range of the salary increases for UK-based employees where the Remuneration Committee considers it appropriate to reflect the accrual of experience.</li> </ul>
<b>Benefits</b>	<p>To provide market-competitive benefits consistent with the role which:</p> <ul style="list-style-type: none"> <li>– attract and retain high calibre individuals to deliver the Group's long-term strategic plans; and</li> <li>– recognise that such talent is global in source and that the availability of certain benefits (e.g. relocation, repatriation, taxation compliance advice) will from time to time be necessary to avoid such factors being an inhibitor to accepting the role.</li> </ul> <p>The Company offers the following contractual benefits to Executive Directors:</p> <ul style="list-style-type: none"> <li>– A car or car allowance (maximum annual value £20,000);</li> <li>– Use of a car and driver for personal and business use;</li> <li>– Employment tax advice (as required but not exceeding £30,000 per annum);</li> <li>– Tax equalisation payments (where appropriate);</li> <li>– Private medical insurance, including general practitioner 'walk in' medical services;</li> <li>– Personal life and accident insurance (designed to pay out at a multiple of four and five times base salary, respectively);</li> <li>– Housing, education allowances or similar arrangements as appropriate to family circumstances; and</li> <li>– Other benefits may include Executive Directors and their partners' attendance at hospitality or similar functions, and the provision of benefits which may be treated as benefits for tax purposes, such as the provision of home security and reimbursement of expenses incurred in connection with their duties.</li> </ul>
<b>Pension</b>	<p>To provide competitive post-retirement benefit arrangements which recognise the external environment in the context of attracting and retaining senior high calibre individuals to deliver the Group's long-term strategy.</p> <ul style="list-style-type: none"> <li>– Only base salary is pensionable; and</li> <li>– Defined contribution benefits – Executive Directors are eligible to receive a pension benefit equivalent to 15% of base salary as a contribution into the defined contribution section of the British American Tobacco UK Pension Fund or as a gross cash sum paid in lieu thereof. The contribution rates are aligned with those available to our wider UK population.</li> </ul>

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

#### Short-term incentives (STI)

- To incentivise the attainment of corporate targets aligned to the Group's strategic objectives on an annual basis, with a deferred element to ensure alignment with shareholders' interests.
- To ensure, overall, a market-competitive package to attract and retain high calibre individuals to deliver the Group's long-term strategy.

#### Opportunity

- Chief Executive – Maximum 250%; on-target 125%.
- Finance Director – Maximum 190%; on-target 95%.

#### Operation

- 50% of the incentive delivered as cash; 50% as deferred shares (DSBS) which vest after three years. Deferred shares attract a dividend equivalent which is delivered in additional quarterly interim dividend equivalent shares;
- The Remuneration Committee sets the performance targets each year at the beginning of the performance period and is able to vary the exact measures and the weighting of them from year to year;
- Performance measures for 2019 can be found on page 99 and for 2020 on page 104;
- The Remuneration Committee has discretion to adjust outcomes in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company;
- In cases of identified poor individual performance, the corporate result may be reduced by up to 50%; and
- Clawback and malus provisions are in place.

#### Long-term incentives (LTIP)

To put in place a combination of measures with appropriately stretching targets around the long-term plan that provides a balance relevant to the Company's business and market conditions as well as alignment between Executive Directors' and shareholders' interests. To facilitate the appointment of senior high calibre individuals required to deliver the Group's long-term strategy, and to promote the long-term success of the Company.

#### Opportunity

- Maximum annual award of shares of 500% of salary for all Executive Directors.
- Normal annual grants of 500% of salary for the Chief Executive and 400% of salary for the Finance Director.

#### Operation

- LTIP awards vest only to the extent that:
  - the performance conditions are satisfied at the end of the three-year performance period; and
  - an additional vesting period of two years from the third anniversary of the date of grant has been completed;
- Dividend equivalent shares are awarded at the end of the extended vesting period to the extent that the awards vest;
- The Remuneration Committee sets the performance targets for the applicable performance period each year;
- Vesting levels are based on the achievement of appropriately stretching targets against performance measures aligned to the Group's long-term strategy;
- Performance measures for the 2017-2019 performance period are detailed on page 100 and for the awards to be granted in 2020 are detailed on page 104;
- The Remuneration Committee has discretion to adjust the level of vesting in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company; and
- Clawback and malus provisions are in place.

#### Shareholding requirements

- To strengthen the alignment between the interests of the Executive Directors and those of shareholders by requiring Executive Directors to build up a high level of personal shareholding in the Company.
- To ensure long-term alignment between the interests of the Executive Directors and those of shareholders through the operation of post-employment shareholding requirements.

Executive Directors are required to hold shares in the Company:

- during service as a Director, equal to the value of the same multiple of salary at which LTIP awards are made to that Director (currently, 500% for the Chief Executive and 400% for the Finance Director from 2020 onwards); and
- after ceasing service as a Director, equal to the value of 100% of the shareholding requirement that applied while a Director for a period until the second anniversary of cessation of employment with the Group.

#### All-employee share plans

Executive Directors are eligible to participate in the Company's all-employee share schemes which are designed to incentivise employees by giving them an opportunity to build shareholdings in the Company.

- All-employee share schemes are the Sharesave Scheme and the Share Incentive Plan (SIP); and
- Executive Directors are subject to the same limits on participation as other employees, as defined by the applicable statutory provisions.

Strategic Report	Governance		Financial Statements		Other Information	
	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors

## How the policy addresses the factors set out in the UK Corporate Governance Code 2018:

The summary of our remuneration principles and the key elements of the Directors' Remuneration Policy align with the UK Corporate Governance Code 2018 factors as follows:

### Clarity and simplicity

Our policy provides an overall remuneration package that is transparent for our Executive Directors and shareholders alike; its simple structure has a clear and straightforward link to the delivery of the Group's long-term strategy. Principles driving fixed remuneration (salary, benefits, pension) are closely aligned with the wider workforce and variable remuneration (STI and LTI) rewards delivery of financial and strategic objectives both in the short and long-term.

### Risk

The combination of performance target setting for the STI and LTI, the inclusion of provisions for discretionary adjustments and malus and clawback provisions ensure that we reward our Executive Directors in accordance with high standards of governance while mitigating, as far as possible, reputational and other risks arising from reward packages that are not proportionate to outcomes.

### Predictability and proportionality

There is a clear link between the operation of our short and long-term incentive plan awards and the delivery of our strategy and long-term performance. Variable remuneration at the Company accounts for between 80%-90% of an Executive Director's total remuneration package, ensuring that poor performance is not rewarded. Further detail on short and long-term incentive plan awards are detailed on pages 99 and 100.

### Alignment to culture

The Remuneration Committee has worked extensively to develop a policy that aligns the Executive Directors closely to the wider workforce and rewards long-term sustainable performance. The Remuneration Committee continually reviews the Policy, taking into account any feedback received from engagement with the wider workforce and shareholders, to ensure it is aligned to the Company's purpose and values, and promotes the long-term success of the Company.

## Summary of all-employee rewards at BAT: Principles of remuneration for wider workforce

The Group's remuneration policies and practices are founded on a high degree of alignment and consistency across the organisation. Accordingly, remuneration for senior management is determined taking into account the remuneration principles that apply to the Executive Directors, and similar principles also form the basis of the remuneration arrangements for the wider workforce.

The Remuneration Committee is regularly updated on the pay principles and practices in operation across the Group, and considers them in relation to the implementation of the Directors' Remuneration Policy, and in ensuring there is an appropriate degree of alignment throughout the Group. The Board's approach to engagement with the Group's workforce worldwide is set out on pages 26 and 41. Engagement methods available to the Group's workforce include mechanisms for feedback and dialogue on the Group's pay policies and practices. The Remuneration Committee receives updates from management on feedback received during the year where relevant to remuneration matters considered by the Remuneration Committee, and the Remuneration Committee takes feedback into account as applicable in determining executive remuneration.

The reward strategy for all employees is built around the following four strategic pillars and comprises fixed and variable remuneration elements:

### Competitive yet sustainable

- Competitive package, able to attract and retain talent.
- Agility to meet changing generational needs.
- Responsible cost structure to support profit delivery.

### Equitably differentiated

- Differentiated on clear and objective criteria – level, performance and experience.
- Supported by unbiased processes and tools.

### Transparent

- Clear policies, openly communicated.
- Individual total reward package statements form part of regular annual cycle.

### Aligned to shareholder interests

- Competitive employment cost base and incentives that align the interests of employees with those of shareholders.

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

#### Fixed remuneration

##### Salary

- Salary is a key element of the total remuneration for all employees.
- Salary ranges for each grade are set by reference to external market data, and individual positioning within the set salary ranges will depend on level of experience, responsibility and individual performance.
- Annual salary reviews typically take place in April each year.

In several markets Collective Labour Agreements (CLAs) exist covering some employees, therefore, some of the above principles may not apply.

##### Benefits and recognition

- Benefits provided to employees reflect local market practice and legislative requirements.
- The benefits architecture for the Group includes core benefits (such as medical insurance and life insurance) and local statutory benefits and may be delivered as a combination of benefits in kind, cash allowance and flexible benefits.
- Additional financial and non-financial rewards can be made for outstanding contributions to the business in exceptional circumstances.

##### Pension

- Retirement benefits, typically in the form of a pension, are provided to employees based on local market practice.
- Under the UK Defined Contribution arrangements, the Company contributions for all employees is 10% of base salary rising to a maximum of 15% on a matching basis. The total contribution to the defined contribution section of the British American Tobacco UK Pension Fund is restricted to £10,000 per annum in line with the Tapered Annual Allowance with the balance of any contributions due above this paid as a cash allowance or, alternatively, paid into the Defined Contribution Unapproved Unfunded Retirement Benefits Scheme.

#### Variable remuneration

##### Short-term incentives

Short-term incentive schemes are designed to reward employees across the business for the delivery of financial, strategic and operational targets. The Group operates various short-term incentive arrangements, as set out below, with participation dependent on role.

**International Executive Incentive Scheme (IEIS)** – globally aligned scheme for all managers in senior management roles (c. 1,200 employees), including Executive Directors.

- Incentive opportunities for IEIS participants are defined globally for each eligible grade.
- A portion of any award receivable is deferred in BAT shares for three years, with the remaining portion paid in cash following year-end.
- Dividend-equivalent payments on all unvested deferred shares are paid quarterly in cash via payroll.

**Corporate annual bonus plans** – in operation for employees in corporate functions who are not eligible to participate in the IEIS.

- Designed to mirror the basic construct of the IEIS with opportunity levels set locally.
- Performance metrics aligned to those of the IEIS, however, not all are measured on a Group-wide basis but instead linked to the relevant business unit.

**Functional incentive schemes** – in operation for non-corporate employees, examples include trade marketing or factory incentive schemes.

- Opportunity levels are set locally and vary by grade.
- Functional performance measures are incorporated into each scheme to ensure line of sight for participants.

##### Long-term incentives

- Senior managers are eligible to participate in the long-term incentive programme (LTIP), which rewards their contribution to the long-term global performance of the Company aligned with Executive Directors.
- Opportunity levels are defined globally for each eligible grade.
- Awards are typically granted in March of each year, and vest following the end of a three-year performance period.
- Dividend-equivalent payments are paid on any shares vesting.

##### All-employee share schemes

- In the UK, all employees are eligible to participate in the Company's all-employee share schemes – the Sharesave Scheme and the Share Incentive Plan – both of which are HMRC-approved plans, which are designed to incentivise employees by giving them an opportunity to build shareholdings in the Company.

	Strategic Report	Governance	Financial Statements	Other Information
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	Remuneration	Responsibility of Directors		

## 2 Overview of what our Executive Directors earned in 2019 and why

### What our Executive Directors earned in 2019 – audited<sup>@</sup>

Single figure for Executive Directors	Salary £'000	Taxable benefits £'000	Short-term incentives £'000	Long-term incentives £'000	Pension £'000	Other emoluments £'000	Total £'000							
	2019	2018	2019	2018	2019	2018	2018							
Nicandro Durante <sup>3</sup>	328	1,295	160	295	408	3,275	2,059	3,324	197	430	12	32	3,164	8,651
Jack Bowles <sup>4</sup>	1,175	–	262	–	2,824	–	642	–	216	–	19	–	5,138	–
Ben Stevens <sup>5</sup>	551	916	107	132	999	1,756	1,206	1,694	227	491	17	18	3,107	5,007
Tadeu Marroco <sup>6</sup>	301	–	79	–	560	–	512	–	46	–	1	–	1,499	–
<b>Total</b>	<b>2,355</b>	<b>2,211</b>	<b>608</b>	<b>427</b>	<b>4,791</b>	<b>5,031</b>	<b>4,419</b>	<b>5,018</b>	<b>686</b>	<b>921</b>	<b>49</b>	<b>50</b>	<b>12,908</b>	<b>13,658</b>

#### Notes:

- The 2017 LTIP award is due to vest on 27 March 2022 for Nicandro Durante and Ben Stevens and on 27 March 2020 for Jack Bowles and Tadeu Marroco based on completion of the three-year performance period on 31 December 2019 and completion of the extended vesting period, as applicable. The value shown is based on the average share price for the three-month period ended 31 December 2019 of 2,920p. Given the share price performance since the date of grant of awards, none of the value shown in the table above is attributable to share price appreciation.
- Long-term incentives shown for 2018: in accordance with the UK Directors' Remuneration Report Regulations, estimates for the values of the vesting 2016 LTIP awards were given in the Annual Report on Remuneration 2018; these amounts have been re-presented to show the actual market value on the date of vesting in 2019.
- Nicandro Durante retired as an Executive Director on 1 April 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Jack Bowles was appointed Chief Executive Designate on 1 November 2018 and was appointed as an Executive Director on 1 January 2019, before being appointed as Chief Executive effective 1 April 2019. The values shown for his LTIP are based on a share award granted prior to his appointment as an Executive Director with no apportionment having been applied to the LTIP value.
- Ben Stevens ceased to be an Executive Director on 5 August 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Tadeu Marroco was appointed Finance Director on 5 August 2019 and was appointed as an Executive Director on the same date. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company. The values shown for his LTIP are based on a share award granted prior to his appointment as an Executive Director with no apportionment having been applied to the LTIP value.

Further information in respect of this remuneration can be found in Section 3 on page 98.

### How this aligns to performance

#### Short-term incentives for the performance period ended in 2019

##### Vesting at:

**Chief Executive:** corporate performance – 240.3% of salary  
**Finance Director:** corporate performance – 182.6% of salary

**Adjusted profit from operations (APFO)**  
at constant rates of exchange +6.6% growth

**Adjusted revenue growth from the Strategic Portfolio at constant rates of exchange**  
+7.3% growth

**Group share of Key Markets**  
+20 bps growth over 2018

**Adjusted cash generated from operations (Adjusted CGFO) at constant rates of exchange**  
Exceeded the maximum performance level set by the Remuneration Committee (equivalent to 96.2% operating cash flow conversion)

#### Long-term incentives for the three-year performance period ended in 2019

##### Vesting at 69.3%

**Total shareholder return (TSR)**  
21 out of 23 in FMCG comparator group 2017–2019

0% achievement  
(0% of award vesting out of possible 20%)

**Adjusted diluted earnings per share (EPS) growth**  
9.4% CAGR at current rates of exchange

90% achievement  
(17.9% of award vesting out of possible 20%)

**Adjusted diluted earnings per share (EPS) growth**  
10% CAGR at constant rates of exchange

100% achievement  
(20% of award vesting out of possible 20%)

**Adjusted revenue growth**  
4% CAGR at constant rates of exchange

57% achievement  
(11.4% of award vesting out of possible 20%)

**Adjusted operating cash flow conversion ratio**  
101.8% ratio over the performance period

100% achievement  
(20% of award vesting out of possible 20%)

### Non-GAAP measures

Adjusted profit from operations (APFO), adjusted cash generated from operations (Adjusted CGFO), adjusted diluted EPS, adjusted revenue and operating cash flow conversion ratio are non-GAAP measures used by the Remuneration Committee to assess performance. Please refer to pages 259 to 268 for definitions of these measures <sup>@</sup>and a reconciliation of these measures to the most directly comparable IFRS measure where applicable.<sup>@</sup>

# ANNUAL REPORT ON REMUNERATION

## CONTINUED

### 3 Executive Directors' remuneration for the year ended 31 December 2019

Total remuneration for the year ended 31 December 2019 – audited<sup>®</sup>

	Nicandro Durante <sup>1</sup>		Jack Bowles <sup>2</sup>		Ben Stevens <sup>3</sup>		Tadeu Marroco <sup>4</sup>
	2019 £'000	2018 £'000	2019 £'000	2019 £'000	2018 £'000	2019 £'000	2019 £'000
<b>Salary</b>	<b>328</b>	<b>1,295</b>	<b>1,175</b>	<b>551</b>	<b>916</b>	<b>301</b>	
<b>Taxable benefits<sup>5</sup></b>							
– car allowance	4	16	20	8	14		8
– health insurance	2	7	13	9	10		5
– tax advice	38	62	30	–	–		34
– use of Company driver	25	83	61	78	100		30
– home and personal security	–	121	6	4	6		–
– relocation	58	–	–	–	–		–
– tax & social security <sup>6</sup>	–	–	122	–	–		–
– other expenses related to individual and/or accompanied attendance at Company functions/events	33	6	10	8	2		2
<b>Total taxable benefits</b>	<b>160</b>	<b>295</b>	<b>262</b>	<b>107</b>	<b>132</b>	<b>79</b>	
<b>Short-term incentives</b>							
STI vesting percentage (% of maximum)	50%	100%	96%	96%	100%		96%
STI: cash – Group performance cash element	408	1,637.5	1,412	999	877.8		280
STI: DSBS – Group performance deferred element	–	1,637.5	1,412	–	877.8		280
<b>Total short-term incentives (page 99)</b>	<b>408</b>	<b>3,275</b>	<b>2,824</b>	<b>999</b>	<b>1,756</b>	<b>560</b>	
<b>Long-term incentives<sup>7,8</sup></b>							
LTIP vesting percentage (% of maximum)	69.3%	70.5%	69.9%	69.3%	70.5%		69.9%
LTIP value to vest	1,733	2,813	540	1,015	1,434		431
Dividend equivalent <sup>9</sup>	326	511	102	191	260		81
<b>Total long-term incentives (page 100)</b>	<b>2,059</b>	<b>3,324</b>	<b>642</b>	<b>1,206</b>	<b>1,694</b>	<b>512</b>	
<b>Total pension-related benefits (page 101)</b>	<b>197</b>	<b>430</b>	<b>216</b>	<b>227</b>	<b>491</b>	<b>46</b>	
<b>Other emoluments</b>							
Life insurance	8	29	15	13	15		1
Share Reward Scheme (value of ordinary shares awarded)	4	3	4	4	3		–
Sharesave Scheme (face value of discount on options granted)	–	–	–	–	–		–
<b>Total other emoluments</b>	<b>12</b>	<b>32</b>	<b>19</b>	<b>17</b>	<b>18</b>	<b>1</b>	
<b>Total remuneration</b>	<b>3,164</b>	<b>8,651</b>	<b>5,138</b>	<b>3,107</b>	<b>5,007</b>	<b>1,499</b>	

Notes:

1. Nicandro Durante retired as an Executive Director on 1 April 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.

2. Jack Bowles was appointed Chief Executive Designate on 1 November 2018 and was appointed as an Executive Director on 1 January 2019, before being appointed as Chief Executive effective 1 April 2019.

3. Ben Stevens retired as an Executive Director on 5 August 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.

4. Tadeu Marroco was appointed Finance Director on 5 August 2019 and was appointed as an Executive Director on the same date. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.

5. Taxable benefits: the figures shown are gross amounts as, in line with the UK market, it is the normal practice for the Company to pay the tax which may be due on any benefits, with the exception of the car or car allowance. The numbers presented above for tax advice are inclusive of applicable VAT and income tax.

6. Amount for Jack Bowles relates to tax equalisation and social security payments made during the year ended 31 December 2019.

7. The 2017 LTIP award is due to vest on 27 March 2022 for Nicandro Durante and Ben Stevens and on 27 March 2020 for Jack Bowles and Tadeu Marroco based on completion of the three-year performance period on 31 December 2019 and completion of the extended vesting period, as applicable. The value shown is based on the average share price for the three-month period ended 31 December 2019 of 2,920p.

8. LTIP award shown for 2018: the values disclosed in the Annual Report on Remuneration for the year ended 31 December 2018 were estimated values as the award had not vested by the date of that report; these amounts have been re-presented based on the actual market value on the date of vesting of 12 May 2019 of 2,839p.

9. LTIP dividend equivalent payments: the dividend equivalent payment that will attach to the LTIP award that is included in the Single Figure Table is reported. The values for the year ended 31 December 2018 have been restated on this basis.

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			Remuneration	Responsibility of Directors

## Short-term incentives for the year ended 31 December 2019

### STI performance measures, weightings and results for year ended 31 December 2019 – audited®

STI: performance measure and target 2019	Description of measure 2019	Actual performance 2019
<b>Adjusted profit from operations (APFO) (growth over prior year)</b> Weighting: 30%	APFO is the adjusted profit from operations at constant rates of exchange for the year ended 31 December 2019. Please refer to page 262 for the detailed description of APFO.	APFO growth over the prior year of 6.6%. <b>Strategic Report: Delivering our strategy – Productivity</b>
<b>Threshold:</b> 3.3% growth over 2018 <b>Maximum:</b> 7.1% growth over 2018		
<b>Group's share of Key Markets (growth over prior year)</b> Weighting: 10%	The Group's retail volume share in its Key Markets accounts for around 80% of the volumes of the Group's subsidiaries. The Group's share is calculated from data supplied by retail audit service providers and is re-based as and when the Group's Key Markets change. When re-basing does occur, the Company will also restate historical data and provide fresh comparative data on the markets.	Global volume share in key markets grew by 20 bps. <b>Strategic Report: Delivering our strategy – Growth</b>
<b>Threshold:</b> 5 bps growth over 2018 <b>Maximum:</b> 15 bps growth over 2018		
<b>Adjusted revenue growth from the Strategic Portfolio (growth over prior year)</b> Weighting: 30%	The Strategic Portfolio reflects the focus of the Group's investment activity, and is defined as Strategic Combustibles and Strategic Traditional Oral products, and New Category products. This measure is assessed at constant rates of exchange. Please refer to page 261 for the detailed description of the Strategic Portfolio.	Adjusted revenue from the Strategic Portfolio grew by 7.3%. <b>Strategic Report: Delivering our strategy – Growth</b>
<b>Threshold:</b> 2% growth over 2018 <b>Maximum:</b> 6% growth over 2018		
<b>Adjusted cash generated from operations (Adjusted CGFO) (as against adjusted budget)</b> Weighting: 30%	Adjusted CGFO is defined as the net cash generated from operating activities, before the impact of adjusting items, dividends paid to non-controlling interests and received from associates, net interest paid and net capital expenditure.	Adjusted CGFO exceeded the maximum performance level set by the Remuneration Committee (equivalent to 96.2% operating cash flow conversion). <b>Strategic Report: Delivering our strategy – Productivity</b>
<b>Threshold:</b> Equivalent to 91% operating cash flow conversion <b>Maximum:</b> Equivalent to 96% operating cash flow conversion	Adjusted CGFO is measured at constant rates of exchange.	

### STI outcome for year ended 31 December 2019

	Available STI award as % of base salary	Group % result	STI award achieved % of base salary	STI award achieved £'000 (Value shown in Single Figure Table) <sup>4</sup>
Nicandro Durante <sup>1,2</sup>	250%	50%	125%	408
Jack Bowles <sup>3</sup>	250%	96%	240.3%	2,824
Ben Stevens <sup>1,5</sup>	190%	96%	182.6%	999
Tadeu Marroco <sup>1,3</sup>	190%	96%	182.6%	560

#### Notes:

1. The STI awards for Nicandro Durante, Ben Stevens and Tadeu Marroco have been calculated on a pro rata basis for their time spent as Executive Directors during 2019.
2. Nicandro Durante retired as an Executive Director on 1 April 2019. In line with our Directors' Remuneration Policy in operation at the time, his Group result was based on an 'on-target' level of performance, apportioned for the period he was an Executive Director and payment was made fully in cash in April 2019.
3. For Jack Bowles and Tadeu Marroco, 50% of the STI award will be paid in cash and 50% as an award under the DSBS. Awards made under the DSBS are in the form of free ordinary shares in the Company that normally vest after three years and no further performance conditions apply in that period. In certain circumstances, such as resigning before the end of the three-year period, participants may forfeit all of the shares.
4. Malus and clawback provisions apply.
5. In line with the current Directors' Remuneration Policy, the STI payment to Ben Stevens will be made based on actual results, pro-rated and paid fully in cash in March 2020.

## ANNUAL REPORT ON REMUNERATION

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#### Long-term incentives (LTIP) for the year ended 31 December 2019

#### LTIP performance measures, weightings and results for the year ended 31 December 2019 – audited 3<sup>a</sup>

LTIP: performance measure	Description of measure and target for 2017 LTIP Performance period 1 January 2017 – 31 December 2019	Result achieved	Vesting percentage
<b>Relative TSR<sup>1</sup></b> Relative to a peer group of international FMCG companies	2017–2019 LTIP target Threshold At median, 3% vests Maximum At upper quartile, 20% vests	Ranked 21 out of 23	0% (out of maximum of 20%)
Weighting: 20%			
<b>EPS growth at current exchange rates</b> Compound annual growth in adjusted diluted EPS measured at current rates of exchange	2017–2019 LTIP target Threshold At CAGR of 5%, 3% vests Maximum At CAGR of 10%, 20% vests	9.4% CAGR	17.9% (out of maximum of 20%)
Weighting: 20%			
<b>EPS growth at constant exchange rates</b> Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	2017–2019 LTIP target Threshold At CAGR of 5%, 3% vests Maximum At CAGR of 10%, 20% vests	10% CAGR	20% (out of maximum of 20%)
Weighting: 20%			
<b>Adjusted revenue<sup>2</sup></b> Compound annual growth measured at constant rates of exchange	2017–2019 LTIP target Threshold At CAGR of 3%, 3% vests Maximum At CAGR of 5%, 20% vests	4% CAGR	11.4% (out of maximum of 20%)
Weighting: 20%			
<b>Adjusted Operating cash flow conversion ratio</b> Ratio over the performance period at current exchange rates	2017–2019 LTIP target Threshold Ratio of 85%, 3% vests Maximum Ratio of 95%, 20% vests	101.8% ratio	20% (out of maximum of 20%)
Weighting: 20%			
<b>Total vesting level</b>			<b>69.3% vesting</b>

Notes:

1. **Relative TSR:** the constituents of the FMCG peer group are listed on page 104.

2. **The underpin for adjusted revenue growth measure:** the adjusted revenue growth measure can only vest provided the corresponding three-year CAGR of APFO exceeds the CAGR of the threshold performance level for APFO as approved annually in the STI and approved by the Board. The underpin was exceeded with reference to the APFO STI outcomes for 2017, 2018 and 2019.

3. The above figures account for the adjustment made in respect of the impact of the acquisition of RAI on the 2017 performance year within the 2017 LTIP awards. Further detail on the adjustment for the 2017 performance year was provided on page 94 of the 2018 Annual Report for the 2016 LTIP awards and the same will apply in respect of the 2017 LTIP awards.

<sup>a</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

#### LTIP outcome for year ended 31 December 2019

	Number of ordinary shares subject to award	Vesting % achieved (based on 2017–2019 performance period)	Number of ordinary shares to vest	Value of ordinary shares to vest <sup>1</sup> £'000	Dividend equivalent payment on vesting <sup>2</sup> £'000	Total value to vest £'000 (Value shown in Single Figure Table)
Nicandro Durante <sup>3</sup>	114,181	69.3%	59,346	1,733	326	2,059
Jack Bowles <sup>4</sup>	26,463	69.9%	18,497	540	102	642
Ben Stevens <sup>3</sup>	58,232	69.3%	34,750	1,015	191	1,206
Tadeu Marroco <sup>4</sup>	21,109	69.9%	14,755	431	81	512

The 2017 LTIP awards granted to Nicandro Durante and Ben Stevens are subject to the LTIP extended vesting period and are therefore due to vest on 27 March 2022, and will become exercisable on that same date. For Jack Bowles and Tadeu Marroco, the 2017 LTIP awards were made prior to their appointments as Executive Directors, therefore the vesting date is 27 March 2020 and the shares will become exercisable on that same date.

Notes:

1. The value of ordinary shares to vest shown above is based on the average share price for the three-month period ended 31 December 2019 of 2,920p.

2. The dividend equivalent amount shown above that will become payable on vesting is the value of the dividend equivalents accrued on the proportion of the award that is due to vest.

3. The number of shares to vest for Nicandro Durante and Ben Stevens is calculated on a pro rata basis to reflect their total time as Executive Directors during the performance period of the awards.

4. The number of shares subject to awards made to Jack Bowles and Tadeu Marroco reflect the award opportunities available to them at the time of the award, prior to being appointed as Executive Directors.

Strategic Report		Governance		Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors

## Executive Directors' pension entitlements and accruals for the year ended 31 December 2019 – audited<sup>®</sup>

Pension values	Accrued pension at year-end 31 December 2019 £'000		Total Defined Contribution (DC) fund value as at year-end 31 December 2019 £'000	
	Defined Benefits (DB) Unapproved Unfunded Retirement Benefit Scheme (UURBS)	British American Tobacco UK Pension Fund	Defined Contribution (DC) Unapproved Unfunded Retirement Benefit Scheme (UURBS) <sup>1</sup>	British American Tobacco UK Pension Fund
Nicandro Durante (up to 1 April 2019)	182	–	n/a	n/a
Jack Bowles	n/a	n/a	669	318
Ben Stevens (up to 5 August 2019)	366	102	n/a	n/a
Tadeu Marroco (from 5 August 2019)	n/a	n/a	502	165
Total	548	102	1,171	683

### Note

1. The DC UURBS credit accrued over the year is increased in line with the Company's Weighted Average Cost of Debt (WACD) over the year. For the year ended 31 December 2019, a provisional WACD of 3.3% has been used but this may be subject to change.

### Nicandro Durante

#### Nicandro Durante's UURBS pension entitlements are derived as follows:

- effective from 1 March 2006 (being the date of his appointment as a member of the Management Board), an accrual of 0.65% for each year of service on a basic £ sterling salary comparable to that of a General Manager of Souza Cruz S.A. At retirement the pension will be based on a 12 month average and will be provided through the UURBS; and
- with effect from 1 January 2011 (being the date of his appointment as Chief Executive Designate), Nicandro Durante commenced an accrual of 2.5% for each year of service on a basic salary in excess of that stated above. At retirement the pension is based on a 12 month average and will be provided through the UURBS.

The normal retirement date for Mr Durante was 13 September 2016.

The pension-related benefits disclosed in the single figures for Executive Directors' remuneration represent Nicandro Durante's net accrual for the period, being the differential between his total pension entitlements as at 31 December 2018 (adjusted for inflation) and as at 1 April 2019, multiplied by 20 in accordance with the UK Directors' Remuneration Report Regulations.

Nicandro Durante receives a pension in payment from the Fundação Albino Souza Cruz (FASC) from Souza Cruz S.A., a Brazilian registered wholly-owned subsidiary of the Group. This pension benefit has been in payment since April 2012 and for the period from 1 January 2019 to 31 March 2019 has amounted to approximately £90,169 (after adjusting for currency exchange).

### Ben Stevens

Ben Stevens joined the **UK Pension Fund** after 1989, before the closure of its non-contributory defined benefit section to new members in April 2005. As a result, prior to 6 April 2006, he was subject to the HMRC cap on pensionable earnings (notional £160,800 for the tax year 2018/19). In addition, he has an unfunded pension promise from the Company in respect of earnings above the cap on an equivalent basis to the benefits provided by the UK Pension Fund. This is provided through the UURBS. Further to the changes to the applicable tax regulations, Ben Stevens has reached his lifetime allowance of £1.8 million and therefore has ceased accrual in the UK Pension Fund with all future benefits being provided through the UURBS. During the year, there has been no change to the overall pension entitlement of Ben Stevens.

The normal retirement date for Mr Stevens was 27 July 2019.

Total accrued pension is the amount of pension that would be paid annually on retirement based on service to the end of the year.

The pension-related benefits disclosed in the single figures for Executive Directors' remuneration represent Ben Stevens' net accrual for the period, being the differential between his total pension entitlements as at 31 December 2018 (adjusted for inflation) and as at 5 August 2019, multiplied by 20 in accordance with the UK Directors' Remuneration Report Regulations.

These commitments are included in note 12 in the Notes on the Accounts. UK Defined Benefit Pension Fund members are entitled to receive increases in their pensions once in payment, in line with price inflation (as measured by the Retail Prices Index) and up to 6% per annum.

### Jack Bowles

Jack Bowles became an Executive Director with effect from 1 January 2019 and is a member of the Company's Defined Contribution (DC) arrangements. The total Company contribution to the DC arrangements over the period 1 January to 31 December 2019 was £215,750. Of this, £7,583 was paid to the funded British American Tobacco UK DC schemes and £208,167 was credited to the DC UURBS. These total amounts are based on a Company contribution rate of 25% per annum of salary over the period 1 January 2019 to 30 April 2019 reducing to a rate of 15% per annum of salary over the period 1 May 2019 to 31 December 2019.

### Tadeu Marroco

Tadeu Marroco became an Executive Director with effect from 5 August 2019 and is a member of the Company's Defined Contribution (DC) arrangements. The total Company contribution paid to the DC arrangements over the period 5 August to 31 December 2019 was £45,882. Of this, £3,160 was paid to the funded British American Tobacco UK DC schemes and £42,722 was credited to the DC UURBS. These total amounts are based on a Company contribution rate of 15% per annum of salary over the period 5 August 2019 to 31 December 2019.

#### Notes:

1. **UK Pension Fund:** this is non-contributory. Voluntary contributions paid by an Executive Director and resulting benefits are not shown. No excess retirement benefits have been paid to or are receivable by an Executive Director or past Executive Director.

2. Revised pension arrangements apply from May 2019 for new Executive Directors as detailed in the revised Directors' Remuneration Policy on page 78 of the 2018 Annual Report.

## ANNUAL REPORT ON REMUNERATION

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**Other information relating to Chief Executives' remuneration for the year ended 31 December 2019****Chief Executives' pay – comparative figures 2010 to 2019**

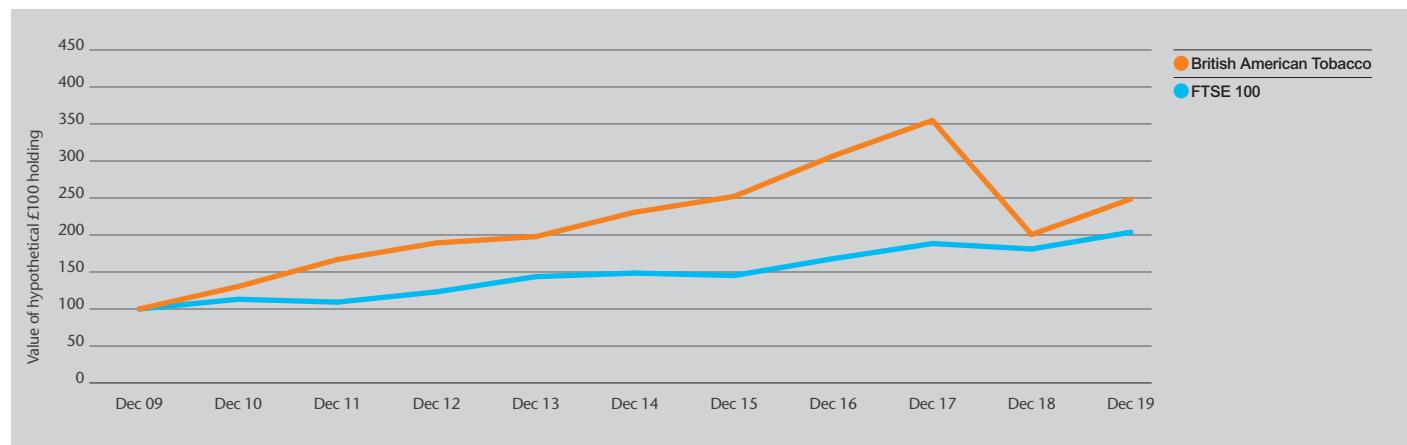
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Chief Executives' 'single figure' of total remuneration (£'000)</b>										
Paul Adams <sup>1</sup> (to 28 February 2011)	8,858	5,961	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante <sup>2</sup> (to 1 April 2019)	n/a	5,589	6,340	6,674	3,617	4,543	8,313	10,244	8,651	3,164
Jack Bowles <sup>3</sup> (from 1 April 2019)	n/a	n/a	3,512							
<b>Annual bonus (STI) paid against maximum opportunity (%)</b>										
Paul Adams <sup>1</sup> (to 28 February 2011)	87.0	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante <sup>2</sup> (to 1 April 2019)	n/a	100	85.0	81.3	73.2	100	100	97.2	100	50
Jack Bowles <sup>3</sup> (from 1 April 2019)	n/a	n/a	96							
<b>Long-term incentive (LTIP) paid against maximum opportunity (%)</b>										
Paul Adams <sup>1</sup> (to 28 February 2011)	100	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante <sup>2</sup> (to 1 April 2019)	n/a	100	87.1	49.2	0.0	8.7	46.0	96.1	70.5	69.3
Jack Bowles <sup>3</sup> (from 1 April 2019)	n/a	n/a	69.9							

## Notes:

1. Paul Adams retired as Chief Executive on 28 February 2011. Historical data are taken from the Directors' Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the UK Directors' Remuneration Report Regulations.

2. Nicandro Durante retired as Chief Executive on 1 April 2019. Historical data are taken from the Directors' Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the UK Directors' Remuneration Report Regulations. His 'single figure' remuneration for the years ended 31 December 2011 and 31 December 2019 have been time-apportioned to reflect the period he was Chief Executive.

3. Jack Bowles was appointed Chief Executive with effect from 1 April 2019. His 'single figure' remuneration for the year ended 31 December 2019 has been time-apportioned to reflect the period he was Chief Executive.

**Total shareholder return (TSR) performance:<sup>1</sup> 1 January 2010 to 31 December 2019**

## Note:

1. **Performance and pay chart:** this shows the performance of a hypothetical investment of £100 in ordinary shares (as measured by the TSR for the Company) against a broad equity market index (the FTSE 100 Index) over a period of 10 financial years starting from 1 January 2010 through to 31 December 2019 based on 30-trading-day average values. A local currency basis is used for the purposes of the TSR calculation making it consistent with the approach to TSR measurement for the LTIP.

<sup>②</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

	Strategic Report	Governance	Financial Statements	Other Information
	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
	Remuneration	Responsibility of Directors		

### Percentage change in the Chief Executive's remuneration

The following table shows the percentage change in the Chief Executive's remuneration measured against a comparator group comprising the UK employee population on UK employment contracts (2019: 2,980 individuals; 2018: 2,097 individuals). This comparator group is considered to be the most appropriate group as Executive Directors are employed on UK contracts. Using a more widely-drawn group encompassing the worldwide nature of the Group's business would also present practical difficulties in collation and a less relevant comparator, given the significant variations in employee pay across the Group, the differing economic conditions and wide variations in gross domestic product per capita.

	Base salary			Taxable benefits			Short-term incentives		
	2019 £'000	2018 £'000	Percentage change %	2019 £'000	2018 £'000	Percentage change %	2019 £'000	2018 £'000	Percentage change %
Chief Executive	1,209	1,295	-6.7	357	295	21	2,526	3,275	-23
UK-based employees	71	75	-4.6	7	7	-	38	49	-23.5

#### Notes: UK-based employees:

1. The data for the UK-based employees comparator group are made up as follows as at 31 December 2019: (1) the weighted average base salaries; (2) the average taxable benefits per grade; and (3) the weighted average bonus result based on that population as at that date.
2. The data for the UK-based employees for 2019 include non-management employees from an acquisition.
3. The data for the UK-based employees for 2018 for taxable benefits and short-term incentives have been restated. Taxable benefits data have been adjusted to reflect a change in calculation of the car benefit and short-term incentives data have been adjusted to reflect actual results rather than on-target as reported in the 2018 Annual Report.
4. The Chief Executive figures for base salary, taxable benefits and short-term incentives for 2019 are calculated based on Nicandro Durante's remuneration for the period 1 January to 31 March 2019 and Jack Bowles' remuneration for the period 1 April to 31 December 2019.

### CEO Pay Ratio Disclosure

In line with the new disclosure requirement, the below table reflects the CEO pay ratio when compared to the employees at the 25th, median and 75th percentile of the Group's UK workforce.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	144:1	86:1	36:1

#### Notes:

1. Option A has been used to calculate the ratio as this has been viewed to be the most robust and comprehensive means of assessment and is also reflective of shareholder preferences.
2. Total pay and benefits are based on the workforce as at 1 December 2019 and include the annualised income for the earnings period 1 January 2019 to 31 December 2019.
3. Total pay and benefits for the CEO are based on the single figure calculation on page 97. The CEO single figure used in the calculation is a combination of remuneration data for both Nicandro Durante and Jack Bowles, recognising the transition in the Group's leadership which took place in 2019.
4. Total pay and benefits for the workforce is calculated as far as possible on the same basis as the CEO single figure calculation. This includes salary, taxable benefits, short-term incentive, long-term incentive, dividends, pension benefits and any other remuneration receivable. For the purposes of this analysis, the following has been assumed:
  - For all employees that are eligible for a car benefit, the applicable car allowance amounts have been used,
  - For all employees that participate in the global International Executive Incentive Scheme or equivalent corporate incentive scheme, incentive pay-outs are calculated based on the same metrics; and
  - For all employees that participate in the UK DC scheme, Company contributions of 15% of salary have been used.
5. For the calculation of the total pay and benefits for employees, employees on international assignment into and out of the UK have been included; however, assignment benefits, such as housing support, education support, home leave allowances or relocation costs, have not been included as these are not consistent with the benefits included in the CEO single figure calculation.
6. For hourly paid employees who are not full time, total pay and benefits have been pro-rated based on full-time employee hours.
7. For employees who have joined part way through the year, pro rata income has been used to provide a full year figure.

The table below includes details of the total pay and benefits, as well as the salary component of remuneration for the employees identified as being P25, P50 and P75.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£31,253	£52,235	£91,756
Total Remuneration	£46,216	£77,754	£183,179

The Company believes the median pay ratio for 2019 reflects the diversity of our business footprint and employee population across the UK. The Group's remuneration policies and practices are founded on a high degree of alignment and consistency, with total remuneration at all levels providing a competitive package that enables the attraction and retention of talent while also providing equitable differentiated remuneration based on grade, performance and experience. Further details on all-employee rewards at BAT can be found on pages 95 and 96.

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

#### 4 Executive Directors' remuneration for the upcoming year

##### Base salary for 2020

The Remuneration Committee has determined the following salaries for the Executive Directors.

Executive Directors – salaries	Base salary from 1 Apr 2020 £	Percentage change %	Base salary from 1 Apr 2019 £
Jack Bowles	1,287,000	9.5%	1,175,000
Tadeu Marroco <sup>1</sup>	772,500	3%	750,000

Notes:

1. 2019 Base salary for Tadeu Marroco reflects terms of his appointment as Finance Director effective from 5 August 2019.

##### Benefits and pension

No changes have been made to the provision of benefits or pension for 2020.

##### Short-term incentives for 2020 onwards

STI opportunity levels for Executive Directors will be in line with those set out in our Directors' Remuneration Policy. STI metrics and weightings are as follows:

2020 STI metrics & weightings		
Group share of key markets		10%
Adjusted revenue growth from the Strategic Portfolio <sup>1</sup>		30%
Adjusted profit from operations		30%
Deleveraging excluding foreign exchange <sup>2</sup>		30%
<b>Total</b>		<b>100%</b>

Notes:

1. The Strategic Portfolio is comprised of Strategic Combustibles, Strategic Traditional Oral products and New Category products. Please refer to page 261 for further details.

2. Description of the metric can be found on page 267.

Further detail is included in the description of the STI measures for the year ended 31 December 2019 on page 99.

##### Long-term incentives for 2020 onwards

The Chief Executive and Finance Director will be granted an LTIP award equal to 500% of salary and 400% of salary, respectively.

The performance measures and weightings for the LTIP award to be granted in 2020 will remain unchanged from those for 2019 awards. The measures and targets for 2020 LTIP awards are set out below.

LTIP measures and performance ranges	% of award vesting at maximum	% of award vesting at threshold				
<b>Relative TSR</b>	20	3				
Median performance vs. FMCG peer group to upper quartile.						
The current constituents of the FMCG peer group as at the date of this report are:						
Altria Group	Colgate-Palmolive	Japan Tobacco	Mondelez International	Procter & Gamble		
Anheuser-Busch InBev	Danone	Johnson & Johnson	Nestlé	Reckitt Benckiser		
Campbell Soup	Diageo	Kellogg	PepsiCo	Unilever		
Carlsberg	Heineken	Kimberly-Clark	Pernod Ricard			
Coca-Cola	Imperial Brands	LVMH	Philip Morris International			
<b>EPS growth at current exchange rates</b>	20	3				
5%-10% compound annual growth in adjusted diluted EPS over the performance period						
<b>EPS growth at constant exchange rates</b>	20	3				
5%-10% compound annual growth in adjusted diluted EPS over the performance period						
<b>Adjusted revenue growth</b>	20	3				
3%-5% compound annual growth over the performance period						
<b>Adjusted operating cash flow conversion ratio</b>	20	3				
Ratio of 85%-95% over the performance period at current exchange rates						
<b>Total</b>	100	15				

	Strategic Report		Governance		Financial Statements		Other Information	
	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors		

## 5 Chairman and Non-Executive Directors' remuneration for the year ended 31 December 2019 – audited<sup>®</sup>

The following table shows a single figure of remuneration for the Chairman and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2019 together with comparative figures for 2018.

	Base fee <sup>5</sup> £'000		Chair/Committee membership fees <sup>5</sup> £'000		Taxable benefits <sup>1</sup> £'000		Total remuneration £'000	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Chairman</b>								
Richard Burrows	<b>695</b>	680	–	–	<b>137</b>	116	<b>832</b>	796
<b>Non-Executive Directors</b>								
Sue Farr	<b>94</b>	93	<b>26</b>	24	<b>4</b>	2	<b>124</b>	119
Dr Marion Helmes	<b>94</b>	93	<b>26</b>	24	<b>13</b>	12	<b>133</b>	129
Jerry Fowden (from 1 September 2019)	<b>32</b>	–	<b>9</b>	–	<b>5</b>	–	<b>46</b>	–
Luc Jobin <sup>2</sup>	<b>94</b>	93	<b>26</b>	24	<b>77</b>	41	<b>197</b>	158
Holly Keller Koeppel <sup>3</sup>	<b>94</b>	93	<b>51</b>	24	<b>125</b>	94	<b>270</b>	211
Savio Kwan	<b>94</b>	93	<b>26</b>	24	<b>61</b>	42	<b>181</b>	159
Dimitri Panayotopoulos	<b>94</b>	93	<b>52</b>	50	<b>24</b>	17	<b>170</b>	160
Kieran Poynter	<b>94</b>	93	<b>64</b>	86	<b>1</b>	–	<b>159</b>	179
<b>Retired Non-Executive Directors</b>								
Ann Godbehere (to 25 April 2018)	–	30	–	7	–	1	–	38
Pedro Malan (to 25 April 2018)	–	30	–	7	–	15	–	52
Lionel Nowell, III (to 12 December 2018)	–	88	–	23	–	79	–	190
<b>Total</b>	<b>1,385</b>	1,479	<b>280</b>	293	<b>447</b>	419	<b>2,112</b>	2,191

Notes:

1. **Benefits:** the Chairman's benefits in 2019 comprised: health insurance and 'walk-in' medical services £15,000 (2018: £15,000); the use of a Company driver £81,000 (2018: £81,000); home and personal security in the UK and Ireland £14,000 (2018: £4,000); hotel accommodation and related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events £4,000 (2018: £3,000); and commuting flights to London £23,000 (2018: £13,000). The benefits for the other Non-Executive Directors principally comprised travel-related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or events and 'walk-in' medical services. The figures shown are grossed-up amounts (as appropriate) as, in line with the UK market, it is the normal practice for the Company to pay the tax that may be due on any benefits.

2. **Pension:** Luc Jobin receives a pension in respect of prior service to Imasco Limited (acquired in 2000 by the Group) and Imperial Tobacco Canada Limited, a subsidiary of BAT. In 2019 this amount was CAD\$150,228.96 (£87,450.72) (2018: CAD\$150,228.96 (£86,849.10)).

3. **Deferred Compensation Plan for Directors of RAI (DCP):** as a former outside director of RAI, Holly Keller Koeppel participated in the DCP under which she elected to defer payment of a portion of her RAI retainers and meeting attendance fees to an RAI stock account. Following the acquisition of RAI by BAT, amounts deferred to a stock account (Deferred Stock Units or DSUs) mirror the performance of, and receive dividend equivalents based on, BAT American Depository Shares (ADSs). The DSUs of Holly Keller Koeppel are disclosed as a note to 'Summary of Directors' share interests' below. DSUs deferred under the DCP will be paid in accordance with the terms of the DCP section 409A of the US Internal Revenue Code of 1986, as amended, and the Director's existing deferral elections.

4. **Committee memberships:** are shown, together with changes during the year, in the reports of the respective committees in the Governance sections of the Directors' Report.

5. **Non-Executive Directors' fees structure 2019:** is set out in the table below.

	Fees from 1 May 2019 £	Fees to 30 April 2019 £
Base fee	<b>94,500</b>	92,700
Senior Independent Director – supplement	<b>37,800</b>	37,100
Audit Committee: Chairman	<b>39,950</b>	39,200
Audit Committee: Member	<b>13,750</b>	13,500
Nominations Committee: Chairman	–	–
Nominations Committee: Member	<b>12,200</b>	12,000
Remuneration Committee: Chairman	<b>39,950</b>	39,200
Remuneration Committee: Member	<b>13,750</b>	13,500

## Chairman and Non-Executive Directors' fees and remuneration for the upcoming year

As described in the Annual Report on Remuneration for the year ended 31 December 2018, the Chairman's fee was increased from £685,000 to £698,000 from 1 April 2019. In keeping with the level of pay awards granted to UK employees based on a 2.5% increase in budget, the Remuneration Committee determined the Chairman's fee will be £718,940 with effect from 1 April 2020 (+3%).

The fees for Non-Executive Directors are scheduled to be reviewed in April 2020 with any changes being effective from 1 May 2020.

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

#### 6 Directors' share interests

##### Summary of Directors' share interests – audited<sup>@</sup>

		Outstanding scheme interests 31 Dec 2019				
	Ordinary shares held at 31 Dec 2019	Unvested awards subject to performance measures and continued employment (LTIP)	Unvested awards subject to continued employment only (DSBS)	Unvested interests (Sharesave)	Total ordinary shares subject to outstanding scheme interests	Total of all interests in ordinary shares at 31 Dec 2019
<b>Executive Directors</b>						
Jack Bowles <sup>1,3</sup>	181,774	246,780	47,253	–	294,033	475,807
Tadeu Marroco <sup>2,3</sup>	39,033	85,414	28,193	761	114,368	153,401
<b>Chairman</b>						
Richard Burrows	19,000					19,000
<b>Non-Executive Directors</b>						
Sue Farr	–					–
Jerry Fowden <sup>4</sup>	2,000					2,000
Dr Marion Helmes	4,500					4,500
Luc Jobin <sup>4</sup>	45,236					45,236
Holly Keller Koeppel <sup>4,5</sup>	8,416					8,416
Savio Kwan <sup>3</sup>	7,082					7,082
Dimitri Panayotopoulos	3,300					3,300
Kieran Poynter	5,000					5,000
<b>Former Directors<sup>6</sup></b>						
Nicandro Durante (retirement date 1 April 2019)	367,094	415,213	114,175	912	530,300	897,394
Ben Stevens (retirement date 5 August 2019)	137,208	286,197	61,932	1,038	349,167	486,375

Notes:

1. **Jack Bowles:** ordinary shares held include 566 held by the trustees of the BAT Share Incentive Plan (SIP).

2. **Tadeu Marroco:** ordinary shares held include 828 held by the trustees of the SIP.

3. **Changes from 31 December 2019:** (a) Jack Bowles: acquisition of seven ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the SIP; acquisition of 1,172 ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the Vested Share Account (VSA); and acquisition of 130 ordinary shares on 13 February 2020 as a result of reinvestment of dividend income under the Deferred Shares Bonus Scheme (DSBS). (b) Tadeu Marroco: purchases of five ordinary shares on 2 January 2020, four ordinary shares on 5 February 2020 and five ordinary shares on 4 March 2020 under the SIP; acquisition of 12 ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the SIP; acquisition of 432 ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the VSA; and acquisition of 54 ordinary shares on 13 February 2020 as a result of reinvestment of dividend income under the DSBS. (c) Savio Kwan: acquisition of 103 ordinary shares on 13 February 2020 as a result of reinvestment of dividend income. There were no changes in the interests of the Chairman and the other Non-Executive Directors.

4. **American Depository Shares (ADSs):** each of the interests in ordinary shares held by Jerry Fowden, Luc Jobin and Holly Keller Koeppel consists of an equivalent number of BAT ADSs each of which represents one ordinary share in the Company.

5. **Deferred Stock Units (DSUs):** at the date of this report Holly Keller Koeppel, being a former director of RAI and a participant in the Deferred Compensation Plan for Directors of RAI (DCP), holds DSUs which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment upon ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs increases on each dividend date by reference to the value of dividends declared on the ADSs underlying the DSUs. Ms Koeppel currently holds 23,333.51 DSUs (31 December 2019: 22,996.63 DSUs).

6. **Former Directors:** Nicandro Durante and Ben Stevens retired on 1 April 2019 and 5 August 2019, respectively. Ordinary shares held and outstanding share interests, included in the table above, are as at their respective date of retirement.

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		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors

### Executive Directors' shareholding guidelines

Executive Directors are encouraged to build up a high level of personal shareholding to ensure a continuing alignment of interests with shareholders. The shareholding guidelines require Executive Directors to hold ordinary shares equal to the value of a percentage of salary as set out in the tables below.

As part of last year's Directors' Remuneration Policy review, in accordance with the UK Corporate Governance Code 2018, the Remuneration Committee introduced a new post-employment shareholding policy; Executive Directors are required to hold shares equivalent to 100% of current shareholding requirements for two full years following the date of their departure. The Directors' Remuneration Policy came into effect on 26 April 2019, following approval by shareholders at our AGM, and therefore this new requirement applies to Ben Stevens who retired after this date.

	No. of eligible ordinary shares held at 31 Dec 2019	Value of eligible ordinary shares held at 31 Dec 2019 <sup>1</sup> £m	Actual percentage (%) of base salary at 31 Dec 2019	Shareholding requirements (% of base salary 31 Dec 2019)	Compliant with shareholding requirement	
					Yes	See note 5
Jack Bowles	206,252	6.7	567.2	500%		
Tadeu Marroco	53,147	1.7	229.0	350% <sup>2</sup>		
Nicandro Durante (retirement date 1 April 2019)	No. of eligible ordinary shares held at retirement date	Value of eligible ordinary shares held at retirement date <sup>4</sup> £m	Actual percentage (%) of base salary at retirement date	Post-employment shareholding requirements (% of base salary at retirement date)	Compliant with shareholding requirement	
Nicandro Durante (retirement date 1 April 2019)	425,120	13.3	1,017.4	N/A <sup>6</sup>		N/A
Ben Stevens (retirement date 5 August 2019)	195,968	5.8	632.0	350%		Yes

Eligibility of shares: (a) unvested ordinary shares under the DSBS, which represent deferral of earned bonus, are eligible and count towards the requirement on a net-of-tax basis; (b) unvested ordinary shares under the LTIP are not eligible and do not count towards the requirement during the performance period, but the estimated notional net number of ordinary shares held during the LTIP Extended Vesting Period are eligible and will count towards the requirement; and (c) ordinary shares held in trust under the all-employee share ownership plan (SIP) are not eligible and do not count towards the shareholding requirement.

Non-Executive Directors are not subject to any formal shareholding requirements although they are encouraged to build a small interest in ordinary shares during the term of their appointment.

#### Notes:

1. Value of ordinary shares shown above: this is based on the closing mid-market share price on 31 December 2019 of 3,231.5p.
2. Meeting the guidelines: if an Executive Director does not, at any time, meet the requirements of the shareholding guidelines, the individual may, generally, only sell a maximum of up to 50% of any ordinary shares vesting (after tax) under the Company share plans until the threshold required under the shareholding guidelines has been met.
3. Waiver of compliance with guidelines: this is permitted with the approval of the Remuneration Committee in circumstances where a restriction on a requested share sale could cause undue hardship. No such applications were received from the Executive Directors during 2019.
4. Value of ordinary shares shown above: this is based on the closing mid-market share price on 1 April 2019 of 3,135p for Nicandro Durante and the closing mid-market share price on 5 August 2019 of 2,980p for Ben Stevens.
5. Tadeu Marroco was appointed as an Executive Director on 5 August 2019, prior to which the shareholding requirement for Mr Marroco was set at a lower percentage of salary with Mr Marroco being compliant with required percentage. Under the Directors' Remuneration Policy, Executive Directors may generally sell a maximum of up to 50% of any shares vesting (after tax) under the Company's share plans until the threshold for shareholding requirements has been met and Mr Marroco is compliant with this policy requirement. In line with the Directors' Remuneration Policy, the shareholding requirement is equal to the value of the same multiple of salary at which LTIP awards are made to that Director, as such the shareholding requirement for Mr Marroco will increase to 400% in 2020.
6. Nicandro Durante is not subject to post-employment shareholding requirements due to his retirement and subsequent departure from the Company taking place prior to the approval of the Directors' Remuneration Policy, effective 26 April 2019, which introduced the post-employment shareholding requirement.

<sup>2</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# ANNUAL REPORT ON REMUNERATION

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### Executive Directors' outstanding scheme interests – audited<sup>®</sup>

	Plan	At 1 Jan 2019	Awarded in 2019	Lapsed in 2019	Exercised/released in 2019	At 31 Dec 2019	Exercise price (p)	End of performance period	Date from which exercisable or shares released
<b>Nicandro Durante</b>	LTIP <sup>1</sup>	140,529	–	41,457	–	99,072	–	31 Dec 18	12 May 21
	LTIP <sup>2</sup>	114,181	–	–	–	114,181	–	31 Dec 19	27 Mar 22
	LTIP <sup>3</sup>	160,503	–	–	–	160,503	–	31 Dec 20	26 Mar 23
	DSBS	29,690	–	–	29,690	–	–	31 Dec 18	29 Mar 19
	DSBS	28,545	–	–	28,545	–	–	31 Dec 19	2 Apr 19
	DSBS	32,517	–	–	32,517	–	–	31 Dec 20	2 Apr 19
	DSBS	–	53,113	–	53,113	–	–	31 Dec 21	2 Apr 19
	Sharesave	543	–	50	493	–	3,091.50	–	2 Apr 19
	Sharesave	369	–	369	–	–	–	–	–
<b>Jack Bowles</b>	LTIP <sup>1</sup>	31,943	–	9,232	22,711	–	2,947.00	31 Dec 18	12 May 19
	LTIP <sup>2</sup>	26,463	–	–	–	26,463	–	31 Dec 19	27 Mar 20
	LTIP <sup>3</sup>	43,785	–	–	–	43,785	–	31 Dec 20	26 Mar 21
	LTIP <sup>3</sup>	–	176,532	–	–	176,532	–	31 Dec 21	28 Mar 24
	DSBS	11,473	–	–	11,473	–	–	31 Dec 18	29 Mar 19
	DSBS	8,997	–	–	–	8,997	–	31 Dec 19	27 Mar 20
	DSBS	12,064	–	–	–	12,064	–	31 Dec 20	26 Mar 21
	DSBS	–	26,192	–	–	26,192	–	31 Dec 21	28 Mar 22
	Sharesave	–	–	–	–	–	–	–	–
	Sharesave	–	–	–	–	–	–	–	–
<b>Ben Stevens</b>	LTIP <sup>1</sup>	71,669	–	21,143	–	50,526	–	31 Dec 18	12 May 21
	LTIP <sup>2</sup>	58,232	–	–	–	58,232	–	31 Dec 19	27 Mar 22
	LTIP <sup>3</sup>	80,264	–	–	–	80,264	–	31 Dec 20	26 Mar 23
	LTIP <sup>3</sup>	–	97,175	–	–	97,175	–	31 Dec 21	28 Mar 24
	DSBS	19,468	–	–	19,468	–	–	31 Dec 18	29 Mar 19
	DSBS	15,805	–	–	15,805	–	–	31 Dec 19	1 Oct 19
	DSBS	17,655	–	–	17,655	–	–	31 Dec 20	1 Oct 19
	DSBS	–	28,472	–	28,472	–	–	31 Dec 21	1 Oct 19
	Sharesave	543	–	–	543	–	–	–	1 Oct 19
	Sharesave	495	–	495	–	–	–	–	–
<b>Tadeu Marroco</b>	LTIP <sup>1</sup>	21,315	–	6,161	15,154	–	2,753.75	31 Dec 18	12 May 19
	LTIP <sup>2</sup>	21,109	–	–	–	21,109	–	31 Dec 19	27 Mar 20
	LTIP <sup>3</sup>	28,248	–	–	–	28,248	–	31 Dec 20	26 Mar 21
	LTIP <sup>3</sup>	–	36,057	–	–	36,057	–	31 Dec 21	28 Mar 22
	DSBS	7,655	–	–	7,655	–	–	31 Dec 18	29 Mar 19
	DSBS	7,177	–	–	–	7,177	–	31 Dec 19	27 Mar 20
	DSBS	7,783	–	–	–	7,783	–	31 Dec 20	26 Mar 21
	DSBS	–	13,233	–	–	13,233	–	31 Dec 21	28 Mar 22
	Sharesave	495	–	–	–	495	–	1 May 20	1 May 20
	Sharesave	266	–	–	–	266	–	1 May 21	1 May 21

#### Notes:

1. Details of the performance condition for the LTIP awards granted in 2016 (which vested during 2019), and of achievement against that condition in the period to 31 December 2018, were set out in the Annual Report on Remuneration for the year ended 31 December 2018.
2. Details of the performance condition attached to 2017 LTIP awards, and of achievement against that condition in the period to 31 December 2019, are set out on page 100.
3. Details of the performance condition attached to 2018 and 2019 LTIP awards are set out on page 109.

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

	Strategic Report	Governance	Financial Statements	Other Information
	Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control
	Remuneration	Responsibility of Directors		

### Further details in relation to scheme interests granted during the year ended 31 December 2019

	Plan	Ordinary shares awarded	Price per ordinary share at award <sup>1</sup>	Face value of award £'000	Exercise price	Proportion of award vesting for threshold performance (%)	Performance period	Date from which exercisable or shares released
Nicandro Durante	DSBS	53,113			n/a	n/a	n/a	2 April 2019
Jack Bowles	LTIP <sup>2</sup>	176,532	3,328p	5,875	n/a	15	2019–2021	28 Mar 24
	DSBS	26,192			n/a	n/a	n/a	28 Mar 22
Ben Stevens <sup>3</sup>	LTIP <sup>2</sup>	97,175	3,328p	3,234	n/a	15	2019–2021	28 Mar 24
	DSBS	28,472			n/a	n/a	n/a	1 Oct 19
Tadeu Marroco	LTIP <sup>2</sup>	36,057	3,328p	1,200	n/a	20	2019–2021	28 Mar 22
	DSBS	13,233			n/a	n/a	n/a	28 Mar 22

Notes:

1. The 2019 LTIP award was made on the basis of the Group's closing share price on 25 February 2019, increased by 15%, with a resulting share price of £33.28.

2. Details of the performance condition attached to these LTIP awards are set out below.

3. Any LTIP award vesting for Ben Stevens will be pro rata based on the period he was employed during the three-year performance period.

### Further details in relation to performance conditions attaching to outstanding scheme interests

	LTIP awards granted in 2018			LTIP awards granted in 2019		
	1 January 2018–31 December 2020			1 January 2019–31 December 2021		
	Weighting	Threshold	Maximum	Weighting	Threshold	Maximum
<b>Relative TSR</b> Ranking against a peer group of international FMCG companies	20%	At median, 3% of award vests	At upper quartile, 20% of award vests	20%	At median, 3% of award vests	At upper quartile, 20% of award vests
<b>EPS growth at current exchange rates</b> Compound annual growth in adjusted diluted EPS measured at current rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
<b>EPS growth at constant exchange rates</b> Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
<b>Adjusted revenue growth</b> Compound annual growth measured at constant rates of exchange	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests
<b>Adjusted operating cash flow conversion ratio</b> Measured at current rates of exchange, as a percentage of APFO	20%	At 85%, 3% of award vests	At 95%, 20% of award vests	20%	At 85%, 3% of award vests	At 95%, 20% of award vests

For LTIP awards granted to Executive Directors from 2016 onwards, an additional vesting period of two years applies from the third anniversary of the date of grant.

## ANNUAL REPORT ON REMUNERATION

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#### 7 Other disclosures

##### Retirement of Nicandro Durante and Ben Stevens – audited<sup>®</sup>

Both Nicandro Durante and Ben Stevens retired as Executive Directors during 2019. The terms and conditions of their retirement were determined by the Remuneration Committee in accordance with the Company's shareholder-approved Directors' Remuneration Policy in place at the time of their respective retirements. They did not receive any additional payments during their time as Executive Directors outside of the normal approach to executives who are departing by reason of retirement.

Details of remuneration paid to Nicandro Durante and Ben Stevens in respect of their services as Executive Directors in 2019 are set out in the single figure table on page 97 and accompanying notes. Further details on their remuneration arrangements on retirement are provided below.

	Nicandro Durante	Ben Stevens
Date of retirement	Retired as Chief Executive and from the Board of the Company with effect from 1 April 2019.	Stepped down as Finance Director and from the Board of the Company with effect from 5 August 2019. He remained an employee of the Company until his retirement on 30 September 2019. Accordingly, Ben Stevens' entitlement to salary and all other contractual benefits associated with his employment continued until 30 September 2019.
STI for 2019	Both Nicandro Durante and Ben Stevens were eligible to participate in the STI for 2019 pro-rated for the period they were employed during the year. STI outcomes are set out on page 99 relating to the periods as Executive Directors in 2019. The STI outcome for the period during which Mr Stevens remained an employee but was no longer an Executive Director is £263,500 and will be paid fully in cash in March 2020.	
LTI for 2019	Not eligible to receive an LTIP grant in 2019.	Granted an LTIP award with a face value equal to 350% of salary.
Treatment of outstanding DSBS and LTIP awards	For the purposes of outstanding DSBS and LTIP awards, the Remuneration Committee determined that both Nicandro Durante and Ben Stevens would be classified 'good leavers'. They therefore received full and immediate vesting of all outstanding DSBS awards in line with the Directors' Remuneration Policy and rules of the DSBS. – For Nicandro Durante this amounted to 114,175 ordinary shares. – For Ben Stevens this amounted to 61,932 ordinary shares.  Outstanding LTIP awards will only vest following completion of the three-year performance period and the additional two-year extended vesting period, and will remain subject to the achievement of the relevant performance conditions and any shares vesting will be time pro-rated based on the number of months worked in each performance period. In Ben Stevens' Single Figure information on page 97 the shares vesting from the 2017 LTIP award relate to his period as an Executive Director in the performance period. The number of shares vesting from the 2017 LTIP award that relate to the period from 5 August 2019 to 30 September 2019, the period during which Mr Stevens remained an employee but was no longer an Executive Director, within the performance period is 2,242.	
Dividend equivalent payments	Both Nicandro Durante and Ben Stevens remain eligible to receive dividend equivalent payments in respect of any shares vesting from LTIP awards.  For Nicandro Durante these payments will be made in cash. For the DSBS awards vesting in 2019, this amounted to a cash sum of £25,330.	For Ben Stevens these payments will be made in cash for awards granted prior to 2019 and in shares for awards granted in 2019. For the DSBS awards vesting in 2019, this amounted to a cash sum of £9,340 and 132 shares.
Pension arrangements	Following his retirement, Nicandro Durante received a pension in accordance with the provisions of the UK UURBS, which generates an initial annual pension (before any commutation) of approximately £181,693. This will increase in future years in line with the provisions of the UK UURBS.  As set out on page 101, Nicandro Durante will also continue to receive his pension payment from Fundação Albino Souza Cruz (FASC) S.A., a Brazilian registered wholly-owned subsidiary.	Following his retirement, Ben Stevens received a pension in accordance with the provisions of the BATUKPF and UK UURBS arrangements. The indicative total pension entitlement as at the 30 September 2019 is £467,745 per annum.
Other emoluments	Eligible to be reimbursed for: – Reasonable relocation and shipment costs (up to £200,000) to assist with his move back to Brazil following his retirement; and  – Any tax advice (up to £30,000) received in relation to his retirement.  These costs amounted to a total of £96,000, including where relevant any tax payable on such reimbursement.	Eligible to be reimbursed for: – Any tax advice (up to £30,000) received in relation to his retirement.  There were no actual costs incurred for tax advice.
All-employee share schemes	Share interests held under the Company's all-employee share plans were treated in accordance with the terms of the plans and the applicable HMRC requirements.  As at 1 April 2019, Nicandro Durante was eligible to receive all 2,486 shares he held in the SIP and had six months within which to exercise a maximum of 625 options held under the Sharesave Scheme.	As at 30 September 2019, Ben Stevens was eligible to receive all 842 shares he held in the SIP and had six months within which to exercise a maximum of 1,030 options held under the Sharesave Scheme.

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

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	Remuneration	Responsibility of Directors		

**Payments to former Directors and payments for loss of office:** All payments made to Nicandro Durante and Ben Stevens were in accordance with the Directors' Remuneration Policy and have been reported in the appropriate section of this report.

### Relative importance of spend on pay

To illustrate the relative importance of the remuneration of the Directors in the context of the Group's finances overall, the Remuneration Committee makes the following disclosure:

Item	2019 £m	2018 £m	% change
Remuneration of Group employees <sup>1</sup>	3,221	3,005	7.2
Remuneration of Executive Directors	13	14	-5.5
Remuneration of Chairman and Non-Executive Directors	2	2	-3.7
Total dividends <sup>2</sup>	4,598	4,347	5.8

#### Notes:

1. Total remuneration of Group employees: this represents the total employee benefit costs for the Group, set out on page 140 within note 3(a) in the Notes on the Accounts.
2. Total dividends: this represents the total dividends paid in 2019. The figure for 2018 has been restated from that reported in the 2018 Directors' Remuneration Report so that it reflects dividends paid in the year rather than dividends declared in the year as was reported in the 2018 Directors' Remuneration Report. For further details please refer to page 47.

### Shareholder dilution – options and awards outstanding

Satisfaction of Company share plan awards in accordance with the Investment Association's Principles of Remuneration	New ordinary shares issued by the Company during the year ended 31 December 2019
<ul style="list-style-type: none"> <li>– by the issue of new ordinary shares;</li> <li>– ordinary shares issued from treasury only up to a maximum of 10% of the Company's issued share capital in a rolling 10-year period;</li> <li>– within this 10% limit, the Company can only issue (as newly issued ordinary shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans; and</li> <li>– the rules of the Company's Deferred Share Bonus Scheme do not allow for the satisfaction of awards by the issue of new ordinary shares.</li> </ul>	<ul style="list-style-type: none"> <li>– 104,854 ordinary shares issued by the Company in relation to the Sharesave Scheme;</li> <li>– a total of 1,035,438 Sharesave Scheme options over ordinary shares in the Company were outstanding at 31 December 2019, representing 0.05% of the Company's issued share capital (excluding shares held in treasury); and</li> <li>– options outstanding under the Sharesave Scheme are exercisable until the end of October 2023 at option prices ranging from 2,600p to 4,056p.</li> </ul>

## 8 The Remuneration Committee and shareholder engagement

### Remuneration Committee current members

Dimitri Panayopoulos (Chairman)

Sue Farr

Dr Marion Helmes (from 14 January 2019)

Savio Kwan

### Role

As set out in the Terms of Reference, the Remuneration Committee is responsible for:

- determining and proposing the Directors' Remuneration Policy (covering salary, benefits, performance-based variable rewards and retirement benefits) for shareholder approval;
- determining, within the terms of the approved Directors' Remuneration Policy, the specific remuneration packages for the Chairman and the Executive Directors, on appointment, on review and, if appropriate, any compensation payment due on termination of appointment;
- the setting of targets applicable for the Company's performance-based variable reward scheme and determining achievement against those targets, exercising discretion where appropriate and as provided by the applicable scheme rules and the Directors' Remuneration Policy;
- reviewing Group workforce remuneration and related policies, and the alignment of incentives and rewards with Group culture, taking these into account when setting the policy for Executive Director remuneration. Providing feedback to the Board on workforce reward, incentives and conditions applicable across the Group and supporting the Board's monitoring of the Group's culture and its alignment with the Group's purpose, values and strategy;
- setting remuneration for members of the Management Board and the Company Secretary; and
- monitoring and advising the Board on any major changes to the policy on employee benefit structures for the Group.

### Remuneration Committee terms of reference

Revised Remuneration Committee terms of reference have been adopted by the Board to reflect revisions to internal governance processes to align with the requirements of the UK Corporate Governance Code 2018. Further detail on the revisions can be found in the Annual Report on Remuneration for the year ended 31 December 2018.



For the Remuneration Committee's terms of reference see:  
[www.bat.com/governance](http://www.bat.com/governance)

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#### Attendance at meetings in 2019<sup>1</sup>

Name	Member since	Attendance/ Eligible to attend Scheduled	Attendance/ Eligible to attend Ad Hoc
Dimitri Panayotopoulos	2015	4/4	2/2
Sue Farr	2016	4/4	2/2
Marion Helmes <sup>2(b)</sup>	2019	4/4	2/2
Luc Jobin <sup>2(c)</sup>	2017–2019	0/0	0/0
Savio Kwan	2016	4/4	2/2

Notes:

1. Number of meetings in 2019: the Committee held six meetings in 2019, two of which were ad hoc.

2. Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2018 Provisions 10 and 32 and applicable NYSE listing standards; (b) Marion Helmes was appointed as a member of the Committee with effect from 14 January 2019; and (c) Luc Jobin ceased to be a member of the Committee with effect from 14 January 2019.

3. Other attendees: the Chairman, the Chief Executive, the Director, Talent and Culture, the Group Head of Reward and other senior management, including the Company Secretary, may be consulted and provide advice, guidance and assistance to the Remuneration Committee. They may also attend Committee meetings (or parts thereof) by invitation. Neither the Chairman, any Executive Director nor member of senior management plays any part in determining their own respective remuneration.

4. Deloitte LLP: as the Remuneration Committee's remuneration consultants during 2019, they attended meetings of the Remuneration Committee in 2019. As a member of the Remuneration Consultants Group (RCG), Deloitte agrees to the RCG Code of Conduct which seeks to clarify the scope and conduct of the role of executive remuneration consultants when advising UK-listed companies.

#### Remuneration Committee advisers during 2019

Independent external advisers	Services provided to the Remuneration Committee	Fees	Other services provided to the Company
<b>Deloitte LLP</b>	General advice on remuneration matters including: market trends and comparator group analysis; policy review and shareholder engagement perspectives; and independent measurement of the relative TSR performance conditions.	2019: £76,000 2018: £136,700	Tax, corporate finance and consulting services to Group companies worldwide.
<b>Herbert Smith Freehills LLP</b>	Advice in respect of share plan regulations is provided to the Company and is available to the Remuneration Committee.	Fees relate to advice given to the Company.	General corporate legal and tax advice principally in the UK.
<b>Ernst &amp; Young LLP</b>	Provision of employment tax advice regarding Executive Directors' international pension planning.	Fees relate to advice given to the Company.	Tax, corporate finance and consulting services to Group companies worldwide.
<b>KPMG LLP</b>	Specified procedures to assist in the assessment of the calculations of the STI bonus outcomes and future targets.	2019: £28,000 2018: £18,000	Audit and tax services and other non-audit services.

#### Regular work programme 2019

The Remuneration Committee:

- reviewed the Chairman's fee from 1 April 2019 with specific reference to the level of salary increases granted to UK employees;
- reviewed salaries for members of the Management Board and the Company Secretary from 1 April 2019, taking into account market positioning and the level of salary increases granted to UK employees;
- assessed the achievement against the targets for the 2018 STI award and set the STI targets for 2019;
- assessed the achievement against the performance conditions for the vesting of the LTIP 2016 award, determined the contingent level of LTIP awards for March 2019 and reviewed the associated performance conditions;
- assessed the achievement against the targets for the 2018 Share Reward Scheme and set the targets for the 2019 award;
- monitored the continued application of the Company's shareholding guidelines for the Executive Directors and members of the Management Board;
- reviewed the Annual Statement and the Annual Report on Remuneration for the year ended 31 December 2018 prior to its approval by the Board and subsequent proposal to shareholders at the Company's AGM on 25 April 2019;
- analysed the 2019 AGM voting results relating to remuneration resolutions and reviewed market trends in the context of that annual general meeting season;
- reviewed updates on achievement against the performance measures for the six months ended 30 June 2019 for the STI 2019 and outstanding LTIP awards; and
- reviewed the Remuneration Committee's effectiveness following the externally-facilitated evaluation process, discussed further on page 78.

#### Directors' Remuneration Policy

Prior to the Company's AGM on 25 April 2019, the Remuneration Committee concluded its review of the Directors' Remuneration Policy, taking into account shareholder feedback and the requirements of the UK Corporate Governance Code 2018, and determined the new Directors' Remuneration Policy proposed for shareholder approval at the 2019 AGM.

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## Other matters 2019

The Remuneration Committee:

- approved the remuneration package in respect of the appointment of Tadeu Marroco as the Finance Director from 5 August 2019 and increase in LTIP award level applicable to awards from 1 January 2020. The Remuneration Committee Chairman has led a programme of shareholder engagement in relation to this matter;
- approved the arrangements applicable to the retirement of Nicandro Durante as Chief Executive from 1 April 2019 and the arrangements applicable to the retirement of Ben Stevens as Finance Director from 5 August 2019;
- conducted a detailed review of the Group's legacy defined pension arrangements in the UK. Consultation with impacted employees is now in progress in respect of proposals to close defined benefit arrangements to future accrual during 2020;
- reviewed the Group's workforce remuneration strategy and related policies and their alignment with Executive Directors' remuneration and, more broadly, their alignment with the Group's culture. As part of this review, the Remuneration Committee endorsed changes to the Group's remuneration strategy and policies for the Group's management population to enhance alignment with Group strategy and culture, including proposals to introduce a restricted share plan;
- approved changes to the constituents for the STI volume share metrics, based on market changes and reporting capabilities;
- reviewed the UK gender pay report for 2018 for applicable UK Group companies prior to publication in March 2019;
- reviewed indicative Chief Executive pay ratio analysis prior to inclusion in the Annual Report on Remuneration for the year ended 31 December 2019; and
- conducted a competitive tender exercise to select new remuneration advisers to the Remuneration Committee, prior to the appointment of PwC LLP from 15 January 2020. In addition, Meridian Compensation Partners LLP will be appointed to provide specific advice and expertise in relation to the US market.

## Voting on the Remuneration Report at the 2019 AGM and engagement with shareholders

At the AGM on 25 April 2019, the shareholders considered and voted on the 2018 Directors' Remuneration Report as set out on the table below. The Directors' Remuneration Policy was approved by shareholders at the AGM on 25 April 2019. A summary of this Policy is on pages 93 to 94. No other resolutions in respect of Directors' remuneration or incentives were considered at the 2019 AGM. Further information regarding shareholder engagement in relation to remuneration matters is set out in the Annual Statement on Remuneration on page 90.

	Approval of Directors' Remuneration Policy <sup>1</sup> 2019	Approval of Directors' Remuneration Report <sup>2</sup> 2019
Percentage for	<b>92.63</b>	<b>87.71</b>
Votes for (including discretionary)	<b>1,641,331,721</b>	<b>1,554,311,783</b>
Percentage against	<b>7.37</b>	<b>12.29</b>
Votes against	<b>130,661,885</b>	<b>217,722,528</b>
<b>Total votes cast excluding votes withheld</b>	<b>1,771,993,606</b>	<b>1,772,034,311</b>
Votes withheld <sup>3</sup>	<b>1,820,757</b>	<b>1,780,043</b>
<b>Total votes cast including votes withheld</b>	<b>1,773,814,363</b>	<b>1,773,814,354</b>

Notes:

1. **Directors' Remuneration Policy:** was approved by shareholders at the AGM on 25 April 2019 and is set out in full in the 2018 Annual Report on Remuneration. A summary of this Policy is on pages 93 to 94 of this Remuneration Report 2019.
2. **Directors' Remuneration Report:** does not include the part of the Remuneration Report containing the Remuneration Policy (see note 1 above).
3. **Votes withheld:** these are not included in the final proxy figures as they are not recognised as a vote in law.

The Directors' Remuneration Report has been approved by the Board on 17 March 2020 and signed on its behalf by:

**Dimitri Panayotopoulos**  
Chairman, Remuneration Committee  
17 March 2020

# RESPONSIBILITY OF DIRECTORS

Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration	Responsibility of Directors
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## Statement of Directors' responsibilities in respect of the Annual Report and the financial statements<sup>@</sup>

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework. In preparing these Group financial statements, the Directors have also elected to comply with IFRS as issued by the International Accounting Standards Board (IFRS as issued by the IASB).

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 Group and the Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and 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 the Directors either intend to liquidate the Group or 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 its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the Annual Report included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' declaration in relation to relevant audit information<sup>@</sup>

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

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

## Responsibility statement of the Directors in respect of the annual financial report<sup>@</sup>

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement has been approved and is signed by order of the Board by:

### Richard Burrows

Chairman

17 March 2020

British American Tobacco p.l.c.

Registered in England and Wales No. 3407696

### Tadeu Marroco

Finance Director

<sup>@</sup> denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# INDEPENDENT AUDITOR'S REPORT

To the members of British American Tobacco p.l.c. only<sup>@</sup>

## 1 Our opinion is unmodified

We have audited the financial statements of British American Tobacco p.l.c. ("the Company") for the year ended 31 December 2019 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and parent Company Statement of Changes in Equity, the Group and parent Company Balance Sheets, the Group Cash Flow Statements and the related notes, including accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Additional opinion in relation to IFRSs as issued by the IASB

As explained in the note to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the EU, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

### 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the Directors on 23 March 2015. The period of total uninterrupted engagement is for the 5 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

## 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2018), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion. We do not provide a separate opinion on these matters.

### Contingent liabilities arising from litigation in Canada

Refer to page 84 (Audit Committee report), page 135 (accounting policy) and pages 201 to 203 and 210 (financial disclosures). Risk vs 2018: ▲

#### The risk:

Dispute outcome: The Group is subject to a large number of claims including class actions, which could have a significant impact on the results if potential exposures were to materialise. For our 2019 audit we believe the most significant risk relates to ongoing litigation in Canada. Imperial Tobacco Canada Limited ("Imperial") has received an unfavourable judgement on the smoking and health class actions certified by the Quebec Superior Court. As a result of this judgement, Imperial Tobacco Canada Limited ("Imperial") has filed for creditor protection under the Companies' Creditors Arrangement Act (the "CCAA"). In seeking protection under the CCAA, Imperial will look to resolve not only the Quebec case but also all other tobacco litigation in Canada under an efficient and court supervised process, while continuing to trade in the normal course of business.

The amounts involved are significant, and the Group's application of accounting standards to determine the amount, if any, to be provided as a liability or disclosed as a contingent liability, is inherently subjective. Significant judgement was involved in auditing this determination, including evaluating the Group's assessment of the relevant law, historical and pending court rulings, and the Group's ability to estimate the likelihood and extent of any future economic outflow arising from the ultimate resolution of the litigation.

The effect of these matters is that, as part of our risk assessment, we determined that the potential exposure to litigation has a high degree of judgement, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

<sup>@</sup> denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## INDEPENDENT AUDITOR'S REPORT

### CONTINUED

#### Our procedures included:

Control design and operation: Evaluating the processes and controls within the litigation process, including controls over the interpretation of relevant law and related court rulings and estimation of the likelihood and extent of any future economic outflow arising from the ultimate resolution of the litigation, by attending regular meetings with in-house legal counsel and review of Board and sub-committee meeting minutes;

Enquiry of lawyers: Reading letters received directly from the Group's external and internal legal counsel that evaluated the current status of legal proceedings and quantified the estimate of any economic outflow arising from the ultimate resolution of the litigation. We also inquired of internal and external legal counsel to evaluate their basis for conclusion in their respective letters; and

Assess local legal precedence: Assessing relevant historical and recent judgements passed by the judicial court authorities in relation to the Canadian litigation and reading the related Canadian court rulings and challenging the Company's interpretation of the Canadian legal proceedings and the related contingent liability disclosures.

#### Our results:

From the evidence obtained, we found the Group's treatment of the contingent liabilities and related disclosures arising from litigation in Canada to be acceptable.

#### **Goodwill and trademarks with indefinite lives impairment analysis – arising from the Reynolds American Inc. acquisition in 2017.**

Refer to pages 84 to 85 (Audit Committee report), page 132 (accounting policy) and pages 152 to 155 (financial disclosures). Risk vs 2018: ◀▶

#### The risk:

Subjective assessment: As a result of the acquisition of Reynolds American Inc. ("RAI") in 2017, the Group, as at 31 December 2019 has goodwill and trademarks with indefinite lives of £33,761 million and £71,032 million, respectively (2018: goodwill of £35,117 million and trademarks with indefinite lives of £73,885 million). There is significant judgement with regard to assumptions and estimates involved in the Group's forecasting of future cash flows, which form the basis of the assessment of the recoverability of the trademarks with indefinite lives and goodwill. There is significant auditor judgement involved in: (i) evaluating the short- and medium-term budgeted net revenues forecasted by management ("Key Revenue Forecast") in the evaluation of the recoverability of trademarks with indefinite lives and goodwill allocated to the RAI cash-generating unit; and (ii) evaluating any impact of the potential menthol ban into the cash flow forecast or the discount rate for the Newport indefinite lived trademark and goodwill allocated to the RAI cash-generating unit.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use calculations of both trademarks with indefinite lives and goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 8) disclose the sensitivity of the carrying amounts of relevant trademarks with indefinite lives and goodwill estimated by the Group.

#### Our procedures included:

Control design and operation: Assessing controls over the impairment process, including controls over the Key Revenue Forecast relating to indefinite lived trademarks and the RAI cash-generating unit;

Benchmarking and assessing assumptions: Comparing RAI's Key Revenue Forecast to externally derived publicly and privately available data, including, broker and analyst reports, industry reports, media reports, macro-economic assumptions, academic and scientific studies and regulatory changes. In addition, and specifically for the Newport indefinite lived trademark, using elements of this information to critically assess the Group's assertion that the potential menthol ban does not significantly impact the cash flow forecast or the discount rate, based on the likelihood, timing, nature and extent of proposed regulatory changes in the US market;

Historical comparisons: Challenging the reasonableness of the assumptions, particularly forecast revenue, by comparing the historical projected sales, cash flows and projected brand profitability to actual results to assess the Group's ability to accurately forecast; and

Sensitivity analysis: Performing sensitivity analysis on the Key Revenue Forecast; and

Assessing transparency: Assessing whether the Group's disclosures detail the key estimates and judgements with regard to the impairment testing of trademarks with indefinite lives and the goodwill arising from the RAI acquisition.

**Our results:**

We found the conclusion that there is no impairment of trademarks with indefinite lives and goodwill arising from the RAI acquisition to be acceptable (2018: acceptable).

**Recoverability of parent Company's investment in subsidiaries.**

Refer to page 249 (accounting policy) and pages 250 (financial disclosures). Risk vs 2018:

**Low risk, high value:** The carrying amount of the Parent Company's investments in subsidiaries is £27,908 million (2018: £27,901 million) which represents 80% (2018: 77%) of the Company's total assets. Their recoverability is not a high risk of significant misstatement or subject to significant judgement.

However, due to the materiality of investments in subsidiaries in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

**Our procedures included:**

**Tests of detail:** Comparing the carrying amount of a sample of the highest value investments, representing 100% (2018: 100%) of the total investment balance with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

**Our results:**

We found the conclusion that there is no impairment of the investment in subsidiaries to be acceptable (2018: acceptable).

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the Group financial statements as a whole was set at £420 million (2018: £420 million), determined with reference to a benchmark of Group profit before taxation. This represents 4.8% (2018: 4.8%) of the Group's reported profit before taxation. Materiality for the Parent Company financial statements as a whole was set at £50 million (2018: £50 million) by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to Company net assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £20 million (2018: £20 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

We evaluate misstatements not only by reference to the above quantitative thresholds but also in combination with the nature of the misstatement. This is in order to arrive at an evaluation of whether the item could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements, as that is the definition of materiality. Accordingly, a misstatement larger than these amounts could be immaterial, and with respect to the matter referred to in note 18 we found the directors' judgement that it was immaterial to be an acceptable judgement.

**Scope of our audit**

The Group operates three shared service centres (2018: three) in Romania, Malaysia and Costa Rica, the outputs of which are included in the financial information of the reporting components they service and therefore they are not separate reporting components. Each of the service centres is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centres.

We performed full scope audits for Group reporting purposes of 23 components (2018: 23 components). Audits of these components were performed using materiality levels assigned by the group audit team, which were lower than the materiality level for the Group as a whole, ranging from £35 million to £235 million (2018: £35 million to £220 million), and determined by reference to the size and risk profile of the components.

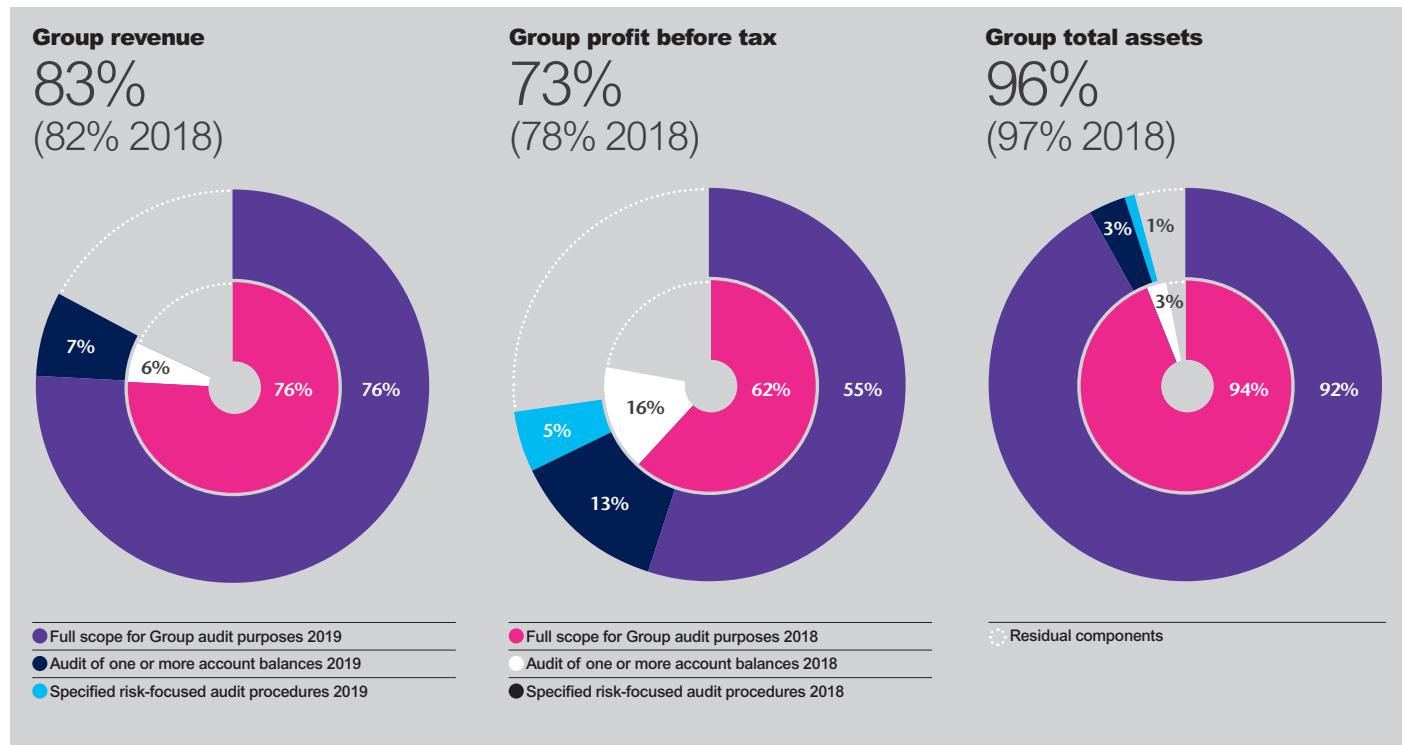
Audits of one or more account balances were performed in respect of a further 12 components (2018: 14), using a materiality ranging from £35 million to £70 million (2018: £1 to £50 million) assigned by the Group audit team. Specified audit procedures have been performed at 3 components (2018: 2) using a materiality ranging from £35 million to £50 million. These 15 components for which we performed work other than full scope audits for group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. This is consistent with the approach that was adopted in 2018.

The work on 33 of the 38 components (2018: 32 of the 39 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

## INDEPENDENT AUDITOR'S REPORT

### CONTINUED

The percentages of the Group's revenue, the total profits and losses that make up the Group's revenue, Group's profit before taxation and the Group's total assets represented by the components within the scope of our work and procedures performed at corporate level are as follows:



The remaining 17% (2018: 18%) of total group revenue, 27% (2018: 22%) of group profit before tax and 4% (2018: 3%) of total group assets is represented by 300 (2018: 347) reporting components, none of which individually represented more than 5% (2018: 2%) of any of total group revenue, group profit before tax or total group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors, and the auditors of the shared service centres, as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team visited two (2018: two) component locations in Canada and the United States (2018: Canada and the United States) for the purpose of performing detailed file reviews. In addition, the Group team visited the shared service centres in Costa Rica, Malaysia and Romania (2018: Costa Rica, Malaysia and Romania) as well as visiting a further two (2018: three) component locations in Brazil and Mexico (2018: Bangladesh, South Africa and Italy) for business understanding and risk assessment purposes. In addition, the Group audit team held audit risk planning and strategy conferences in the United Kingdom and Malaysia which component auditors attended. Further to these visits and conferences, the Group team also held telephone and/or online meetings as part of the audit planning phase to explain our audit instructions and discuss the component auditors' plans as well as performing detailed remote file reviews upon completion of the component auditors' engagements. The findings reported to the Group audit team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

## 4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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 their 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and 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 Group's and Company's available financial resources over this period were:

- The enactment of regulation that significantly impairs the Group's ability to communicate, differentiate, market or launch its products;
- Product liability, regulatory or other significant cases may be lost or compromised resulting in a material loss or other consequence.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and COVID-19 and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 51 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## 5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

### **Strategic report and Directors' report**

Based solely on our work on the other information:

- 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.

### **Directors' remuneration report**

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

## INDEPENDENT AUDITOR'S REPORT

### CONTINUED

#### **Disclosures of emerging and principal risks and longer-term viability**

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 58 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Group Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Principal Group Risks. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 anything to report on these statements is not a guarantee as to the Group's and the Parent Company's longer-term viability.

#### **Corporate governance disclosures**

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

#### **6 We have nothing to report on the other 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

## 7 Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 114, the directors are responsible for: the preparation of the financial statements including 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 Group and Parent 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 Group or the Parent 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 other irregularities (see below), 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, other irregularities 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).

#### Irregularities – ability to detect

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 and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to component audit teams of relevant laws and regulations identified at group level.

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

Firstly, the Group 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.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: impact of laws and regulations related to anti-bribery and corruption (reflecting the legislative environment of operating with a diverse geographic footprint) and tobacco control and product liability (reflecting the nature of the operating businesses). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statements items. Further details in respect of tobacco control and product liability is set out in the key audit matter disclosures in section 2 of this report.

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. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

## 8 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 and terms of our engagement by the Company. 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 further matters we are required to state to them in accordance with terms agreed with the Company, 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.

### Mark Baillache (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
17 March 2020

# **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of British American Tobacco p.l.c.>>

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# GROUP INCOME STATEMENT

	Notes	For the years ended 31 December		
		2019 £m	2018 £m	2017 £m
<b>Revenue<sup>1</sup></b>	2	<b>25,877</b>	24,492	19,564
Raw materials and consumables used		(4,599)	(4,664)	(4,520)
Changes in inventories of finished goods and work in progress	3(h)	162	114	(513)
Employee benefit costs	3(a),(e)	(3,221)	(3,005)	(2,679)
Depreciation, amortisation and impairment costs	3(b),(e),(f),(h)	(1,512)	(1,038)	(902)
Other operating income	3(e),(i)	163	85	144
Loss on reclassification from amortised cost to fair value		(3)	(3)	–
Other operating expenses	3(c),(d),(e),(g),(h)	(7,851)	(6,668)	(4,682)
Profit from operations	2	<b>9,016</b>	9,313	6,412
Net finance costs	4	(1,602)	(1,381)	(1,094)
Share of post-tax results of associates and joint ventures	2,5	<b>498</b>	419	24,209
<b>Profit before taxation</b>		<b>7,912</b>	8,351	29,527
Taxation on ordinary activities	6	(2,063)	(2,141)	8,129
<b>Profit for the year</b>		<b>5,849</b>	6,210	37,656
<hr/>				
Attributable to:				
Owners of the parent		<b>5,704</b>	6,032	37,485
Non-controlling interests		<b>145</b>	178	171
		<b>5,849</b>	6,210	37,656
<b>Earnings per share</b>				
Basic	7	<b>249.7p</b>	264.0p	1,833.9p
Diluted	7	<b>249.0p</b>	263.2p	1,827.6p

1. Revenue is net of duty, excise and other taxes of £39,826 million, £38,553 million and £37,780 million for the years ended 31 December 2019, 2018 and 2017, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

# GROUP STATEMENT OF COMPREHENSIVE INCOME

		For the years ended 31 December		
	Notes	2019 £m	2018 £m	2017 £m
<b>Profit for the year</b>		<b>5,849</b>	6,210	37,656
<b>Other comprehensive income/(expense)</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>		<b>(3,216)</b>	3,099	(3,809)
Differences on exchange		(2,967)	3,868	(3,084)
Cash flow hedges				
– net fair value losses		(246)	(58)	(264)
– reclassified and reported in profit for the year		53	17	109
– reclassified and reported in total assets		–	–	(16)
Investments held at fair value				
– net fair value losses		–	–	(27)
Net investment hedges				
– net fair value gains/(losses)		21	(472)	425
– differences on exchange on borrowings		(18)	(236)	(68)
Associates – share of OCI, net of tax	5	(115)	(38)	(918)
Tax on items that may be reclassified	6(f)	56	18	34
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>(507)</b>	115	681
Retirement benefit schemes				
– net actuarial (losses)/gains	11	(582)	138	833
– surplus recognition	11	(7)	4	(6)
Associates – share of OCI, net of tax	5	7	6	25
Tax on items that will not be reclassified	6(f)	75	(33)	(171)
Total other comprehensive (expense)/income for the year, net of tax		<b>(3,723)</b>	3,214	(3,128)
<b>Total comprehensive income for the year, net of tax</b>		<b>2,126</b>	9,424	34,528
<hr/>				
Attributable to:				
Owners of the parent		2,000	9,239	34,361
Non-controlling interests		126	185	167
		<b>2,126</b>	9,424	34,528

The accompanying notes are an integral part of these consolidated financial statements.

# GROUP STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to owners of the parent						Total equity £m
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
<b>Balance at 1 January 2019</b>	614	26,606	(333)	38,557	65,444	244	65,688	
Total comprehensive (expense)/income for the year comprising:	–	–	(3,190)	5,190	2,000	126	2,126	
Profit for the year	–	–	–	5,704	5,704	145	5,849	
Other comprehensive expense for the year	–	–	(3,190)	(514)	(3,704)	(19)	(3,723)	
<b>Other changes in equity</b>								
Cash flow hedges reclassified and reported in total assets	–	–	(32)	–	(32)	–	(32)	
Employee share options	– value of employee services	24	–	–	115	115	–	115
– proceeds from shares issued	–	–	3	–	–	3	–	3
Dividends and other appropriations	– ordinary shares	18(c)	–	–	(3,476)	(3,476)	–	(3,476)
– to non-controlling interests	–	–	–	–	–	–	(148)	(148)
Purchase of own shares	– held in employee share ownership trusts	–	–	–	(117)	(117)	–	(117)
Other movements non-controlling interests	23	–	–	–	–	–	36	36
Other movements	–	–	–	(35)	(35)	–	–	(35)
<b>Balance at 31 December 2019</b>	614	26,609	(3,555)	40,234	63,902	258	64,160	

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	Attributable to owners of the parent						Total equity £m
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
<b>Balance at 31 December 2017</b>	614	26,602	(3,392)	36,935	60,759	222	60,981	
Accounting policy change (IFRS 9) (note 30)	–	–	(9)	(29)	(38)	–	(38)	
<b>Revised balance at 1 January 2018</b>	614	26,602	(3,401)	36,906	60,721	222	60,943	
Total comprehensive income for the year comprising:	–	–	3,090	6,149	9,239	185	9,424	
Profit for the year	–	–	–	6,032	6,032	178	6,210	
Other comprehensive income for the year	–	–	3,090	117	3,207	7	3,214	
<b>Other changes in equity</b>								
Cash flow hedges reclassified and reported in total assets	–	–	(22)	–	(22)	–	(22)	
Employee share options	– value of employee services	24	–	–	121	121	–	121
– proceeds from shares issued	–	–	4	–	–	4	–	4
Dividends and other appropriations	– ordinary shares	18(c)	–	–	(4,463)	(4,463)	–	(4,463)
– to non-controlling interests	–	–	–	–	–	–	(163)	(163)
Purchase of own shares	– held in employee share ownership trusts	–	–	–	(139)	(139)	–	(139)
Non-controlling interests – acquisitions	23	–	–	–	(11)	(11)	–	(11)
Other movements	–	–	–	(6)	(6)	–	–	(6)
<b>Balance at 31 December 2018</b>	614	26,606	(333)	38,557	65,444	244	65,688	

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	Attributable to owners of the parent						Total equity £m
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
<b>Balance at 1 January 2017</b>		507	3,931	413	3,331	8,182	224	8,406
Total comprehensive (expense)/income for the year comprising:		–	–	(3,805)	38,166	34,361	167	34,528
Profit for the year		–	–	–	37,485	37,485	171	37,656
Other comprehensive (expense)/income for the year		–	–	(3,805)	681	(3,124)	(4)	(3,128)
<b>Other changes in equity</b>								
Employee share options								
– value of employee services	24	–	–	–	105	105	–	105
– proceeds from shares issued		–	5	–	–	5	–	5
Dividends and other appropriations								
– ordinary shares	18(c)	–	–	–	(4,465)	(4,465)	–	(4,465)
– to non-controlling interests		–	–	–	–	–	(169)	(169)
Purchase of own shares								
– held in employee share ownership trusts		–	–	–	(205)	(205)	–	(205)
Shares issued – RAI acquisition	23	107	22,666	–	–	22,773	–	22,773
Other movements		–	–	–	3	3	–	3
<b>Balance at 31 December 2017</b>		<b>614</b>	<b>26,602</b>	<b>(3,392)</b>	<b>36,935</b>	<b>60,759</b>	<b>222</b>	<b>60,981</b>

The accompanying notes are an integral part of these consolidated financial statements.

# GROUP BALANCE SHEET

		31 December	
	Notes	2019 £m	2018 £m
<b>Assets</b>			
Intangible assets	8	118,787	124,013
Property, plant and equipment	9	5,518	5,166
Investments in associates and joint ventures	10	1,860	1,737
Retirement benefit assets	11	430	1,147
Deferred tax assets	12	424	344
Trade and other receivables	13	248	685
Investments held at fair value	14	12	39
Derivative financial instruments	15	452	556
<b>Total non-current assets</b>		<b>127,731</b>	<b>133,687</b>
Inventories	16	6,094	6,029
Income tax receivable		122	74
Trade and other receivables	13	4,093	3,588
Investments held at fair value	14	123	178
Derivative financial instruments	15	313	179
Cash and cash equivalents	17	2,526	2,602
		<b>13,271</b>	<b>12,650</b>
Assets classified as held-for-sale		3	5
<b>Total current assets</b>		<b>13,274</b>	<b>12,655</b>
<b>Total assets</b>		<b>141,005</b>	<b>146,342</b>
<b>Equity – capital and reserves</b>			
Share capital	18(a)	614	614
Share premium, capital redemption and merger reserves	18(b)	26,609	26,606
Other reserves	18(c)	(3,555)	(333)
Retained earnings	18(c)	40,234	38,557
Owners of the parent		<b>63,902</b>	<b>65,444</b>
Non-controlling interests	18(d)	258	244
<b>Total equity</b>		<b>64,160</b>	<b>65,688</b>
<b>Liabilities</b>			
Borrowings	19	37,804	43,284
Retirement benefit liabilities	11	1,459	1,665
Deferred tax liabilities	12	17,050	17,776
Other provisions for liabilities	20	388	331
Trade and other payables	21	1,034	1,055
Derivative financial instruments	15	287	214
<b>Total non-current liabilities</b>		<b>58,022</b>	<b>64,325</b>
Borrowings	19	7,562	4,225
Income tax payable		683	853
Other provisions for liabilities	20	670	318
Trade and other payables	21	9,727	10,631
Derivative financial instruments	15	181	302
<b>Total current liabilities</b>		<b>18,823</b>	<b>16,329</b>
<b>Total equity and liabilities</b>		<b>141,005</b>	<b>146,342</b>

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

**Richard Burrows**

Chairman

17 March 2020

# GROUP CASH FLOW STATEMENT

		For the years ended 31 December		
	Notes	2019 £m	2018 £m	2017 £m
Profit from operations		<b>9,016</b>	9,313	6,412
Adjustments for				
– depreciation, amortisation and impairment costs	3(b)	<b>1,512</b>	1,038	902
– (increase)/decrease in inventories		(371)	(192)	1,409
– (increase)/decrease in trade and other receivables		(699)	502	(732)
– decrease/(increase) in receivables related to the charge in respect of the Quebec Class Actions	13	<b>436</b>	–	(130)
– (decrease)/increase in provision for Master Settlement Agreement	3(d)	(124)	1,364	(934)
– increase/(decrease) in trade and other payables		730	123	(685)
– decrease in net retirement benefit liabilities		(40)	(100)	(131)
– increase/(decrease) in other provisions for liabilities		<b>382</b>	(107)	(78)
– other non-cash items		<b>106</b>	31	86
Cash generated from operating activities		<b>10,948</b>	11,972	6,119
Dividends received from associates		<b>252</b>	214	903
Tax paid		(2,204)	(1,891)	(1,675)
<b>Net cash generated from operating activities</b>		<b>8,996</b>	10,295	5,347
<b>Cash flows from investing activities</b>				
Interest received		<b>80</b>	52	83
Purchases of property, plant and equipment		(664)	(758)	(791)
Proceeds on disposal of property, plant and equipment		<b>34</b>	38	95
Purchases of intangibles		(151)	(185)	(187)
Purchases of investments		(191)	(320)	(170)
Proceeds on disposals of investments		<b>339</b>	167	160
Acquisition of Reynolds American Inc. net of cash acquired		–	–	(17,657)
Investment in associates and acquisitions of other subsidiaries net of cash acquired		<b>(86)</b>	(32)	(77)
Proceeds on disposal of non-core business net of cash disposed		–	17	–
<b>Net cash used in investing activities</b>		<b>(639)</b>	(1,021)	(18,544)
<b>Cash flows from financing activities</b>				
Interest paid		(1,601)	(1,557)	(1,106)
Interest element of lease liabilities		(32)	(2)	(1)
Capital element of lease liabilities		(154)	(10)	(7)
Proceeds from increases in and new borrowings		<b>4,247</b>	2,111	40,937
(Outflows)/inflows relating to derivative financial instruments		(564)	49	(406)
Purchases of own shares held in employee share ownership trusts		(117)	(139)	(205)
Reductions in and repayments of borrowings		(5,640)	(5,586)	(20,827)
Dividends paid to owners of the parent		(4,598)	(4,347)	(3,465)
Capital injection from/(purchases of) non-controlling interests		<b>20</b>	(11)	–
Dividends paid to non-controlling interests		(157)	(142)	(167)
Other		<b>3</b>	4	6
<b>Net cash (used in)/generated from financing activities</b>		<b>(8,593)</b>	(9,630)	14,759
<b>Net cash flows (used in)/generated from operating, investing and financing activities</b>		<b>(236)</b>	(356)	1,562
Differences on exchange		(57)	(138)	(391)
<b>(Decrease)/increase in net cash and cash equivalents in the year</b>		<b>(293)</b>	(494)	1,171
Net cash and cash equivalents at 1 January		<b>2,328</b>	2,822	1,651
<b>Net cash and cash equivalents at 31 December</b>	17	<b>2,035</b>	2,328	2,822

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES ON THE ACCOUNTS

## 1 Accounting policies

### Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS as adopted by the European Union ("EU")<sup>®</sup>, and in accordance with the provisions of the UK Companies Act 2006 applicable to companies reporting under IFRS<sup>®</sup>. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the periods presented.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention except as described in the accounting policy below on financial instruments.

With effect from 1 January 2019, the Group has applied IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment in note 9 and the liabilities included as part of borrowings in note 19. In adopting IFRS 16, the Group has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. The impact on the Group is shown in note 30. Total assets and total equity and liabilities on 1 January 2019 have both increased by £607 million.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, 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 critical accounting judgements include:

- the identification and quantification of adjusting items, which are separately disclosed as memorandum information, is explained below and the impact of these on the calculation of adjusted earnings per share is described in note 7;
- the determination that an error, identified following a review by the Financial Reporting Council ("FRC") and discussed in note 18(e), was immaterial for restatement of the prior periods as, whilst the effect was to overstate liabilities and reduce equity by £1.0 billion in 2017 and £1.1 billion in 2018, it did not affect the primary users of the financial statements as there was no impact to the amount or timing of the dividends received;
- the determination as to whether to recognise provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims, as well as other contingent liabilities. The accounting policy on contingent liabilities, which are not provided for, is set out below and the contingent liabilities of the Group are explained in note 27. Judgement is necessary to assess the likelihood that a pending claim is probable (more likely than not to succeed), possible or remote;
- the determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exists in relation to the investments held by the Group. This is assessed after taking into account the Group's ability to appoint Directors to the entity's Board, its relative shareholding compared with other shareholders, any significant contracts or arrangements with the entity or its other shareholders and other relevant facts and circumstances. The application of these policies to Group subsidiaries in territories including Canada and Malaysia is explained in note 28; and

- the review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency, or multiple exchange rates.

The critical accounting estimates include:

- the review of asset values, especially indefinite life assets such as goodwill and certain trademarks and similar intangibles. The key assumptions used in respect of the impairment testing are the determination of cash-generating units, the budgeted and forecast cash flows of these units, the long-term growth rate for cash flow projections and the rate used to discount the cash flow projections. These are described in note 8;
- the estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, and amounts recognised in other comprehensive income, involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, salary and pension increases, inflation, as well as discount rates and asset values at the year-end. The assumptions used by the Group and sensitivity analysis are described in note 11; and
- the estimation of amounts to be recognised in respect of taxation and legal matters, and the estimation of other provisions for liabilities and charges are subject to uncertain future events, may extend over several years and so the amount and/or timing may differ from current assumptions. The accounting policy for taxation is explained below. The recognised deferred tax assets and liabilities, together with a note of unrecognised amounts, are shown in note 12, and a contingent tax asset is explained in note 6(b). Other provisions for liabilities and charges are as set out in note 20. Litigation related deposits are shown in note 13. The application of these accounting policies to the payments made and credits recognised under the Master Settlement Agreement by Reynolds American Inc. ("Reynolds" or "RAI") is described in note 3(d).

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 judgement 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.

These consolidated financial statements were authorised for issue by the Board of Directors on 17 March 2020.

### Basis of consolidation

The consolidated financial information includes the financial statements of British American Tobacco p.l.c. and its subsidiary undertakings, collectively "the Group", together with the Group's share of the results of its associates and joint arrangements.

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates comprise investments in undertakings, which are not subsidiary undertakings or joint arrangements, where the Group's interest in the equity capital is long term and over whose operating and financial policies the Group exercises a significant influence. They are accounted for using the equity method.

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## 1 Accounting policies continued

Joint arrangements comprise contractual arrangements where two or more parties have joint control and where decisions regarding the relevant activities of the entity require unanimous consent. Joint operations are jointly-controlled arrangements where the parties to the arrangement have rights to the underlying assets and obligations for the underlying liabilities relating to the arrangement.

The Group accounts for its share of the assets, liabilities, income and expenses of any such arrangement. Joint ventures comprise arrangements where the parties to the arrangement have rights to the net assets of the arrangement. They are accounted for using the equity method.

### Foreign currencies and hyperinflationary territories

The functional currency of the Parent Company is sterling and this is also the presentation currency of the Group. The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at the applicable rates of exchange at the end of each year. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed.

The differences between retained profits translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year, and are presented as a separate component of equity. They are recognised in the income statement when the gain or loss on disposal of a Group undertaking is recognised.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group using the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency assets and liabilities at year-end rates of exchange are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges, on intercompany net investment loans and qualifying net investment hedges. Foreign exchange gains or losses recognised in the income statement are included in profit from operations or net finance costs depending on the underlying transactions that gave rise to these exchange differences.

In addition, for hyperinflationary countries where the effect on the Group results would be significant, the financial statements in local currency are adjusted to reflect the impact of local inflation prior to translation into sterling, in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*. Where applicable, IAS 29 requires all transactions to be indexed by an inflationary factor to the balance sheet date, potentially leading to a monetary gain or loss on indexation. In addition, the Group assesses the carrying value of fixed assets after indexation and applies IAS 36 *Impairment of Assets*, where appropriate, to ensure that the carrying value correctly reflects the economic value of such assets.

The results and balance sheets of operations in hyperinflationary territories are translated at the period end rate. In the case of Venezuela, the Group uses an estimated exchange rate calculated by reflecting the development of the general price index since the Group last achieved meaningful repatriation of dividends.

### Revenue

Revenue principally comprises sales of cigarettes, other tobacco products, and nicotine products, to external customers. Revenue excludes duty, excise and other taxes related to sales in the period and is stated after deducting rebates, returns and other similar discounts and payments to direct and indirect 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.

### Retirement benefit costs

The Group operates both defined benefit and defined contribution schemes including post-retirement healthcare schemes. For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 *Employee Benefits* based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements.

Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

### Share-based payments

The Group has equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date. Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### 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* to be capitalised as an intangible asset.

### Taxation

Taxation is 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 in the countries where the Group's subsidiaries, associates and joint arrangements operate and generate taxable income.

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.

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 1 Accounting policies 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 income statement 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 the statement of other comprehensive income or the statement of changes in equity.

The Group has exposures in respect of the payment or recovery of a number of taxes. With effect from 1 January 2019, the Group has adopted the requirements of IFRIC 23 *Uncertainty over Income Tax Treatments* which clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes*. The interpretation requires that, where there is uncertainty as to whether a particular tax treatment will be accepted by the relevant taxation authority, the financial statements reflect the probable outcome. Where it is not considered probable that a particular tax treatment will be accepted by the relevant taxation authority, estimated amounts are determined based on the most likely amount or expected value, depending on which method is expected to better predict the resolution of the uncertainty. The impact on the Group's profit and equity from the adoption of IFRIC 23 was not material. Prior to 1 January 2019, liabilities or assets for these payments or recoveries were recognised at such time as an outcome became probable and when the amount could reasonably be estimated.

#### Goodwill

Goodwill arising on acquisitions is capitalised and any impairment of goodwill is recognised immediately in the income statement and is not subsequently reversed.

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associates and joint ventures, goodwill is included in the carrying value of the investment in the associated company or joint venture. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Intangible assets other than goodwill

The intangible assets shown on the Group balance sheet consist mainly of trademarks and similar intangibles, including certain intellectual property, acquired by the Group's subsidiary undertakings and computer software.

Acquired trademarks and similar assets are carried at cost less accumulated amortisation and impairment. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. Other trademarks and similar 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. Any impairments of trademarks are recognised in the income statement but increases in trademark values are not recognised.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to five years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding 10 years.

#### Property, plant and equipment

Property, plant and equipment 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. No depreciation is provided on freehold land or assets classified as held-for-sale. Freehold and leasehold property are depreciated at rates between 2.5% and 4% per annum, and plant and equipment at rates between 3% and 25% per annum.

With effect from 1 January 2018, the Group has changed certain estimates of useful economic lives for cigarette-making machinery across the Group, harmonising depreciation rates used by the historical BAT Group and by Reynolds American Inc. from 14 years and 30 years, respectively, to a standard 20-year life (5% per annum).

#### Capitalised interest

Borrowing costs which are directly attributable to the acquisition, construction or production of intangible assets or property, plant and equipment that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset.

#### Leased assets

With effect from 1 January 2019, the Group has applied IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment in note 9 and the liabilities included as part of borrowings in note 19.

In adopting IFRS 16, the Group has applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard. The impact on the Group of implementing the new Standard is shown in note 30.

The Group has taken advantage of certain practical expedients available under the Standard, including "grandfathering" previously recognised lease arrangements such that contracts were not reassessed at the implementation date as to whether they were, or contained, a lease, and leases previously classified as finance leases under IAS 17 *Leases* remained capitalised on the adoption of IFRS 16. In addition, as part of the implementation, the Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics, has assessed whether individual leases are onerous prior to applying the Standard, has applied hindsight in determining the lease term if the contract contains options to extend or terminate the lease, and has not applied the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

For leasing arrangements entered into after 1 January 2019, the Group has also 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 have not been separated from lease components.

The Group will continue to report recognised assets and liabilities under leases within property, plant and equipment and borrowings respectively rather than show these as separate line items on the face of the balance sheet.

## 1 Accounting policies continued

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

Prior to 1 January 2019, the Group applied IAS 17 *Leases*. Arrangements where the Group had substantially all the risks and rewards of ownership of the leased asset were classified as finance leases and were included as part of property, plant and equipment. Finance lease assets were initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, then depreciated over the shorter of the lease term and their estimated useful lives. Lease payments due were shown as a liability within borrowings. Lease payments were shown within financing activities in the cash flow statement and consisted of capital and finance charge elements, with the finance element charged to the income statement. Under IAS 17, leases which were not classified as finance leases were classified as operating leases and such arrangements were not capitalised. Rental payments under operating leases were charged to operating profit on a straight-line basis over the lease term.

### Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of a cash-generating unit 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.

A cash-generating unit is the smallest identifiable group of assets that generates cash flows which are largely independent of the cash flows from other assets or groups of assets. At the acquisition date, any goodwill acquired is allocated to the relevant cash-generating unit or group of cash-generating units expected to benefit from the acquisition for the purpose of impairment testing of goodwill.

### Impairment of financial assets held at amortised cost

With effect from 1 January 2018, loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on initial recognition of the underlying asset. As permitted by IFRS 9 *Financial Instruments*, loss allowances on trade receivables arising from the recognition of revenue under IFRS 15 *Revenue from Contracts with Customers* are initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

Prior to 1 January 2018, financial assets were reviewed for impairment at each balance sheet date, or whenever events indicated that the carrying amount might not be recoverable.

## Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the 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 costs to completion and sale. Tobacco inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognised industry practice.

### Financial instruments

The Group's business model for managing financial assets is set out in the 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. Additionally, the Group aims: to maximise Group liquidity by concentrating cash at the Centre; to align the maturity profile of external investments with that of the forecast liquidity profile; to wherever practicable, match the interest rate profile of external investments to that of debt maturities or fixings; and to optimise the investment yield within the Group's investment parameters. The majority of financial assets are held in order to collect contractual cash flows (typically cash and cash equivalents and loans and other receivables) but some assets (typically investments) are held for investment potential.

Financial assets and financial liabilities are recognised when the Group 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. In addition, current liabilities include amounts where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

With effect from 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* with no revision of prior periods, as permitted by the Standard. The cumulative impact of adopting the Standard, including the effect of tax entries, was recognised as a restatement of opening reserves in 2018. IFRS 9 changed the classification and measurement of financial assets. The category of 'available-for-sale investments' was replaced with 'financial assets at Fair Value through Profit and Loss' (for most investments) and 'financial assets at Fair Value through Other Comprehensive Income' (for qualifying equity investments). Certain loans and receivables which did not meet the tests for amortised cost classification under IFRS 9 were reclassified as financial assets at Fair Value through Profit and Loss at the same date. The Group uses the term 'investments held at fair value' to refer to all of these financial assets both pre- and post- the adoption of IFRS 9.

In addition, with effect from 1 January 2019, the Group has early adopted the Amendments to IFRS 9 and IFRS 7 *Financial Instruments: Disclosures with regard to Interest Rate Benchmark Reform*. The Amendment provides an exemption for certain hedging relationships directly affected by changes in interest rate benchmarks where the reform gives rise to uncertainties regarding the interest rate designated as a hedged risk, or the timing or amount of interest rate cashflows of either the hedged item or of the hedging instrument, such that without the exemption the relationship might not qualify for hedge accounting. The impact on the Group's profit was not material.

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 1 Accounting policies continued

**Non-derivative financial assets** are classified on initial recognition in accordance with the Group's business model as investments, loans and receivables, or cash and cash equivalents and accounted for as follows:

- **Investments:** These are non-derivative financial assets that cannot be classified as loans and other receivables or cash and cash equivalents. Dividend and interest income on these investments are included within finance income when the Group's right to receive payments is established. This category includes financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income and, prior to 1 January 2018, available-for-sale investments as previously defined by IAS 39.
- **Loans and other receivables:** These are non-derivative financial assets with fixed or determinable payments that are solely payments of principal and interest on the principal amount outstanding, that are primarily held in order to collect contractual cash flows. These balances include trade and other receivables and are measured at amortised cost, using the effective interest rate method, and stated net of allowances for credit losses. In addition, as explained in note 13, certain litigation related deposits are recognised as assets within loans and other receivables where management has determined that these payments represent a resource controlled by the entity as a result of past events. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.

- **Cash and cash equivalents:** Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments including investments in certain money market funds. Cash equivalents normally comprise instruments with maturities of three months or less at their date of acquisition. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in the liabilities section on the balance sheet.

Fair values for quoted investments are based on observable market prices. If there is no active market for a financial asset, the fair value is established by using valuation techniques principally involving discounted cash flow analysis.

**Non-derivative financial liabilities**, including borrowings and trade payables, are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs. As shown in note 19, certain borrowings are subject to fair value hedges, as defined below.

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

- for derivatives that are designated as cash flow hedges, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the 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;

- for derivatives that are designated as fair value hedges, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;

- for derivatives that are designated as hedges of net investments in foreign operations, 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 non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are reclassified to the income statement when the foreign operation is disposed of; and

- 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 income statement in the period in which they arise. These are referred to as 'held-for-trading'.

In order to qualify for hedge accounting, the Group is required to document prospectively the economic relationship between the item being hedged and the hedging instrument. The Group 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 ongoing 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 income statement 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 income statement.

Derivative fair value changes recognised in the income statement are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs.

The Group's accounting policies for financial instruments prior to the adoption of IFRS 9 on 1 January 2018, were as set out above, except for the following: non-derivative financial assets were classified on initial recognition as available-for-sale investments, loans and receivables or cash and cash equivalents. Available-for-sale investments were non-derivative financial assets that could not be classified as loans and receivables or cash and cash equivalents. Apart from available-for-sale investments, non-derivative financial assets were stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. These estimates for irrecoverable amounts were recognised when there was objective evidence that the full amount receivable would not be collected according to the original terms of the asset. Available-for-sale investments were stated at fair value, with changes in fair value being recognised directly in other comprehensive income. When such investments were derecognised (e.g. through disposal) or became impaired, the accumulated gains and losses, previously recognised in other comprehensive income, were reclassified to the income statement within 'finance income'. Dividend and interest income on available-for-sale investments were included within 'finance income' when the Group's right to receive payments was established.

## 1 Accounting policies continued

### Dividends

In 2017 and 2018, dividend distributions to the Company's shareholders were recognised as a liability on the Group's financial statements in the period in which they were approved by shareholders (final dividends) or confirmed by the Directors (interim dividends). With effect from 1 January 2018, the Company has moved to four interim quarterly dividend payments. As referred to in note 18(e), from 2019 the Company recognises the interim dividend in the period in which it is paid. This change has no impact to the timing of when shareholders will receive the dividend.

### Segmental analysis

The Group is organised and managed on the basis of its geographic regions. These are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the chief operating decision maker, identified as the Management Board, for assessing performance and allocating resources.

The Group is primarily a single product business providing cigarettes and other tobacco products. While the Group has clearly differentiated brands, global segmentation between a wide portfolio of brands is not part of the regular internally reported financial information. The results of New Category products are reported as part of the results of each geographic region, and are not currently material to the Group.

The prices agreed between Group companies for intra-group sales of materials, manufactured goods, charges for royalties, commissions, services and fees, are based on normal commercial practices which would apply between independent businesses. Royalty income, less related expenditure, is included in the region in which the licensor is based.

### Adjusting items

Adjusting items are significant items of income or expense in revenue, profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance because of their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting. These items are separately disclosed in the segmental analyses or in the notes to the accounts as appropriate.

The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance and are used to derive the Group's principal non-GAAP measures of adjusted revenue, adjusted profit from operations, adjusted diluted earnings per share, <sup>®</sup>operating cash flow conversion ratio and adjusted cash generated from operations<sup>®,</sup> all of which are before the impact of adjusting items and which are reconciled from revenue, profit from operations, diluted earnings per share, <sup>®</sup>cash conversion ratio and net cash generated from operating activities<sup>®</sup>.

### Provisions

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.

### Contingent liabilities and contingent assets

Subsidiaries and associate companies are defendants in tobacco-related and other litigation. Provision for this litigation (including legal costs) is made at such time as an unfavourable outcome becomes probable and the amount can 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 Group records its external legal fees and other external defence costs for tobacco-related and other litigation as these costs are incurred.

As explained in note 13, certain litigation-related deposits are recognised as assets within loans and other receivables where management has determined that these payments represent a resource controlled by the entity. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.

### Repurchase of share capital

When share capital is repurchased the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

### Future changes to accounting policies

Certain changes to IFRS will be applicable to the Group financial statements in future years, but will not have a material effect on reported profit or equity or on the disclosures in the financial statements.

<sup>®</sup> Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

**NOTES ON THE ACCOUNTS****CONTINUED****2 Segmental analyses**

As the chief operating decision maker, the Management Board reviews external adjusted revenues and adjusted profit from operations to evaluate segment performance and allocate resources to the overall business. The results of New Categories (comprising Tobacco Heating Products, Vapour products and Modern Oral products) are reported to the Management Board as part of the results of each geographic region. However, additional information has been provided based on product category. Interest income, interest expense and taxation are centrally managed and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

The four geographic regions are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the Management Board for assessing performance and allocating resources. The Management Board reviews current and prior year adjusted segmental revenue, adjusted profit from operations of subsidiaries and joint operations, and adjusted post-tax results of associates and joint ventures at constant rates of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group, including intercompany royalties payable in foreign currency to UK entities. However, the Group does not adjust for the normal transactional gains and losses in operations which are generated by movements in exchange rates.

In respect of the United States region, all financial statements and financial information provided by or with respect to the US business or RAI (and/or RAI and its subsidiaries (collectively, the "RAI Group")) are prepared on the basis of US GAAP and constitute the primary financial statements or financial information of the US business or RAI (and/or the RAI Group). Solely for the purpose of consolidation within the results of BAT p.l.c. and the BAT Group, this financial information is then converted to IFRS as issued by the IASB and adopted by the EU. To the extent any such financial information provided in these financial statements relates to the US business or RAI (and/or the RAI Group), it is provided as an explanation of the US business's or RAI's (and/or the RAI Group's) primary US GAAP based financial statements and information.

The following table shows 2019 revenue and adjusted revenue at current rates, and 2019 adjusted revenue translated using 2018 rates of exchange. The 2018 figures are stated at the 2018 rates of exchange.

	2019					2018	
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m
United States	9,917	456	10,373	–	10,373	9,495	–
APME	5,157	(4)	5,153	–	5,153	4,882	–
AMSSA	4,491	(230)	4,261	–	4,261	4,111	–
ENA	6,118	(78)	6,040	50	6,090	5,824	180
<b>Revenue</b>	<b>25,683</b>	<b>144</b>	<b>25,827</b>	<b>50</b>	<b>25,877</b>	<b>24,312</b>	<b>180</b>
							24,492

Note: adjusting items in revenue are in respect of excise included in goods acquired from a third party under short-term arrangements and then passed on to customers. This is deemed as adjusting due to the distorting nature to revenue and operating margin.

The following table shows 2018 revenue and adjusted revenue at current rates, and 2018 adjusted revenue translated using 2017 rates of exchange. The 2017 figures are stated at the 2017 rates of exchange.

	2018					2017	
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m
United States	9,838	(343)	9,495	–	9,495	4,160	–
APME	5,250	(368)	4,882	–	4,882	4,973	–
AMSSA	4,560	(449)	4,111	–	4,111	4,323	–
ENA	6,112	(288)	5,824	180	6,004	5,850	258
<b>Revenue</b>	<b>25,760</b>	<b>(1,448)</b>	<b>24,312</b>	<b>180</b>	<b>24,492</b>	<b>19,306</b>	<b>258</b>
							19,564

Note: adjusting items in revenue are in respect of excise included in goods acquired from a third party under short-term arrangements and then passed on to customers. This is deemed as adjusting due to the distorting nature to revenue and operating margin.

## 2 Segmental analyses continued

The following table shows 2019 profit from operations and adjusted profit from operations at current rates, and 2019 adjusted profit from operations translated using 2018 rates of exchange. The 2018 figures are stated at the 2018 rates of exchange.

	2019					2018		
	Adjusted* segment result Constant rates £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting* items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
United States	4,798	238	5,036	(626)	4,410	4,511	(505)	4,006
APME	2,102	(43)	2,059	(306)	1,753	1,948	(90)	1,858
AMSSA	1,912	(70)	1,842	(638)	1,204	1,738	(194)	1,544
ENA	2,220	(27)	2,193	(544)	1,649	2,150	(245)	1,905
<b>Profit from operations</b>	<b>11,032</b>	<b>98</b>	<b>11,130</b>	<b>(2,114)</b>	<b>9,016</b>	<b>10,347</b>	<b>(1,034)</b>	<b>9,313</b>
<b>Net finance costs</b>	<b>(1,466)</b>	<b>(56)</b>	<b>(1,522)</b>	<b>(80)</b>	<b>(1,602)</b>	<b>(1,385)</b>	<b>4</b>	<b>(1,381)</b>
APME	463	7	470	25	495	384	32	416
ENA	3	–	3	–	3	3	–	3
<b>Share of post-tax results of associates and joint ventures</b>	<b>466</b>	<b>7</b>	<b>473</b>	<b>25</b>	<b>498</b>	<b>387</b>	<b>32</b>	<b>419</b>
<b>Profit/(loss) before taxation</b>	<b>10,032</b>	<b>49</b>	<b>10,081</b>	<b>(2,169)</b>	<b>7,912</b>	<b>9,349</b>	<b>(998)</b>	<b>8,351</b>
<b>Taxation (charge)/credit on ordinary activities</b>	<b>(2,498)</b>	<b>(3)</b>	<b>(2,501)</b>	<b>438</b>	<b>(2,063)</b>	<b>(2,364)</b>	<b>223</b>	<b>(2,141)</b>
<b>Profit for the year</b>					<b>5,849</b>			<b>6,210</b>

\* The adjustments to profit from operations, net finance costs, the Group's share of the post-tax results of associates and joint ventures and taxation are explained in notes 3(e) to 3(h), note 4(b), note 5(a), and note 6(b), 6(d) and 6(e), respectively.

The following table shows 2018 profit from operations and adjusted profit from operations at current rates, and 2018 adjusted profit from operations translated using 2017 rates of exchange. The 2017 figures are stated at the 2017 rates.

	2018					2017		
	Adjusted* segment result Constant rates £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting* items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
United States	4,686	(175)	4,511	(505)	4,006	1,928	(763)	1,165
APME	2,099	(151)	1,948	(90)	1,858	2,049	(147)	1,902
AMSSA	1,922	(184)	1,738	(194)	1,544	1,782	(134)	1,648
ENA	2,217	(67)	2,150	(245)	1,905	2,170	(473)	1,697
<b>Profit from operations</b>	<b>10,924</b>	<b>(577)</b>	<b>10,347</b>	<b>(1,034)</b>	<b>9,313</b>	<b>7,929</b>	<b>(1,517)</b>	<b>6,412</b>
<b>Net finance costs</b>	<b>(1,415)</b>	<b>30</b>	<b>(1,385)</b>	<b>4</b>	<b>(1,381)</b>	<b>(889)</b>	<b>(205)</b>	<b>(1,094)</b>
United States	–	–	–	–	–	624	23,195	23,819
APME	417	(33)	384	32	416	384	29	413
ENA	3	–	3	–	3	4	(27)	(23)
<b>Share of post-tax results of associates and joint ventures</b>	<b>420</b>	<b>(33)</b>	<b>387</b>	<b>32</b>	<b>419</b>	<b>1,012</b>	<b>23,197</b>	<b>24,209</b>
<b>Profit/(loss) before taxation</b>	<b>9,929</b>	<b>(580)</b>	<b>9,349</b>	<b>(998)</b>	<b>8,351</b>	<b>8,052</b>	<b>21,475</b>	<b>29,527</b>
<b>Taxation (charge)/credit on ordinary activities</b>	<b>(2,508)</b>	<b>144</b>	<b>(2,364)</b>	<b>223</b>	<b>(2,141)</b>	<b>(2,091)</b>	<b>10,220</b>	<b>8,129</b>
<b>Profit for the year</b>					<b>6,210</b>			<b>37,656</b>

\* The adjustments to profit from operations, net finance costs, the Group's share of the post-tax results of associates and joint ventures and taxation are explained in notes 3(e) to 3(h), note 4(b), note 5(a), and note 6(b), 6(d) and 6(e), respectively.

**NOTES ON THE ACCOUNTS****CONTINUED****2 Segmental analyses continued**

Adjusted profit from operations at constant rates of £11,032 million (2018: £10,924 million; 2017: £7,605 million) excludes certain depreciation, amortisation and impairment charges as explained in notes 3(e), 3(f) and 3(h). These are excluded from segmental profit from operations at constant rates as follows:

	2019					2018	
	Adjusted depreciation, amortisation and impairment Constant rates £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m
United States	249	9	258	391	649	154	289
APME	162	1	163	182	345	105	22
AMSSA	140	(3)	137	35	172	101	115
ENA	218	(2)	216	130	346	143	109
	769	5	774	738	1,512	503	535
							1,038

	2018					2017	
	Adjusted depreciation, amortisation and impairment Constant rates £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m
United States	158	(4)	154	289	443	59	116
APME	111	(6)	105	22	127	111	24
AMSSA	100	1	101	115	216	102	32
ENA	148	(5)	143	109	252	162	296
	517	(14)	503	535	1,038	434	468
							902

## 2 Segmental analyses continued

### Additional information by product category

Although the Group's operations are managed on a Regional basis, additional information for revenue is provided based on product category as follows:

					2019			2018
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
Combustibles	22,892	59	22,951	50	23,001	21,892	180	22,072
New Categories	1,214	41	1,255	–	1,255	917	–	917
Vapour	392	9	401	–	401	318	–	318
THP	693	35	728	–	728	565	–	565
Modern Oral	129	(3)	126	–	126	34	–	34
Traditional Oral	1,036	45	1,081	–	1,081	941	–	941
Other	541	(1)	540	–	540	562	–	562
<b>Revenue</b>	<b>25,683</b>	<b>144</b>	<b>25,827</b>	<b>50</b>	<b>25,877</b>	<b>24,312</b>	<b>180</b>	<b>24,492</b>

					2018			2017
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
Combustibles	23,251	(1,359)	21,892	180	22,072	17,913	258	18,171
New Categories	937	(20)	917	–	917	385	–	385
Vapour	325	(7)	318	–	318	168	–	168
THP	576	(11)	565	–	565	202	–	202
Modern Oral	36	(2)	34	–	34	15	–	15
Traditional Oral	975	(34)	941	–	941	415	–	415
Other	597	(35)	562	–	562	593	–	593
<b>Revenue</b>	<b>25,760</b>	<b>(1,448)</b>	<b>24,312</b>	<b>180</b>	<b>24,492</b>	<b>19,306</b>	<b>258</b>	<b>19,564</b>

External revenue and non-current assets other than financial instruments, deferred tax assets and retirement benefit assets are analysed between the UK and all foreign countries at current rates of exchange as follows:

Revenue is based on location of sale	United Kingdom			All foreign countries			Group		
	2019 £m	2018 £m	2017 £m	2019 £m	2018 £m	2017 £m	2019 £m	2018 £m	2017 £m
<b>External revenue</b>	<b>178</b>	<b>184</b>	<b>203</b>	<b>25,699</b>	<b>24,308</b>	<b>19,361</b>	<b>25,877</b>	<b>24,492</b>	<b>19,564</b>

	United Kingdom		All foreign countries		Group	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Intangible assets	492	529	118,295	123,484	118,787	124,013
Property, plant and equipment	333	404	5,185	4,762	5,518	5,166
Investments in associates and joint ventures	8	–	1,852	1,737	1,860	1,737

The consolidated results of RAI companies operating in the United States met the criteria for separate disclosure under the requirements of IFRS 8 *Operating Segments*. Revenue arising from the operations of RAI, inclusive of the sales made to fellow Group companies, in 2019, 2018 and in 2017 since the date of acquisition was £10,417 million, £9,506 million and £4,160 million, respectively. Non-current assets attributable to the operations of RAI were £109,186 million (2018: £113,935 million).

The main acquisitions comprising the goodwill balance of £44,316 million (2018: £46,163 million), included in intangible assets, are provided in note 8. Included in investments in associates and joint ventures are amounts of £1,794 million (2018: £1,682 million) attributable to the investment in ITC Ltd. Further information is provided in notes 5 and 10.

**NOTES ON THE ACCOUNTS**

CONTINUED

**3 Profit from operations**

Enumerated below are movements in costs that have impacted profit from operations in 2019, 2018 and 2017. These include changes in our underlying business performance, as well as the impact of adjusting items, as defined in note 1, in profit from operations (note 3(e) to 3(h)).

**(a) Employee benefit costs**

	2019 £m	2018 £m	2017 £m
Wages and salaries	2,651	2,463	2,131
Social security costs	223	207	216
Other pension and retirement benefit costs (note 11)	227	212	215
Share-based payments – equity and cash-settled (note 24)	120	123	117
	<b>3,221</b>	<b>3,005</b>	<b>2,679</b>

**(b) Depreciation, amortisation and impairment costs**

	2019 £m	2018 £m	2017 £m
Intangibles			
– amortisation and impairment of trademarks and similar intangibles	508	377	383
– amortisation and impairment of other intangibles	108	111	140
– impairment of goodwill (note 3(h))	194	–	–
Property, plant and equipment – depreciation and impairment	702	550	379
	<b>1,512</b>	<b>1,038</b>	<b>902</b>

**Intangibles – amortisation and impairment**

The acquisition of businesses has resulted in the capitalisation of certain trademarks and similar intangibles. The amortisation and impairment of these acquired trademarks and similar intangibles are charged to the income statement as adjusting, as explained in note 3(f).

**Property, plant and equipment – depreciation and impairment**

Included in depreciation and impairment of property, plant and equipment are:

- Depreciation and impairment of right-of-use assets of £178 million (2018: £6 million; 2017: £5 million); and
- Gains and losses recognised on the sale of property, plant and equipment.

Included in impairment of property, plant and equipment are impairment costs for obsolete machines in relation to downsizing and factory rationalisation mentioned in note 3(e). In 2018, the Group recognised an impairment charge of £110 million in respect of the operations in Venezuela mentioned in note 3(h).

With effect from 1 January 2018, cigarette making machinery within property, plant and equipment is depreciated at 5% per annum (previously, between 3% and 7% per annum). The impact of this change in accounting estimate is a net reduction in depreciation expense for 2018 of £53 million.

### 3 Profit from operations continued

#### (c) Other operating expenses include:

	2019 £m	2018 £m	2017 £m
Research and development expenses (excluding employee benefit costs and depreciation)	126	105	80
Exchange differences	22	(15)	(6)
Hedge ineffectiveness within operating profit	(5)	(8)	–
Expense relating to short-team leases	16	–	–
Expenses relating to leases of low-value assets	1	–	–
Rent of plant and equipment (operating leases) – minimum lease payments	–	61	41
Rent of property (operating leases) – minimum lease payments	–	110	85
<b>Auditor's remuneration</b>			
Total expense for audit services pursuant to legislation:			
– fees to KPMG LLP for Parent Company and Group audit	6.8	6.3	6.3
– fees to KPMG LLP firms and associates for local statutory and Group reporting audits	9.0	8.8	11.3
Total audit fees expense – KPMG LLP firms and associates	<b>15.8</b>	15.1	17.6
Audit fees expense to other firms	0.1	0.2	0.2
<b>Total audit fees expense</b>	<b>15.9</b>	15.3	17.8
Fees to KPMG LLP firms and associates for other services:			
– audit-related assurance services	8.5	9.4	8.0
– other assurance services	0.5	0.3	4.1
– tax advisory services	–	–	–
– tax compliance	–	–	0.2
– audit of defined benefit schemes of the Company	0.4	0.4	–
– other non-audit services	–	–	–
	<b>9.4</b>	10.1	12.3

The total auditor's remuneration to KPMG firms and associates included above are £25.2 million (2018: £25.2 million; 2017: £29.9 million).

During 2019, the Group incurred expenditure of £4.4 million (2018: £8.7 million; 2017: £nil million) within audit-related assurance services associated with the controls attestation of the Group's compliance with Sarbanes-Oxley Section 404.

During 2017, the Group incurred additional expenditure with the Group's auditor, as part of the acquisition of the remaining shares in RAI not previously owned. This was due to the Securities and Exchange Commission (SEC) registration requirements to re-audit 2015 and 2016 under Public Company Accounting Oversight Board ("PCAOB") standards, to audit the purchase price allocation, to provide assurance services on the registration documents and to provide, amongst other things, assurance services with regards to the planned 2018 implementation of Sarbanes-Oxley Section 404. Accordingly, the following costs, related to the acquisition of RAI and treated as an adjusting item, were incurred within the respective categories: audit-related assurance service of £7.7 million and other assurance services of £3.5 million.

Under SEC regulations, the remuneration to KPMG firms and associates of £25.1 million in 2019 (2018: £25.2 million; 2017: £30.1 million) is required to be presented as follows: audit fees £24.7 million (2018: £24.7 million; 2017: £29.2 million), audit-related fees £0.4 million (2018: £0.4 million; 2017: £0.5 million), tax fees £nil million (2018: £nil million; 2017: £0.2 million) and all other fees £0.1 million (2018: £0.1 million; 2017: £0.2 million).

Total research and development costs including employee benefit costs and depreciation are £376 million (2018: £258 million; 2017: £191 million). Included in the 2019 research and development costs is £65 million of costs primarily related to packages in respect of employee benefit reductions as part of the Group's 2019 restructuring initiative (Quantum), as discussed in note 3(e).

## NOTES ON THE ACCOUNTS

### CONTINUED

### 3 Profit from operations continued

#### (d) Master Settlement Agreement

In 1998, the major US cigarette manufacturers (including the R.J. Reynolds Tobacco Company, Lorillard and Brown & Williamson, businesses which are now part of the RAI Group) entered into the Master Settlement Agreement (MSA) with attorneys general representing most US states and territories. The MSA imposes a perpetual stream of future payment obligations on the major US cigarette manufacturers. The amounts of money that the participating manufacturers are required to annually contribute are based upon, amongst other things, the volume of cigarettes sold and market share (based on cigarette shipments in that year).

During 2012, R.J. Reynolds Tobacco Company, Santa Fe Natural Tobacco Company (SFNTC), various other tobacco manufacturers, 17 states, the District of Columbia and Puerto Rico reached an agreement related to the Non-Participating Manufacturer (NPM) adjustment under the MSA and three more states joined the agreement in 2013. Under this agreement, R.J. Reynolds Tobacco Company has received credits of more than US\$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits have been applied against the companies' MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations. During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. R.J. Reynolds Tobacco Company has received US\$170 million in credits, which has been applied over a five-year period from 2014. During 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014. R.J. Reynolds Tobacco Company has received US\$285 million in credits, which will be applied over a four-year period from 2016. During 2016, no additional states agreed to settle NPM disputes. During 2017, two more states agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US\$61 million in credits, which will be applied over a five-year period from 2017. During 2018, nine more states agreed to settle NPM disputes related to claims for the period 2004 to 2019, with an option through 2022, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$182 million in credits for settled periods through 2017, which will be applied over a five-year period from 2018. Also, in 2018, one additional state agreed to settle NPM disputes related to claims for the period 2004 to 2024, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$205 million in credits for settled periods through 2017, which will be applied over a five-year period from 2019. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjusting items. Only credits in respect of prior year payments are included as adjusting items.

The BAT Group is subject to substantial payment obligations under the MSA and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (such settlement agreements, collectively State Settlement Agreements). RAI's operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2019 amounted to US\$2,762 million (2018: US\$2,741 million; 2017: US\$2,856 million) in respect of settlement expenses and US\$2,918 million (2018: US\$917 million; 2017: US\$4,612 million) in respect of settlement cash payments.

#### (e) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, including the relevant operating costs of implementing the operating model. These costs represent additional expenses incurred, which are not related to the normal business and day-to-day activities.

The operating model includes revised organisation structures, standardised processes and shared back office services underpinned by a global single instance of SAP. These initiatives also include a review of the Group's manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used.

The costs of the Group's initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	2019 £m	2018 £m	2017 £m
Employee benefit costs	364	176	193
Depreciation, amortisation and impairment costs	63	48	85
Other operating expenses	145	145	330
Other operating income	(7)	(6)	(8)
	565	363	600

The adjusting charge in 2019 relates to the ongoing restructuring costs associated with the implementation of revisions to the Group's operating model. These costs are mainly in relation to a programme, known as Quantum, to simplify the business and create a more efficient, agile and focused company. This includes the cost of packages in respect of permanent headcount reduction and permanent employee benefit reductions in the Group. The costs also cover the downsizing and factory rationalisation activities in Germany, Russia and APME. Included in other operating income are amounts related to cash and reversal of deferred consideration associated with the acquisition of TDR d.o.o. (TDR) (note 23).

Restructuring and integration costs in 2018 include integration costs associated with the acquisition of RAI and ongoing costs of implementing the revisions to the Group's operating model. This includes the cost of packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover downsizing activities in Russia, Germany and APME. Included in other operating income are gains from the sale of land and buildings in the Netherlands.

Restructuring and integration costs in 2017 include adviser fees and costs incurred related to the acquisition of the remaining shares in RAI not already owned by the Group, that completed on 25 July 2017 (note 23). It also includes the implementation of a new operating model and the cost of redundancy packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover integration costs incurred as a result of the RAI acquisition, factory closure and downsizing activities in Germany and Malaysia, certain exit costs and asset write-offs related to the withdrawal from the Philippines. Included in other operating income are gains from the sale of land and buildings in Brazil.

### 3 Profit from operations continued

#### (f) Amortisation and impairment of trademarks and similar intangibles

Acquisitions including RAI, TDR d.o.o. (TDR) and Skandinavisk Tobakskompagni (ST) in previous years, have resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation and impairment charge of £481 million (2018: £377 million; 2017: £383 million) is charged as adjusting and included in depreciation, amortisation and impairment costs in the income statement. In 2019, the Group incurred an impairment charge of £129 million, primarily related to a partial impairment of the Kodiak brand, as explained in note 8(c).

#### (g) Fox River

As explained in note 27, a Group subsidiary has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States and, in 2011, the subsidiary provided £274 million in respect of claims in relation to environmental clean-up costs of the Fox River.

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into a Funding Agreement with regard to the costs for the clean-up of Fox River.

In January 2017, NCR and Appvion entered into a consent decree with the US Government to resolve how the remaining clean-up will be funded and to resolve further outstanding claims between them. The Consent Decree was approved by a US District Judge in August 2017. The US Government enforcement action against NCR was terminated as a result of that order and contribution claims from the Potentially Responsible Parties ("PRPs") against NCR were dismissed. On 4 January 2019, the US Government, P. H. Glatfelter and Georgia-Pacific (the remaining Fox River PRPs) sought approval for a separate Consent Decree to bring an end to all litigation concerning the Fox River clean-up. This Consent Decree was approved by the District Court of the Eastern District of Wisconsin on 14 March 2019 and concludes all existing litigation on the Fox River.

In July 2016, the High Court ruled in a Group subsidiary's favour that a dividend of €135 million paid by Windward to Sequana in May 2009 was a transaction made with the intention of putting assets beyond the reach of the Group subsidiary and of negatively impacting its interests. On 10 February 2017, further to a hearing in January 2017 to determine the relief due, the Court found in the Group subsidiary's favour, ordering that Sequana must pay an amount up to the full value of the dividend plus interest which equates to around US\$185 million, related to past and future clean-up costs. The Court granted all parties leave to appeal and Sequana a stay in respect of the above payments. In June 2018, the Court of Appeal heard arguments in the Sequana Claims Appeal (as defined in note 27). On 6 February 2019, the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay the above mentioned dividend. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling. In February 2017, Sequana entered into a process in France seeking court protection (the "Sauvegarde"), exiting the Sauvegarde in June 2017. On 7 March 2019, Sequana announced that it was unable to pay its debts and that it had applied to convert the Sauvegarde into "redressement judiciaire", a form of insolvent receivership. On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings ("liquidation judiciaire"). No payments have been received.

The provision is £73 million at 31 December 2019 (2018: £108 million). Based on the Funding Agreement, £35 million has been paid in 2019, which includes legal costs of £3 million (2018: £30 million, including legal costs of £5 million; 2017: £25 million, including legal costs of £7 million).

#### (h) Other adjusting items

##### Included within 'other operating expenses'

In 2019, the Group incurred £874 million (2018: £294 million; 2017: £69 million) of other adjusting items which have been adjusted within 'other operating expenses'. The charge in 2019 includes £436 million in respect of the Quebec class actions as explained in note 27.

On 12 August 2019, the Russian tax authority issued a final audit report to JSC British American Tobacco-SPb (BAT SpB) related to the application of legislation introduced in 2017 that prospectively limited the amount of production that could take place prior to excise tax increases, without being subject to higher excise tax rates. The Final audit report seeks to retrospectively apply the legislation to the years 2015 to 2017. On 13 September 2019, BAT SpB submitted an appeal to the Federal Tax Services (FTS) objecting to the findings which was discussed in October 2019. The FTS accepted some of BAT SpB's arguments and, on 27 January 2020, a final claim was issued by the FTS. As a consequence, the Group recognised a charge of £202 million included in other adjusting items. The Group also recognised an interest charge of £50 million (note 4(b)).

Also included in 2019 are £236 million (2018: £178 million) of litigation costs which includes the *Engle* progeny litigation.

In 2017, the Group impaired £69 million of certain assets related to a third-party distributor (Agrokor) in Croatia. This has been adjusted within 'other operating expenses'.

##### Included within 'Changes in inventories of finished goods and work in progress'

In 2017, the release of the fair value acquisition accounting adjustments to finished goods inventories of £465 million on the RAI acquisition has been adjusted within 'Changes in inventories of finished goods and work in progress'.

##### Included within 'depreciation, amortisation and impairment'

During 2019, the Group impaired the goodwill arising from the Bentoel acquisition, amounting to £172 million, goodwill arising from the VapeWild acquisition of £12 million and goodwill arising from the Highendsmoke acquisition of £10 million as explained in note 8.

**NOTES ON THE ACCOUNTS****CONTINUED****3 Profit from operations continued**

In 2018, the European Securities and Markets Authority (ESMA) recognised the specific issues related to Venezuela and proposed that companies with exposure to Venezuela use an 'estimated' exchange rate rather than the official exchange rate, as otherwise required under IAS 21. Accordingly, the Group has used an exchange rate calculated with reference to the estimated inflation since the latest dividend payment in 2010. In addition, the net assets of the Group's Venezuelan operations are subject to accounting adjustments IAS 29 *Financial Reporting in Hyperinflationary Economies*, as they are revalued, for accounting purposes, from their acquisition date to the balance sheet date. However, management believes that such a revaluation is not reflective of the recoverable value of those assets and have incurred an impairment charge of £110 million. This charge has been treated as an adjusting item as it does not reflect the underlying performance of the Group. The Group has also recognised a gain of £45 million within net finance costs (note 4(b)), being the partial counter-party to the above non-monetary asset movement, generating a monetary gain due to hyperinflation accounting under IAS 29.

**(i) Other operating income**

Other operating income comprises income that is associated with the Group's normal activities, but which falls outside the definition of turnover and includes one-off capital profits on property sales and one-off disposals of fixed assets.

In 2019, as explained in note 27, the Group recognised £86 million in respect of a tax case in Brazil. In addition, as discussed in note 3(e) above, certain items of operating income have been incurred as part of the Group's restructuring and integration activities.

**4 Net finance costs****(a) Net finance costs/(income)**

	2019 £m	2018 £m	2017 £m
Interest expense	1,676	1,592	1,079
Interest expense on lease liabilities	32	1	2
Facility fees	10	13	13
Interest related to adjusting tax payables (note 4(b))	80	41	43
Acquisition of RAI (note 4(b))	–	–	153
Fair value changes on derivative financial instruments and hedged items	367	(154)	(149)
Hedge ineffectiveness (note 4(b))	–	–	9
Venezuela hyperinflation (note 4(b))	–	(45)	–
Exchange differences on financial liabilities	(353)	36	47
<b>Finance costs</b>	<b>1,812</b>	<b>1,484</b>	<b>1,197</b>
Interest under the effective interest method	(84)	(68)	(83)
Dividend income	–	–	(1)
Exchange differences on financial assets	(126)	(35)	(19)
<b>Finance income</b>	<b>(210)</b>	<b>(103)</b>	<b>(103)</b>
<b>Net finance costs</b>	<b>1,602</b>	<b>1,381</b>	<b>1,094</b>

The Group manages foreign exchange gains and losses and fair value changes on a net basis excluding adjusting items, which are explained in note 4(b). The derivatives that generate the fair value changes are explained in note 15.

Facility fees principally relate to the Group's central banking facilities.

**(b) Adjusting items included in net finance costs**

Adjusting items are significant items in net finance costs which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance.

In 2019, the Group incurred interest on adjusting tax payables of £80 million (2018: £41 million; 2017: £43 million). This included interest of £28 million (2018: £25 million; 2017: £25 million) in relation to the Franked Investment Income Group Litigation Order (FII GLO) (note 6(b)) and interest of £50 million (2018: £nil; 2017: £nil) in respect of the Russia excise dispute (note 3(h)).

In 2018, the Group recognised a monetary gain of £45 million related to the application of hyperinflationary accounting in Venezuela (note 3(h)).

In 2017, the Group incurred pre-financing costs related to the acquisition of RAI of £153 million.

Also in 2017, the Group realised a £9 million charge in relation to the reversal of a gain recognised in 2016, related to hedge ineffectiveness on external swaps following the referendum regarding 'Brexit'. These amounts were deemed to be adjusting as it is not representative of the underlying performance of the business.

## 5 Associates and joint ventures

	2019		2018		2017	
	Total £m	Group's share £m	Total £m	Group's share £m	Total £m	Group's share £m
Revenue	7,581	2,158	7,235	2,058	14,085	4,794
Profit from operations*	2,386	704	2,128	630	4,342	24,854
Net finance costs	(7)	(2)	(8)	(3)	(279)	(116)
Profit on ordinary activities before taxation	2,379	702	2,120	627	4,063	24,738
Taxation on ordinary activities	(666)	(196)	(678)	(201)	(1,441)	(522)
Profit on ordinary activities after taxation	1,713	506	1,442	426	2,622	24,216
Non-controlling interests	(27)	(8)	(24)	(7)	(22)	(7)
Post-tax results of associates and joint ventures	1,686	498	1,418	419	2,600	24,209

The post-tax results above include:

– issue of shares and change in shareholding	86	25	75	22	98	29
– gain on deemed divestment of RAI	–	–	–	–	–	23,288
– other	–	–	35	10	(283)	(120)

\* The gain on deemed divestment of RAI is recognised in the Group's share of associates profit from operations.

Enumerated below are movements that have impacted the post-tax results of associates and joint ventures in 2019, 2018 and 2017.

### (a) Adjusting items

In 2019, the Group's interest in ITC Ltd. (ITC) decreased from 29.57% to 29.46% (2018: 29.71% to 29.57%; 2017: 29.89% to 29.71%) as a result of ITC issuing ordinary shares under the ITC Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £25 million (2018: £22 million; 2017: £29 million), which is treated as a deemed partial disposal and included in the income statement.

In 2018, ITC has also recognised an adjusting gain in respect of the release of certain provisions related to a tax claim, the Group's share of which was £10 million.

On 25 July 2017, the Group announced the completion of the acquisition of the 57.8% of RAI the Group did not already own. As at this date RAI ceased to be reported as an associate and has become a fully owned subsidiary. Accordingly, as at that date, the Group was deemed to divest its investment in RAI as an associate and consolidated RAI in accordance with IFRS 10 *Consolidated Financial Statements*. This resulted in a gain of £23,288 million that has been reported in the Group's share of post-tax results of associates and joint ventures.

In 2017, due to a deterioration in the financial performance of Tisak d.d. (Tisak), linked to the financial difficulties associated with a third-party distributor (Agrokor) in Croatia, the Group impaired the carrying value of this investment. This resulted in a charge of £27 million to the income statement that has been reported as an 'other' adjusting item.

In 2017, RAI recognised, prior to acquisition by the Group, the following amounts in 'other': transaction costs associated with the acquisition by the Group of US\$125 million, the Group's share of which is £33 million (net of tax), deferred tax charges in respect of temporary differences on trademarks of US\$51 million, the Group's share of which is £18 million, restructuring charges of US\$79 million, the Group's share of which is £14 million (net of tax) and costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amounted to US\$162 million, the Group's share of which is £32 million (net of tax). Additionally, there is income of US\$17 million related to the Non-Participating Manufacturer (NPM) Adjustment claims of the states no longer challenging the findings of non-diligence entered against them by an Arbitration Panel, the Group's share of which is £4 million (net of tax).

**NOTES ON THE ACCOUNTS****CONTINUED****5 Associates and joint ventures continued****(b) Master Settlement Agreement**

For information on the Master Settlement Agreement applicable to RAI as an associate for the period up to and including 24 July 2017 (note 3(d)).

**(c) Other financial information**

The Group's share of the results of associates and joint ventures is shown in the table below.

	2019 Group's share £m	2018 Group's share £m	2017 Group's share £m
Profit on ordinary activities after taxation			
– attributable to owners of the Parent	498	419	24,209
Other comprehensive income:			
Items that may be reclassified to profit & loss	(115)	(38)	(918)
Items that will not be reclassified to profit & loss	7	6	25
<b>Total comprehensive income</b>	<b>390</b>	<b>387</b>	<b>23,316</b>

Summarised financial information of the Group's associates and joint ventures is shown below.

	2019		
	ITC £m	Others £m	Total £m
Revenue	5,556	2,025	7,581
Profit on ordinary activities before taxation	2,322	57	2,379
Post-tax results of associates and joint ventures	1,646	40	1,686
Other comprehensive income	(365)	–	(365)
<b>Total comprehensive income</b>	<b>1,281</b>	<b>40</b>	<b>1,321</b>

	2018		
	ITC £m	Others £m	Total £m
Revenue	5,072	2,163	7,235
Profit on ordinary activities before taxation	2,059	61	2,120
Post-tax results of associates and joint ventures	1,373	45	1,418
Other comprehensive income	(110)	–	(110)
<b>Total comprehensive income</b>	<b>1,263</b>	<b>45</b>	<b>1,308</b>

	2017		
	RAI* £m	ITC £m	Others £m
Revenue	5,525	6,607	1,953
Profit on ordinary activities before taxation	2,017	2,054	(8)
Post-tax results of associates and joint ventures	1,261	1,362	(23)
Other comprehensive income	(595)	(135)	(8)
<b>Total comprehensive income</b>	<b>666</b>	<b>1,227</b>	<b>(31)</b>
			<b>1,862</b>

\* The information presented above for RAI is for the period from 1 January 2017 up to and including 24 July 2017 (see note 23).

## 6 Taxation on ordinary activities

### (a) Summary of taxation on ordinary activities

	2019 £m	2018 £m	2017 £m
UK corporation tax	8	60	26
Comprising:			
– current year tax expense	41	66	26
– adjustments in respect of prior periods	(33)	(6)	–
Overseas tax	2,047	2,455	1,617
Comprising:			
– current year tax expense	2,074	2,460	1,615
– adjustments in respect of prior periods	(27)	(5)	2
<b>Total current tax</b>	<b>2,055</b>	<b>2,515</b>	<b>1,643</b>
Deferred tax	8	(374)	(9,772)
Comprising:			
– deferred tax relating to origination and reversal of temporary differences	55	(304)	(152)
– deferred tax relating to changes in tax rates	(47)	(70)	(9,620)
	<b>2,063</b>	<b>2,141</b>	<b>(8,129)</b>

### (b) Franked Investment Income Group Litigation Order

The Group is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 25 corporate groups in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK.

The original claim was filed in 2003. The trial of the claim was split broadly into issues of liability and quantification. The main liability issues were heard by the High Court, Court of Appeal and Supreme Court in the UK and the European Court of Justice in the period to November 2012. The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgment handed down on 18 December 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advance corporation tax, the law of restitution including the defence on change of position and questions concerning the calculation of overpaid interest, the approach of the Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for the Group. Appeals on a majority of the issues were made to the Court of Appeal, which heard the arguments in June 2016. The Court of Appeal determined in November 2016 on the majority of issues that the conclusion reached by the High Court should be upheld. The Supreme Court has notified the parties in the FII GLO that the outstanding appeal issues will be heard in two separate trials in 2020. In July 2018, the Supreme Court handed down its judgment in the Prudential Assurance Company Ltd case, which is closely related to the FII GLO. Applying the Prudential judgment reduces the value of the FII claim to approximately £0.6 billion, mainly as the result of the application of simple interest.

During 2015, HMRC paid to the Group a gross amount of £1,224 million in two separate payments. The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal. The second payment in November 2015 followed the introduction of a new 45% tax on the interest component of restitution claims against HMRC. HMRC held back £261 million from the second payment contending that it represents the new 45% tax on that payment, leading to total cash received by the Group of £963 million. Actions challenging the legality of the withholding of the 45% tax have been lodged by the Group. The First Tier Tribunal found in favour of HMRC in July 2017 and the Group's appeal to the Upper Tribunal was heard in July 2018 and judgment has not yet been handed down.

Due to the uncertainty of the amounts and eventual outcome the Group has not recognised any impact in the Income Statement in the current or prior period. The receipt, net of the deduction by HMRC, is held as deferred income as disclosed in note 21. Any future recognition as income will be treated as an adjusting item, due to the size of the amount, with interest of £28 million for the 12 months to 31 December 2019 (2018: £25 million; 2017: £25 million) accruing on the balance, which was also treated as an adjusting item.

**NOTES ON THE ACCOUNTS**

CONTINUED

**6 Taxation on ordinary activities continued****(c) Factors affecting the taxation charge**

The taxation charge differs from the standard 19% (2018: 19%; 2017: 19%) rate of corporation tax in the UK. The major causes of this difference are listed below:

	2019		2018		2017	
	£m	%	£m	%	£m	%
Profit before tax	7,912		8,351		29,527	
Less: share of post-tax results of associates and joint ventures (see note 5)	(498)		(419)		(24,209)	
	7,414		7,932		5,318	
Tax at 19% (2018 and 2017: 19%) on the above	1,409	19.0	1,507	19.0	1,010	19.0
Factors affecting the tax rate:						
Tax at standard rates other than UK corporation tax rate	353	4.8	384	4.8	389	7.3
Other national tax charges	147	2.0	204	2.6	119	2.2
Permanent differences	122	1.6	7	0.1	40	0.8
Overseas tax on distributions	–	–	–	–	25	0.5
Overseas withholding taxes	106	1.4	155	1.9	191	3.6
Double taxation relief on UK profits	(29)	(0.4)	(35)	(0.4)	(29)	(0.5)
Unutilised/(utilised) tax losses	16	0.2	5	0.1	(38)	(0.7)
Adjustments in respect of prior periods	(60)	(0.8)	(11)	(0.1)	2	0.0
Deferred tax relating to changes in tax rates	(47)	(0.6)	(70)	(0.9)	(9,620)	(180.9)
Deemed US repatriation tax	–	–	–	–	34	0.6
Release of deferred tax on unremitted earnings of associates	–	–	–	–	(180)	(3.4)
Additional net deferred tax charges/(credits)	46	0.6	(5)	(0.1)	(72)	(1.4)
	2,063	27.8	2,141	27.0	(8,129)	(152.9)

**(d) Adjusting items included in taxation**

In 2019, adjusting items in taxation total a credit of £65 million relating primarily to changes in US state tax rates, relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the RAI acquisition in 2017.

In 2018, adjusting items in taxation relate to a £79 million credit due to changes in US state tax rates in the period, relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the RAI acquisition in 2017, and a £55 million charge related to retrospective guidance issued by a tax authority in the ENA region regarding the application of withholding tax (WHT) between 2015 and 2017.

On 22 December 2017, the United States Government enacted comprehensive tax legislation which, among other things, changed the Federal tax rate to 21% from 1 January 2018. This revised rate has been used to revalue net deferred tax liabilities in the United States, leading to a credit to the income statement of £9,620 million. The net deferred tax liabilities largely relate to the difference in tax value versus the fair market value of trademarks accounted for under IFRS as part of the RAI acquisition. The legislation also imposed a one-time deemed repatriation tax on accumulated foreign earnings. The impact of the repatriation tax, less foreign tax credits, was £34 million. IFRS also requires entities to provide deferred taxation on the undistributed earnings of associates and joint ventures. From the date of the acquisition of the remaining shares in RAI not already owned by the Group, the Group has consolidated the results of RAI as a wholly-owned subsidiary and as such the deferred tax liability of £180 million on unremitted earnings of RAI as an associate was released to the income statement in 2017.

**(e) Tax on adjusting items**

In addition, the tax on adjusting items, separated between the different categories, as per note 7, amounted to £373 million (2018: £199 million; 2017: £454 million). The adjustment to the adjusted earnings per share (note 7) also includes £17 million (2018: £6 million; 2017: £4 million) in respect of the non-controlling interests' share of the adjusting items net of tax.

**(f) Tax on items recognised directly in other comprehensive income**

	2019 £m	2018 £m	2017 £m
Current tax	(7)	(8)	(4)
Deferred tax	138	(7)	(133)
Credited/(charged) to other comprehensive income	131	(15)	(137)

The tax relating to each component of other comprehensive income is disclosed in note 18.

## 7 Earnings per share

	2019			2018			2017	
	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m
Basic earnings per share (ordinary shares of 25p each)	5,704	2,284	249.7	6,032	2,285	264.0	37,485	2,044
Share options	–	7	(0.7)	–	7	(0.8)	–	7
Diluted earnings per share	5,704	2,291	249.0	6,032	2,292	263.2	37,485	2,051
								1,827.6

### Adjusted earnings per share calculation

Earnings have been affected by a number of adjusting items, which are described in notes 3 to 6. Adjusting items are significant items in the profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance. To illustrate the impact of these items, an adjusted earnings per share calculation is shown below.

	Notes	2019			2018		Basic	
		Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings per share pence
Basic earnings per share		5,704	249.7	6,032	264.0	37,485	1,833.9	
Effect of restructuring and integration costs	3(e)	565	24.7	363	15.9	600	29.4	
Tax and non-controlling interests on restructuring and integration costs		(101)	(4.4)	(83)	(3.6)	(133)	(6.5)	
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	3(f), (h)	675	29.6	377	16.5	383	18.7	
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles		(115)	(5.0)	(78)	(3.4)	(90)	(4.4)	
Effect of associates' adjusting items net of tax	5(a)	(25)	(1.1)	(32)	(1.4)	(23,197)	(1,134.9)	
Effect of Quebec class action	3(h)	436	19.1	–	–	–	–	
Tax on Quebec class action		(124)	(5.4)	–	–	–	–	
Effect of Russia excise dispute	3(h)	202	8.9	–	–	–	–	
Tax on Russia excise dispute		(16)	(0.7)	–	–	–	–	
Effect of hyperinflation on Venezuela retained earnings	3(h), 4(b)	–	–	65	2.8	–	–	
Other adjusting items	3(h)	236	10.3	184	8.0	534	26.1	
Tax effect on other adjusting items		(50)	(2.2)	(44)	(1.9)	(184)	(8.9)	
Deferred tax relating to changes in tax rates	6	(49)	(2.2)	(79)	(3.5)	(9,586)	(469.0)	
Release of deferred tax on unremitted earnings from associates	6(d)	–	–	–	–	(180)	(8.8)	
Effect of interest on FII GLO settlement and other	4(b)	80	3.5	41	1.8	43	2.1	
Effect of retrospective guidance on WHT	6(d)	–	–	55	2.4	–	–	
Effect of adjusting finance costs in relation to acquisition of RAI	4(b)	–	–	–	–	153	7.5	
Tax effect of adjusting finance costs in relation to acquisition of RAI		–	–	–	–	(49)	(2.4)	
Effect of hedge ineffectiveness	4(b)	–	–	–	–	9	0.4	
Tax effect on hedge ineffectiveness		–	–	–	–	(2)	(0.1)	
<b>Adjusted earnings per share (basic)</b>		<b>7,418</b>	<b>324.8</b>	<b>6,801</b>	<b>297.6</b>	<b>5,786</b>	<b>283.1</b>	

**NOTES ON THE ACCOUNTS****CONTINUED****7 Earnings per share continued**

	Notes					Diluted
		2019		2018		2017
		Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m
Diluted earnings per share		5,704	249.0	6,032	263.2	37,485
Effect of restructuring and integration costs	3(e)	565	24.7	363	15.8	600
Tax and non-controlling interests on restructuring and integration costs		(101)	(4.4)	(83)	(3.6)	(133)
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	3(f), (h)	675	29.5	377	16.4	383
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles		(115)	(5.0)	(78)	(3.4)	(90)
Effect of associates' adjusting items net of tax	5(a)	(25)	(1.1)	(32)	(1.4)	(23,197)
Effect of Quebec class action	3(h)	436	19.0	—	—	—
Tax on Quebec class action		(124)	(5.4)	—	—	—
Effect of Russia excise dispute	3(h)	202	8.8	—	—	—
Tax on Russia excise dispute		(16)	(0.7)	—	—	—
Effect of hyperinflation on Venezuela retained earnings	3(h), 4(b)	—	—	65	2.8	—
Other adjusting items	3(h)	236	10.3	184	8.0	534
Tax effect on other adjusting items		(50)	(2.2)	(44)	(1.9)	(184)
Deferred tax relating to changes in tax rates	6	(49)	(2.2)	(79)	(3.4)	(9,586)
Release of deferred tax on unremitted earnings from associates	6(d)	—	—	—	—	(180)
Effect of interest on FII GLO settlement and other	4(b)	80	3.5	41	1.8	43
Effect of retrospective guidance on WHT	6(d)	—	—	55	2.4	—
Effect of adjusting finance costs in relation to acquisition of RAI	4(b)	—	—	—	—	153
Tax effect of adjusting finance costs in relation to acquisition of RAI		—	—	—	—	(49)
Effect of hedge ineffectiveness	4(b)	—	—	—	—	9
Tax effect on hedge ineffectiveness		—	—	—	—	(2)
<b>Adjusted earnings per share (diluted)</b>		<b>7,418</b>	<b>323.8</b>	<b>6,801</b>	<b>296.7</b>	<b>5,786</b>
						282.1

## 7 Earnings per share continued

### Headline earnings per share as required by the JSE Limited

The presentation of headline earnings per share, as an alternative measure of earnings per share, is mandated under the JSE Listing Requirements. It is calculated in accordance with Circular 1/2019 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

	Basic					
	2019		2018		2017	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic earnings per share	5,704	249.7	6,032	264.0	37,485	1,833.9
Effect of impairment of intangibles, property, plant and equipment and assets held-for-sale	518	22.7	238	10.3	179	8.7
Tax and non-controlling interests on impairment of intangibles and property, plant and equipment	(79)	(3.5)	(65)	(2.8)	(35)	(1.7)
Effect of losses/(gains) on disposal of property, plant and equipment and held-for-sale assets	7	0.3	(11)	(0.5)	(48)	(2.3)
Tax and non-controlling interests on disposal of property, plant and equipment and held-for-sale assets	(1)	–	4	0.2	13	0.6
Effect of gains on disposal of businesses, non-current investments and brands	–	–	(10)	(0.4)	–	–
Tax on gains on disposal of businesses, non-current investments and brands	–	–	2	0.1	–	–
Gain on deemed disposal of RAI associate	–	–	–	–	(23,288)	(1,139.3)
Write-off of investment in associate	–	–	–	–	27	1.3
Issue of shares and change in shareholding in associate	(25)	(1.1)	(22)	(1.0)	(29)	(1.4)
<b>Headline earnings per share (basic)</b>	<b>6,124</b>	<b>268.1</b>	<b>6,168</b>	<b>269.9</b>	<b>14,304</b>	<b>699.8</b>

	Diluted					
	2019		2018		2017	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted earnings per share	5,704	249.0	6,032	263.2	37,485	1,827.6
Effect of impairment of intangibles, property, plant and equipment and assets held-for-sale	518	22.5	238	10.3	179	8.6
Tax and non-controlling interests on impairment of intangibles and property, plant and equipment	(79)	(3.4)	(65)	(2.8)	(35)	(1.7)
Effect of losses/(gains) on disposal of property, plant and equipment and held-for-sale assets	7	0.3	(11)	(0.5)	(48)	(2.3)
Tax and non-controlling interests on disposal of property, plant and equipment and held-for-sale assets	(1)	–	4	0.2	13	0.6
Effect of gains on disposal of businesses, non-current investments and brands	–	–	(10)	(0.4)	–	–
Tax on gains on disposal of businesses, non-current investments and brands	–	–	2	0.1	–	–
Gain on deemed disposal of RAI associate	–	–	–	–	(23,288)	(1,135.4)
Write-off of investment in associate	–	–	–	–	27	1.3
Issue of shares and change in shareholding in associate	(25)	(1.1)	(22)	(1.0)	(29)	(1.4)
<b>Headline earnings per share (diluted)</b>	<b>6,124</b>	<b>267.3</b>	<b>6,168</b>	<b>269.1</b>	<b>14,304</b>	<b>697.3</b>

**NOTES ON THE ACCOUNTS**

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**8 Intangible assets****(a) Overview of intangible assets**

	2019				
	Goodwill £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £m
<b>1 January</b>					
Cost	46,163	1,101	78,736	125	126,125
Accumulated amortisation and impairment	(698)	(1,414)			(2,112)
<b>Net book value at 1 January</b>	<b>46,163</b>	<b>403</b>	<b>77,322</b>	<b>125</b>	<b>124,013</b>
Differences on exchange	(1,676)	(2)	(2,976)	–	(4,654)
Additions					
– internal development	–	–	–	148	148
– acquisitions (note 23)	23	–	54	–	77
– separately acquired	–	–	7	6	13
Reallocations	–	134	30	(164)	–
Amortisation charge	–	(105)	(361)	–	(466)
Impairment	(194)	(3)	(147)	–	(344)
<b>31 December</b>					
Cost	44,316	1,207	75,726	115	121,364
Accumulated amortisation and impairment	(780)	(1,797)			(2,577)
<b>Net book value at 31 December</b>	<b>44,316</b>	<b>427</b>	<b>73,929</b>	<b>115</b>	<b>118,787</b>

	2018				
	Goodwill £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £m
<b>1 January</b>					
Cost	44,147	1,119	74,136	71	119,473
Accumulated amortisation and impairment	(672)	(1,016)			(1,688)
<b>Net book value at 1 January</b>	<b>44,147</b>	<b>447</b>	<b>73,120</b>	<b>71</b>	<b>117,785</b>
Differences on exchange	2,024	–	4,483	–	6,507
Additions					
– internal development	–	–	–	120	120
– acquisitions (note 23)	14	–	13	–	27
– separately acquired	–	–	62	–	62
Reallocations	(22)	58	30	(66)	–
Amortisation charge	–	(102)	(342)	–	(444)
Impairment	–	–	(44)	–	(44)
<b>31 December</b>					
Cost	46,163	1,101	78,736	125	126,125
Accumulated amortisation and impairment	(698)	(1,414)			(2,112)
<b>Net book value at 31 December</b>	<b>46,163</b>	<b>403</b>	<b>77,322</b>	<b>125</b>	<b>124,013</b>

**(b) Goodwill**

Goodwill of £44,316 million (2018: £46,163 million) is included in intangible assets in the balance sheet of which the following are the significant acquisitions: RAI £33,761 million (2018: £35,117 million); Rothmans Group £4,704 million (2018: £4,856 million); Imperial Tobacco Canada £2,335 million (2018: £2,307 million); ETI (Italy) £1,396 million (2018: £1,478 million) and ST (principally Scandinavia) £1,048 million (2018: £1,111 million). The principal allocations of goodwill in the Rothmans' acquisition are to the cash-generating units of Europe and South Africa, with the remainder mainly relating to operations in the domestic and export markets in the United Kingdom and operations in APME.

## 8 Intangible assets continued

During 2019, the Group recognised a goodwill impairment charge of £194 million as explained in note 8(e)(iv) below.

### (c) Trademarks and similar intangibles

#### Trademarks and similar intangibles with indefinite lives

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of RAI with indefinite lives amounting to £71,032 million (2018: £73,885 million). These trademarks, including Newport, Camel, Natural American Spirit, Grizzly and Pall Mall, all of which are part of the Group's Strategic Portfolio of key brands, form the core focus of the US business and receive significant support in the form of dedicated internal resources, forecasting and, where appropriate, marketing investment. These trademarks have significant market share and positive cash flow growth expectations. There are no regulatory or contractual restrictions on the use of the trademarks, and there are no plans by management to significantly redirect resources elsewhere. Consequently, in the view of management, these trademarks do not have a foreseeable and definite end to their ability to generate future cash flows and hence are not amortised.

#### Trademarks and similar intangibles with definite lives

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of RAI £2,590 million (2018: £3,013 million), Skandinavisk Tobakskompagni (ST) £175 million (2018: £209 million) and TDR d.o.o. £17 million (2018: £40 million).

In 2019, as a result of declining volumes, the Group recognised a partial impairment of the Kodiak brand of £63 million. In addition, as a result of the regulatory uncertainty in the US vaping market, the Group will not submit Premarket Tobacco Applications (PMTA) for the vaping e-liquids purchased as part of the VapeWild acquisition (note 23). As a consequence, the Group recognised an impairment charge of £37 million in respect of the brands acquired as part of the acquisition. The Group will withdraw the VapeWild products from the market in May 2020. Also in 2019, the Group announced that it was simplifying its New Category product portfolio, with vapour products to be branded VUSE, modern oral products to be branded VELO and tobacco heating products continuing to be branded glo. As a result, the carrying values of trademarks and similar intangible assets acquired as part of the Chic, Must Have Limited and Quantus/Highendsmoke business combinations (see note 23), amounting to £29 million in total, have been fully impaired, as the acquired trademarks will no longer generate future economic benefits.

During 2018, a purchase price allocation adjustment was recognised in respect of the provisional goodwill recognised as a result of the Group acquiring certain tobacco assets, including a distribution company, from Bulgartabac Holdings AD in Bulgaria. The provisional goodwill of £22 million was reclassified to trademarks and similar intangibles with definite lives.

### (d) Computer software and assets in the course of development

Included in computer software and assets in the course of development are internally developed assets with a carrying value of £516 million (2018: £523 million). The costs of internally developed assets include capitalised expenses of employees working full time on software development projects, third-party consultants, and software licence fees from third-party suppliers.

The Group has £4 million of future contractual commitments (2018: £6 million) related to intangible assets.

### (e) Impairment testing

#### (i) Estimation uncertainty

As described in note 1, the critical accounting estimates used in the preparation of the consolidated financial statements include the review of asset values, especially indefinite life assets such as goodwill and certain trademarks and similar intangibles.

There is significant judgement with regard to assumptions and estimates involved in the forecasting of future cash flows, which form the basis of the assessment of the recoverability of these assets, with the effect that the value-in-use of calculations incorporate estimation uncertainty, particularly for certain assets held in relation to the Canada and US markets.

#### (ii) Impairment testing – Trademarks and similar intangibles with indefinite lives ('brands')

The trademarks and similar intangibles have been tested for impairment in line with the following methodology. The recoverable amounts of trademarks and similar intangibles with indefinite lives have been determined on a value-in-use basis. The value-in-use calculations use cash flows based on detailed brand budgets prepared by management using projected sales volumes, revenues and projected brand profitability covering a five-year to 10-year horizon depending on the brand and, thereafter, grown into perpetuity. Corporate costs are allocated to the brand budgets based on either specific allocations, where appropriate, or based on volumes. The pre-tax discount rates, ranging between 8.32% and 9.02%, and long-term growth rates, ranging between 0.75% and 1.0%, applied to the brand value-in-use calculations have been determined by local management based on experience, specific market and brand trends and pricing and cost expectations. Following the application of a reasonable range of sensitivities, there was no indication of impairment.

Refer to note 8(e)(v) for further information on the Newport brand impairment testing. As the trademarks and similar intangibles with indefinite lives relate to the acquisition of RAI, the brand budgets used in the value-in-use calculations have been incorporated into the budget information used in the impairment testing of the RAI goodwill.

#### (iii) Cash-generating units and information on goodwill impairment testing

In 2019, goodwill was allocated for impairment testing purposes to 21 (2018: 19) individual cash-generating units – two in the United States (2018: one), five in APME (2018: five), seven in AMSSA (2018: six) and seven in ENA (2018: seven).

**NOTES ON THE ACCOUNTS****CONTINUED****8 Intangible assets continued**

	2019		2018	
	Carrying amount £m	Pre-tax discount rate %	Carrying amount £m	Pre-tax discount rate %
<b>Cash-generating unit</b>				
RAI	33,761	7.3	35,117	7.7
Canada	2,335	19.1	2,307	7.5
Europe	4,809	6.2	5,069	7.5
South Africa	598	9.3	605	10.6
Australia	711	6.7	740	7.9
Singapore	599	6.4	615	6.6
Malaysia	435	7.5	448	8.2
Other	1,068	6.8	1,262	7.9
<b>Total</b>	<b>44,316</b>		<b>46,163</b>	

For CGU Other the weighted average pre-tax discount rate has been used.

The recoverable amounts of all cash-generating units have been determined on a value-in-use basis. The key assumptions for the recoverable amounts of all units are the budgeted volumes, revenues, operating margins and long-term growth rates, which directly impact the cash flows, and the discount rates used in the calculation. The long-term growth rate is used purely for the impairment testing of goodwill under IAS 36 *Impairment of Assets* and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments.

Pre-tax discount rates, as shown above, were used in the impairment testing, based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made. These adjustments are derived from external sources and are based on the spread between bonds (or credit default swaps, or similar indicators) issued by the US or comparable governments and by the relevant local government, adjusted for the Group's own credit market risk. For ease of use and consistency in application, these results are periodically calibrated into bands based on internationally recognised credit ratings. The long-term growth rates and discount rates have been applied to the budgeted cash flows of each cash-generating unit. These cash flows have been determined by local management based on experience, specific market and brand trends as well as pricing and cost expectations. These have been endorsed by Group management as part of the consolidated Group's budget.

**(iv) Impairment testing – Goodwill (excluding RAI and Canada)**

The value-in-use calculations use cash flows based on detailed financial budgets prepared by management covering a one-year period extrapolated over a 10-year horizon with growth of 4% in years 2 to 10, including 2% inflation (2018: 2% inflation), after which a total growth rate of 2% (2018: 2%) has been assumed as the long-term volume decline is more than offset by pricing to drive revenue growth. A 10-year horizon is considered appropriate based on the Group's history of profit and cash growth, its well-balanced portfolio of brands and the industry in which it operates. In some instances, such as recent acquisitions, start-up ventures or in specific cases, the forecast is expanded to reflect the medium-term plan of the country or market management spanning five years or beyond. Following the application of a reasonable range of sensitivities to all the cash-generating units, and after reflecting the impairments below, there was no indication of any further impairment.

In 2009, the Group acquired Bentoel and the goodwill arising from this acquisition was assigned to the Indonesia cash-generating unit. During 2019, the Indonesian government announced a significant increase in excise effective 1 January 2020. The recoverable amount of the Indonesia cash-generating unit has been determined on a value-in-use basis using a 10-year forecast with cash flows after year 10 extrapolated as described above. The 10-year forecast has been prepared to take into account the expected decline in revenue and the impact this will have on net revenue, operating profit and cash flows. The extent of the significant increase in excise is such that the forecast cash flows do not support the carrying value of goodwill and therefore the goodwill of £172 million has been fully impaired. The other assets held by the Indonesian cash-generating unit were assessed for impairment and based on the recoverable amounts, no impairment charges were recognised.

As explained in note 8(c) above, in addition to the impairment of trademarks and similar intangibles, the goodwill associated with the acquisitions of VapeWild and Quantus/Highendsmoke (note 23) have been impaired in full amounting to £12 million and £10 million, respectively.

**(v) Impairment testing – RAI****Goodwill relating to RAI and the Newport trademark**

On 15 November 2018, the US Food and Drug Administration (FDA) announced an intention to ban flavoured vaping products and menthol cigarette. Management recognises that the FDA announcement in 2018 does not itself constitute a ban on menthol in cigarettes, and any proposed regulation of menthol in cigarettes would need to be introduced through the established US comprehensive rule-making process, the timetable and outcome for which was, and remains, uncertain. In addition, it is unclear how any such potential US regulation might affect the manufacture and marketing of Group combustible brands containing menthol.

Having considered the combination of the risk of implementation and impact of any change in regulations, the Group has not recognised any impairment in 2019 or 2018 on either the Newport brand or RAI goodwill, as management concluded that there would not be a significant impact to the value-in-use. The base case scenario used in the impairment model therefore does not include any potential impact of changes in regulation in relation to menthol flavourings in combustibles.

## 8 Intangible assets continued

The carrying amounts for RAI goodwill and Newport were £33,761 million and £30,179 million respectively (2018: £35,117 million and £31,391 million). The value-in-use calculations for brands, as described in note 8(e)(ii) above, have been incorporated in the base case scenario used in the RAI goodwill model. The value-in-use calculations have been prepared based on a five-year cash flow forecast, which assumes long-term volume decline of cigarettes. This decline is more than offset by pricing. After this forecast period a growth rate of 2% has been assumed for RAI goodwill and 1% for Newport and a pre-tax discount rate of 7.3% (2018: 7.7%) and 8.6% (2018: 8.7%), respectively.

The excess of value-in-use earnings over the carrying values ("headroom") of the RAI goodwill and Newport brand would be reduced to nil if the following individual changes, none of which are considered reasonably possible by management, were made to the key assumptions used in the impairment model. For RAI goodwill, the change in revenue assumption is based on combustibles revenue in the five-year forecast reducing by 13.4% in each year and assumes that other assumptions are not changed. For Newport, the change in revenue assumption is based on Newport revenue in the five-year forecast reducing by 11.9% in each year and assumes that other assumptions are not changed.

	RAI goodwill %	Newport %
<b>Assumptions</b>		
Decrease in revenue by	13.4	11.9
Increase in pre-tax discount rate by	1.4	0.6

### (vi) Impairment testing – Canada

#### Goodwill relating to Imperial Tobacco Canada Ltd (ITCAN)

In March 2019, ITCAN obtained an Initial Order from the Ontario Superior Court of Justice granting it protection under the Companies' Creditors Arrangement Act ("CCAA"). If the CCAA bankruptcy protection were to end, significant liabilities might crystallise. As a consequence, to reflect the risk to future operating cash flows, the value-in-use calculations have been prepared based on a five-year cash flow forecast, after which a growth rate of -1.8% and a pre-tax discount rate of 19.1% (2018: 7.5%) have been assumed. Further information on the Quebec Class Actions and CCAA can be found in note 27.

In addition to the increase in discount rate, a reasonable range of sensitivities was applied to the value-in-use calculation and there was no indication of impairment.

The excess of value-in-use earnings over the carrying values ("headroom") of the ITCAN goodwill would be reduced to nil if the following individual changes, none of which are considered reasonably possible by management, were made to the key assumptions used in the impairment model. The change in revenue assumption is based on combustibles revenue in the five-year forecast reducing by 19% in each year and assumes that other assumptions are not changed.

	Canada goodwill %
<b>Assumptions</b>	
Decrease in revenue by	19.0
Increase in pre-tax discount rate by	10.3

The £2,335 million of goodwill relating to ITCAN on the Group's balance sheet at 31 December 2019 will continue to be reviewed on a regular basis. Any future impairment charge would result in a non-cash charge to the income statement that will be treated as an adjusting item.

**NOTES ON THE ACCOUNTS**

CONTINUED

**9 Property, plant and equipment**

Overview of property, plant and equipment, including right-of-use assets

						2019
	Freehold property £m	Leasehold property £m	Plant, equipment and other owned £m	Plant, equipment and other leased £m	Assets in the course of construction £m	Total £m
<b>31 December</b>						
Cost	1,515	268	5,730	33	1,108	8,654
Accumulated depreciation and impairment	(411)	(129)	(2,931)	(17)		(3,488)
<b>Net book value at 31 December</b>	<b>1,104</b>	<b>139</b>	<b>2,799</b>	<b>16</b>	<b>1,108</b>	<b>5,166</b>
Accounting policy change (IFRS 16) (note 30)		470		140		610
<b>Net book value at 1 January</b>	<b>1,104</b>	<b>609</b>	<b>2,799</b>	<b>156</b>	<b>1,108</b>	<b>5,776</b>
Differences on exchange	(56)	(30)	(136)	(9)	(51)	(282)
Additions						
– right-of-use assets	–	85	–	77		162
– separately acquired	3	1	46	–	566	616
– acquisition of subsidiaries (note 23)	–	4	2	–	–	6
Reallocations	73	12	610	–	(695)	–
Depreciation	(37)	(114)	(308)	(62)		(521)
Impairment	(6)	(2)	(159)	–	(7)	(174)
Right-of-use assets – reassessments, modifications and terminations	–	(9)	–	(18)		(27)
Disposals	(5)	–	(27)	–		(32)
Net reclassifications as held-for-sale	–	–	(6)	–		(6)
<b>31 December</b>						
Cost	1,503	785	5,795	215	921	9,219
Accumulated depreciation and impairment	(427)	(229)	(2,974)	(71)	–	(3,701)
<b>Net book value at 31 December</b>	<b>1,076</b>	<b>556</b>	<b>2,821</b>	<b>144</b>	<b>921</b>	<b>5,518</b>

						2018
	Freehold property £m	Leasehold property £m	Plant, equipment and other £m	Assets in the course of construction £m		Total £m
<b>1 January</b>						
Cost	1,455	267	5,552	917		8,191
Accumulated depreciation and impairment	(369)	(124)	(2,816)			(3,309)
<b>Net book value at 1 January</b>	<b>1,086</b>	<b>143</b>	<b>2,736</b>	<b>917</b>	<b>4,882</b>	
Differences on exchange	76	4	27	(5)		102
Additions						
– separately acquired	5	1	41	722		769
Reallocations	58	2	466	(526)		–
Depreciation	(34)	(11)	(318)			(363)
Impairment	(74)	–	(120)			(194)
Disposals	(13)	–	(17)			(30)
<b>31 December</b>						
Cost	1,515	268	5,763	1,108		8,654
Accumulated depreciation and impairment	(411)	(129)	(2,948)			(3,488)
<b>Net book value at 31 December</b>	<b>1,104</b>	<b>139</b>	<b>2,815</b>	<b>1,108</b>	<b>5,166</b>	

In 2018, the differences on exchange include £149 million of indexation in respect of the operations in Venezuela. However, management believes that such a revaluation is not reflective of the fair value of assets in Venezuela and an impairment charge of £110 million has been recognised, as explained in note 3(h).

Also in 2018, the closing balance of 'plant, equipment and other' includes £16 million of leased assets (£33 million of cost and £17 million of accumulated depreciation). Upon adoption of IFRS 16 *Leases* prospectively from 1 January 2019, the right-of-use assets have been reported in a separate asset class, 'plant, equipment and other leased', as explained in note 30.

## 9 Property, plant and equipment continued

### Right-of-use assets

The Group's leasehold property arrangements relate mostly to office, retail space and warehouse facilities occupied by Group subsidiaries worldwide, whereas the 'plant, equipment and other' leasing arrangements relate principally to the lease of the distribution fleet, industrial equipment as well as tobacco vending machines by the Group's subsidiaries. Upon adoption of IFRS 16 *Leases*, £610 million worth of right-of-use assets have been capitalised as at 1 January 2019. During 2019, further additions of £135 million (net of reassessments, modifications and terminations) were made to the Group assets portfolio.

As explained in note 11, contributions to the British American Tobacco UK Pension Fund are secured by a charge over the Group's Head Office (Globe House). Globe House is included in freehold property above with a carrying value of £184 million (2018: £185 million).

	2019 £m	2018 £m
<b>Cost of freehold land within freehold property on which no depreciation is provided</b>	<b>261</b>	<b>255</b>
Leasehold land and property comprises		
– net book value of long leasehold	83	100
– net book value of short leasehold	473	46
	556	146
<b>Contracts placed for future expenditure</b>	<b>133</b>	<b>141</b>

## 10 Investments in associates and joint ventures

	2019 £m	2018 £m
<b>1 January</b>	<b>1,737</b>	<b>1,577</b>
Total comprehensive income (note 5)	390	387
Dividends	(239)	(211)
Additions (note 23)	8	–
Other equity movements	(36)	(16)
<b>31 December</b>	<b>1,860</b>	<b>1,737</b>
Non-current assets	1,237	1,225
Current assets	1,085	953
Non-current liabilities	(74)	(71)
Current liabilities	(388)	(370)
	1,860	1,737
ITC Ltd. (Group's share of the market value is £9,099 million (2018: £11,465 million))	1,794	1,682
Other listed associates (Group's share of the market value is £221 million (2018: £183 million))	22	20
Unlisted associates	44	35
	1,860	1,737

The Group's investment in Tisak d.d. (Tisak) was acquired as part of the TDR transaction (note 23). During 2016, the Group entered into an agreement with Tisak's parent Agrokor d.d. (Agrokor) to convert certain outstanding trading balances into long-term loans and an additional shareholding in Tisak. As part of the agreement, Agrokor had the right to reacquire the additional shareholding in Tisak. As a consequence of this, while the Group had legal ownership of the additional shareholding, it did not consider that the shares provided any additional equity interest and continued to account for 26% of the equity of Tisak. In 2017, due to the financial difficulties of Agrokor and Tisak, the Group fully impaired this investment. This resulted in a charge of £27 million to the income statement that has been reported as an adjusting item in note 5. In July 2018, Agrokor's creditors approved a settlement plan proposed by Agrokor's administrators. The settlement plan has not returned any value to the Group and Tisak is expected to be liquidated in 2020.

Included within the dividends amount of £239 million (2018: £211 million) are £231 million (2018: £204 million) attributable to dividends declared by ITC.

The principal associate undertaking of the Group is ITC Ltd. ("ITC") as shown under associates undertakings and joint ventures.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 10 Investments in associates and joint ventures continued

### ITC Ltd.

ITC is an Indian conglomerate based in Kolkata and maintains a presence in cigarettes, hotels, paper and packaging, agri-business and other fast-moving goods (e.g. confectionery, branded apparel, personal care, stationery and safety matches). BAT's interest in ITC is 29.46%.

ITC prepares accounts on a quarterly basis with a 31 March year-end. As permitted by IAS 28, results up to 30 September 2019 have been used in applying the equity method. This is driven by the availability of information at the half-year, to be consistent with the treatment in the Group's interim accounts. Any further information available after the date used for reporting purposes is reviewed and any material items adjusted for in the final results. The latest published information available is at 31 December 2019.

	2019 £m	2018 £m
Non-current assets	4,124	4,106
Current assets	3,234	2,823
Non-current liabilities	(237)	(238)
Current liabilities	(1,031)	(1,002)
	<b>6,090</b>	<b>5,689</b>
 Group's share of ITC Ltd. (2019: 29.46%; 2018: 29.57%)	 <b>1,794</b>	 <b>1,682</b>

## 11 Retirement benefit schemes

The Group's subsidiary undertakings operate over 190 retirement benefit arrangements worldwide including arrangements required by local employment laws. The majority of scheme members (including deferred and retired members) belong to defined benefit schemes. The majority of defined benefit schemes are funded externally, and many are closed to new entrants. The Group also operates a number of defined contribution schemes, and the majority of employees actively accruing retirement benefits do so as members of these arrangements.

The liabilities arising in the defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. It is Group policy that all schemes are formally valued at least every three years.

The principal schemes are in the **US, UK, Germany, Canada, Netherlands and Switzerland**. Together, schemes in these territories account for around 95% of the total obligations of the Group's defined benefit pension arrangements. These obligations consist mainly of final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In addition, the Group operates several healthcare benefit schemes, of which the most significant are in the **US** and **Canada**. The liabilities in respect of healthcare benefits are also assessed by qualified independent actuaries, applying the projected unit credit method.

All of these arrangements, including funded schemes where formal trusts or equivalents are required, have been developed and are operated in accordance with local practices and regulations where applicable in the countries concerned. For example, in the **US**, the main funded pension schemes are the *Reynolds American Retirement Plan* and the *Retirement Income Plan for Certain RAI Affiliates*, and the main funded healthcare scheme is the *Brown & Williamson Tobacco Corporation Welfare & Fringe Benefit Plan*, all of which are established with corporate trustees that are required to run the schemes in accordance with the Plan's rules and to comply with all relevant legislation, including the Employee Retirement Income Security Act 1974. Similarly, in the **UK**, the main pension scheme is the *British American Tobacco UK Pension Fund ("UK Fund")*, which is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the Fund's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004 and all other relevant legislation.

Responsibility for the governance of the schemes across the Group, including investment decisions and contribution schedules, generally lies with the trustees. The trustees for each arrangement will usually consist of representatives appointed by both the sponsoring company and the beneficiaries. In the **US**, the corporate trustees act as custodians with a committee of local management acting in a fiduciary capacity with regard to investment decisions, risk mitigation and administration of the arrangements.

The majority of schemes are subject to local regulations regarding funding requirements. Contributions to defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, and after taking into account regulatory requirements in each territory. The Group's contributions to funded retirement benefit schemes in 2020 in total are expected to be £80 million compared to £82 million in 2019.

Contributions to the various funded schemes in the **US** are agreed with the relevant corporate Trustee, the named fiduciary, scheme actuaries and the committee of local management after taking account of statutory requirements including the Pensions Protection Act of 2006, as amended. Through its US subsidiaries, the Group intends to make significant regular contributions, when required, with the aim of maintaining a funding status of at least 90% and becoming fully funded long-term. During 2019, the Group did not contribute to its funded pension and post-retirement plans in the **US** and does not expect to do so in 2020.

## 11 Retirement benefit schemes continued

With effect from July 2018, contributions to the **UK Fund**, as agreed with the Trustee to meet the cost of future benefit accrual, were £18 million per annum. Additional annual contributions to cover funding shortfalls are payable as required until the Fund is valued to 110% on a Technical Provisions basis. These were £12 million in 2019 and 2018 and are expected to be the same in 2020, subject to review as part of the next formal triennial valuation effective March 2020. Total contributions payable to the UK Fund are secured by a charge over the Group's Head Office (Globe House) up to a maximum of £150 million. The charge would be triggered in the event that the Group defaults on agreed contributions due to the Fund or if an insolvency event occurs with respect to the UK entity responsible for making the payments. The charge is due to be released in 2039 but may be released earlier by negotiation or if the Fund is valued to 115% on a Technical Provisions basis. Under the rules of the scheme, any future surplus would be returnable to the Group by refund at the end of the life of the scheme. The funding commitment is therefore not considered onerous, and in accordance with IFRIC 14 no additional liabilities or surplus restriction have been recognised in respect of these commitments.

Payments made to pensioners by the operating companies in **Germany**, net of income on scheme assets, are deemed to be company contributions to the Contractual Trust Arrangements and are anticipated to be around £17 million in 2020 and around £30 million per annum for the four years after that. Contributions to pension schemes in **Canada**, **Netherlands** and **Switzerland** in total are anticipated to be around £24 million in 2020 and then around £10 million per annum for the four years after that.

The majority of benefit payments are from trustee administered funds, however, there are also a number of unfunded schemes where the sponsoring company meets the benefit payment obligation as it falls due, including Defined Benefit and Defined Contribution Unapproved Unfunded Retirement Benefit Schemes (DB UURBS and DC UURBS respectively). The DC UURBS credits accrued in the year are increased in line with the Company's Weighted Average Cost of Debt and the scheme is therefore treated as a defined benefit scheme under IAS 19. For unfunded schemes in the **US**, **UK** and **Canada**, 40% of the liabilities reported at year-end are expected to be settled by the Group within 10 years, 28% between 10 and 20 years, 18% between 20 and 30 years, and 14% thereafter.

The funded arrangements in the Group have policies on investment management, including strategies over a preferred long-term investment profile, and schemes in certain territories including **Canada** and **Netherlands** manage their bond portfolios to match the weighted average duration of scheme liabilities.

For funded schemes in the **US**, the Group employs a risk mitigation strategy which seeks to balance pension plan returns with a reasonable level of funded status volatility. Based on this framework, the asset allocation has two primary components. The first component is the hedging portfolio, which uses extended duration fixed income holdings (typically US Government and investment grade corporate bonds) and, to a lesser extent, derivatives to match a portion of the interest rate risk associated with the benefit obligations, thereby reducing expected funded status volatility. The second component is the return-seeking portfolio, which is designed to enhance portfolio returns. The return-seeking portfolio is broadly diversified across asset classes.

On 31 May 2019, the Trustee of the **UK Fund** entered into an agreement with Pension Insurance Corporation plc ("PIC") to acquire an insurance policy that operates as a UK Fund investment asset, with the intent of matching a specific part of the UK Fund's future cash flow arising from the accrued pension liabilities of retired and deferred members. Such an arrangement is commonly termed as a "buy-in". The buy-in reduces the UK Fund's value at risk in relation to key risks associated with improved longevity, inflation and interest rate movements whilst improving the security to the UK Fund and its members. The Group consequently benefits from the buy-in as it reduces the UK Fund's reliance on the Group for future cash funding requirements. The buy-in transaction involved the transfer of £3.4 billion of assets held by the UK Fund to PIC and, as such, had no cash effect to the Group. On an IAS 19 basis, the fair value of the insurance policy will match the present value of the liabilities being insured. On completion of the transaction, a loss of £691 million was recognised through the statement of other comprehensive income on the revaluation of the insurance asset with no impact to the income statement. For the residual assets in the UK Fund, the strategy is broadly split 70% risk reducing assets and 30% return seeking assets. The return seeking portfolio is invested in illiquid assets and the corresponding strategy is to allow these assets to naturally wind down over time, with their value being realised as the investments mature. This is consistent with the Trustee's ultimate target which is to be 100% invested in risk reducing assets.

Through its defined benefit pension schemes and healthcare schemes, the Group is exposed to a number of risks, including:

### **Asset volatility:**

The plan liabilities are calculated using discount rates set by reference to bond yields. If plan assets underperform this yield, e.g. due to stock market volatility, this will create a deficit. However, most schemes hold a proportion of assets which are expected to outperform bonds in the long term, and the majority of schemes by value are subject to local regulation regarding funding deficits.

### **Changes in bond yields:**

A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings or other hedging instruments.

### **Inflation risk:**

Some of the Group's pension obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases, caps on the level of inflationary increases are in place in the scheme rules, while some assets and derivatives provide specific inflation protection.

### **Life expectancy:**

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. Assumptions regarding mortality and mortality improvements are regularly reviewed in line with actuarial tables and scheme specific experience.

**NOTES ON THE ACCOUNTS****CONTINUED****11 Retirement benefit schemes continued**

The amounts recognised in the balance sheet are determined as follows:

	Pension schemes		Healthcare schemes		2019 £m	2018 £m
	2019 £m	2018 £m	2019 £m	2018 £m		
Present value of funded scheme liabilities	(11,454)	(11,031)	(272)	(286)	(11,726)	(11,317)
Fair value of funded scheme assets	11,682	11,747	178	178	11,860	11,925
	228	716	(94)	(108)	134	608
Unrecognised funded scheme surpluses	(28)	(20)	–	–	(28)	(20)
	200	696	(94)	(108)	106	588
Present value of unfunded scheme liabilities	(578)	(531)	(557)	(575)	(1,135)	(1,106)
	(378)	165	(651)	(683)	(1,029)	(518)

The above net (liability)/asset is recognised in the balance sheet as follows:

– retirement benefit scheme liabilities	(807)	(982)	(652)	(683)	(1,459)	(1,665)
– retirement benefit scheme assets	429	1,147	1	–	430	1,147
	(378)	165	(651)	(683)	(1,029)	(518)

The net liabilities of funded pension schemes by territory are as follows:

	Liabilities		Assets		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
– US	(4,945)	(4,835)	4,818	4,464	(127)	(371)
– UK	(3,214)	(2,962)	3,533	4,016	319	1,054
– Germany	(958)	(949)	928	948	(30)	(1)
– Canada	(738)	(694)	747	708	9	14
– Netherlands	(778)	(782)	814	793	36	11
– Switzerland	(333)	(326)	294	283	(39)	(43)
– Rest of Group	(488)	(483)	548	535	60	52
Funded schemes	(11,454)	(11,031)	11,682	11,747	228	716

Of the Group's unfunded pension schemes 50% (2018: 48%) relate to arrangements in the **UK** and 32% (2018: 32%) relate to arrangements in the **US**, while 86% (2018: 87%) of the Group's unfunded healthcare arrangements relate to arrangements in the **US**.

The amounts recognised in the income statement are as follows:

	Pension schemes		Healthcare schemes		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Defined benefit schemes						
Service cost						
– current service cost	92	95	2	2	94	97
– past service cost/(credit), curtailments and settlements	7	–	(1)	(1)	7	(1)
Net interest on the net defined benefit liability						
– interest on scheme liabilities	391	364	34	33	425	397
– interest on scheme assets	(388)	(362)	(8)	(8)	(396)	(370)
– interest on unrecognised funded scheme surpluses	–	2	–	–	–	2
	102	99	28	26	130	125
<b>Defined contribution schemes</b>	<b>97</b>	<b>87</b>	<b>–</b>	<b>–</b>	<b>97</b>	<b>87</b>
<b>Total amount recognised in the income statement (note 3(a))</b>	<b>199</b>	<b>186</b>	<b>28</b>	<b>26</b>	<b>227</b>	<b>212</b>

The above charges are recognised within employee benefit costs in note 3(a) and include a charge of £16 million in 2019 (2018: £3 million) in respect of settlements, past service costs and defined contribution costs reported as part of the restructuring costs charged in arriving at profit from operations (note 3(e)). Included in current service cost in 2019 is £21 million (2018: £16 million) of administration costs. Current service cost is stated after netting employee contributions, where applicable.

## 11 Retirement benefit schemes continued

The movements in scheme liabilities are as follows:

	Pension schemes		Healthcare schemes		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>Present value at 1 January</b>	<b>11,562</b>	<b>12,077</b>	<b>861</b>	<b>948</b>	<b>12,423</b>	<b>13,025</b>
Differences on exchange	(343)	295	(30)	43	(373)	338
Current service cost	94	95	2	2	96	97
Past service cost/(credit) & settlements	7	(10)	–	(1)	7	(11)
Interest on scheme liabilities	391	364	34	33	425	397
Contributions by scheme members	–	2	–	–	–	2
Benefits paid	(743)	(694)	(63)	(62)	(806)	(756)
Actuarial (gains)/losses						
– arising from changes in demographic assumptions	(84)	(12)	(10)	(4)	(94)	(16)
– arising from changes in financial assumptions	1,105	(547)	70	(49)	1,175	(596)
Experience gains	43	(8)	(35)	(49)	8	(57)
<b>Present value at 31 December</b>	<b>12,032</b>	<b>11,562</b>	<b>829</b>	<b>861</b>	<b>12,861</b>	<b>12,423</b>

Changes in financial assumptions principally relate to discount rate movements in both years.

Scheme liabilities by scheme membership:

	Pension schemes		Healthcare schemes		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Active members	1,895	1,785	59	55	1,954	1,840
Deferred members	1,308	1,259	2	2	1,310	1,261
Retired members	8,829	8,518	768	804	9,597	9,322
<b>Present value at 31 December</b>	<b>12,032</b>	<b>11,562</b>	<b>829</b>	<b>861</b>	<b>12,861</b>	<b>12,423</b>

Approximately 95% of scheme liabilities in both years relate to guaranteed benefits.

The movements in funded scheme assets are as follows:

	Pension schemes		Healthcare schemes		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
<b>Fair value of scheme assets at 1 January</b>	<b>11,747</b>	<b>12,157</b>	<b>178</b>	<b>193</b>	<b>11,925</b>	<b>12,350</b>
Differences on exchange	(326)	262	(6)	8	(332)	270
Settlements	–	(10)	–	–	–	(10)
Interest on scheme assets	388	362	8	8	396	370
Company contributions	82	176	–	45	82	221
Contributions by scheme members	3	–	–	–	3	–
Benefits paid	(704)	(684)	(17)	(61)	(721)	(745)
Actuarial gains/(losses)	492	(516)	15	(15)	507	(531)
<b>Fair value of scheme assets at 31 December</b>	<b>11,682</b>	<b>11,747</b>	<b>178</b>	<b>178</b>	<b>11,860</b>	<b>11,925</b>

	Pension schemes		Healthcare schemes		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Equities – listed	1,221	1,133	7	5	1,228	1,138
Equities – unlisted	1,025	930	68	59	1,093	989
Bonds – listed	2,739	5,925	7	11	2,746	5,936
Bonds – unlisted	2,417	1,672	74	84	2,491	1,756
Other assets – listed	549	618	13	10	562	628
Other assets – unlisted	3,731	1,469	9	9	3,740	1,478
<b>Fair value of scheme assets at 31 December</b>	<b>11,682</b>	<b>11,747</b>	<b>178</b>	<b>178</b>	<b>11,860</b>	<b>11,925</b>

Scheme assets have been diversified into equities, bonds and other assets and are typically invested via fund investment managers into both pooled and segregated mandates of listed and unlisted equities and bonds.

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 11 Retirement benefit schemes continued

In the above analysis investments via equity-based investment funds are shown under listed equities, and investments via bond-based investment funds are shown under listed bonds. Other assets include insurance contracts, cash and other deposits, derivatives and other hedges, recoverable taxes, infrastructure investments and investment property.

In the **US**, pension plan assets are invested using active investment strategies and multiple investment management firms. Managers within each asset class cover a range of investment styles and approaches. Allowable investment types include global equity, fixed income, real assets, private equity and absolute return. The range of allowable investment types utilised for pension assets provides enhanced returns and more widely diversifies the plan.

The **UK Fund** historically has diversified a portion of the assets held by investing in equities listed on non-UK stock exchanges via investment funds, and by making use of liability driven investment funds and inflation opportunity funds as part of its investment portfolio. As noted above, during 2019 the Trustee acquired an insurance policy that operates as a UK Fund investment asset in a "buy-in" transaction. The residual assets now predominantly consist of liability driven investments and absolute return funds as well as a proportion of illiquid investments, such as private equity and infrastructure investments.

The actuarial gains and losses in both years principally relate to movements in the fair values of scheme assets and actual returns are stated net of applicable taxes and fund management fees. The fair values of listed scheme assets were derived from observable data including quoted market prices and other market data, including market values of individual segregated investments and of pooled investment funds where quoted. The fair values of unlisted assets were derived from cash flow projections of estimated future income after taking into account the estimated recoverable value of these assets.

The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes			Healthcare schemes			Total		
	2019 £m	2018 £m	2017 £m	2019 £m	2018 £m	2017 £m	2019 £m	2018 £m	2017 £m
<b>Unrecognised funded scheme surpluses at 1 January</b>	(20)	(23)	(18)	–	–	–	(20)	(23)	(18)
Differences on exchange	(1)	1	3	–	–	–	(1)	1	3
Interest on unrecognised funded scheme surpluses	–	(2)	(2)	–	–	–	–	(2)	(2)
Movement in year (note 18)	(7)	4	(6)	–	–	–	(7)	4	(6)
<b>Unrecognised funded scheme surpluses at 31 December</b>	<b>(28)</b>	<b>(20)</b>	<b>(23)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(28)</b>	<b>(20)</b>	<b>(23)</b>

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

	2019							2018						
	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK
Rate of increase in salaries (%)	3.4	3.0	0.6	3.0	2.1	1.3	3.9	3.2	1.7	3.0	2.1	1.3	—	—
Rate of increase in pensions in payment (%)	2.5	3.0	0.4	Nil	0.9	Nil	2.5	3.2	1.1	Nil	1.1	Nil	—	—
Rate of increase in deferred pensions (%)	—	2.2	0.4	Nil	0.9	—	—	2.2	1.1	Nil	1.1	—	—	—
Discount rate (%)	3.3	2.0	0.3	3.0	1.1	0.1	4.3	2.9	1.3	3.8	1.8	0.9	—	—
General inflation (%)	2.5	3.0	0.4	2.0	2.0	1.1	2.5	3.2	1.1	2.0	2.0	1.1	—	—

	2019							2018						
	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK
Weighted average duration of liabilities (years)	11.4	16.1	14.0	11.0	17.8	13.9	10.8	16.0	8.2	10.5	17.5	12.8	—	—

For healthcare inflation in the US, the assumption is 6.5% for both years and in Canada, the assumption is 5.0% for both years.

## 11 Retirement benefit schemes continued

Mortality assumptions are subject to regular review. The principal schemes used the following tables:

US	PRI-2012 mortality tables without collar or amount, projected with MP-2019 generational projection (2018: RP-2018 and MP-2018)
UK	S2PA (YOB) with the CMI (2018) improvement model with a 1.25% long term improvement rate (2018: CMI (2017))
Germany	RT Heubeck 2018 G (both years)
Canada	CPM-2014 Private Table (both years)
Netherlands	AG Prognosetafel 2018 (both years)
Switzerland	LPP/BVG 2015 base table with CMI projection factors for mortality improvements with a 1.5% long-term improvement rate (both years)

Based on the above, the weighted average life expectancy, in years, for mortality tables used to determine benefit obligations is as follows:

	US		UK		Germany		Canada		Netherlands		Switzerland	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
<b>31 December 2019</b>												
Member age 65 (current life expectancy)	20.6	22.6	22.4	23.9	20.2	23.7	21.6	23.9	21.0	24.3	21.8	23.8
Member age 45 (life expectancy at age 65)	22.2	24.1	24.0	25.2	23.0	25.9	22.6	24.9	23.4	26.3	23.7	25.7
<b>31 December 2018</b>												
Member age 65 (current life expectancy)	20.7	22.7	22.6	24.1	17.0	20.6	21.5	23.9	20.8	24.5	21.8	23.8
Member age 45 (life expectancy at age 65)	22.3	24.2	24.2	25.4	19.8	22.8	22.5	24.8	23.1	26.5	23.6	25.6

For the remaining territories, typical assumptions are that real salary increases will be from 0% to 5.0% (2018: 0.5% to 6.3%) per annum and discount rates will be from 0% to 11.7% (2018: 0.6% to 7.6%) above inflation. Pension increases, where allowed for, are generally assumed to be in line with inflation. Assumptions of life expectancy are in line with best practice in each territory. For countries where there is not a deep market in such corporate bonds, the yield on government bonds is used.

The valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2019 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase £m	1 year decrease £m	0.25 percentage point increase £m	0.25 percentage point decrease £m
Average life expectancy – increase/(decrease) of scheme liabilities	387	(385)		
Rate of inflation – increase/(decrease) of scheme liabilities			173	(163)
Discount rate – (decrease)/increase of scheme liabilities			(350)	367

A one percentage point increase in healthcare inflation would increase healthcare scheme liabilities by £42 million, and a one percentage point decrease would decrease liabilities by £36 million. The income statement effect of this change in assumption is not material.

**NOTES ON THE ACCOUNTS**

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**12 Deferred tax**

Net deferred tax (liabilities)/assets comprise:

	Stock relief £m	Excess of capital allowances over depreciation £m	Tax losses £m	Undistributed earnings of associates and subsidiaries £m	Retirement benefits £m	Trademarks £m	Other temporary differences £m	Total £m
<b>1 January 2019</b>	(70)	(210)	105	(281)	222	(18,246)	1,048	(17,432)
Differences on exchange	4	11	(2)	15	(9)	701	(40)	680
Subsidiaries acquired (note 23)	–	–	–	–	–	(4)	–	(4)
Credited/(charged) to the income statement	21	(9)	(24)	(52)	(15)	92	(68)	(55)
(Charged)/credited relating to changes in tax rates	–	–	–	–	(1)	49	(1)	47
Credited to other comprehensive income	–	–	–	–	82	–	56	138
<b>31 December 2019</b>	(45)	(208)	79	(318)	279	(17,408)	995	(16,626)
<b>31 December 2017</b>	(91)	(174)	113	(241)	264	(17,323)	656	(16,796)
Accounting policy change (IFRS 9) (note 30)	–	–	–	–	–	–	7	7
<b>Revised 1 January 2018</b>	(91)	(174)	113	(241)	264	(17,323)	663	(16,789)
Differences on exchange	(7)	(10)	4	6	15	(1,066)	47	(1,011)
Subsidiaries acquired (note 23)	–	–	–	–	–	(3)	4	1
Credited/(charged) to the income statement	27	(16)	(11)	(46)	(36)	67	319	304
Credited/(charged) relating to changes in tax rates	1	(10)	(1)	–	4	79	(3)	70
(Charged)/credited to other comprehensive income	–	–	–	–	(25)	–	18	(7)
<b>31 December 2018</b>	(70)	(210)	105	(281)	222	(18,246)	1,048	(17,432)

The net deferred tax liabilities are reflected in the Group balance sheet as follows: deferred tax asset of £424 million and deferred tax liability of £17,050 million (2018: deferred tax asset of £344 million and deferred tax liability of £17,776 million), after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

At the balance sheet date, the Group has not recognised a deferred tax asset in respect of unused tax losses of £342 million (2018: £308 million) which have no expiry date and unused tax losses of £208 million (2018: £502 million) which will expire within the next 10 years.

In 2019 and 2018 the Group has not recognised any deferred tax asset in respect of deductible temporary differences which have no expiry date and has not recognised £92 million (2018: £184 million) in respect of deductible temporary differences which will expire within the next 10 years.

At the balance sheet date, the Group has unused tax credits of £80 million (2018: £80 million) which have no expiry date. No amount of deferred tax has been recognised in respect of these unused tax credits.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries which would be subject to dividend withholding tax and for which no withholding tax liability has been recognised was £0.6 billion (2018: £0.7 billion).

**13 Trade and other receivables**

	2019 £m	2018 £m
Trade receivables	3,369	2,868
Loans and other receivables	629	1,082
Prepayments and accrued income	343	323
	4,341	4,273
Current	4,093	3,588
Non-current	248	685
	4,341	4,273

The majority of receivables are held in order to collect contractual cash flows, in accordance with the Group's business model for managing financial assets, and hence are measured at amortised cost. In certain countries, however, the Group has entered into factoring arrangements and periodically sells certain trade receivables to banks and other financial institutions, without recourse, for cash. These trade receivables have been derecognised from the statement of financial position to reflect the transfer by the Group of substantially all of the risks and rewards of the receivables, including credit risk. Consequently, the cash inflows have been recognised within operating cash flows. Typically in these

### 13 Trade and other receivables continued

arrangements, the Group also acts as a collection agent for the bank. At 31 December, the value of trade receivables derecognised through the factoring arrangements where the Group acts as a collection agent was £572 million (2018: £428 million) and where the Group does not act as a collection agent was £26 million (2018: £40 million). Included in trade receivables above is £295 million (2018: £270 million) of trade debtor balances which were available for factoring under these arrangements.

Included in loans and other receivables are £110 million of litigation related deposits (2018: £553 million). Management has determined that these payments represent a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity either by being recoverable on conclusion of ongoing appeal processes or by reducing amounts payable on recognition of liabilities which have yet to be determined should the appeal process fail. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.

Prepayments and accrued income include £5 million (2018: £6 million) of accrued income in relation to rebates.

On 1 March 2019, the Quebec Court of Appeal in Montreal upheld the Superior Court's decision of May 2015 (reducing ITCAN's share of the judgment due to a change in interest computation to a maximum of CAD\$9.2 billion). The Court of Appeal also upheld the previously stated requirements for the defendants to deposit CAD\$1.1 billion into an escrow account. The Board of Directors of ITCAN reassessed the recoverability of the litigation related deposit and, accordingly, the Group recognised a charge against the income statement of £436 million in the period, reflecting the amount of the judgment that is considered to be probable and estimable in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Consequently, the deposit which was shown as receivable at 31 December 2018 has been utilised against management's best estimate of the liability. Further details are provided in note 27.

Amounts receivable from related parties including associated undertakings are shown in note 26.

Trade and other receivables have been reported in the balance sheet net of allowances as follows:

	2019 £m	2018 £m
Trade receivables – gross	3,396	2,898
Trade receivables – allowance	(27)	(30)
Loans and other receivables – gross	639	1,092
Loans and other receivables – allowance	(10)	(10)
Prepayments and accrued income	343	323
<b>Net trade and other receivables per balance sheet</b>	<b>4,341</b>	<b>4,273</b>

The movements in the allowance account are as follows:

	2019			2018		
	Trade receivables £m	Loans and other receivables £m	Total £m	Trade receivables £m	Loans and other receivables £m	Total £m
<b>1 January</b>	<b>30</b>	<b>10</b>	<b>40</b>	39	46	85
Accounting policy change (IFRS 9) (notes 1 and 30)	–	–	–	37	8	45
<b>Revised 1 January</b>	<b>30</b>	<b>10</b>	<b>40</b>	76	54	130
Differences on exchange	(2)	(2)	2	–	–	2
Provided in the year	24	24	16	10	26	
Released	(25)	(25)	(64)	(54)	(118)	
<b>31 December</b>	<b>27</b>	<b>10</b>	<b>37</b>	30	10	40

As permitted by IFRS 9, the loss allowance on trade receivables arising from the recognition of revenue under IFRS 15 is initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

Prior to the adoption of IFRS 9 on 1 January 2018, loans and receivables were stated net of allowances for estimated irrecoverable amounts due to the identification of a loss event (the incurred loss method).

The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

Trade and other receivables are predominantly denominated in the functional currencies of subsidiary undertakings apart from the following: US dollar: 4.2% (2018: 3.5%), UK sterling: 0.2% (2018: 4.2%), Euro: 1.1% (2018: 1.6%) and other currencies: 11.2% (2018: 6.6%).

There is no material difference between the above amounts for trade and other receivables and their fair value due to the short-term duration of the majority of trade and other receivables as determined using discounted cash flow analysis. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers.

**NOTES ON THE ACCOUNTS**

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**14 Investments held at fair value**

	2019 £m	2018 £m
<b>Investments</b>		
Fair value through P&L	127	213
Fair value through OCI	8	4
	<b>135</b>	<b>217</b>
Current	123	178
Non-current	12	39
	<b>135</b>	<b>217</b>

Investments held at fair value through OCI relate to the Group's strategic investments in China Materialia Fund II.

	2019 £m	2018 £m
Functional currency	131	212
US dollar	4	–
Euro	–	–
Other currency	–	5
	<b>135</b>	<b>217</b>

The classification of these investments under the IFRS 13 fair value hierarchy is given in note 22.

There is no material difference between the investments held at fair value and their gross contractual values.

**15 Derivative financial instruments**

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. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these derivative assets and liabilities under the IFRS 13 fair value hierarchy is given in note 22.

	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Fair value hedges</b>				
– interest rate swaps	177	62	181	83
– cross-currency swaps	191	–	282	–
<b>Cash flow hedges</b>				
– interest rate swaps	–	187	–	98
– cross-currency swaps	114	84	149	56
– forward foreign currency contracts	57	50	61	42
<b>Net investment hedges</b>				
– forward foreign currency contracts	178	19	10	174
<b>Held-for-trading*</b>				
– interest rate swaps	3	6	6	–
– forward foreign currency contracts	45	60	46	63
<b>Total</b>	<b>765</b>	<b>468</b>	<b>735</b>	<b>516</b>
 <b>Current</b>				
Non-current	313	181	179	302
	<b>452</b>	<b>287</b>	<b>556</b>	<b>214</b>
	<b>765</b>	<b>468</b>	<b>735</b>	<b>516</b>
 <b>Derivatives</b>				
– in respect of net debt	527	384	647	269
– other	238	84	88	247
	<b>765</b>	<b>468</b>	<b>735</b>	<b>516</b>

\* Derivatives which do not meet the tests for hedge accounting under IFRS 9 or which are not designated as hedging instruments are referred to as "held-for-trading". These derivatives principally consist of forward foreign currency contracts which have not been designated as hedges due to their value changes offsetting with other components of net finance costs relating to financial assets and financial liabilities. The Group does not use derivatives for speculative purposes. All derivatives are undertaken for risk management purposes.

## 15 Derivative financial instruments continued

For cash flow hedges, the timing of expected cash flows is as follows: assets of £171 million (2018: £210 million) of which £51 million (2018: £59 million) is expected within one year and £114 million (2018: £149 million) beyond five years and liabilities of £321 million (2018: £196 million) of which £75 million (2018: £39 million) is expected within one year and £163 million (2018: £113 million) beyond five years.

The Group's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. A certain number of forward foreign currency contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 19.

Interest rate swaps have been used to manage the interest rate profile of external borrowings and are reflected in the re-pricing table in note 19.

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross-settled derivative financial instruments are as follows:

	2019				2018			
	Assets		Liabilities		Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m
<b>Within one year</b>								
– forward foreign currency contracts	10,168	(9,367)	8,534	(8,069)	7,081	(6,526)	9,876	(9,749)
– cross-currency swaps	35	(38)	18	(62)	55	(54)	33	(92)
<b>Between one and two years</b>								
– forward foreign currency contracts	548	(524)	278	(263)	332	(330)	449	(441)
– cross-currency swaps	811	(765)	969	(1,012)	36	(43)	20	(73)
<b>Between two and three years</b>								
– cross-currency swaps	15	(23)	17	(36)	830	(771)	1,008	(1,075)
<b>Between three and four years</b>								
– cross-currency swaps	725	(590)	683	(679)	15	(26)	17	(38)
<b>Between four and five years</b>								
– cross-currency swaps	9	(15)	10	(15)	733	(592)	690	(730)
<b>Beyond five years</b>								
– cross-currency swaps	762	(609)	460	(435)	754	(625)	469	(490)
	<b>13,073</b>	<b>(11,931)</b>	<b>10,969</b>	<b>(10,571)</b>	<b>9,836</b>	<b>(8,967)</b>	<b>12,562</b>	<b>(12,688)</b>

The maturity dates of net-settled derivative financial instruments, which primarily relate to interest rate swaps, are as follows:

	2019		2018	
	Assets Inflow £m	Liabilities Outflow £m	Assets Inflow £m	Liabilities Outflow £m
<b>Within one year</b>				
	44	44	53	40
<b>Between one and two years</b>				
	25	39	48	19
<b>Between two and three years</b>				
	25	39	45	15
<b>Between three and four years</b>				
	10	21	26	13
<b>Between four and five years</b>				
	43	63	23	15
<b>Beyond five years</b>				
	182	263	15	23
	<b>329</b>	<b>469</b>	<b>210</b>	<b>125</b>

**NOTES ON THE ACCOUNTS****CONTINUED****15 Derivative financial instruments continued**

The items designated as hedging instruments are as follows:

	2019		2018	
	Nominal amount of hedging instrument £m	Changes in fair value used for calculating hedge ineffectiveness £m	Nominal amount of hedging instrument £m	Changes in fair value used for calculating hedge ineffectiveness £m
<b>Interest rate risk exposure:</b>				
Fair value hedges				
– interest rate swaps	3,065	73	4,470	11
– cross-currency swaps	1,436	(72)	1,561	19
Cash flow hedges				
– interest rate swaps	4,068	(103)	2,715	(98)
– cross-currency swaps	2,695	(61)	2,856	(91)
<b>Foreign currency risk exposure:</b>				
Cash flow hedges				
– forward foreign currency contracts	3,827	(3)	3,574	(4)
Net investment hedges (derivative related)				
– forward foreign currency contracts	5,274	161	5,291	(166)
Net investment hedges (non-derivative related)				
– debt (carrying value) in borrowings designated as net investment hedges of net assets	372	22	4,647	(226)

**16 Inventories**

	2019 £m	2018 £m
Raw materials and consumables	2,750	3,049
Finished goods and work in progress	3,258	2,877
Goods purchased for resale	86	103
	6,094	6,029

Inventories pledged as security for liabilities amount to £7 million (2018: £7 million). Write-offs taken to other operating expenses in the Group income statement were £255 million (2018: £148 million; 2017: £114 million), including amounts relating to restructuring costs. Goods purchased for resale include Group brands produced under third party contract manufacturing arrangements.

## 17 Cash and cash equivalents

	2019 £m	2018 £m
Cash and bank balances	<b>2,256</b>	2,069
Cash equivalents	<b>270</b>	533
	<b>2,526</b>	2,602

The carrying value of cash and cash equivalents approximates their fair value.

Cash and cash equivalents are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	2019 £m	2018 £m
Functional currency	<b>2,199</b>	2,144
US dollar	<b>127</b>	158
Euro	<b>64</b>	174
Other currencies	<b>136</b>	126
	<b>2,526</b>	2,602

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts and accrued interest where applicable, as follows:

	2019 £m	2018 £m
Cash and cash equivalents as above	<b>2,526</b>	2,602
Less overdrafts and accrued interest	<b>(491)</b>	(274)
<b>Net cash and cash equivalents</b>	<b>2,035</b>	2,328

Cash and cash equivalents include restricted amounts of £627 million (2018: £170 million), principally due to exchange control regulations in certain countries and subsidiaries in CCAA protection (note 28).

Cash and cash equivalents also include £14 million (2018: £125 million) of cash that is held as a hedging instrument.

**NOTES ON THE ACCOUNTS****CONTINUED****18 Capital and reserves****(a) Share capital**

	Ordinary shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2019	2,456,415,884	614.09
Changes during the year		
– share option schemes	104,854	0.03
<b>31 December 2019</b>	<b>2,456,520,738</b>	<b>614.12</b>
Allotted and fully paid		
1 January 2018	2,456,278,414	614.06
Changes during the year		
– share option schemes	137,470	0.03
<b>31 December 2018</b>	<b>2,456,415,884</b>	<b>614.09</b>
Allotted and fully paid		
1 January 2017	2,027,019,508	506.75
Changes during the year		
– share option schemes	213,144	0.05
– Issue of shares RAI acquisition	429,045,762	107.26
<b>31 December 2017</b>	<b>2,456,278,414</b>	<b>614.06</b>

**(b) Share premium account, capital redemption reserves and merger reserves comprise:**

	Share premium account £m	Capital redemption reserves £m	Merger reserves £m	Total £m
<b>31 December 2019</b>	<b>94</b>	<b>101</b>	<b>26,414</b>	<b>26,609</b>
31 December 2018	91	101	26,414	26,606
31 December 2017	87	101	26,414	26,602

**Share premium account**

The share premium account includes the difference between the value of shares issued and their nominal value. The increase of £3 million (2018: £4 million; 2017: £5 million) relates solely to ordinary shares issued under the Company's share option schemes.

**Capital redemption account**

On the purchase of own shares as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of shares purchased. Purchased shares which are not cancelled are classified as treasury shares and presented as a deduction from total equity.

**Merger reserve account**

The merger reserve comprises:

- In 1999, shares were issued for the acquisition of the Rothmans International B.V. Group and the difference between the fair value of shares issued and their nominal value of £3,748 million was credited to merger reserves; and
- On 25 July 2017, the Group announced the completion of the acquisition of the remaining 57.8% of RAI not already owned by the Group. Shares were issued for the acquisition and the difference between the fair value of shares issued and their nominal value of £22,666 million was credited to merger reserves.

## 18 Capital and reserves continued

(c) **Equity attributed to owners of the parent – movements in other reserves and retained earnings (which are after deducting treasury shares) shown above comprise:**

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Treasury shares (vi) £m	Retained earnings Other £m
<b>1 January 2019</b>	(914)	(177)	6	179	573	(333)	(5,242)	43,799
<b>Comprehensive income and expense</b>								
Profit for the year	–	–	–	–	–	–	–	5,704
Differences on exchange	(2,948)	–	–	–	–	(2,948)	–	–
Cash flow hedges								
– net fair value losses	–	(246)	–	–	–	(246)	–	–
– reclassified and reported in profit for the year	–	53	–	–	–	53	–	–
Net investment hedges								
– net fair value gains	21	–	–	–	–	21	–	–
– differences on exchange on borrowings	(18)	–	–	–	–	(18)	–	–
Associates – share of OCI, net of tax (note 5)	(115)	–	–	–	–	(115)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	56	–	–	–	56	–	–
Retirement benefit schemes								
– net actuarial losses (note 11)	–	–	–	–	–	–	–	(582)
– surplus recognition (note 11)	–	–	–	–	–	–	–	(7)
Associates – share of OCI, net of tax (note 5)	–	–	7	–	–	7	–	–
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	75
<b>Other changes in equity</b>								
Cash flow hedges reclassified and reported in total assets	–	(32)	–	–	–	(32)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	115
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(3,476)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(117)	–
Other movements	–	–	–	–	–	–	98	(133)
<b>31 December 2019</b>	(3,974)	(346)	13	179	573	(3,555)	(5,261)	45,495

**NOTES ON THE ACCOUNTS****CONTINUED****18 Capital and reserves continued**

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Treasury shares (vi) £m	Retained earnings
<b>31 December 2017</b>	(4,029)	(132)	17	179	573	(3,392)	(5,195)	42,130
Accounting policy change (IFRS 9) (note 30)	–	–	(9)	–	–	(9)	–	(29)
<b>1 January 2018</b>	(4,029)	(132)	8	179	573	(3,401)	(5,195)	42,101
<b>Comprehensive income and expense</b>								
Profit for the year	–	–	–	–	–	–	–	6,032
Differences on exchange	3,861	–	–	–	–	3,861	–	–
Cash flow hedges								
– net fair value losses	–	(58)	–	–	–	(58)	–	–
– reclassified and reported in profit for the year	–	17	–	–	–	17	–	–
Investments held at fair value								
– reclassified and reported in retained earnings	–	–	(8)	–	–	(8)	–	8
Net investment hedges								
– net fair value losses	(472)	–	–	–	–	(472)	–	–
– differences on exchange on borrowings	(236)	–	–	–	–	(236)	–	–
Associates – share of OCI, net of tax (note 5)	(38)	–	–	–	–	(38)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	18	–	–	–	18	–	–
Retirement benefit schemes								
– net actuarial gains (note 11)	–	–	–	–	–	–	–	138
– surplus recognition (note 11)	–	–	–	–	–	–	–	4
Associates – share of OCI, net of tax (note 5)	–	–	6	–	–	6	–	–
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	(33)
<b>Other changes in equity</b>								
Cash flow hedges reclassified and reported in total assets	–	(22)	–	–	–	(22)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	121
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(4,463)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(139)	–
Non-controlling interests – acquisitions (note 23(c))	–	–	–	–	–	–	–	(11)
Other movements	–	–	–	–	–	–	92	(98)
<b>31 December 2018</b>	(914)	(177)	6	179	573	(333)	(5,242)	43,799

## 18 Capital and reserves continued

	Translation reserve (i) £m	Hedging reserve (ii) £m	Available-for-sale reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Treasury shares (vi) £m	Retained earnings Other £m
<b>1 January 2017</b>	(382)	4	39	179	573	413	(5,053)	8,384
<b>Comprehensive income and expense</b>								
Profit for the year	—	—	—	—	—	—	—	37,485
Differences on exchange	(3,082)	—	—	—	—	(3,082)	—	—
Cash flow hedges								
– net fair value losses	—	(263)	—	—	—	(263)	—	—
– reclassified and reported in profit for the year	—	109	—	—	—	109	—	—
– reclassified and reported in total assets	—	(16)	—	—	—	(16)	—	—
Investments held at fair value								
– net fair value losses	—	—	(27)	—	—	(27)	—	—
Net investment hedges								
– net fair value gains	425	—	—	—	—	425	—	—
– differences on exchange on borrowings	(67)	—	—	—	—	(67)	—	—
Associates – share of OCI, net of tax (note 5)	(923)	—	5	—	—	(918)	—	—
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	—	34	—	—	—	34	—	—
Retirement benefit schemes								
– net actuarial gains (note 11)	—	—	—	—	—	—	—	832
– surplus recognition (note 11)	—	—	—	—	—	—	—	(5)
Associates – share of OCI, net of tax (note 5)	—	—	—	—	—	—	—	25
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	—	—	—	—	—	—	—	(171)
<b>Other changes in equity</b>								
Employee share options								
– value of employee services	—	—	—	—	—	—	—	105
Dividends and other appropriations								
– ordinary shares	—	—	—	—	—	—	—	(4,465)
Purchase of own shares								
– held in employee share ownership trusts	—	—	—	—	—	—	(205)	—
Other movements	—	—	—	—	—	—	63	(60)
<b>31 December 2017</b>	(4,029)	(132)	17	179	573	(3,392)	(5,195)	42,130

### i. Translation reserve:

The translation reserve is explained in the accounting policy on foreign currencies in note 1.

In 2018, within the translation reserve differences on exchange, a gain of £107 million has been recognised in relation to the application of hyperinflationary accounting in Venezuela as explained in note 3(h).

In 2017, included within the £923 million of differences on exchange in respect of associates is a debit of £545 million in respect of foreign exchange recycled from reserves as a result of the divestment of the RAI associate. This has been reported in the Group's share of post-tax results of associates and joint ventures.

### ii. Hedging reserve:

The hedging reserve is explained in the accounting policy on financial instruments in note 1.

Of the amounts reclassified from the hedging reserve and reported in profit for the year, a gain of £12 million (2018: £15 million gain; 2017: £52 million gain) and a gain of £3 million (2018: £23 million gain; 2017: £27 million loss) were reported within revenue and raw materials and consumables, respectively, together with a gain of £11 million (2018: £7 million loss; 2017: £4 million gain) reported in other operating expenses and a gain of £27 million (2018: £14 million loss; 2017: £80 million gain) reported within net finance costs.

**NOTES ON THE ACCOUNTS****CONTINUED****18 Capital and reserves continued**

The Group hedges certain foreign currency denominated borrowings with cross-currency interest rate swaps. As permitted by IFRS 9 *Financial Instruments*, the foreign currency basis spreads have been separated from the hedging instrument and are recognised in reserves as a "cost of hedging" and are reclassified to the income statement in the same period in which profit and loss is affected by the hedged expected cashflows as a component of the associated interest expense. The basis spreads are disclosed within hedging reserves as they are not material. Included within the balance of hedging reserves at 31 December 2019 is an accumulated gain of £14 million (2018: £20 million gain) in respect of the cost of hedging.

**iii. Fair value reserve (available-for-sale reserve, prior to 1 January 2018):**

The fair value reserve (available-for-sale reserve, prior to 1 January 2018) is explained in the accounting policy on financial instruments in note 1. Fair value gains and losses arising from investments held at fair value through other comprehensive income are recognised in this reserve.

**iv. Revaluation reserve:**

The revaluation reserve relates to the acquisition of the cigarette and snus business of ST in 2008.

**v. Other reserves:**

Other reserves comprise:

(a) £483 million which arose in 1998 from merger accounting in a Scheme of Arrangement and Reconstruction whereby British American Tobacco p.l.c. acquired the entire share capital of B.A.T Industries p.l.c. and the share capital of that company's principal financial services subsidiaries was distributed, so effectively demerging them; and

(b) In the 1999 Rothmans transaction, convertible redeemable preference shares were issued as part of the consideration. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The £90 million balance in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

**vi. Treasury shares:**

Total equity attributable to owners of the parent is stated after deducting the cost of treasury shares which include £4,845 million (2018: £4,845 million; 2017: £4,845 million) for shares repurchased and not cancelled and £416 million (2018: £397 million; 2017: £350 million) in respect of the cost of own shares held in employee share ownership trusts.

The share buy-back programme was suspended from 30 July 2014. As at 31 December 2019, treasury shares include 8,275,677 (2018: 7,536,408; 2017: 6,750,597) of shares held in trust and 162,645,590 (2018: 162,645,590; 2017: 162,645,590) of shares repurchased and not cancelled as part of the Company's share buy-back programme.

**Taxation in equity**

The tax attributable to components of other comprehensive income is as follows:

	2019 £m	2018 £m	2017 £m
<b>Hedging reserve</b>			
Cash flow hedges – net fair value losses	56	18	34
	56	18	34
<b>Retained earnings</b>			
– actuarial losses/(gains) in respect of subsidiaries	75	(33)	(171)
	75	(33)	(171)
Owners of the parent	131	(15)	(137)
Non-controlling interests	–	–	–
<b>Total tax recognised in other comprehensive income for the year (note 6(f))</b>	<b>131</b>	<b>(15)</b>	<b>(137)</b>

**(d) Non-controlling interests**

Movements in non-controlling interests primarily relate to profit for the year and dividends (reported as a movement in retained earnings) and differences on exchange arising from the translation into sterling (reported as a movement in other reserves). Information on subsidiaries with material non-controlling interests is provided in note 28.

**(e) Dividends and other appropriations**

With effect from 1 January 2018, the Company pays dividends on a quarterly basis. The interim quarterly dividend payment for the year ended 31 December 2018 of 203.0p per ordinary share (prior year: 195.2p per ordinary share) was payable in four equal instalments: amounts payable in May 2019 of £1,157 million (May 2018: £1,117 million), August 2019 of £1,159 million (August 2018: £1,112 million), November 2019 of £1,160 million (November 2018: £1,115 million) and £1,161 million in February 2020 (February 2019: £1,119 million) respectively. The total dividends recognised as an appropriation from reserves in 2019 was £3,476 million (2018: £4,463 million).

Prior to 2018, the Group paid a final dividend of 118.1p per share in May 2017 amounting to £2,181 million and an interim dividend of 56.5p per share in September 2017 amounting to £1,284 million. As part of the transition to interim dividends, and to ensure shareholders received the equivalent amount of total cash payments in 2018 as they would have under the previous payment policy, an additional interim dividend of 43.6p per share amounting to £1,000 million was paid in February 2018. The total dividends appropriated from reserves in respect of 2017 were £4,465 million.

## 18 Capital and reserves continued

During the year, as an outcome of the Financial Reporting Council's (FRC'S) review of the Group's 2018 Report and Accounts, the Group received correspondence related to a number of areas, including the accounting treatment for interim dividends. It was agreed that the recognition of an accrual at 31 December 2017 (in respect of the dividend paid in February 2018) and 31 December 2018 (in respect of the dividend paid in February 2019) was incorrect. The error was identified by reference to the ICAEW Technical Release 02/17BL regarding 'Guidance on Realised and Distributable Profits under the Companies Act 2006'. This translated into an overstatement of liabilities and understatement of equity by £1,000 million in 2017 and £1,116 million in 2018. Accordingly, the Group has revised the treatment with respect to dividends, to recognise interim dividends in the period in which they are paid. The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

After considering the requirements of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Directors determined that the impact of the error, whilst over the Group's materiality (£330 million in 2017 and £420 million in 2018), would not influence the economic decisions of the users of the financial statements with the share price trading "ex-dividend" at the balance sheet date. The Directors also determined that there was no impact to the amount or timing of the cash received by shareholders, no impact to the Group's Income Statement in those periods and had no impact to the Group's performance metrics on an actual or forecast basis. Accordingly, the Directors concluded that the error was not material and that prior years would not be restated.

From 2019, the Group will recognise interim dividends in the Group's financial statements in the period in which they are paid. This does not constitute any change in the Group's approach to dividend distribution to shareholders which remains being the declaration of the dividend by the Directors in February following the balance sheet date, payable over 4 equal quarterly instalments.

In addition, on 27 February 2020, the Board declared an interim dividend of 210.4p per ordinary share of 25p, for the year ended 31 December 2019, payable in four equal quarterly instalments of 52.6p per ordinary share in May 2020, August 2020, November 2020 and February 2021. These payments will be recognised as appropriations from reserves in 2020 and 2021. The total amount payable is estimated to be £4,826 million based on the number of shares outstanding at the date of these accounts.

## 19 Borrowings

	Currency	Maturity dates	Interest rates	2019 £m	2018 £m
Eurobonds	Euro	2020 to 2045	0.9% to 4.9%	7,591	8,717
	Euro	2021	3m EURIBOR +50bps	931	986
	UK sterling	2021 to 2055	1.8% to 7.3%	4,161	4,671
	US dollar	2019	1.6%	–	512
	Swiss franc	2021 to 2026	0.6% to 1.4%	510	523
Bonds issued pursuant to Rules under the U.S. Securities Act (as amended)	US dollar	2020 to 2049	2.8% to 8.1% USD 3m LIBOR +	23,805	25,428
	US dollar	2020 to 2022	59bps to 88bps	1,325	1,381
<b>Bonds and notes</b>				<b>38,323</b>	<b>42,218</b>
Commercial paper				1,056	536
Other loans				4,624	3,859
Bank loans				293	608
Bank overdrafts				491	274
Lease liabilities				579	14
				<b>45,366</b>	<b>47,509</b>

The interest on the commercial paper referred to in the table above is based on USD LIBOR plus a margin ranging between 22 and 63 basis points and EURIBOR plus a margin ranging between 10 and 24 basis points (2018: USD LIBOR plus a margin ranging between 22 and 65 basis points and EURIBOR plus a margin ranging between 8 and 15 basis points).

Other loans primarily comprise of £745 million (2018: £nil) relating to bilateral facilities maturing in 2020 and £3,859 million (2018: £3,859 million) relating to two £1,929 million term loans maturing in 2020 and 2022.

Current borrowings per the balance sheet include interest payable of £474 million at 31 December 2019 (2018: £470 million). Included within borrowings are £5,136 million (2018: £6,245 million) of borrowings subject to fair value hedges where their amortised cost has been increased by £210 million (2018: £179 million) in the table above.

The fair value of borrowings is estimated to be £45,674 million (2018: £44,457 million) of which £38,631 million (2018: £39,169 million) has been calculated using quoted market prices and is within level 1 of the fair value hierarchy and £7,043 million (2018: £5,288 million) has been calculated based on discounted cash flow analysis and is within level 3 of the fair value hierarchy.

Amounts secured on Group assets including property, plant and equipment, inventory and receivables as at 31 December 2019 are £88 million (2018: £75 million). The majority of lease liabilities are also secured against the associated assets.

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 19 Borrowings continued

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2019 £m	2018 £m	2019 £m	2018 £m
Within one year	7,562	4,225	8,926	5,636
Between one and two years	2,947	7,261	4,181	8,471
Between two and three years	6,992	2,958	8,215	4,086
Between three and four years	2,505	7,095	3,529	8,131
Between four and five years	3,173	2,580	3,871	3,462
Beyond five years	22,187	23,390	32,176	32,712
	45,366	47,509	60,898	62,498

The contractual gross maturities in each year include the borrowings maturing in that year together with forecast interest payments on all borrowings which are outstanding for all or part of that year.

Borrowings are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	Functional currency £m	US dollar £m	UK sterling £m	Euro £m	Canadian dollar £m	Other currencies £m	Total £m
<b>31 December 2019</b>							
Total borrowings	32,536	2,772	451	8,919	10	678	45,366
Effect of derivative financial instruments							
– cross-currency swaps	3,946	–	(450)	(3,432)	–	(249)	(185)
– forward foreign currency contracts	(610)	(213)	–	440	–	372	(11)
	35,872	2,559	1	5,927	10	801	45,170
<b>31 December 2018</b>							
Total borrowings	32,612	3,803	450	10,089	–	555	47,509
Effect of derivative financial instruments							
– cross-currency swaps	4,029	17	(450)	(3,653)	–	(256)	(313)
– forward foreign currency contracts	(1,905)	1,961	–	(389)	–	321	(12)
	34,736	5,781	–	6,047	–	620	47,184

The exposure to interest rate changes when borrowings are re-priced is as follows:

	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	Beyond 5 years £m	Total £m
<b>31 December 2019</b>							
Total borrowings	11,145	1,888	4,432	2,451	3,161	22,289	45,366
Effect of derivative financial instruments							
– interest rate swaps	1,794	(508)	(226)	–	–	(1,060)	–
– cross-currency swaps	1,335	(758)	–	(649)	–	(115)	(187)
	14,274	622	4,206	1,802	3,161	21,114	45,179
<b>31 December 2018</b>							
Total borrowings	10,384	4,540	1,967	4,577	2,585	23,456	47,509
Effect of derivative financial instruments							
– interest rate swaps	3,069	(589)	(539)	(236)	–	(1,705)	–
– cross-currency swaps	1,318	–	(793)	–	(700)	(138)	(313)
	14,771	3,951	635	4,341	1,885	21,613	47,196

## 19 Borrowings continued

Lease liabilities are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2019 £m	2018 £m	2019 £m	2018 £m
Within one year	154	7	178	7
Between one and two years	120	5	138	5
Between two and three years	92	2	100	2
Between three and four years	64	–	72	–
Between four and five years	43	–	51	–
Beyond five years	106	–	135	–
	579	14	674	14

The Group's undrawn committed borrowing facilities (note 22) total £6,000 million (2018: £6,000 million) with £3,000 million maturing within one year (2018: £3,000 million maturing within one year) and with £3,000 million maturing between one and two years (2018: £3,000 million maturing between two and three years).

The Group defines net debt as follows:

	2019 £m	2018 £m
Borrowings*	44,787	47,495
Lease liabilities	579	14
Derivatives in respect of net debt:		
– assets (note 15)	(527)	(647)
– liabilities (note 15)	384	269
Cash and cash equivalents (note 17)	(2,526)	(2,602)
Current investments held at fair value (note 14)	(123)	(178)
	42,574	44,351

\* Borrowings as at 31 December 2019 include £848 million (2018: £944 million) in respect of the purchase price adjustments relating to the acquisition of Reynolds.

The movements in net debt are presented below along with a reconciliation to the financing activities in the Group Cash Flow Statement:

	Opening balance	Accounting policy change (IFRS 16) (note 30)	Subsidiaries acquired	Cash flow	Foreign exchange	Fair value, accrued interest and other	Closing balance
Borrowings	47,495	–	–	(1,176)	(1,536)	4	44,787
Lease liabilities	14	607	3	(154)	(30)	139	579
Derivatives in respect of net debt:							
– assets (note 15)	(647)	–	–	(2)	107	15	(527)
– liabilities (note 15)	269	–	–	(389)	491	13	384
Cash and cash equivalents (note 17)	(2,602)	–	–	17	57	2	(2,526)
Current investments held at fair value (note 14)	(178)	–	–	95	38	(78)	(123)
	44,351	607	3	(1,609)	(873)	95	42,574

Other movements in lease liabilities in 2019 mainly comprise additions of £135 million (net of reassessments, modifications and terminations), see note 9. The £78 million increase in current investments held at fair value represents the fair value gains for these investments.

**NOTES ON THE ACCOUNTS****CONTINUED****19 Borrowings continued**

								2018 £m
	Opening balance	Accounting policy change (IFRS 9) (note 30)	Revised opening balance	Subsidiaries acquired	Cash flow	Foreign exchange	Fair value, accrued interest and other	Closing balance
Borrowings	49,450	–	49,450	–	(3,671)	1,826	(96)	47,509
Derivatives in respect of net debt:								
– assets (note 15)	(640)	–	(640)	–	109	(55)	(61)	(647)
– liabilities (note 15)	117	–	117	–	(6)	132	26	269
Cash and cash equivalents (note 17)	(3,291)	–	(3,291)	(1)	563	100	27	(2,602)
Current investments held at fair value (note 14)	(65)	(144)	(209)	–	9	53	(31)	(178)
	45,571	(144)	45,427	(1)	(2,996)	2,056	(135)	44,351

	2019 £m	2018 £m
Cash flows per net debt statement	(1,609)	(2,996)
Non-financing cash flows included in net debt	(329)	(386)
Interest paid	(1,601)	(1,557)
Interest element of lease liabilities	(32)	(2)
Remaining cash flows relating to derivative financial instruments	(173)	(54)
Purchases of own shares held in employee share ownership trusts	(117)	(139)
Dividends paid to owners of the parent	(4,598)	(4,347)
Capital injection from/(purchases) of non-controlling interests	20	(11)
Dividends paid to non-controlling interests	(157)	(142)
Other	3	4
Net cash used in financing activities per cash flow statement	(8,593)	(9,630)

## 20 Provisions for liabilities

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	Other provisions £m	Total £m
<b>1 January 2019</b>	<b>127</b>	<b>33</b>	<b>108</b>	<b>381</b>	<b>649</b>
Differences on exchange	(11)	(1)	–	(17)	(29)
Provided in respect of the year	235	9	–	793	1,037
– in respect of Quebec Class Action	–	–	–	436	436
– in respect of excise dispute in Russia	–	–	–	252	252
– in respect of other	235	9	–	105	349
Utilised during the year	(53)	(13)	(35)	(498)	(599)
– in respect of Quebec Class Action	–	–	–	(436)	(436)
– in respect of other	(53)	(13)	(35)	(62)	(163)
<b>31 December 2019</b>	<b>298</b>	<b>28</b>	<b>73</b>	<b>659</b>	<b>1,058</b>

Analysed on the balance sheet as

– current	203	14	6	447	670
– non-current	95	14	67	212	388
	<b>298</b>	<b>28</b>	<b>73</b>	<b>659</b>	<b>1,058</b>

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	Other provisions £m	Total £m
<b>1 January 2018</b>	<b>158</b>	<b>40</b>	<b>138</b>	<b>417</b>	<b>753</b>
Differences on exchange	–	(3)	–	(15)	(18)
Provided in respect of the year	41	10	–	50	101
Utilised during the year	(72)	(14)	(30)	(71)	(187)
<b>31 December 2018</b>	<b>127</b>	<b>33</b>	<b>108</b>	<b>381</b>	<b>649</b>

Analysed on the balance sheet as

– current	74	17	19	208	318
– non-current	53	16	89	173	331
	<b>127</b>	<b>33</b>	<b>108</b>	<b>381</b>	<b>649</b>

The restructuring provisions relate to the restructuring and integration costs incurred and are reported as adjusting items. The principal restructuring activities in 2019 and 2018 are as described in note 3(e). While some elements of the non-current provisions of £95 million will unwind over several years, as termination payments are made over extended periods in some countries, it is estimated that approximately 29% will unwind within five years.

Employee-related benefits mainly relate to employee benefits other than post-employment benefits. The principal components of these provisions are gratuity and termination awards, and ‘jubilee’ payments due after a certain service period. It is estimated that approximately 28% of the non-current provisions of £14 million will unwind within five years.

A provision of £274 million was made in 2011 for a potential claim under a 1998 settlement agreement entered into by a Group subsidiary in respect of the clean-up of sediment in the Fox River. On 30 September 2014, the Group, NCR, Appvion and Windward Prospects entered into a funding agreement; the details of this agreement are explained in note 27. This agreement led to payments of £32 million in 2019 (2018: £25 million). In addition, the Group incurred legal costs of £3 million (2018: £5 million), which were also charged against the provision. It is expected that the non-current provision will unwind within five years.

On 10 February 2017, a decision was delivered on the further hearing related to a payment of dividends by Windward to Sequana in May 2009. Further details are provided in note 27.

Other provisions comprise balances set up in the ordinary course of general business that cannot be classified within the other categories, such as sales returns and onerous contracts, together with amounts in respect of supplier, excise and other disputes. The nature of the amounts provided in respect of disputes is such that the extent and timing of cash flows are difficult to estimate and the ultimate liability may vary from the amounts provided.

In 2019, following the Quebec Class Action judgment on 1 March 2019, the Group recognised a provision of CAD\$758 million (£436 million) representing the expected liability associated with the claim. As explained in note 13, the Group has utilised the litigation related deposit against the current estimate of the liability and consequently both the provision and litigation related deposit (note 13) have reduced. Further details are provided in note 27.

As explained in note 3(h), in 2019, the Group recognised a provision of £252 million in relation to the Russia excise dispute.

Amounts provided above are shown net of reversals of unused provisions which include reversals of £18 million (2018: £12 million) for restructuring of existing businesses, £3 million (2018: £4 million) for employee benefits and £97 million (2018: £111 million) for other provisions, of which £10 million (2018: £56 million) was reclassified to trade and other payables.

**NOTES ON THE ACCOUNTS****CONTINUED****21 Trade and other payables**

	2019 £m	2018 £m
Trade payables	3,453	3,557
Duty, excise and other taxes	3,852	3,519
Accrued charges and deferred income	2,037	2,038
FII GLO deferred income (note 6(b))	963	963
Social security and other taxation	51	55
Sundry payables	405	1,554
	<b>10,761</b>	<b>11,686</b>
Current	9,727	10,631
Non-current	1,034	1,055
	<b>10,761</b>	<b>11,686</b>

The movement in sundry payables relates to the correction for the accounting for dividends, as explained in note 18(e).

As explained in note 13, the Group acts as a collection agent for banks and other financial institutions in certain debt factoring arrangements. The cash collected in respect of these arrangements that has not yet been remitted amounts to £115 million (2018: £118 million) and is included in sundry payables.

In addition, the Group has certain Supply Chain Financing (SCF) or 'reverse factoring' arrangements in place. The principal purpose of these arrangements is to provide the supplier with the option to access liquidity earlier through the sale of its receivables due from the Group to a bank or other financial institution prior to their due date. Management has determined that the Group's payables to these suppliers have neither been extinguished nor have the liabilities been significantly modified by these arrangements. The value of amounts payable, invoice due dates and other terms and conditions applicable, from the Group's perspective, remain unaltered, with only the ultimate payee being changed. At 31 December 2019, the value of amounts payable under the SCF programmes was £71 million (2018: £45 million). The cash outflows in respect of these arrangements have been recognised within operating cash flows.

Accrued charges and deferred income include £4 million of deferred income (2018: £5 million) and £61 million (2018: £51 million) in respect of interest payable mainly related to tax matters. FII GLO deferred income of £963 million relates to receipts in 2015, in respect of the Franked Investment Income Government Litigation Order (note 6(b)). Amounts payable to related parties including associated undertakings are shown in note 26.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables, as determined using discounted cash flow analysis.

Trade and other payables are predominantly denominated in the functional currencies of subsidiary undertakings with less than 6% in other currencies (2018: less than 5% in other currencies).

**22 Financial instruments and risk management****Management of financial risks**

One of the principal responsibilities of Treasury is to manage the financial risks arising from the Group's underlying operations. Specifically, Treasury manages, within an overall policy framework set by the Group's Main Board and Corporate Finance Committee (CFC), the Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group's treasury position is monitored by the CFC which meets regularly throughout the year and is chaired by the Group Finance Director. The approach is one of risk reduction within an overall framework of delivering total shareholder return.

The Group defines capital as net debt (note 19) and equity (note 18). The only externally imposed capital requirement for the Group is interest cover as described under interest rate risk below. The Group assesses its financial capacity by reference to cash flow, net debt and interest cover. Group policies include a set of financing principles and key performance indicators including the monitoring of credit ratings, interest cover and liquidity. These provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided. The key objective of the financing principles is to appropriately balance the interests of equity and debt holders in driving an efficient financing mix for the Group. The Group's average cost of debt in 2019 is 3.3 % (2018: 3.0%).

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's balance sheet and related notes. The Group's management of specific risks is dealt with as follows:

**Liquidity risk**

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of sources. The Group has a target average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2019, the average centrally managed debt maturity was 9.1 years (2018: 8.8 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 18.6% (2018: 18.4%).

It is Group policy that short-term sources of funds (including drawings under both the Group US\$4 billion US commercial paper (US CP) programme and the Group £3 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. Commercial paper is issued by B.A.T. International Finance p.l.c. and B.A.T Capital Corporation and guaranteed by British American Tobacco p.l.c.. At 31 December 2019, commercial paper of £1,056 million was outstanding (2018: £536 million).

## 22 Financial instruments and risk management continued

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to mobilise cash efficiently within the Group. The key objectives of Treasury in respect of cash and cash equivalents are to protect their principal value, to concentrate cash at the centre, to minimise the required debt issuance and to optimise the yield earned. The amount of debt issued by the Group is determined by forecasting the net debt requirement after the mobilisation of cash.

The Group continues to target a solid investment-grade credit rating. Following the announcement of the agreement to acquire the remaining 57.8% of Reynolds American Inc. not already owned by the Group, in January 2017, Moody's and S&P revised the Group's rating to Baa2 and BBB+ with stable outlook, respectively. The Group's strategy is to continue deleveraging and is seeking to recover to Baa1/BBB+ in the medium term. The Group is confident of its continued ability to successfully access the debt capital markets.

As part of its short-term cash management, the Group invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2019, cash and cash equivalents include £nil invested in money market funds (2018: £25 million).

As part of its working capital management, in certain countries, the Group has entered into factoring arrangements and supply chain financing arrangements. These are explained in further detail in note 13 and note 21.

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies to predominantly fund short-to-medium term working capital requirements. All contractual borrowing covenants have been met and none of them is expected to inhibit the Group's operations or funding plans.

In March and June 2019, the Group repaid €820 million and US\$750 million bonds at maturity, respectively.

In July 2019, the Group extended the £3 billion tranche of its £6 billion revolving credit facility for a further 364 days with a one-year term-out option. At 31 December 2019, the facility was undrawn (2018: the facility was undrawn). On 12 March 2020, the Group refinanced the existing two-tranche £6 billion revolving credit facility with a new two-tranche £6 billion revolving credit facility. This consists of a £3 billion 364-day tranche (with two one-year extension options and a one-year term-out option), and a £3 billion five-year tranche (with two one-year extension options).

In July 2019, the Group also arranged short term bilateral facilities with some of its core banks for a total amount of £745 million.

Additionally, the Group filed its inaugural SEC shelf programme in July 2019. The SEC shelf programme together with the EMTN programme, will be the basis for future normal issuances in the capital markets.

The Group accessed the US dollar bond market through the SEC shelf programme in September 2019, successfully raising US\$3.5 billion across 4 tranches.

In September 2019, the Group repaid a US\$650 million bond at maturity.

As part of the liquidity management strategy, the Group has redeemed prior to their maturity a US\$2.25 billion bond in September 2019 and a US\$1.25 billion bond in November 2019, that would have otherwise matured in 2020.

In December 2019, the Group repaid a £500 million bond at maturity.

In January 2018, the Group repaid the £600 million that was drawn under the 364-day £3 billion Group revolving credit facility. The facility had a one-year extension option which was utilised in July 2018.

In March and June 2018, the Group repaid €400 million and US\$2,500 million bonds at maturity, respectively.

### Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries and associates into its reporting currency, sterling. The Group's primary balance sheet translation exposures are to the US dollar, Canadian dollar, euro, Danish krone, Swiss franc, South African rand, Russian rouble, Brazilian real, Australian dollar, Malaysian ringgit, Singaporean dollar and Indian rupee. These exposures are kept under continuous review. The Group's policy on borrowings is to broadly match the currency of these borrowings with the currency of cash flows arising from the Group's underlying operations. Within this overall policy, the Group aims to minimise all balance sheet translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency borrowings. The main objective of these policies is to protect shareholder value by increasing certainty and minimising volatility in earnings per share. At 31 December 2019, the currency profile of the Group's gross debt, after taking into account derivative contracts, was 59% US dollar (2018: 65%), 13% euro (2018: 13%), 21% sterling (2018: 16%) and 7% other currencies (2018: 6% other currencies).

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint arrangements; these exposures are not normally hedged. Exposures also arise from:

(i) foreign currency denominated trading transactions undertaken by subsidiaries. These exposures comprise committed and highly probable forecast sales and purchases, which are offset wherever possible. The remaining exposures are hedged within the Treasury policies and procedures with forward foreign exchange contracts and options, which are designated as hedges of the foreign exchange risk of the identified future transactions; and

(ii) forecast dividend flows from subsidiaries to the centre. To ensure cash flow certainty, the Group enters into forward foreign exchange contracts which are designated as net investment hedges of the foreign exchange risk arising from the investments in these subsidiaries.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held across the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. Financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 10% strengthening of functional currencies against non-functional currencies would result in pre-tax profit being £16 million lower (2018: £33 million higher; 2017: £14 million lower) and items recognised directly in other comprehensive income being £22 million lower (2018: £384 million higher; 2017: £148 million higher). A 10% weakening of functional currencies against non-functional currencies would result in pre-tax profit being £20 million higher (2018: £41 million lower; 2017: £4 million higher) and items recognised directly in other comprehensive income being £27 million higher (2018: £469 million lower; 2017: £148 million lower).

## NOTES ON THE ACCOUNTS

CONTINUED

### 22 Financial instruments and risk management continued

The exchange sensitivities on items recognised directly in other comprehensive income relate to hedging of certain net asset currency positions in the Group, as well as on cash flow hedges in respect of future transactions, but do not include sensitivities in respect of exchange on non-financial assets or liabilities.

#### Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on the earnings, cash flow and economic value of the Group and to safeguard against any possible breach of its financial covenants. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

The Group targets an interest cover ratio, as calculated under its key central banking facilities, of greater than 5 and for 2019 it is 7.1 times (2018: 7.2 times; 2017: 7.8 times). The only externally imposed capital requirement the Group has is in respect of its centrally managed banking facilities, which require a gross interest cover of at least 4.5 times.

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on a net basis (at least 50% fixed on a net basis in the short to medium term) as a result of regular reviews of market conditions and strategy by the Corporate Finance Committee and the board of the main central finance company. At 31 December 2019, the relevant ratios of floating to fixed rate borrowings were 18:82 (2018: 21:79) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps to vary the fixed and floating mix, or forward starting swaps to manage the refinancing risk. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of financial assets and liabilities of the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analysis, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being £143 million lower (2018: £90 million lower; 2017: £108 million lower). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being £108 million higher (2018: £74 million higher; 2017: £77 million higher). The effect of these interest rate changes on items recognised directly in other comprehensive income is not material in either year.

The Group has early adopted the Amendments to IFRS9 *Financial Instruments* in respect of the Interest Rate Benchmark Reform as a result of the UK Financial Conduct Authority's announcement on 27 July 2017. Considering the relevant hedge relationships impacted by these amendments, as at 31 December 2019, the Group has floating rate borrowings with nominal value of £1,929 million and US\$750 million (£566 million) that are due to mature in January 2022 and August 2022 respectively.

In relation to the Group's floating rate borrowings and hedge instruments, there is exposure to uncertainty arising from changes in the USD LIBOR, EURIBOR and GBP LIBOR benchmarks. The Group believes that its contracts with interest rates based on these benchmarks adequately provide for alternate calculations of interest in the event that they are unavailable. The Group believes that any resulting ineffectiveness consequent to the Interest Rate Benchmark Reform is likely to be immaterial. Although these calculations may cause an administrative burden, the Group does not believe that these would materially adversely affect the Group or its ability to manage its interest rate risk.

#### Credit risk

The Group has no significant concentrations of customer credit risk. Subsidiaries have policies in place requiring appropriate credit checks on potential customers before sales commence. The process for monitoring and managing credit risk once sales to customers have been made varies depending on local practice in the countries concerned.

Certain territories have bank guarantees, other guarantees or credit insurance provided in the Group's favour in respect of Group trade receivables, the issuance and terms of which are dependent on local practices in the countries concerned. All derivatives are subject to ISDA agreements or equivalent documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group aims to transact with counterparties with strong investment grade credit ratings. However, the Group recognises that due to the need to operate over a large geographic footprint, this will not always be possible. Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions throughout its geographic footprint, while at the same time ensuring that there is no geographic concentration in the location of counterparties.

With the following exceptions, the maximum exposure to the credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group's balance sheet. In 2014, the Group entered into a guarantee arrangement in respect of the borrowings of the non-controlling interest in relation to the capital injection made to the Group's Algerian business. The Group no longer has this credit exposure as it was repaid in 2018. In addition, the Group has entered into short-term risk participation agreements in relation to certain leaf supply arrangements and the maximum exposure under these would be £54 million (2018: £102 million). In 2017, the Group entered into a guarantee arrangement to support a short-term credit facility with a distributor. The maximum exposure under the arrangement would be £54 million (2018: £102 million).

#### Price risk

The Group is exposed to price risk on investments held by the Group, which are included in investments held at fair value on the consolidated balance sheet, but the quantum of such is not material.

## 22 Financial instruments and risk management continued

### Hedge accounting

In order to qualify for hedge accounting, the Group is required to document prospectively the economic relationship between the item being hedged and the hedging instrument. The Group 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 ongoing basis. This effectiveness testing is repeated periodically to ensure that the hedge has remained, and is expected to remain, highly effective. The prospective effectiveness testing determines that an economic relationship between the hedged item and the hedging instrument exists.

In accordance with the Group Treasury Manual, the exact hedge ratios and profile of a hedge relationship will depend on several factors, including the desired degree of certainty and reduced volatility of net interest costs and market conditions, trends and expectations in the relevant markets. The sources of ineffectiveness include spot and forward differences, impact of time value and timing differences between periods in the hedged item and hedging instrument.

The Group's risk management strategy has been explained in further detail under the interest rate risk and currency risk sections of this note.

### Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the balance sheet, the basis for fair values is described below.

### Fair value hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value in accordance with IFRS 13 classification hierarchy:

	2019				2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets at fair value</b>								
Investment held at fair value (note 14)	78	–	57	135	141	–	76	217
Derivatives relating to								
– interest rate swaps (note 15)	–	180	–	180	–	187	–	187
– cross-currency swaps (note 15)	–	305	–	305	–	431	–	431
– forward foreign currency contracts (note 15)	–	280	–	280	–	117	–	117
<b>Assets at fair value</b>	<b>78</b>	<b>765</b>	<b>57</b>	<b>900</b>	<b>141</b>	<b>735</b>	<b>76</b>	<b>952</b>
<b>Liabilities at fair value</b>								
Derivatives relating to	–	255	–	255	–	181	–	181
– interest rate swaps (note 15)	–	84	–	84	–	56	–	56
– cross-currency swaps (note 15)	–	129	–	129	–	279	–	279
<b>Liabilities at fair value</b>	<b>–</b>	<b>468</b>	<b>–</b>	<b>468</b>	<b>–</b>	<b>516</b>	<b>–</b>	<b>516</b>

Level 2 financial instruments are not traded in an active market, but the fair values are based on quoted market prices, broker/dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives.

### Netting arrangements of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group balance sheet, together with the Group's rights of offset associated with recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	Amount presented in the Group balance sheet* £m	Related amounts not offset in the Group balance sheet £m	Net amount £m	Amount presented in the Group balance sheet* £m	Related amounts not offset in the Group balance sheet £m	Net amount £m
<b>Financial assets</b>						
– Derivative financial instruments (note 15)	765	(291)	474	735	(295)	440
<b>Financial liabilities</b>						
– Derivative financial instruments (note 15)	(468)	291	(177)	(516)	295	(221)
	<b>297</b>	<b>–</b>	<b>297</b>	<b>219</b>	<b>–</b>	<b>219</b>

\* No financial instruments have been offset in the Group balance sheet.

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trades derivatives.

**NOTES ON THE ACCOUNTS****CONTINUED****22 Financial instruments and risk management continued**

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transactions and amounts owed to it by the defaulting party. If that sum exceeds the amounts owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

The hedged items by risk category are presented below:

				2019	
	Carrying amount of the hedged item £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item £m	Line item in the statement of financial position where the hedged item is included £m	Changes in fair value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve £m
<b>Fair value hedges</b>					
Interest rate risk					
– borrowings (liabilities)	5,136	210	Borrowings	(9)	
<b>Cash flow hedges</b>					
Interest rate risk					
– borrowings (liabilities)	4,013		Borrowings	163	(308)
– derivative financial instruments (assets)*	2		Derivative financial instruments	–	–
– derivative financial instruments (liabilities)*	(49)		Derivative financial instruments	1	(1)

\* The carrying value reported for derivative financial instruments represents the aggregated exposure as at the balance sheet date. For assets, the gross nominal value amounts to £226 million (2018: £nil) and for liabilities, the gross nominal value amounts to £932 million (2018: £nil).

				2018	
	Carrying amount of the hedged item £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item £m	Line item in the statement of financial position where the hedged item is included £m	Changes in fair value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve £m
<b>Fair value hedges</b>					
Interest rate risk					
– borrowings (liabilities)	6,424	179	Borrowings	(32)	
<b>Cash flow hedges</b>					
Interest rate risk					
– borrowings (liabilities)	2,819		Borrowings	189	(146)

£372 million (2018: £4,647 million) of the Group's borrowings are designated as net investment hedge instruments of the Group's net investments in foreign operations. In line with the Group's risk management policies, the net investment hedge relationships are reviewed periodically. Consequently, a number of these relationships have matured in 2019. The change in the value used for calculating hedge ineffectiveness for hedged items designated under net investment hedge relationships is £22 million (2018: £226 million).

As at 31 December 2019, the total balance of the cash flow hedge reserve was a loss of £346 million (2018: loss of £177 million) including a loss of £309 million (2018: loss of £146 million) in relation to interest rate exposure and foreign currency exposure arising from borrowings held by the Group, a loss of £160 million (2018: loss of £98 million) in relation to interest rate exposure on forecasted borrowings, and a gain of £105 million (2018: gain of £48 million) in relation to deferred tax arising from cash flow hedges. The remainder related to the Group's foreign currency exposure on forecasted transactions, and cost of hedging (note 18(c)(ii)).

## 23 Business combinations, disposals and other changes in the Group

### (a) Reynolds American Inc. ("RAI")

On 25 July 2017, the Group announced the completion of the acquisition of the remaining 57.8% of RAI not already owned by the Group for a consideration of £41.8 billion. RAI ceased to be reported as an associate and has been consolidated as a wholly owned subsidiary from the acquisition date. RAI shareholders received, for each share of RAI common stock, US\$29.44 in cash, without interest, and 0.5260 BAT ordinary shares represented by BAT American Depository Shares listed on the New York Stock Exchange. The fair value of consideration paid to RAI shareholders was £41,770 million. Included in the fair value of consideration paid to RAI shareholders is £22,828 million of non-cash consideration of which £22,773 million arises from the issue of BAT ordinary shares (note 18).

In accordance with IFRS 3, the step-acquisition of RAI has been accounted for as if the Group has contributed its previously held equity interest in RAI at fair value as part of the consideration for acquiring 100% of the net assets of RAI. The value attributable to BAT's shareholding was £30,145 million, making the total acquisition price £71,915 million. In 2017, the difference between the fair value and the carrying value of the previously held equity interest has been recognised as a gain in the income statement.

The goodwill of £34,280 million and brands and similar intangibles of £75,482 million were recognised in the transaction. Goodwill on the acquisition of the business represents a strategic premium to enter the United States market as well as synergies and cost savings that are anticipated to be realised post-acquisition.

### (b) Other acquisitions

The Group acquired certain businesses and other tobacco assets as noted below. The financial impact of these transactions to the Group were immaterial individually and in aggregate. Except as noted, there were no material differences between the fair value and book values of net assets acquired in business combinations.

On 21 December 2017, the Group signed an agreement to acquire 100% of the share capital of **Twisp Proprietary Limited**, a South African e-cigarette/nicotine vapour company with a market share of circa 70% within South Africa and a leading presence in shopping malls via its branded kiosks outlets.

Completion of the proposed acquisition was conditional upon South African anti-trust clearance, which was given in the second half of 2019 and BAT acquired control on 30 September 2019 for a purchase price of £25 million of which £6 million is deferred and contingent upon future performance in the market. Goodwill of £12 million, representing a strategic premium to enter this segment of the South African vapour market, and trademarks and similar intangibles of £15 million were recognised on acquisition.

On 8 April 2019, the Group via its US subsidiary R.J. Reynolds Vapor Company ("RJR Vapor"), acquired a 45% stake in **VapeWild Holdings LLC**, a vertically integrated vapour manufacturer and retailer with 13 branded vape shops and an e-commerce platform focused on its own branded liquids, for US\$40 million. This was followed by a further acquisition of 15% on 24 June 2019 for US\$8 million, giving the Group a 60% interest in the target for US\$48 million (£36 million).

The Group has accounted for these investments as a single transaction and has consolidated VapeWild as a subsidiary from the date of the first investment. Goodwill of £11 million, representing a strategic premium to enter this segment of the US vapour market, and trademarks and similar intangibles of £39 million were recognised on acquisition.

Following the announcements with regards to flavours in vapour in the US, goodwill was impaired in full in 2019.

On 22 November 2018, the Group completed the acquisition of **Quantus Beteiligungs-und Beratungsgesellschaft mbH**, Germany's leading vapour retail chain trading as 'Highendsmoke', from a private shareholder. The fair value of consideration payable was £21 million. Goodwill of £11 million, representing a strategic premium to enter the German vapour retail market, and trademarks and similar intangibles of £13 million were recognised on acquisition.

On 26 September 2018, as part of an agreement to acquire an additional 44% stake in the Myanmar business, the Group acquired the business and individual assets of a local distributor, **Star Way Limited**, from IMU Enterprises Limited for £6 million. Goodwill of £3 million, representing anticipated synergies, was recognised on acquisition.

On 1 August 2017, the Group acquired certain tobacco assets, including a distribution company, **Tobacco Press d.o.o. Mostar**, from Fabrika Duhana Sarajevo d.d. in Bosnia-Herzegovina. The assets acquired, including goodwill of £2 million, brands and other intangibles of £39 million, and other assets, were purchased for a total consideration of £39 million.

On 5 May 2017, the Group acquired certain tobacco assets, including a distribution company, **Express Logistic and Distribution EOOD ("ELD")**, from Bulgartabac Holding AD in Bulgaria. The assets acquired, including brands and other intangibles of £117 million, were purchased for a total consideration of £110 million, of which £28 million was contingent upon future performance in the market. £14 million of this was paid during 2018 and £13 million of this was paid during 2019. Subsequently, ELD was disposed of in 2019 at carrying value.

On 5 April 2017, the Group acquired the business and certain assets of **Must Have Limited** (trading as ViP Electronic Cigarette ("ViP")), a company in administration. ViP is one of the largest e-cigarette retailers in the UK with a large point of sale network. The assets acquired, including goodwill of £1 million, intellectual property and other intangibles of £9 million, and other assets, were purchased for a total consideration of £12 million.

On 4 January 2017, the Group completed the acquisition of 100% of **Winnington Holding AB**, a Swedish manufacturer of 'white' snus, for a purchase price of £31 million. Goodwill of £8 million and brands and similar intangibles of £28 million were recognised. £8 million of the consideration was contingent on post-acquisition targets being met and was substantially settled in January 2019.

On 30 December 2015, the Group acquired 100% of the **CHIC Group** from private shareholders. The fair value of the consideration payable was £82 million, of which £30 million was contingent on achievement of certain post-acquisition targets. £6 million of this was paid during 2016, £13 million during 2017 and a £1 million in final settlement in 2018.

## NOTES ON THE ACCOUNTS

CONTINUED

### 23 Business combinations, disposals and other changes in the Group continued

On 17 November 2015, the Group acquired 100% of **Blue Nile Cigarette Company Limited** from a private shareholder. The fair value of the consideration payable was £45 million of which £8 million was contingent on achievement of certain post-acquisition targets. Subsequent payments in respect of this were £1 million in 2016, £5 million in 2017, £1 million in 2018 and £1 million in 2019.

On 30 September 2015, the Group acquired **TDR** and other tobacco and retail assets from Adris Grupa d.d. ("Adris") for a total enterprise value of €550 million. Part of the consideration was contingent upon certain targets being met post-acquisition, and £5 million of this was paid in January 2017. In 2019, the Group reached an agreement with Adris regarding the level of contingent consideration such that any remaining amounts would not be paid by the Group and the Group received €3 million in full and final settlement of all claims between Adris and the Group. Consequently, €9 million of cash and deferred consideration has been recognised as other income (note 3(e)).

#### (c) Non-controlling interests

In 2019, the Group made a capital contribution to **Brascuba Cigarrillos S.A.** at a cost of £20 million. This contribution was in proportion to a capital contribution made by the non-controlling interest to the Group company and as such, the Group's shareholding remains unchanged.

In 2018, included in the acquisition of non-controlling interests are the purchases of the remaining shares in **British American Tobacco Vranje a.d.** in Serbia and an additional 44% stake in **British American Tobacco Myanmar Limited**. The financial impact of these transactions to the Group is immaterial individually and in aggregate.

During 2017, the Group acquired the remaining 49% interest in **IPRESS d.o.o.**

During 2015, the Group acquired a further 0.2% interest in **BAT Chile Operaciones S.A.** at a cost of £1 million. This increased the Group's shareholding to 99%. A further 0.01% interest was acquired during 2017.

#### (d) Other transactions

On 10 January 2019, the Group acquired a minority stake in **AYR Limited**, a vapour technology company based in the UK, for £8 million, with the potential to increase this in the future. The investment terms also provide for the Group and AYR to agree a commercial collaboration agreement under which the Group and AYR will jointly develop future vaping products.

### 24 Share-based payments

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 10 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) in 2019, 2018 and 2017. 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. Both equity and cash-settled LTIP awards are granted in March each year.

Following the acquisition of RAI on 25 July 2017, underlying RAI shares for LTIPs were replaced with BAT American Depository Shares (ADS). LTIP awards for ADSs are measured against the performance conditions of RAI at the maximum of 150% at the vesting date. Equity-settled LTIPs were granted by RAI in March each year with options exercisable after three years from the date of grant with the payment made no later than 90 days from date of vesting. Participants are not entitled to dividends prior to exercise of the options.

#### Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled deferred shares 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:

#### Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20% discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three-year or five-year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £6,000 in any tax year.

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

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

#### Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c.. The maximum amount that can be allocated in this way to any individual is £1,800 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

## 24 Share-based payments continued

### Share-based payment expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	2019		2018		2017	
	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m
LTIP (note (a))	58	1	70	–	56	3
DSBS (note (b))	50	4	44	2	42	9
Other schemes	7	–	7	–	7	–
<b>Total recognised in the income statement (note 3(a))</b>	<b>115</b>	<b>5</b>	<b>121</b>	<b>2</b>	<b>105</b>	<b>12</b>

### Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Group has recorded liabilities in respect of vested and unvested grants at the end of 2019 and 2018:

	2019		2018	
	Vested £m	Unvested £m	Vested £m	Unvested £m
LTIP	0.5	2.8	0.5	2.6
DSBS	0.3	6.2	0.2	6.1
<b>Total liability</b>	<b>0.8</b>	<b>9.0</b>	<b>0.7</b>	<b>8.7</b>

#### (a) Long-Term incentive Plan

Details of the movements for the equity- and cash-settled LTIP scheme during the years ended 31 December 2019 and 31 December 2018, were as follows:

	2019		2018	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	6,908	306	6,030	378
Granted during the period	4,552	202	3,067	66
Exercised during the period	(1,045)	(129)	(1,739)	(102)
Forfeited during the period	(1,222)	(61)	(450)	(36)
<b>Outstanding at end of year</b>	<b>9,193</b>	<b>318</b>	<b>6,908</b>	<b>306</b>
Exercisable at end of year		739	25	676
				22

As at 31 December 2019, the Group has 9,193,000 shares (2018: 6,908,000 shares) outstanding which includes 2,479,057 shares (2018: 1,208,129 shares) which are related to RAI LTIP awards from which 43,924 shares (2018: 72,033 shares) are exercisable at the end of the year.

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £28.31 (2018: £38.90; 2017: £51.95) for equity-settled and £30.87 (2018: £40.62; 2017: £52.08) for cash-settled options.

The weighted average British American Tobacco p.l.c. share price for ADS on the New York Stock Exchange at the date of exercise for share options exercised during the period relating to equity-settled RAI LTIP awards was US\$36.35 (2018: US\$51.43).

The outstanding shares for the year ended 31 December 2019 had a weighted average remaining contractual life of 8.2 years (2018: 8.1 years; 2017: 8.1 years) for the equity-settled scheme, 1.93 years for RAI equity-settled (2018: 1.91 years scheme; 2017: 2.17 years) and 8.3 years (2018: 8.1 years; 2017: 8.3 years) for the cash-settled share-based payment arrangements.

**NOTES ON THE ACCOUNTS****CONTINUED****24 Share-based payments continued****(b) Deferred Share Bonus Scheme**

Details of the movements for the equity- and cash-settled DSBS scheme during the years ended 31 December 2019 and 31 December 2018, were as follows:

	2019		2018	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	3,248	281	2,962	382
Granted during the period	2,097	202	1,262	66
Exercised during the period	(1,500)	(184)	(940)	(145)
Forfeited during the period	(97)	(17)	(36)	(22)
<b>Outstanding at end of year</b>	<b>3,748</b>	<b>282</b>	<b>3,248</b>	<b>281</b>
Exercisable at end of year	90	6	79	5

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the financial year was £28.40 (2018: £40.00; 2017: £52.52) for equity-settled and £30.06 (2018: £40.51; 2017: £52.50) for cash-settled options.

The outstanding shares for the year ended 31 December 2019 had a weighted average remaining contractual life of 1.5 years (2018: 1.3 years; 2017: 1.3 years) for the equity-settled scheme and 1.5 years (2018: 1.1 years; 2017: 1.2 years) for the cash-settled scheme.

**Valuation assumptions**

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

	2019		2018	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	22.0	22.0	18.0	18.0
Average expected term to exercise (years)	3.5	3.0	3.5	3.0
Risk-free rate (%)	0.7	0.7	1.0	1.0
Expected dividend yield (%)	6.5	6.5	5.0	5.0
Expected dividend yield (%) – Management Board	6.0	6.0	5.0	5.0
Share price at date of grant (£)	30.83	30.83	38.94	38.94
Share price at date of grant (£) – Management Board	33.28	33.28	38.94	38.94
Fair value at grant date (£)	21.93	25.35	29.39	33.50
Fair value at grant date (£) – Management Board	24.03	25.35	29.39	33.50

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2019 LTIP	2018 LTIP
Average share price volatility FMCG comparator group (%)	18	18
Average correlation FMCG comparator group (%)	28	31

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index (the share price index plus the dividend reinvested) over a five-year period. The FMCG share price volatility and correlation was also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This pay-out calculation is based on expectations published in analysts' forecasts.

## 25 Group employees

The average number of persons employed by the Group and its associates during the year, including Directors, was 94,846 (2018: 95,239).

	2019 Number	2018 Number
United States	5,046	5,066
APME	14,910	15,074
AMSSA	18,638	19,351
ENA	25,505	26,102
Subsidiary undertakings	64,099	65,593
Associates	30,747	29,646
	<b>94,846</b>	<b>95,239</b>

Included within the employee numbers for ENA are certain employees in the UK in respect of central functions. Some of the costs of these employees are allocated or charged to the various regions and markets in the Group.

## 26 Related party disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 *Related Party Disclosures*, all of which are undertaken in the normal course of business. Transactions with CTBAT International Limited (a joint operation) are not included in these disclosures as the results are immaterial to the Group.

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. The Group's share of dividends from associates, included in other net income in the table below, was £239 million (2018: £211 million; 2017: £688 million).

	2019 £m	2018 £m	2017 £m
Transactions			
– revenue	511	473	366
– purchases	(79)	(101)	(218)
– other net income	248	216	699
Amounts receivable at 31 December	42	26	40
Amounts payable at 31 December	(2)	(1)	(1)

As explained in note 23, in 2017, the Group completed the acquisition of the remaining 57.8% of RAI not already owned. This transaction has not been included in the table above.

On 17 December 2012, a wholly-owned subsidiary of the Group, BATUS Japan Inc. (BATUSJ), entered into an Amendment and Extension Agreement (referred to as the Amendment) with a wholly-owned subsidiary of RAI, R.J. Reynolds Tobacco Company (referred to as RJRTC). The Amendment modifies the American-blend Cigarette Manufacturing Agreement (referred to as the 2010 Agreement), effective as of 1 January 2010.

Prior to the Amendment, the term of the 2010 Agreement was scheduled to expire on 31 December 2014, subject to early termination and extension provisions. Pursuant to the Amendment, the Manufacturing Agreement would remain in effect beyond 31 December 2014, provided that either RJRTC or BATUSJ may terminate the Manufacturing Agreement by furnishing three years' notice to the other party. Such notice was given in January 2016. As a result of early termination of this agreement the Group agreed to a compensation payment of US\$90 million of which US\$7 million was paid to RJRTC on 22 September 2016, with the Group recognising the full expense of US\$90 million as required by IFRS in 2016. The balance was paid in March 2017.

During 2019, the Group acquired 60% of VapeWild Holdings LLC and a minority stake in AYR Limited. The Group also made a capital injection in Brascuba Cigarillos S.A..

During 2018, the Group acquired a further 44% interest in British American Tobacco Myanmar Limited and a further 11% interest in British American Tobacco Vranje.

During 2017, the Group acquired the remaining 49% interest in IPRESS d.o.o. and a further 0.01% interest in British American Tobacco Chile Operaciones S.A. The combined costs are less than £1 million.

As explained in note 11, contributions to the British American Tobacco UK Pension Fund are secured by a charge over the Group's Head Office (Globe House) up to a maximum of £150 million.

The key management personnel of British American Tobacco consist of the members of the Board of Directors of British American Tobacco p.l.c. and the members of the Management Board. No such person had any material interest during the year in a contract of significance (other than a service contract) with the Company or any subsidiary company. The term key management personnel in this context includes their close family members.

**NOTES ON THE ACCOUNTS****CONTINUED****26 Related party disclosures continued**

	2019 £m	2018 £m	2017 £m
The total compensation for key management personnel, including Directors, was:			
– salaries and other short-term employee benefits	26	21	24
– post-employment benefits	4	4	5
– share-based payments	23	18	16
	53	43	45

The following table, which is not part of IAS 24 disclosures, shows the aggregate emoluments of the Directors of the Company.

	Executive Directors			Chairman			Non-Executive Directors			Total		
	2019 £'000	2018 £'000	2017 £'000	2019 £'000	2018 £'000	2017 £'000	2019 £'000	2018 £'000	2017 £'000	2019 £'000	2018 £'000	2017 £'000
<b>Salary; fees; benefits; incentives</b>												
– salary	2,356	2,211	2,122							2,356	2,211	2,122
– fees				695	680	660	969	1,092	1,042	1,664	1,772	1,702
– taxable benefits	608	427	385	137	116	129	310	303	195	1,055	846	709
– short-term incentives	4,791	5,031	4,689							4,791	5,031	4,689
– long-term incentives	4,420	5,300	10,192							4,420	5,300	10,192
Sub-total	12,175	12,969	17,388	832	796	789	1,279	1,395	1,237	14,286	15,160	19,414
<b>Pension; other emoluments</b>												
– pension	686	921	612							686	921	612
– other emoluments	47	50	50							47	50	50
Sub-total	733	971	662							733	971	662
<b>Total emoluments</b>	<b>12,908</b>	<b>13,940</b>	<b>18,050</b>	<b>832</b>	<b>796</b>	<b>789</b>	<b>1,279</b>	<b>1,395</b>	<b>1,237</b>	<b>15,019</b>	<b>16,131</b>	<b>20,076</b>

**Aggregate gains on LTIP shares exercised in the year**

	Award	Exercised LTIP shares	Exercise date	Price per share (£)	Aggregate gain (£)
Jack Bowles	12 May 2016	22,711	20 May 2019	29.72	674,971
Tadeu Marroco	12 May 2016	15,154	21 June 2019	27.97	423,857

**LTIP – Value of awards 2016**

		Shares	Price per share (£) <sup>1</sup>	Face value (£)
Jack Bowles		31,943	42.34	1,352,467
Tadeu Marroco		21,315	42.34	902,477

<sup>1</sup> For information only as awards are made as nil-cost options.

**Sharesave – Aggregate Gains 2019**

	Award date	Shares	Exercise date	Price per share (£)	Aggregate gain (£)
Nicandro Durante	26 August 2014	493	02 April 2019	31.79	1,930
Ben Stevens	26 August 2014	543	01 October 2019	29.87	1,083

**Sharesave – Value of award 2014**

		Shares	Price per share (£)	Face value (£)
Nicandro Durante		493	27.87	13,740
Ben Stevens		543	27.87	15,133

In 2019, no Sharesave options were exercised by current Executive Directors.

## 27 Contingent liabilities and financial commitments

1. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards.
2. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, if it is probable that an outflow of economic resources will be required to settle the obligation and if the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management's judgement.
3. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

### General Litigation Overview

4. There are a number of legal and regulatory actions, proceedings and claims against Group companies related to tobacco and new category products that are pending in a number of jurisdictions. These proceedings include, among other things, claims for personal injury (both individual claims and class actions) and claims for economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments).
5. The plaintiffs in these cases seek recovery on a variety of legal theories, including negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, violations of unfair and deceptive trade practices statutes, conspiracy, medical monitoring and violations of competition and antitrust laws. The plaintiffs seek various forms of relief, including compensatory and, where available, punitive damages, treble or multiple damages and statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, attorneys' fees, and injunctive and other equitable relief.
6. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even hundreds of billions of sterling.
7. With the exception of the *Engle* progeny cases described below, the Group continues to win the majority of tobacco-related litigation claims that reach trial, and a very high percentage of the tobacco-related litigation claims brought against them, including *Engle* progeny cases, continue to be dismissed at or before trial. Based on their experience in tobacco-related litigation and the strength of the defences available to them in such litigation, the Group's companies believe that their successful defence of tobacco-related litigation in the past will continue in the future.
8. Group companies generally do not settle claims. However, Group companies may enter into settlement discussions in some cases, if they believe it is in their best interests to do so. Exceptions to this general approach include, but are not limited to, actions taken pursuant to 'offer of judgment' statutes and Filter Cases, as defined below. An 'offer of judgment,' if rejected by the plaintiff, preserves the Group's right to recover attorneys' fees under certain statutes in the event of a verdict favourable to the Group. Such offers are sometimes made through court-ordered mediations. Other settlements by Group companies include the State Settlement Agreements (described below), the funding by various tobacco companies of a US\$5.2 billion (approximately £3.9 billion) trust fund contemplated by the Master Settlement Agreement to benefit tobacco growers, the original *Brown* flight attendant case, and most of the *Engle* progeny cases pending in US federal court, after the initial docket of over 4,000 such cases was reduced to approximately 400 cases. The Group believes that the circumstances surrounding these claims are readily distinguishable from the current categories of tobacco-related litigation claims involving Group companies.
9. Although the Group intends to defend all pending cases vigorously, and believes that the Group's companies have valid bases for appeals of adverse verdicts and valid defences to all actions, and that an outflow of resources related to any individual case is not considered probable, litigation is subject to many uncertainties, and, generally, it is not possible to predict the outcome of any particular litigation pending against Group companies, or to reasonably estimate the amount or range of any possible loss. Furthermore, a number of political, legislative, regulatory and other developments relating to the tobacco industry and cigarette smoking have received wide media attention. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation. Therefore, the Group does not provide estimates of the financial effect of the contingent liabilities represented by such litigation, as such estimates are not practicable.
10. The following table lists the categories of the tobacco-related actions pending against Group companies as of 31 December 2019 and the increase or decrease from the number of cases pending against Group companies as of 31 December 2018. Details of the quantum of past judgments awarded against Group companies, the majority of which are under appeal, are also identified along with any settlements reached during the relevant period. Given the volume and more active nature of the *Engle* progeny cases and the Filter Cases in the US described below, and the fluctuation in the number of such cases and amounts awarded from year to year, the Group presents judgment or settlement figures for these cases on a three-year basis. Where no quantum is identified, either no judgment has been awarded against a Group company, or where a verdict has been reached no quantification of damages has been given, or no settlement has been entered into. Further details on the judgments, damages quantification and settlements are included within the case narratives below. For a discussion of the non-tobacco related litigation pending against the Group, see note 27, paragraph 85, *et seq.*

**NOTES ON THE ACCOUNTS****CONTINUED****27 Contingent liabilities and financial commitments continued**

Case Type	Case Numbers as at 31 December 2019	Case Numbers as at 31 December 2018 (note 1)	Change in Number Increase/(Decrease)
<b>US tobacco-related actions</b>			
Medical reimbursement cases (note 2)	2	2	No change
Class actions (note 3)	19	20	(1)
Individual smoking and health cases (note 4)	135	111	24
<i>Engle</i> Progeny Cases (note 5)	1,773	2,268	(495)
<i>Broin II</i> Cases (note 6)	1,228	1,406	(178)
Filter Cases (note 7)	51	58	(7)
State Settlement Agreements – Enforcement and Validity (note 8)	4	2	2
<b>Non-US tobacco-related actions</b>			
Medical reimbursement cases	18	19	(1)
Class actions (note 9)	13	13	No change
Individual smoking and health cases (note 10)	81	107	(26)

(Note 1) This includes cases to which the Reynolds American Inc. ("RAI") group companies were a party at such date.

(Note 2) This category of cases includes the Department of Justice action. See note 27, paragraphs 20-24 and the list of Closed Litigation Matters.

(Note 3) See note 27, paragraphs 25-38.

(Note 4) This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs and punitive damages. Out of the 135 active individual smoking and health cases, six judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately US\$192 million (approximately £145 million), which are pending post-trial in trial courts or on appeal. For a further description of these cases, see note 27, paragraph 40.

(Note 5) In July 1998, trial began in *Engle v R.J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including R. J. Reynolds Tobacco Co. ("RJRT") (individually, and as successor by merger to Lorillard Tobacco Company ("Lorillard Tobacco")) and Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) ("B&W"). In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £109.5 billion) in punitive damages, apportioned US\$36.3 billion (approximately £27.4 billion) to RJRT, US\$17.6 billion (approximately £13.3 billion) to B&W, and US\$16.3 billion (approximately £12.3 billion) to Lorillard Tobacco. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three *Engle* class representatives to stand and setting aside the punitive damages award. Putative *Engle* class members were permitted to file individual lawsuits, deemed '*Engle* progeny cases', against the *Engle* defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008). Between the period 1 January 2017 and 31 December 2019, 40 judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately US\$354 million (approximately £267 million). Certain of these judgments have been appealed by RJRT and in certain other cases, RJRT still had time to appeal, as of 31 December 2019. For a further description of the *Engle* progeny cases, see note 27, paragraphs 29-38.

(Note 6) *Broin v Philip Morris, Inc.* was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to Environmental Tobacco Smoke ("ETS") in airplane cabins. Group companies and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of US\$300 million (approximately £226 million) to fund research on the detection and cure of tobacco-related diseases and US\$49 million (approximately £37 million) in plaintiffs' counsel's fees and expenses. Group companies' share of these payments totalled US\$174 million (approximately £131 million). *Broin II* cases refer to individual cases by class members. There have been no *Broin II* trials since 2007. For a further description of the *Broin II* cases, see note 16 to paragraph 40.

(Note 7) Includes claims brought against Lorillard Tobacco and Lorillard Inc. by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Since 1 January 2017, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$31 million (approximately £23 million) in settlements to resolve 138 Filter Cases. See note 17 to paragraph 40.

(Note 8) Group companies' expenses and payments under the State Settlement Agreements for 2019 amounted to approximately US\$2.8 billion (approximately £2.1 billion) in respect of settlement expenses and US\$2.9 billion (approximately £2.2 billion) in respect of settlement cash payments. See note 27, paragraph 43. The pending cases referred to above relate to the enforcement, validity or interpretation of the State Settlement Agreements in which RJRT, B&W or Lorillard Tobacco is a party. See note 27, paragraphs 41-53.

## 27 Contingent liabilities and financial commitments continued

(Note 9) Outside the United States, there are 13 class actions being brought against Group companies as of 31 December 2019. These include class actions in the following jurisdictions: Brazil (1), Canada (11) and Venezuela (1). For a description of the Group companies' class actions, see note 27, paragraphs 70-83. Pursuant to the judgment in 2015 in the two Quebec class actions, the plaintiffs were awarded damages and interest in the amount of CAD\$15.6 billion, most of which were on a joint and several basis (approximately £9.1 billion), of which the Group companies' share was CAD\$10.4 billion (approximately £6 billion). On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. The share of the judgment for Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada, was reduced to approximately CAD\$9.2 billion (approximately £5.4 billion). For a further description of the Quebec Class Actions, see paragraph 78. All of the class actions in Canada are currently stayed pursuant to a court order. See paragraph 58.

(Note 10) As at 31 December 2019, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (37), Italy (18), Chile (9), Canada (6), Argentina (5) and Ireland (2). There were a further four jurisdictions with one active case only. Out of these 81 cases, in 2019, two judgments have been returned in the plaintiffs' favour as of 31 December 2019, one case in Argentina awarding damages totalling ARS\$2,850,000 (approximately £36,000) with post-judgment interest totalling approximately £380,000, and one case in Turkey which gave no finding on liability and remitted the case back to the court of first instance for reconsideration, both of which are currently on appeal.

11. Certain terms and phrases used in this note 27 may require some explanation.

- a. "Judgment" or "final judgment" refers to the final decision of the court resolving the dispute and determining the rights and obligations of the parties. At the trial court level, for example, a final judgment generally is entered by the court after a jury verdict and after post-verdict motions have been decided. In most cases, the losing party can appeal a verdict only after a final judgment has been entered by the trial court.
- b. "Damages" refers to the amount of money sought by a plaintiff in a complaint, or awarded to a party by a jury or, in some cases, by a judge. "Compensatory damages" are awarded to compensate the prevailing party for actual losses suffered, if liability is proved. In cases in which there is a finding that a defendant has acted wilfully, maliciously or fraudulently, generally based on a higher burden of proof than is required for a finding of liability for compensatory damages, a plaintiff also may be awarded "punitive damages". Although damages may be awarded at the trial court stage, a losing party may be protected from paying any damages until all appellate avenues have been exhausted by posting a supersedeas bond. The amount of such a bond is governed by the law of the relevant jurisdiction and generally is set at the amount of damages plus some measure of statutory interest, modified at the discretion of the appropriate court or subject to limits set by a court or statute.
- c. "Settlement" refers to certain types of cases in which cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, have agreed to resolve disputes with certain plaintiffs without resolving the cases through trial.

d. All sums set out in note 27 have been converted to GBP and US\$ using the following end closing rates as at 31 December 2019: GBP 1 to US\$ 1.32475, GBP 1 to CAD\$ 1.71787, GBP 1 to EURO 1.1801777, GBP 1 to BRL 5.32907, GBP 1 to AOA 638.83022, GBP 1 to NGN 480.77827, GBP 1 to KRW 1532.01, GBP 1 to HRK 8.78177 and GBP 1 to JPY 143.96721.

### US Tobacco Litigation

12. Group companies, notably RJRT (individually and as successor by merger to Lorillard Tobacco) and B&W as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.
13. The total number of US tobacco product liability cases pending at 31 December 2019 involving RJRT, B&W and/or Lorillard Tobacco was approximately 3,241. As at 31 December 2019, British American Tobacco (Investments) Limited ("Investments") has been served as a co-defendant in one of those cases (2018:1). No other UK-based Group company has been served as a co-defendant in any US tobacco product liability case pending as at 31 December 2019.
14. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases and other claims.
15. RJRT (individually and as successor by merger to Lorillard Tobacco), American Snuff Co., Santa Fe Natural Tobacco Company, Inc. ("SFNTC"), R.J. Reynolds Vapor Company ("RJR Vapor"), RAI, Lorillard Inc., other RAI affiliates and indemnitees, including but not limited to B&W (collectively, the "Reynolds Defendants"), believe that they have valid defences to the tobacco-related litigation claims against them, as well as valid bases for appeal of adverse verdicts against them. The Reynolds Defendants have, through their counsel, filed pleadings and memoranda in pending tobacco-related litigation that set forth and discuss a number of grounds and defences that they and their counsel believe have a valid basis in law and fact.
16. Scheduled trials. Trial schedules are subject to change, and many cases are dismissed before trial. In the US, there are 28 cases, exclusive of *Engle* progeny cases, scheduled for trial as of 31 December 2019 through 31 December 2020, for the Reynolds Defendants: 14 individual smoking and health cases, 13 Filter Cases and one non-smoking and health case. There are also approximately 146 *Engle* progeny cases against RJRT (individually and as successor to Lorillard Tobacco) and B&W scheduled for trial through 31 December 2020. It is not known how many of these cases will actually be tried.
17. Trial results. From 1 January 2017 through 31 December 2019, 108 trials occurred in individual smoking and health, *Engle* progeny, and Filter Cases in which the Reynolds Defendants were defendants, including 20 where mistrials were declared. Verdicts in favour of the Reynolds Defendants and, in some cases, other defendants, were returned in 28 cases (including one directed verdict after the jury reached an impasse in a punitive damages trial), tried in Florida (26) and Massachusetts (2). Verdicts in favour of the plaintiffs were returned in 46 cases (including one in which the jury found for the plaintiff in Phase I and the parties reached a resolution agreement prior to completion of Phase II), which were tried in Florida (41), the US Virgin Islands (2), and Massachusetts (3). Nine of the cases in Florida were dismissed during trial. Two cases were continued during trial. Three cases were punitive damages retrials.

## NOTES ON THE ACCOUNTS

CONTINUED

### 27 Contingent liabilities and financial commitments continued

#### (a) Medical Reimbursement Cases

18. These civil actions seek to recover amounts spent by government entities and other third-party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking.
19. At 31 December 2019, one US medical reimbursement suit (*Crow Creek Sioux Tribe v American Tobacco Co.*) was pending against RJRT, B&W and Lorillard Tobacco in a Native American tribal court in South Dakota. The plaintiffs seek to recover actual and punitive damages, restitution, funding of a clinical cessation programme, funding of a corrective public education programme, and disgorgement of unjust profits from sales to minors. No other medical reimbursement suits are pending against these companies by county or other political subdivisions of the states.

#### US Department of Justice Action

20. On 22 September 1999, the US Department of Justice brought an action in the US District Court for the District of Columbia against various industry members, including RJRT, B&W, Lorillard Tobacco, B.A.T Industries p.l.c. ("Industries") and Investments (*United States v Philip Morris USA Inc.*). The US Department of Justice initially sought (1) recovery of federal funds expended in providing health care to smokers who developed alleged smoking-related diseases pursuant to the Medical Care Recovery Act and Medicare Secondary Payer provisions of the Social Security Act and (2) equitable relief under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), including disgorgement of roughly US\$280 billion (approximately £211 billion) in profits the government contended were earned as a consequence of a purported racketeering 'enterprise' along with certain "corrective communications". In September 2000, the district court dismissed the government's Medical Care Recovery Act and Medicare Secondary Payer claims. In February 2005, the US Court of Appeals for the DC Circuit (the "DC Circuit") ruled that disgorgement was not an available remedy.
21. Industries was dismissed for lack of personal jurisdiction on 28 September 2000. In addition, Investments was a defendant at the trial, but intervening changes in controlling law post-trial led to a 28 March 2011 court ruling that the court's Final Judgment and Remedial Order no longer applied to Investments prospectively, and for this reason, Investments would not have to comply with any of the remaining injunctive remedies being sought by the government. As the government did not appeal the 28 March 2011 ruling, this means that Investments is no longer in the case and is not subject to any injunctive relief that the court is expected to order against the remaining defendants. As the case continued as against RJRT and Lorillard Tobacco with respect to injunctive relief and related matters, the following is noted.

22. The non-jury trial of the RICO portion of the claim began on 21 September 2004 and ended on 9 June 2005. On 17 August 2006, the federal district court issued its Final Judgment and Remedial Order, which found certain defendants, including RJRT, B&W, Lorillard Tobacco and Investments, had violated RICO, but did not impose any direct financial penalties. The district court instead enjoined the defendants from committing future racketeering acts, participating in certain trade organisations, making misrepresentations concerning smoking and health and youth marketing, and using certain brand descriptors such as 'low tar', 'light', 'ultra-light', 'mild' and 'natural'. The district court also ordered the defendants to issue 'corrective communications' on five subjects, including smoking and health and addiction, and to comply with further undertakings, including maintaining websites of historical corporate documents and disseminating certain marketing information on a confidential basis to the government. In addition, the district court placed restrictions on the defendants' ability to dispose of certain assets for use in the United States, unless the transferee agrees to abide by the terms of the district court's order, and ordered certain defendants to reimburse the US Department of Justice its taxable costs incurred in connection with the case.
23. Defendants, including RJRT, B&W, Lorillard Tobacco and Investments, appealed, and the US government cross-appealed to the DC Circuit. On 22 May 2009, the DC Circuit affirmed the federal district court's RICO liability judgment, but vacated the order and remanded for further factual findings and clarification as to whether liability should be imposed against B&W, based on changes in the nature of B&W's business operations (including the extent of B&W's control over tobacco operations). The court also remanded on three other discrete issues relating to the injunctive remedies, including for the district court 'to reformulate' the injunction on the use of low-tar descriptors 'to exempt foreign activities that have no substantial, direct, and foreseeable domestic effects,' and for the district court to evaluate whether corrective communications could be required at point-of-sale displays (which requirement the DC Circuit vacated). On 28 June 2010, the US Supreme Court denied the parties' petitions for further review.
24. On 22 December 2010, the district court dismissed B&W from the litigation. In November 2012, the trial court entered an order setting forth the text of the corrective statements and directed the parties to engage in discussions with the Special Master to implement them. After various proceedings and appeals, the federal district court in October 2017 ordered RJRT and the other US tobacco company defendants to fund the publishing of compelled public statements in various US media outlets, including in newspapers, and on television, the companies' websites and cigarette packaging. The compelled public statements began appearing in US newspapers on 24 November 2017 and ran serially over four months; they began appearing on national US broadcast television networks on 27 November 2017 and ran several times per week for one year. The statements also began appearing on RJRT websites on 18 June 2018 and first appeared on package onserts beginning in November 2018 (the onserts will be distributed periodically through mid-2020). The district court is considering mandating the display of the compelled public statements at retail point of sale; an evidentiary hearing is scheduled to begin on 14 September 2020.

## 27 Contingent liabilities and financial commitments continued

### (b) Class Actions

25. At 31 December 2019, RJRT, B&W and Lorillard Tobacco were named as defendants in two separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted by their smoking, and SFNTC was named in 17 separate cases relating to the use of the words 'natural,' '100% additive-free,' or 'organic' in Natural American Spirit advertising and promotional materials. If the classes are or remain certified, separate trials may be needed to assess individual plaintiffs' damages. Among the pending class actions, 18 specified the amount of the claim in the complaint, including 17 that alleged that the plaintiffs were seeking in excess of US\$5 million (approximately £4 million) and one that alleged that the plaintiffs were seeking less than US\$75,000 (approximately £57,000) per class member plus unspecified punitive damages.

### No Additive/Natural/Organic Claim Cases

26. A total of 17 putative class actions have been filed in nine US federal district courts against SFNTC, a subsidiary of RAI, which cases generally allege, in various combinations, violations of state deceptive and unfair trade practice statutes, and claim state common law fraud, negligent misrepresentation, and unjust enrichment based on the use of descriptors such as 'natural', 'organic' and '100% additive-free' in the marketing, labelling, advertising, and promotion of SFNTC's Natural American Spirit brand cigarettes. In these actions, the plaintiffs allege that the use of these terms suggests that Natural American Spirit brand cigarettes are less harmful than other cigarettes and, for that reason, violated state consumer protection statutes or amounted to fraud or a negligent or intentional misrepresentation. The actions seek various categories of recovery, including economic damages, injunctive relief (including medical monitoring and cessation programmes), interest, restitution, disgorgement, treble and punitive damages, and attorneys' fees and costs. In April 2016, in response to a motion by the various plaintiffs, the US Judicial Panel on Multidistrict Litigation ("JPML") consolidated these cases for pre-trial purposes before a federal court in New Mexico. That court heard argument on defendants' motion to dismiss the current consolidated complaint on 9 June 2017. On 21 December 2017, the district court granted the motion in part, dismissing a number of claims with prejudice, and denied it in part. The district court's scheduling order provides that hearings on motions for class certification and on motions challenging the admissibility expert opinion testimony will begin on or after 24 August 2020.

### Other Putative Class Actions

27. *Jones v. American Tobacco Co.* is a putative class action filed in December 1998 in the Circuit Court, Jackson County, Missouri. The action was brought by a plaintiff on behalf of a putative class of Missouri tobacco product users and purchasers against various defendants, including RJRT, B&W and Lorillard Tobacco alleging that the plaintiffs' use of the defendants' tobacco products has caused them to become addicted to nicotine, and seeking an unspecified amount of compensatory and punitive damages. There is currently no activity in this case.

28. *Young v. American Tobacco Co.* is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana against various US cigarette manufacturers, including RJRT and B&W, and parent companies of such manufacturers. This putative ETS class action was brought on behalf of a putative class of Louisiana residents who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes manufactured by the defendants, and who allegedly suffered injury as a result of that exposure, and seeks an unspecified amount of compensatory and punitive damages. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of an ongoing smoking cessation programme ordered by the court in a now-concluded Louisiana state court certified class action, *Scott v. American Tobacco Co.*

### *Engle Class Action and Engle Progeny Cases (Florida)*

29. In July 1998, trial began in *Engle v. R. J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco. The then-certified class consisted of Florida citizens and residents, and their survivors, who suffered from smoking-related diseases that first manifested between 5 May 1990, and 21 November 1996, and were caused by an addiction to cigarettes. In July 1999, the jury in this Phase I found against RJRT, B&W, Lorillard Tobacco and the other defendants on common issues relating to the defendants' conduct, general causation, the addictiveness of cigarettes, and entitlement to punitive damages.
30. In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £109.5 billion) in punitive damages, apportioned US\$36.3 billion (approximately £27.4 billion) to RJRT, US\$17.6 billion (approximately £13.3 billion) to B&W, and US\$16.3 billion (approximately £12.3 billion) to Lorillard Tobacco. The three class representatives in the *Engle* class action were awarded US\$13 million (approximately £10 million) in compensatory damages.
31. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three *Engle* class representatives to stand and setting aside the punitive damages award. The court preserved certain of the jury's Phase I findings, including that cigarettes can cause certain diseases, nicotine is addictive, and defendants placed defective cigarettes on the market, breached duties of care, concealed health-related information and conspired. Putative *Engle* class members were permitted to file individual lawsuits, deemed "*Engle* progeny cases", against the *Engle* defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008).
32. During 2015, RJRT and Lorillard Tobacco, together with Philip Morris USA Inc. ("PM USA"), settled virtually all of the *Engle* progeny cases then pending against them in federal district court. The total amount of the settlement was US\$100 million (approximately £75 million) divided as follows: RJRT US\$42.5 million (approximately £32 million); PM USA US\$42.5 million (approximately £32 million); and Lorillard Tobacco US\$15 million (approximately £11 million). The settlement covered more than 400 federal *Engle* progeny cases but did not cover 12 federal progeny cases previously tried to verdict and then pending on post-trial motions or appeal, and two federal progeny cases filed by different lawyers from the ones who negotiated the settlement for the plaintiffs.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 27 Contingent liabilities and financial commitments continued

33. As at 31 December 2019, there were approximately 1,773 *Engle* progeny cases pending in which RJRT, B&W and/or Lorillard Tobacco have been named as defendants and served. These cases include claims by or on behalf of 2,228 plaintiffs. In addition, as of 31 December 2019, RJRT was aware of nine additional *Engle* progeny cases that have been filed but not served. The number of pending cases fluctuates for a variety of reasons, including voluntary and involuntary dismissals. Voluntary dismissals include cases in which a plaintiff accepts an 'offer of judgment' from RJRT, Lorillard Tobacco and/or RJRT's affiliates and indemnitees. An offer of judgment, if rejected by the plaintiff, preserves RJRT's and Lorillard Tobacco's right to recover attorneys' fees under Florida law in the event of a verdict favourable to RJRT or Lorillard Tobacco, or affiliates of such entities. Such offers are sometimes made through court-ordered mediations.
34. 95 trials occurred in *Engle* progeny cases in Florida state and federal courts against RJRT, B&W and/or Lorillard Tobacco from 1 January 2017 through 31 December 2019, and additional state court trials are scheduled for 2020.
35. The following chart identifies the number of trials in *Engle* progeny cases as at 31 December 2019 and additional information about the adverse judgments entered:

Trials/verdicts/judgments of individual *Engle* progeny cases from 1 January 2017 through 31 December 2019:

Total number of trials	95
Number of trials resulting in plaintiffs' verdicts	40**
Total damages awarded in final judgments against RJRT	US\$354,430,892 (approximately £267.5 million)
Amount of overall damages comprising 'compensatory damages' (approximately)	US\$116,552,173 (of overall US\$354,430,892) (approximately £87.9 million of £267.5 million)
Amount of overall damages comprising 'punitive damages' (approximately)	US\$237,878,719 (of overall US\$354,430,892) (approximately £179.6 million of £267.5 million)

\*\* Of the 40 trials resulting in plaintiffs' verdicts 1 January 2017 to 31 December 2019 (note 11):

Number of adverse judgments appealed by RJRT	27 (note 12)
Number of adverse judgments, in which RJRT still has time to file an appeal	3
Number of adverse judgments in which an appeal was not, and can no longer be, sought	8

Appeals of individual *Engle* progeny cases 1 January 2017 to 31 December 2019:

Number of adverse judgments appealed by RJRT	40 (note 13)
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Note 11: The 40 trials include one case that was tried twice (*Gloster v. R.J. Reynolds Tobacco Co.*) and one case (*Robert Miller v. R.J. Reynolds Tobacco Co.*) where plaintiff moved for a mistrial following a plaintiff's verdict where the jury awarded no compensatory or punitive damages, and an adverse judgment has not yet been entered.

Note 12: Of the 27 adverse judgments appealed by RJRT as a result of judgments arising in the period 1 January 2017 to 31 December 2019:

- a. 15 appeals remain undecided in the District Courts of Appeal; and
- b. 12 were decided and/or closed. Of these 12 appeals, 6 were affirmed in favour of plaintiff, 1 was reversed to the trial court for possible retrial on punitive damages and review of the Florida Supreme Court has been requested, 1 reversed for new trial on all issues, 1 reversed to reduce amount of compensatory damages by comparative fault, 1 reversed for reinstatement of full amount of compensatory verdict, 1 was appealed but appeal was voluntarily dismissed, and 1 was involuntarily dismissed by the appellate court.

Note 13: Of the 40 adverse judgments appealed by RJRT:

- a. 16 appeals remain undecided in the District Courts of Appeal;
- b. 24 were decided and/or closed in the District Courts of Appeal. Of these 24 appeals, 13 were affirmed in favour of plaintiff (review of the Florida Supreme Court sought in 1 case), 1 was reversed on punitive damages, including a possible retrial (review is pending of the Florida Supreme Court), 1 was reversed for a retrial on punitive damages (review is pending of the Florida Supreme Court), 1 was reversed for new trial (review of the Florida Supreme Court sought), 1 was reversed for the trial court to vacate the punitive damages award and judgment paid, 1 was reversed to reduce compensatory damages by comparative fault and judgment paid, 2 were reversed to reinstate the full compensatory amount and judgment paid, 3 were voluntarily dismissed and judgments paid, and 1 was involuntarily dismissed. RJRT has paid damages to plaintiffs in 8 cases that were not appealed that are now closed. The total damages award may vary depending on the outcome of the pending appeals; and
- c. Includes appeals of 2 adverse judgments rendered prior to 1 January 2017 that were appealed by RJRT in the period from 1 January 2017 to 31 December 2019.

36. By statute, Florida applies a US\$200 million (approximately £151 million) bond cap to all *Engle* progeny cases in the aggregate.

Individual bond caps for any given *Engle* progeny case vary depending on the number of judgments in effect at a given time.

Judicial attempts by several plaintiffs in the *Engle* progeny cases to challenge the bond cap as violating the Florida Constitution have failed. In addition, bills have been introduced in sessions of the Florida legislature that would eliminate the *Engle* progeny bond cap, but those bills have not been enacted as of 31 December 2019.

## 27 Contingent liabilities and financial commitments continued

37. In 2019, RJRT or Lorillard Tobacco paid judgments in 22 *Engle* progeny cases. Those payments totalled US\$142 million (approximately £107 million) in compensatory or punitive damages. Additional costs were paid in respect of attorneys' fees and statutory interest.
38. In addition, accruals for damages and attorneys' fees and statutory interest for 3 cases (*Starr-Blundell v R. J. Reynolds Tobacco Co., Margaret Brown v. R. J. Reynolds Tobacco Co., and Grafeo v. R. J. Reynolds Tobacco Co.*) were recorded in RAI's consolidated balance sheet as of 31 December 2019 to the value of US\$38 million (approximately £29 million).

### (c) Individual Cases

39. As of 31 December 2019, 135 individual cases were pending in the United States against RJRT, B&W and/or Lorillard Tobacco. This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty, and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs, and punitive damages. The category does not include the *Engle* progeny cases, *Broin II* cases, and Filter Cases discussed above and below. One of the individual cases is brought by or on behalf of an individual or his/her survivors alleging personal injury as a result of exposure to ETS.
40. The following chart identifies the number of individual cases pending as of 31 December 2019 as against the number pending as of 31 December 2018, along with the number of *Engle* progeny cases, *Broin II* cases, and Filter Cases, which are discussed further below.

Case Type	US Case Numbers 31 December 2019	US Case Numbers 31 December 2018	Change in Number Increase/(Decrease)
Individual Smoking and Health Cases (note 14)	135	111	24
<i>Engle</i> Progeny Cases (Number of Plaintiffs) (note 15)	1,773 (2,228)	2,268 (2,841)	(495) (613)
<i>Broin II</i> Cases (note 16)	1,228	1,406	(178)
Filter Cases (note 17)	51	58	(7)

(Note 14) Out of the 135 pending individual smoking and health cases, six have received adverse verdicts in the court of first instance or on appeal, and the total amount of those verdicts is approximately US\$192 million (approximately £145 million).

(Note 15) The number of *Engle* progeny cases will fluctuate as cases are dismissed or if any of the dismissed cases are appealed. Please see earlier table in paragraph 35.

(Note 16) *Broin v Philip Morris, Inc.* was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to ETS in airplane cabins. In October 1997, RJRT, B&W, Lorillard Tobacco and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of US\$300 million (approximately £226 million) in three annual US\$100 million (approximately £75 million) instalments, allocated among the companies by market share, to fund research on the early detection and cure of diseases associated with tobacco smoke. It also required those companies to pay a total of US\$49 million (approximately £37 million) for the plaintiffs' counsel's fees and expenses. RJRT's portion of these payments was approximately US\$86 million (approximately £65 million); B&W's was approximately US\$57 million (approximately £43 million); and Lorillard Tobacco's was approximately US\$31 million (approximately £23 million). The settlement agreement, among other things, limits the types of claims class members may bring and eliminates claims for punitive damages. The settlement agreement also provides that, in individual cases by class members that are referred to as *Broin II* lawsuits, the defendants will bear the burden of proof with respect to whether ETS can cause certain specifically enumerated diseases, referred to as "general causation." With respect to all other liability issues, including whether an individual plaintiff's disease was caused by his or her exposure to ETS in airplane cabins, referred to as "specific causation", individual plaintiffs will bear the burden of proof. On 7 September 1999, the Florida Supreme Court approved the settlement. There have been no *Broin II* trials since 2007. There have been periodic efforts to activate cases and the Group expects this to continue over time.

(Note 17) Includes claims brought against Lorillard Tobacco and Lorillard Inc. by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Pursuant to the terms of a 1952 agreement between P. Lorillard Company and H&V Specialties Co., Inc. (the manufacturer of the filter material), Lorillard Tobacco is required to indemnify Hollingsworth & Vose for legal fees, expenses, judgments and resolutions in cases and claims alleging injury from finished products sold by P. Lorillard Company that contained the filter material. As of 31 December 2019, Lorillard Tobacco and/or Lorillard Inc. was a defendant in 51 Filter Cases. Since 1 January 2017, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$31 million (approximately £23 million) in settlements to resolve 138 Filter Cases.

### (d) State Settlement Agreements

41. In November 1998, the major US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, entered into the Master Settlement Agreement ("MSA") with attorneys general representing 46 US states, the District of Columbia and certain US territories and possessions. These cigarette manufacturers previously settled four other cases, brought on behalf of Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively and with the MSA, the "State Settlement Agreements").
42. These State Settlement Agreements settled all health care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the defending major US cigarette manufacturers from various additional present and potential future claims; imposed future payment obligations in perpetuity on RJRT, B&W, Lorillard Tobacco and other major US cigarette manufacturers; and placed significant restrictions on their ability to market and sell cigarettes and smokeless tobacco products. In accordance with the MSA, various tobacco companies agreed to fund a US\$5.2 billion (approximately £3.9 billion) trust fund to be used to address the possible adverse economic impact of the MSA on tobacco growers.

## NOTES ON THE ACCOUNTS

### CONTINUED

### 27 Contingent liabilities and financial commitments continued

43. RJRT and SFNTC are subject to the substantial payment obligations under the State Settlement Agreements. Payments under the State Settlement Agreements are subject to various adjustments for, among other things, the volume of cigarettes sold, relative market share, operating profit and inflation. RAI's operating subsidiaries' expenses and payments under the State Settlement Agreements for 2017, 2018 and 2019 and the projected expenses and payments for 2020 onwards are set forth below (in millions of US dollars)\*:

	2017	2018	2019	2020 and thereafter
Settlement expenses	\$2,856	\$2,741	\$2,762	
Settlement cash payments	\$4,612	\$917	\$2,918	
Projected settlement expenses				\$>2,900
Projected settlement cash payments				\$>2,600

\* Subject to adjustments for changes in sales volume, inflation, operating profit and other factors. Payments are allocated among the companies on the basis of relative market share or other methods.

44. The State Settlement Agreements have materially adversely affected RJRT's shipment volumes. RAI believes that these settlement obligations may materially adversely affect the results of operations, cash flows or financial position of RAI and RJRT in future periods. The degree of the adverse impact will depend, among other things, on the rate of decline in US cigarette sales in the premium and value categories, RJRT's share of the domestic premium and value cigarette categories, and the effect of any resulting cost advantage of manufacturers not subject to the State Settlement Agreements.
45. In addition, the MSA includes an adjustment that potentially reduces the annual payment obligations of RJRT, Lorillard Tobacco and the other signatories to the MSA, known as "Participating Manufacturers" ("PMs"). Certain requirements, collectively referred to as the "Adjustment Requirements", must be satisfied before the Non-Participating Manufacturers ("NPM") Adjustment for a given year is available: (i) an Independent Auditor must determine that the PMs have experienced a market share loss, beyond a triggering threshold, to those manufacturers that do not participate in the MSA (such non-participating manufacturers being referred to as "NPMs"); and (ii) in a binding arbitration proceeding, a firm of independent economic consultants must find that the disadvantages of the MSA were a significant factor contributing to the loss of market share. This finding is known as a significant factor determination.
46. When the Adjustment Requirements are satisfied, the MSA provides that the NPM Adjustment applies to reduce the annual payment obligation of the PMs. However, an individual settling state may avoid its share of the NPM Adjustment if it had in place and diligently enforced during the entirety of the relevant year a 'Qualifying Statute' that imposes escrow obligations on NPMs that are comparable to what the NPMs would have owed if they had joined the MSA. In such event, the state's share of the NPM Adjustment is reallocated to other settling states, if any, that did not have in place and diligently enforce a Qualifying Statute.
47. RJRT and Lorillard Tobacco are or were involved in NPM Adjustment proceedings concerning the years 2003 to 2017. In 2012, RJRT, Lorillard Tobacco, and SFNTC entered into an agreement (the "Term Sheet") with certain settling states that resolved accrued and potential NPM adjustments for the years 2003 through 2012 and, as a result, RJRT and SFNTC collectively received, or are to receive, more than US\$1.1 billion (approximately £830 million) in credits that, in substantial part, were applied to MSA payments in 2014 through 2017. After an arbitration panel ruled in September 2013 that six states had not diligently enforced their qualifying statutes in the year 2003, additional states joined the Term Sheet. RJRT executed the NPM Adjustment Settlement Agreement on 25 September 2017 (which incorporated the Term Sheet). Since the NPM Adjustment Settlement Agreement was executed, an additional 10 states have joined. NPM proceedings are ongoing and could result in further reductions of the companies' MSA-related payments.
48. On 18 January 2017, the State of Florida filed a motion to join Imperial Tobacco Group, PLC ("ITG") as a defendant and to enforce the Florida State Settlement Agreement, which motion seeks payment under the Florida State Settlement Agreement of approximately US\$45 million (approximately £34 million) with respect to the four brands (Winston, Salem, Kool and Maverick) that were sold to ITG in the divestiture of certain assets, on 12 June 2015, by subsidiaries or affiliates of RAI and Lorillard, together with the transfer of certain employees and certain liabilities, to a wholly-owned subsidiary of Imperial Brands plc (the "Divestiture"), referred to as the "Acquired Brands". The motion also claims future annual losses of approximately US\$30 million per year (approximately £23 million) absent the court's enforcement of the Florida State Settlement Agreement. The State's motion sought, among other things, an order declaring that RJRT and ITG are in breach of the Florida Settlement Agreement and are required, jointly and severally, to make annual payments to the State under the Florida State Settlement Agreement with respect to the Acquired Brands. In addition, on 18 January 2017, PM USA filed a motion to enforce the Florida State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 January 2017, RJRT sought leave to file a supplemental pleading for breach by ITG of its obligations regarding joinder into the Florida State Settlement Agreement. The Florida court, on 30 March 2017, ruled that ITG should be joined into the enforcement action.

## 27 Contingent liabilities and financial commitments continued

49. After a bench trial, on 27 December 2017 the court entered an order holding that RJRT (not ITG) is liable for annual settlement payments for the Acquired Brands, finding that ITG did not assume liability for annual settlement payments under the terms of the asset purchase agreement relating to the Divestiture and RJRT remained liable for payments under the Florida State Settlement Agreement as to the Acquired Brands. On 23 January 2018, RJRT filed a notice of appeal, and on 25 January 2018, RJRT filed an amended notice of appeal, and PM USA filed a notice of appeal as to the court's ruling as to ITG. On 26 January 2018, the State moved for recovery of its attorneys' fees and costs from RJRT. The State and PM USA filed a joint motion for the entry of final judgment on 1 February 2018. The court declined to enter a final judgment until after resolution of the dispute between RJRT and PM USA regarding PM USA's assertion that settlement payment obligations have been improperly shifted to PM USA. On 15 August 2018, the court entered a final judgement in the action (the "Final Judgment"). As a result of the Final Judgment, PM USA's challenge to RJRT's accounting assumptions related to the Acquired Brands was rendered moot, subject to reinstatement if ITG joins the Florida State Settlement Agreement or if judgment is reversed. On 29 August 2018, RJRT filed a notice of appeal on the Final Judgment. On 7 September 2018, PM USA filed a notice of appeal with respect to the court's ruling as to ITG. On 12 September 2018, RJRT filed a motion to consolidate RJRT's appeal with the appeal filed by PM USA, which was granted on 1 October 2018, RJRT's initial brief was due on 11 February 2019. Following agreed extensions, RJRT filed its initial appellate brief on 12 April 2019; the State's, ITG's and PM USA's opposition briefs were filed on 23 August 2019. On 23 December 2019, RJRT filed its reply brief and request for oral argument. On 23 December 2019, ITG filed its answer brief to PM USA's appeal with respect to the court's ruling as to ITG; PM USA filed its reply brief on 6 February 2020. Oral argument is scheduled for 7 April 2020. RJRT will seek indemnification from ITG, if necessary. In January 2018, the auditor of the Florida State Settlement Agreement adjusted the final 2017 invoice for the annual payment and amended the 2015 and 2016 invoices for the respective annual payment and the net operating profit penalty for each of those years under the Florida Settlement Agreement, based on the auditor's interpretation of the court's order. The adjusted invoices reflected amounts due to both the State of Florida and PM USA. In total, the estimated additional amounts due were US\$99 million (approximately £75 million) with US\$84 million (approximately £63 million) to the State of Florida and US\$16 million (approximately £12 million) to PM USA. RJRT has advised the auditor that it disputes these amounts, and therefore no further amounts were due or would be paid for those years pending the final resolution of RJRT's appeal of the court's order. Those amounts were not paid.
50. On 17 February 2017, ITG filed an action in the Court of Chancery of the State of Delaware seeking declaratory relief and a motion for a temporary restraining order against RAI and RJRT. In its complaint, ITG asked the court to declare various matters related to its rights and obligations under the asset purchase agreement (and related documents) relating to the Divestiture. ITG sought an injunction barring RAI and/or RJRT from alleging in the Florida enforcement litigation that ITG had breached the asset purchase agreement and requiring these companies to litigate issues under the asset purchase agreement in Delaware. Following a hearing on ITG's complaint and motion on 1 March 2017, the Delaware Court entered a temporary restraining order that enjoined RAI and RJRT from 'taking offensive action to assert claims against ITG Brands' in the Florida enforcement action, but the order does not prevent RJRT from making arguments in response to claims asserted by the State of Florida, PM USA or ITG in the Florida enforcement litigation. On 24 March 2017, RAI and RJRT answered the ITG complaint and filed a motion to stay proceedings in Delaware pending the outcome of the Florida enforcement litigation, which motion was denied 18 May 2017. Cross motions for partial judgment on the pleadings were filed focusing on whether ITG's obligation to use 'reasonable best efforts' to join the Florida State Settlement Agreement continued after the 12 June 2015 closing. On 30 November 2017, following argument, the Delaware Court ruled in favour of RJRT, holding that ITG's obligation to use its reasonable best efforts to join the Florida Settlement Agreement did not terminate due to the closing of the asset purchase agreement relating to the Divestiture. On 4 January 2019, RJRT filed another motion for partial judgment on the pleadings seeking to resolve two contract-interpretation questions under the asset purchase agreement: first, to the extent RJRT is held liable for any settlement payments based on post-closing sales of the Acquired Brands, ITG assumed this liability, and second, that the asset purchase agreement does not entitle ITG to a unique protection from an equity-fee law that does not yet exist in a Previously Settled State Argument on RJRT's motion for partial judgment was heard on 4 June 2019. On 23 September 2019, the Delaware Chancery Court declined to resolve, at this time, the first issue, whether ITG had assumed any liability imposed on RJR Tobacco for making settlement payments on ITG's brands. The court concluded that both sides had presented reasonable interpretations of the asset purchase agreement, which was therefore ambiguous, so the court would require an evidentiary hearing to interpret the intent of the asset purchase agreement on assumed liabilities. The court also granted RJRT's motion on the second issue and ruled that ITG could not refuse to join the Florida State Settlement Agreement unless a joinder exempted it from a future equity-fee statute. On 1 October 2019, the Chancery Court entered an order on these latest motions for partial judgment on the pleadings. It granted RJRT's motion on the second issue. It denied both parties' motions on the first issue, deferring resolution until after the court receives evidence related to the parties' intent in their contract. On 11 October 2019, ITG filed in the Chancery Court a motion to seek interlocutory appeal in the Supreme Court, which was denied on 31 October 2019. On 31 October 2019, ITG filed a notice of interlocutory appeal directly to the Delaware Supreme Court, which was denied on 7 November 2019.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 27 Contingent liabilities and financial commitments continued

51. On 26 March 2018, the State of Minnesota filed a motion against RJRT to enforce the Minnesota State Settlement Agreement, which motion seeks payments under the Minnesota State Settlement Agreement of approximately US\$40 million (approximately £30 million) with respect to the Acquired Brands. The motion also claims future annual losses of approximately US\$15 million (approximately £11 million) absent the court's enforcement of the Minnesota State Settlement Agreement. The State of Minnesota also filed a separate complaint against ITG, which complaint seeks the same payments. The State's motion against RJRT and complaint against ITG seek, among other things, an order declaring that RJRT and ITG are in breach of the Minnesota State Settlement Agreement and are jointly and severally liable to make annual payments to the State of Minnesota under the Minnesota State Settlement Agreement with respect to the Acquired Brands. In addition, on 28 March 2018, PM USA filed a motion to enforce the Minnesota State Settlement Agreement, asserting, among other things, that RJRT and ITG breached the Minnesota State Settlement Agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 March 2018, the Minnesota court consolidated the motions to enforce and separate complaint against ITG into one proceeding captioned *In re Petition of the State of Minnesota for an Order Compelling Payments of Settlement Proceeds Related to ITG Brands LLC*, Court File No. 62-CV-18-1912. On 11 June 2018, the court held a scheduling conference in the case and by order dated 21 June 2018, set a discovery schedule for the case, under which discovery is complete. A hearing on the motions to enforce to determine if RJRT and/or ITG are liable to make payments on the Acquired Brands was held on 26 June 2019. On 24 September 2019, the Minnesota District Court issued an Order and Memorandum, holding RJRT liable for settlement payments on the Acquired Brands, and determining the issue of whether ITG is a 'successor or assign' of RJRT under the Minnesota State Settlement Agreement is unresolved, reasoning ITG's status depends on whether it satisfied its post-closing obligation to expend its reasonable best efforts to join the Minnesota State Settlement Agreement. A hearing to determine whether ITG is liable for settlement payments and other damages issues is scheduled for 28 April 2020; related discovery is underway. On 23 December 2019, ITG filed a motion in the Minnesota District Court seeking certification of an appeal of certain questions arising from the 24 September 2019 order. On 21 January 2020, a hearing was held on ITG's motion seeking certification of an appeal. On 19 February 2020, the Minnesota District Court entered an Order and Memorandum denying ITG's motion for certification.
52. On 28 January 2019, the State of Texas filed motions in the original Texas health care reimbursement case, brought against the tobacco industry that led to the Texas State Settlement Agreement to join ITG as a defendant and to enforce the Texas State Settlement Agreement against RJRT and ITG, seeking payment under the Texas State Settlement Agreement of approximately US\$125 million (approximately £94 million) with respect to the Acquired Brands that were sold to ITG in the Divestiture. The motion also claims future annual losses of an unspecified amount absent the court's enforcement of the Texas State Settlement Agreement. The State's motion seeks, among other things, an order declaring that RJRT, or in the alternative, ITG, is in breach of the Texas Settlement Agreement and is required to make annual payments to the State under the Texas State Settlement Agreement with respect to the Acquired Brands. In addition, on 29 January 2019, PM USA filed a motion to enforce the Texas State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 3 March 2019, RJRT filed a motion for leave to conduct discovery and for entry of a proposed discovery and briefing schedule, to which ITG joined on 14 March 2019. On 28 June 2019, the United States District Court issued an opinion and order in which the Court scheduled discovery to be completed by 15 August 2019 and scheduled a hearing on the motions to enforce for 19 September 2019. On 26 July 2019, the Court entered an order rescheduling certain deadlines; discovery is to be completed by 15 September 2019. A hearing on the motions to enforce was held on 30 October 2019; the Court reserved ruling.
53. In June 2015, ITG joined the Mississippi Settlement Agreement. On 26 December 2018, PM USA filed a Motion to Enforce Settlement Agreement against RJRT and ITG alleging RJRT and ITG failed to act in good faith in calculating the base-year net operating profits for the Acquired Brands, claiming damages of approximately US\$6 million (approximately £5 million) through 2017. On 21 February 2019, the Chancery Court of Jackson County, Mississippi held a scheduling conference and issued a discovery schedule order. Discovery is currently underway. A hearing on PM USA's Motion to Enforce Settlement Agreement has not yet been scheduled. On 3 December 2019, the State of Mississippi filed a Notice of Violation and Motion to Enforce the Settlement Agreement in the Chancery Court of Jackson County, Mississippi against RJRT, PM USA and ITG, seeking a declaration that the base year 1997 net operating profit to be used in calculating the Net Operating Profit Adjustment was not affected by the change in the federal corporate tax rate in 2018 from 35% to 21%, and an order requiring RJRT to pay the approximately US\$5 million (approximately £4 million) difference in its 2018 payment because of this issue. Determination of this issue may affect RJRT's annual payment thereafter. Discovery is currently underway.

## 27 Contingent liabilities and financial commitments continued

### (e) UK — Based Group Companies

54. As at 31 December 2019, Investments has been served in one dormant individual action in the US (Perry) in which there has been no activity since 1998 following the plaintiff's death in 1997.

### Tobacco-Related Litigation Outside the United States

55. As at 31 December 2019:

- a. medical reimbursement actions are being brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea;
- b. class actions are being brought in Brazil, Canada and Venezuela; and
- c. active tobacco product liability claims against the Group's companies existed in 14 markets outside the US. The only markets with five or more claims were Argentina, Brazil, Canada, Chile, Nigeria and Italy.

### (a) Medical reimbursement cases

#### Angola

56. In or about November 2016, BAT Angola affiliate Sociedade Unificada de Tabacos de Angola ("SUT") was served with a collective action filed in the Provincial Court of Luanda, 2nd Civil Section, by the consumer association Associação Angolana dos Direitos do Consumidor ("AADIC"). The lawsuit seeks damages of AOA 800,000,000 (approximately £1 million) allegedly incurred by the Angolan Instituto Nacional do Controlo do Cancro ("INCC") for the cost of treating tobacco-related disease, non-material damages allegedly suffered by certain individual smokers on the rolls of INCC, and the mandating of certain cigarette package warnings. SUT filed its answer to the claim on or about 5 December 2016. The case remains pending.

#### Argentina

57. In 2007, the non-governmental organisation the Argentina Tort Law Association ("ATLA") and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. ("Nobleza") and Massalín Particulares. The case is being heard in the Contentious Administrative Court. The parties filed conclusive briefs on 20 May 2019 and await the Court's decision.

#### Canada

58. On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. The share of the judgment for Imperial, the Group's operating company in Canada, is approximately CAD \$9.2 billion (approximately £5.4 billion). As a result of this judgment, the then immediate attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million (approximately £436 million) on deposit with the court, the fact that JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the Companies' Creditors Arrangement Act (the "CCAA") on 8 March 2019 and obtained a court ordered stay of all tobacco litigation in Canada as against all defendants (including RJRT and its affiliate R.J. Reynolds Tobacco International Inc. (collectively, the "RJR Companies")) until 4 April 2019, and the need for a process to resolve all of the outstanding litigation across the country, on 12 March 2019 Imperial filed for creditor protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation, including British American Tobacco p.l.c. (the "Company"), Investments, Industries and Carreras Rothmans Limited (collectively, the "UK Companies"). On 22 March 2019, Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the "Stays"). The Stays are currently in place until 30 September 2020. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.

59. The below represents the state of the referenced litigation as at the advent of the Stays.

60. Following the implementation of legislation enabling provincial governments to recover health-care costs directly from tobacco manufacturers, 10 actions for recovery of health-care costs arising from the treatment of smoking and health-related diseases have been brought. These proceedings name various Group companies as defendants, including the UK Companies and Imperial as well as the RJR Companies. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business to Japan Tobacco Incorporated ("JTI"), JTI has agreed to indemnify RJRT for all liabilities and obligations (including litigation costs) arising in respect of the Canadian recoupment actions. Subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these actions.

61. The 10 cases were proceeding in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island. The enabling legislation is in force in all 10 provinces. In addition, legislation has received Royal Assent in two of the three territories in Canada, but has yet to be proclaimed into force.

**NOTES ON THE ACCOUNTS****CONTINUED****27 Contingent liabilities and financial commitments continued**

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial Investments Industries Carreras Rothmans Limited and the RJR Companies have all been named as defendants and served.	The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed, and document production and discoveries were ongoing. On 13 February 2017 the province delivered an expert report dated October 2016, quantifying its damages in the amount of CAD\$118 billion (approximately £68.7 billion). No trial date has been set. The federal government is seeking CAD\$5 million (approximately £3 million) jointly from all the defendants in respect of costs pertaining to the third-party claim, now dismissed.
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production and discoveries are substantially complete. The most recent expert report filed by the Province estimated a range of damages between CAD \$11.1 billion (approximately £6.5 billion) and CAD\$23.2 billion (approximately £13.5 billion), including expected future costs. Following a motion to set a trial date, the New Brunswick Court of Queen's Bench ordered that the trial commence on 4 November 2019. On 7 March 2019, the New Brunswick Court of Queen's Bench released a decision which requires the Province to produce a substantial amount of additional documentation and data to the defendants. As a result, the original trial date of 4 November 2019 would have been delayed. No new trial date has been set.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	The defences of Imperial, the UK Companies and the RJR Companies have been filed. The parties completed significant document production in the summer of 2017 and discoveries commenced in the autumn of 2018. On 15 June 2018, the province delivered an expert report quantifying its damages in the range of CAD\$280 billion (approximately £163 billion) – CAD\$630 billion (approximately £366.7 billion) in 2016/2017 dollars for the period 1954 – 2060, and the Province amended the damages sought in its Statement of Claim to CAD\$330 billion (approximately £192 billion). On 31 January 2019, the Province delivered a further expert report claiming an additional CAD \$9.4 billion (approximately £5.5 billion) and CAD\$10.9 billion in damages (approximately £6.3 billion) in respect of ETS. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2001	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	The case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province began its document production in March 2018. Damages have not been quantified by the province. No trial date has been set.
Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2007	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province has delivered a test shipment of documents. Damages have not been quantified by the province. No trial date has been set.
Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production commenced. Damages have not been quantified by the province. No trial date has been set.
Alberta	Crown's Right of Recovery Act 2009	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province commenced its document production. The province has stated its claim to be worth CAD\$10 billion (approximately £5.8 billion). No trial date has been set.

## 27 Contingent liabilities and financial commitments continued

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2009	Imperial, Investments, Industries, the RJR Companies and Carreras Rothmans Limited have been named as defendants and served.	The case is at an early case management stage. The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed. Motions over admissibility of documents and damages discovery have been filed but not heard. The province is seeking CAD\$60 billion (approximately £34.9 billion). No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the next step was expected to be document production, which the parties deferred for the time being. Damages have not been quantified by the province. No trial date has been set.
Nova Scotia	Tobacco Health Care Costs Recovery Act 2005	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed. The province provided a test document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

### Nigeria

62. British American Tobacco (Nigeria) Limited ("BAT Nigeria"), the Company and Investments have been named as defendants in a medical reimbursement action by the federal government of Nigeria, filed on 6 November 2007 in the Federal High Court, and in similar actions filed by the Nigerian states of Kano (9 May 2007), Oyo (30 May 2007), Lagos (13 March 2008), Ogun (26 February 2008), and Gombe (17 October 2008) commenced in their respective High Courts. In the five cases that remain active, the plaintiffs seek a total of approximately 10.6 trillion Nigerian naira (approximately £22 billion) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.
63. The suits claim that the state and federal government plaintiffs incurred costs related to the treatment of smoking-related illnesses resulting from allegedly tortious conduct by the defendants in the manufacture, marketing, and sale of tobacco products in Nigeria, and assert that the plaintiffs are entitled to reimbursement for such costs. The plaintiffs assert causes of action for negligence, negligent design, fraud and deceit, fraudulent concealment, breach of express and implied warranty, public nuisance, conspiracy, strict liability, indemnity, restitution, unjust enrichment, voluntary assumption of a special undertaking, and performance of another's duty to the public.
64. The Company and Investments have made a number of challenges to the jurisdiction of the Nigerian courts. Such challenges are still pending (on appeal) against the federal government and the states of Lagos, Kano, Gombe and Ogun. The underlying cases are stayed or adjourned pending the final outcome of these jurisdictional challenges. In the state of Oyo, on 13 November 2015, and 24 February 2017, respectively, the Company's and Investments' jurisdictional challenges were successful in the Court of Appeal and the issuance of the writ of summons was set aside.

### South Korea

65. In April 2014, Korea's National Health Insurance Service ("NHIS") filed a healthcare recoupment action against KT&G (a Korean tobacco company), PM Korea and BAT Korea (including BAT Korea Manufacturing). The NHIS is seeking damages of roughly 54 billion Korean Won (approximately £35 million) in respect of health care costs allegedly incurred by the NHIS treating patients with lung (small cell and squamous cell) and laryngeal (squamous cell) cancer between 2003 and 2012. Court hearings in the case, which constitute the trial, commenced in September 2014 and remain ongoing.

### Brazil

66. On 21 May 2019, the Federal Attorney's Office ("AGU") in Brazil filed an action in the Federal Court of Rio Grande do Sul against the Company, the BAT Group's Brazilian subsidiary Souza Cruz LTDA ("Souza Cruz"), Philip Morris International, Philip Morris Brazil Indústria e Comércio LTDA and Philip Morris Brasil S/A, asserting claims for medical reimbursement for funds allegedly expended by the federal government as public health care expenses to treat 26 tobacco-related diseases over the last five years and that will be expended in perpetuity during future years, including diseases allegedly caused both by cigarette smoking and exposure to ETS. The action includes a claim for moral damages allegedly suffered by Brazilian society to be paid into a public welfare fund. The action is for an unspecified amount of monetary compensation, as the AGU seeks a bifurcated action in which liability would be determined in the first phase followed by an evidentiary phase to ascertain damages.
67. On 19 July 2019, the trial court ordered that service of the action on the Company be effected via service on Souza Cruz. On 6 August 2019, Souza Cruz refused to receive service on behalf of the Company due to Souza Cruz's lack of power to receive the summons on behalf of the Company and such refusal was attached to the case files on 9 August 2019. On 7 August 2019, Souza Cruz was served with the complaint by the AGU and Souza Cruz's acknowledgement of service was attached to the case files on 12 August 2019.
68. On 19 August 2019, Souza Cruz filed an interlocutory appeal challenging the 19 July 2019 trial court order permitting the AGU to effect service on the Company by serving Souza Cruz and requesting a stay of the proceedings until the appeal is decided. Souza Cruz also appealed the fact that several documents attached to the AGU's complaint are in English, without proper translation, and it also appealed the very short term of 30 days for the defendants to prepare their defences.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 27 Contingent liabilities and financial commitments continued

69. On 20 August 2019, Souza Cruz informed the trial court about the appeal and the trial court entered an order, which ordered the closure of the online system preventing the parties from submitting any petition so that no prejudice would be caused to the defendants and permitted the AGU, within 15 days of its notification, to respond to the argument that the service of a foreign defendant via its Brazilian subsidiary constituted improper service. On 21 August 2019, the substitute reporting judge of the appellate court, having been notified that the trial court judge had in the meantime issued a new decision (thereby revoking the previous decision), ruled that the appeal filed had therefore been rendered moot. The AGU filed its submission in the trial court on 19 September 2019, and Souza Cruz filed a reply submission on 25 September 2019. Souza Cruz reported on 4 February 2020 that the trial court ruled that service of the Company via its Brazilian subsidiary constituted proper service, denied the request for additional time to file defences, denied the request to have the foreign language documents attached to the initial complaint fully translated into Portuguese, and ordered that defences be filed within 30 business days. On 18 February 2020, Souza Cruz filed an interlocutory appeal (including a request to stay the deadline to file defences), which appeal remains pending.

### (b) Class Actions

#### Brazil

70. In 1995, the Associação de Defesa da Saúde do Fumante ("ADESF") class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the Lower Civil Court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health.
71. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, returning the case to the lower court for production of evidence and a new judgment. Following production of evidence, on 16 May 2011, the lower court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. The plaintiffs' appeal to the São Paulo Court of Appeals was unsuccessful. The plaintiffs then filed a Special Appeal to the Superior Court of Justice, which was rejected under procedural grounds on 20 February 2017. The plaintiffs filed an appeal of the rejection in the Superior Court of Justice on 15 March 2017.

#### Canada

72. As noted above, on 1 March 2019 the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. Imperial's share of the judgment is approximately CAD \$9.2 billion (approximately £5.4 billion). As a result of this judgment, the then immediate attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million (approximately £436 million) on deposit with the court, the fact that JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the CCAA on 8 March 2019 and obtained a court ordered stay of all tobacco litigation in Canada as against all defendants (including the RJR Companies) until 4 April 2019, and the need for a process to resolve all of the outstanding litigation across the country, on 12 March 2019 Imperial filed for protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation, including the UK companies. On 22 March 2019, Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the "Stays"). The Stays are currently in place until 30 September 2020. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.
73. The below represents the state of the referenced litigation as at the advent of the Stays.
74. There are 11 class actions being brought in Canada against Group companies.
75. *Knight Class Action:* The Supreme Court of British Columbia certified a class of all consumers who purchased Imperial cigarettes in British Columbia bearing 'light' or 'mild' descriptors since 1974. The plaintiff is seeking compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial on the basis that the marketing of light and mild cigarettes was deceptive because it conveyed a false and misleading message that those cigarettes are less harmful than regular cigarettes.
76. On appeal, the appellate court confirmed the certification of the class, but limited any financial liability, if proven, to 1997 onward. Imperial's third-party claim against the federal government was dismissed by the Supreme Court of Canada. The federal government is seeking a cost order of CAD\$5 million (approximately £3 million) from Imperial relating to its now dismissed third-party claim. After being dormant for several years, the plaintiff delivered a Notice of Intention to Proceed, and Imperial delivered an application to dismiss the action for delay. The application was heard on 23 June 2017 and was dismissed on 23 August 2017. Notice to class members of certification was provided on 14 February 2018. As at the date of the Stays, the next steps were expected to include discovery-related ones.

## 27 Contingent liabilities and financial commitments continued

77. *Growers' Class Action:* In December 2009, Imperial was served with a proposed class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board. The plaintiffs allege that Imperial and the Canadian subsidiaries of Philip Morris International and JTI failed to pay the agreed domestic contract price to the growers used in products manufactured for the export market and which were ultimately smuggled back into Canada. JTI has sought indemnification pursuant to the JTI Indemnities (discussed below at paragraphs 128-129). The plaintiffs seek damages in the amount of CAD\$50 million (approximately £29 million). Various preliminary challenges have been heard, the last being a motion for summary judgment on a limitation period. The motion was dismissed and ultimately, leave to appeal to the Ontario Court of Appeal was dismissed in November 2016. In December 2017, the plaintiffs proposed that the action proceed by way of individual actions as opposed to a class action. The defendants did not consent. As at the date of the Stays, the claim was in abeyance pending further action from the plaintiffs.
78. *Quebec Class Actions:* There are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers. The court certified two classes, with the class definitions being revised in the judgment rendered 27 May 2015. One class consists of residents of Quebec who (a) smoked before 20 November 1998 at least 12 pack years of cigarettes manufactured by the Defendants; and (b) were diagnosed before 12 March 2012 with: lung cancer, or cancer (squamous cell carcinoma) of the throat, or emphysema. The group also includes the heirs of persons deceased after 20 November 1998 who meet the criteria described above. The second consists of residents of Quebec who, as of 30 September 1998, were addicted to nicotine contained in cigarettes and who in addition meet the following three criteria: (a) they started smoking before 30 September 1994 by smoking cigarettes manufactured by the Defendants; (b) between 1 September and 30 September 1998 they smoked on average at least 15 cigarettes manufactured by the Defendants on a daily basis; and (c) they still smoked an average of at least 15 cigarettes manufactured by the Defendants as of 21 February 2005, or until their death if it occurred before that date. The group also includes the heirs of members who meet the criteria described above. Pursuant to the judgment, the plaintiffs were awarded damages and interest against Imperial and the Canadian subsidiaries of Philip Morris International and JTI in the amount of CAD\$15.6 billion (approximately £9.1 billion), most of which was on a joint and several basis of which Imperial's share was CAD\$10.4 billion (approximately £6.1 billion). An appeal of the judgment was filed on 26 June 2015. The court also awarded provisional execution pending appeal of CAD\$1,131 million (approximately £658 million), of which Imperial's share was approximately CAD\$742 million (approximately £431 million). This order was subsequently overturned by the Court of Appeal. Following the cancellation of the order for provisional execution, the plaintiffs filed a motion against Imperial and one other manufacturer seeking security in the amount of CAD \$5 billion (approximately £2.9 billion) to guarantee, in whole or in part, the payment of costs of the appeal and the judgment. On 27 October 2015, the Court of Appeal ordered the parties to post security in the amount of CAD\$984 million (approximately £573 million), of which Imperial's share was CAD\$758 million (approximately £436 million). The security was paid in seven equal quarterly instalments of just over CAD\$108 million (approximately £63 million) between 31 December 2015 and 30 June 2017 – see note 13. The appeal was heard in November 2016. On 1 March 2019, the trial judgment was upheld by a unanimous decision of the five-member panel of the Court of Appeal, with one exception being an amendment to the original interest calculation applied to certain portions of the judgment. The interest adjustment has resulted in the reduction of the total maximum award in the two cases to CAD \$13.7 billion (approximately £8 billion) as of 1 March 2019, with Imperial's share being reduced to approximately CAD \$9.2 billion (approximately £5.4 billion). The Court of Appeal also upheld the payment of the initial deposits into the defendants' solicitors' trusts account within 60 days, totalling approximately CAD \$1.13 billion (approximately £658 million). Imperial's initial deposit is CAD \$759 million (approximately £442 million). Imperial has already paid CAD \$758 million (approximately £436 million) into court as security for the judgment.
79. *Other Canadian Smoking and Health Class Actions:* Seven putative class actions, described below, have been filed against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies, in various Canadian Provinces. In these cases, none of which have quantified their asserted damages, the plaintiffs allege claims based on fraud, fraudulent concealment, breach of warranty of merchantability, and of fitness for a particular purpose, failure to warn, design defects, negligence, breach of a 'special duty' to children and adolescents, conspiracy, concert of action, unjust enrichment, market share liability and violations of various trade practices and competition statutes. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business, and subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these seven actions (Semple, Kunka, Adams, Dorion, Bourassa, McDermid and Jacklin, discussed below).
80. In June 2009, four smoking and health class actions were filed in Nova Scotia (Semple), Manitoba (Kunka), Saskatchewan (Adams) and Alberta (Dorion) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. In Saskatchewan, BAT plc and Carreras Rothmans Limited have been released from Adams, and the RJR Companies have brought a motion challenging the jurisdiction of the court. No date has been set in these cases with respect to the certification motion hearing. There are service issues in relation to Imperial and the UK Companies in Alberta and in relation to the UK Companies in Manitoba.
81. In June 2010, two further smoking and health class actions were filed in British Columbia against various Canadian and non-Canadian tobacco-related entities, including Imperial, the UK Companies and the RJR Companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have 'smoked a minimum of 25,000 cigarettes.' The UK Companies, Imperial, the RJR Companies and other defendants objected to jurisdiction. Subsequently, the Company and Carreras Rothmans Limited were released from Bourassa and McDermid. Imperial, Industries, Investments and the RJR Companies remain as defendants in both actions. The plaintiffs did not serve their certification motion materials and no date for a certification motion was set.
82. In June 2012, a new smoking and health class action was filed in Ontario (Jacklin) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. The claim has been in abeyance.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 27 Contingent liabilities and financial commitments continued

### Venezuela

83. In April 2008, the Venezuelan Federation of Associations of Users and Consumers (FEVACU) and Wolfgang Cardozo Espinel and Giorgio Di Muro Di Nunno, acting as individuals, filed a class action against the Venezuelan government. The class action seeks regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. Both C.A Cigarrera Bigott Sucs. ("Cigarrera Bigott"), a Group subsidiary, and ASUELECTRIC, represented by its president Giorgio Di Muro Di Nunno (who had previously filed as an individual), have been admitted as third parties by the Constitutional Chamber of the Supreme Court of Justice. A hearing date for the action is yet to be scheduled. On 25 April 2017 and on 23 January 2018, Cigarrera Bigott requested the court to declare the lapsing of the class action due to no proceedings taking place in the case in over a year. A ruling on the matter is yet to be issued.

### (c) Individual Tobacco Related Personal Injury Claims

84. As at 31 December 2019, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (37), Italy (18), Chile (9), Canada (6), Argentina (5) and Ireland (2). There were a further four jurisdictions with one active case only. Out of the 81 active individual tobacco related personal injury claims, two have received unfavourable verdicts in either the court of first instance or on appeal, only one of which resulted in any finding on liability. The total value of those unfavourable verdicts is ARS\$2,850,000 (approximately £36,000 with post-judgment interest totalling approximately £380,000).

### Non-Tobacco Related Litigation

#### Vuse Litigation

85. On 17 December 2019, plaintiff Whatcom County, a municipal entity in the State of Washington, filed a complaint in California federal court against RAI, RJR Vapor, the Company, Lorillard LLC and LOEC, Inc., as well as against JUUL Labs Inc., PAX Labs Inc., Imperial Brands plc, Fontem Ventures BV, Fontem US Inc., Eonsmoke LLC, Altria Group Inc., Altria Client Services Inc., Altria Group Distribution Company, Nu Mark LLC and Nu Mark Innovations Ltd. The plaintiff has asserted, against RAI, RJR Vapor, the Company, LOEC Inc. and Lorillard LLC, a claim of public nuisance alleging that these defendants endangered the health of Whatcom County residents by allegedly designing, manufacturing and marketing certain vapour products to minors. The case has been assigned to a multi-district litigation proceeding that was consolidated for pre-trial purposes in October 2019 by the US JPML at the request of JUUL Labs Inc. RAI and RJR Vapor received service of the complaint on 30 December 2019, and on 21 January 2020 filed a motion to dismiss the complaint. On 3 February 2020, the plaintiff filed a notice of voluntary dismissal of the action, which dismissed the case, without prejudice, as against all defendants.

#### Croatian Distributor Dispute

86. BAT Hrvatska d.o.o u likvidaciji and British American Tobacco Investments (Central and Eastern Europe) Limited are named as defendants in a claim by Mr Perica received on 22 August 2017 and brought before the commercial court of Zagreb, Croatia. Mr Perica seeks damages of HRK 408,000,000 (approximately £46 million) relating to a BAT Standard Distribution Agreement dating from 2005. BAT Hrvatska d.o.o and British American Tobacco Investments (Central and Eastern Europe) Ltd filed a reply to the statement of claim on 6 October 2017. A hearing had been scheduled to take place on 10 May 2018, but it was postponed due to a change of the judge hearing the case. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Zagreb. TDR d.o.o. is also named as the defendant in a claim by Mr Perica received on 30 April 2018 and brought before the commercial court of Zagreb, Croatia. Mr. Perica seeks payment in the amount of HRK 408,000,000 (approximately £46 million) claiming that BAT Hrvatska d.o.o. transferred a business unit to TDR d.o.o, thus giving rise to a liability of TDR d.o.o. for the debts incurred by BAT Hrvatska d.o.o, on the basis of the provisions of Croatian civil obligations law. A response to the statement of claim was filed on 30 May 2018. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Pula. Mr Perica filed an appeal against this decision which was rejected by the High Commercial Court of The Republic of Croatia confirming therewith that the competent court to hear this case is the Municipal Court in Pula. The Municipal Court in Zagreb shall decide whether the claims by Mr Perica initiated on 22 August 2017 and 30 April 2018 shall be heard as one case in front of the Municipal Court of Zagreb.

#### BAT/Reynolds American Inc. Shareholder Litigation

87. Following the Company's acquisition of the remaining 57.8% of RAI in July 2017, pursuant to North Carolina law, under which RAI was incorporated, a number of RAI shareholders dissented and asserted their rights to a judicial appraisal of the value of their RAI stock. On 29 November 2017, RAI filed a Complaint for Judicial Appraisal in state court in North Carolina against 20 dissenting shareholders, comprised of three groups of affiliated entities. The complaint asks the court to determine the fair value of the dissenting shareholders' shares in RAI and any accrued interest. A trial was held in June 2019, at which the dissenters sought US\$92.17 per share plus interest. Post-trial briefing and argument was completed on 2 October 2019.

#### glo Litigation

88. 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 NeoStik 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 certain claims of 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 Japanese patents. Damages for the glo device and NeoStik are claimed in the court filing, to the amount of 100 million Yen (approximately £694,000). The PMI affiliate has also filed a request for injunction with respect to the glo device. BAT denies infringement and is challenging the validity of the two PMI Japanese patents.

## 27 Contingent liabilities and financial commitments continued

### Mozambican IP Litigation

89. On 19 April 2017, Sociedade Agrícola de Tabacos, Limitada ("SAT") (a BAT Group company in Mozambique) filed a complaint to the National Inspectorate for Economic Activities ("INAE"), the government body under the Ministry of Industry and Trade, regarding alleged infringements of its registered trademark ("GT") by GS Tobacco SA ("GST"). INAE subsequently seized the allegedly infringing products ("GS cigarettes") and fined and ordered GST to discontinue manufacturing products that could infringe SAT's intellectual property rights. Following INAE's decision, in July 2017 and March 2018, SAT sought damages via the Judicial Court of Nampula, from GST in the amount of and equivalent to £573,000 as well as a permanent restraint order in connection with the manufacturing and selling of the allegedly infringing products. The Judicial court of Nampula (Tribunal Judicial de Nampula) granted the order on an interim basis on 7 August 2017. After hearing the parties, on 5 September 2017, the court found that no alleged infringement by GST had occurred and removed the interim restraint order, this decision was appealed by SAT and is currently pending a decision. GST filed an application for review against INAE's initial decision directly to the Minister of Trade and Industry, which reversed the decision of INAE. On 31 December 2018, SAT was notified of GST's counterclaim against SAT at the Judicial Court of Nampula for damages allegedly sustained as a result of SAT's complaint to INAE (and INAE's decision). GST is seeking damages in the amount equivalent to £190 million. On 31 January 2019 SAT filed a formal response to the counterclaim. GST was notified on 28 February 2019 to file a response to our formal response to the counterclaim and the judge scheduled the preliminary hearing for 14 March 2019. This hearing was adjourned and was held on 2 April 2019, when the court heard arguments on the validity of SAT's counterclaim. On 2 September 2019, SAT received notification of an order which provided that (i) SAT's claim had been dismissed by the court; and (ii) the GST counterclaim would proceed to trial. On 9 September 2019 SAT responded to the order by appealing the dismissal of the SAT claim. Additionally, SAT made an interlocutory application in the counterclaim proceedings to challenge certain questions posed by the judge, on the basis that the responses may be used as evidence at trial.

### Fox River

#### Background to environmental liabilities arising out of contamination of the Fox River:

90. In Wisconsin, the authorities have identified potentially responsible parties ("PRPs") to fund the clean-up of river sediments in the lower Fox River. The pollution was caused by discharges of Polychlorinated Biphenyls ("PCBs") from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation ("NCR").
91. In NCR's Form 10-K Annual Report for the year ended 31 December 2014, which is the most recent public source available, the total clean-up costs for the Fox River are estimated at US\$825 million (approximately £623 million). This estimate is subject to uncertainties and does not include natural resource damages ("NRDs"). Total NRDs may range from US\$0 to US\$246 million (approximately £0 to £186 million).
92. Industries' involvement with the environmental liabilities arises out of indemnity arrangements which it became party to due to a series of transactions that took place from the late-1970s onwards and subsequent litigation brought by NCR against Industries and Appvion Inc. ("Appvion") (a former Group subsidiary) in relation to those arrangements which was ultimately settled. US authorities have never identified Industries as a PRP.

93. There has been a substantial amount of litigation in the United States involving NCR and Appvion regarding the responsibility for the costs of the clean-up operations. The US Government also brought enforcement proceedings against NCR and Appvion to ensure compliance with regulatory orders made in relation to the Fox River clean-up. This litigation has been settled through agreements with other PRPs and a form of settlement known as a Consent Decree with the US Government.
94. The principal terms of the Consent Decree, in summary, are as follows:
  - a. NCR will perform and fund all of the remaining Fox River remediation work by itself.
  - b. The US Government enforcement proceedings will be settled, with NCR having no liability to meet the US Government's claim for costs it has incurred in relation to the clean-up to date and only a secondary responsibility to meet certain future costs. NCR will have no liability to the US Government for NRDs.
  - c. NCR will cease to pursue its contribution claims against the other PRPs and in return will receive contribution protection which means that the other PRPs will not be able to pursue their contribution claims against NCR. NCR will, however, have the right to reinstate its contribution claims if the other PRPs decide to continue to pursue certain contractual claims against NCR.
  - d. Appvion will also cease to pursue its claims against the other PRPs to recover monies that it has spent on the clean-up and in return will receive contribution protection. Appvion will, however, have the right to reinstate its claims if the other PRPs decide to continue to pursue certain claims against Appvion.
95. The Consent Decree was approved by the District Court in Wisconsin on 23 August 2017. The US Government enforcement action against NCR was terminated as a result of that order. The PRPs' claims for contribution against NCR were dismissed by order of the District Court in Wisconsin given on 11 October 2017.
96. A Consent Decree between the US Government, P.H. Glatfelter and Georgia Pacific settling the allocation of costs on the Fox River was approved by the District Court in the Eastern District of Wisconsin on 14 March 2019. This Consent Decree concludes all existing litigation on the Fox River, following P.H. Glatfelter's withdrawal of its appeal against the issuance of the Consent Decree as a term of the settlement.
97. In its 10K annual report for the year ended 2018, NCR disclosed that in the third quarter of 2017, a contractual dispute arose between the LLC formed by NCR and API to conduct the clean-up operation of the Fox River and the remediation general contractor engaged to perform the necessary work. The amounts claimed by the contractor were stated in NCR's disclosure to range from approximately US\$35 million to approximately US\$45 million (approximately £26 million to £34 million). NCR further indicated that it was disputing the claims being made by the contractor, but that to the extent that the claims succeeded, NCR would look to its indemnitors and co-obligors to bear responsibility for the majority of any award, estimating its own share as approximately one-fourth of any such award. In its 10Q quarterly report for the period ended 30 September 2019, NCR disclosed that in November 2019, the arbitration tribunal hearing the dispute had awarded the contractor US\$10 million.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 27 Contingent liabilities and financial commitments continued

Industries' involvement with environmental liabilities arising out of the contamination of the Fox River:

98. NCR has taken the position that, under the terms of a 1998 Settlement Agreement between it, Appvion and Industries and a 2005 arbitration award, Industries and Appvion generally had a joint and several obligation to bear 60% of the Fox River environmental remediation costs imposed on NCR and of any amounts NCR has to pay in respect of other PRPs' contribution claims. BAT has not acknowledged any such liability to NCR and has defences to such claims. Further, under the terms of the Funding Agreement (described above and below) any dispute between Industries and NCR as to the final amount of any NCR claim against Industries in respect of the Fox River (if any) can only be determined at the later of (i) the completion of Fox River remediation works or (ii) the final resolution and exhaustion of all possible appeals in the proceedings against Sequana, PricewaterhouseCoopers LLP (PwC) and other former advisers.
99. Until May 2012, Appvion and Windward (another former Group subsidiary) paid 60% share of the clean-up costs and Industries was never required to contribute. Around that time Appvion refused to continue to pay clean-up costs, leading to NCR demanding that Industries pay a 60% share.
100. Industries commenced proceedings against Windward and Appvion in December 2011 seeking indemnification in respect of any liability it might have to NCR (the "English Indemnity Proceedings") pursuant to a 1990 de-merger agreement between those parties.

### Funding Agreement of 30 September 2014

101. On 30 September 2014, Industries entered into the Funding Agreement with Windward, Appvion, NCR and BTI 2014 LLC ("BTI") (a wholly-owned subsidiary of Industries). Pursuant to the Funding Agreement, the English Indemnity Proceedings and a counterclaim Appvion had brought in those proceedings, as well as an NCR-Appvion arbitration concerning Appvion's indemnity to NCR, were discontinued as part of an overall agreement between the parties providing a framework through which they would together fund the ongoing costs of the Fox River clean-up. Under the agreement, NCR has agreed to accept funding by Industries at the lower level of 50% of the ongoing clean-up related costs of the Fox River (rather than the 60% referenced above; this remains subject to an ability to litigate at a later stage the extent of Industries' liability in relation to Fox River clean-up related costs (including in respect of the 50% of costs that Industries has paid under the Funding Agreement to date). In addition, Windward has contributed US\$10 million (approximately £8 million) of funding and Appvion has contributed US\$25 million (approximately £19 million) for Fox River and agreed to contribute US\$25 million (approximately £19 million) for the Kalamazoo River (see further below). Appvion entered Chapter 11 bankruptcy protection on 1 October 2017.

102. The parties also agreed to cooperate in order to maximise recoveries from certain claims made against third parties, including (i) a claim commenced by Windward in the High Court of England & Wales (the High Court) against Sequana and the former Windward directors (the "Windward Dividend Claim"). That claim was assigned to BTI under the Funding Agreement, and relates to dividend payments made by Windward to Sequana of around €443 million (approximately £375 million) in 2008 and €135 million (approximately £114 million) in 2009 (the "Dividend Payments") and (ii) a claim commenced by Industries directly against Sequana to recover the value of the Dividend Payments alleging that the dividends were paid for the purpose of putting assets beyond the reach of Windward's creditors (including Industries) (the "BAT section 423 Claim").

103. A trial of the Windward Dividend Claim and the BAT section 423 Claim took place before the English High Court between February and April 2016. Judgment was handed down by the High Court on 11 July 2016. The court held that the 2009 Dividend Payment of €135 million (approximately £114 million) was a transaction at an undervalue made with the intention of putting assets beyond the reach of Industries or of otherwise prejudicing Industries' interests. It therefore contravened Section 423 of the Insolvency Act. The court dismissed the Windward Dividend Claim. BTI sought permission to appeal in respect of the Judge's findings in relation to the Windward Dividend Claim. Sequana sought permission to appeal the Judge's findings in relation to the BAT section 423 Claim.
104. On 13 and 16 January 2017 and 3 February 2017 further hearings took place to determine the precise form of relief to be awarded to Industries and to hear the parties' applications for permission to appeal. Judgment was handed down on 10 February 2017. In respect of relief, the court ordered that Sequana must pay BTI an amount up to the full value of the 2009 Dividend plus interest which equates to around US\$185 million (approximately £140 million). This figure is subject to increase as interest is continuing to accrue. Sequana must make an initial payment of around US\$138 million (approximately £104 million) and further payments going forward as and when Industries makes payments in respect of clean-up costs. In respect of appeals, the court granted BTI and Sequana permission to appeal (the "Sequana Claims Appeal"). The court also granted Sequana a stay in respect of the above payments. The stay was lifted in May 2017.
105. In February 2017 Sequana entered into a process in France seeking court protection (the "Sauvegarde"). This process was the subject of a challenge before the French courts. On 7 March 2019, Sequana announced that it was incapable of paying its debts and that it had applied to the Nanterre Commercial Court to convert the Sauvegarde into a *redressement judiciaire*, a form of insolvent receivership. On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings (*liquidation judiciaire*). To date, Industries has not received any payments from Sequana.
106. In June 2018, the Court of Appeal heard arguments in the Sequana Claims Appeal. On 6 February 2019 the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay approximately US\$185 million (approximately £140 million). However, following the Court of Appeal judgment, and as referenced above, on 7 March 2019 Sequana entered into receivership in France, thus staying execution of the US\$185 million judgment in favour of BTI. The Court of Appeal dismissed BTI's appeal in relation to the Windward Dividend Claim. The Court of Appeal also dismissed Sequana's application for permission to appeal the High Court's costs order in favour of Industries. Sequana therefore remains liable to pay around £10 million in costs to Industries. The Court of Appeal made no order as to the costs of the appeal. All parties to the appeal sought permission from the Court of Appeal for a further appeal to the U.K. Supreme Court. The Court of Appeal refused the applications. On 5 March 2019, BTI applied directly to the Supreme Court for permission to appeal in relation to the Windward Dividend Claim. On 6 March 2019, Sequana applied directly to the Supreme Court for permission to appeal in relation to its liability in the BAT section 423 Claim. On 31 July 2019, BTI was granted permission to appeal to the Supreme Court. On the same day, the Supreme Court refused Sequana permission to appeal. A hearing of BTI's appeal has been listed to take place on 25 and 26 March 2020.

## 27 Contingent liabilities and financial commitments continued

107. BTI has brought claims against certain of Windward's former advisers, including Windward's auditors at the time of the dividend payments, PwC (which claims were also assigned to BTI under the Funding Agreement). The claim was stayed while the Windward Dividends claim and the BAT section 423 Claim were heard. Following the Court of Appeal judgment in the Sequana Claims Appeal, BTI is now pursuing its assigned claim against PwC. PwC applied to court to strike-out BTI's claim. A hearing of this application took place in October 2019. On 15 November 2019, the court dismissed PwC's application. The court has granted PwC permission to appeal in respect of part of its dismissal of the application. A hearing of that appeal has yet to be scheduled, but is not expected to take place before Q4 2020 at the earliest.
108. An agreed stay is also in place in respect of BTI's separate assigned claim against Freshfields Bruckhaus Deringer.
109. The sums Industries has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing US litigation. In 2018, Industries paid £25 million in respect of clean-up costs and is potentially liable for further costs associated with the clean-up. From January through December 2019, Industries paid £32 million. Industries has a provision of £73 million which represents the current best estimate of its exposure – see note 20.
- Kalamazoo**
110. NCR is also being pursued by Georgia-Pacific, as the owner of a facility on the Kalamazoo River in Michigan which released PCBs into that river. Georgia-Pacific has been designated as a PRP in respect of the river.
111. Georgia-Pacific contends that NCR is responsible for, or should contribute to, the clean-up costs, because:
- a. a predecessor to NCR's Appleton Papers Division sold 'broke' containing PCBs to Georgia-Pacific or others for recycling;
  - b. NCR itself sold paper containing PCBs to Georgia-Pacific or others for recycling; and/or
  - c. NCR is liable for sales to Georgia-Pacific or others of PCB-containing broke by Mead Corporation, which, like the predecessor to NCR's Appleton Papers Division, coated paper with the PCB containing emulsion manufactured by NCR.
112. A full trial on liability took place in February 2013. On 26 September 2013, the Michigan Court held that NCR was liable as a PRP on the basis that broke sales constituted an arrangement for the disposal of hazardous material for the purposes of CERCLA. The decision was based on NCR's knowledge of the hazards of PCBs from at least 1969. The decision is under appeal.
113. The second phase of the Kalamazoo trial to determine the apportionment of liability amongst NCR, Georgia-Pacific and the other PRPs (International Paper Company and Weyerhaeuser Company) took place between September and December 2015.
114. On 29 March 2018, Judge Jonker handed down judgment in respect of around US\$55 million (approximately £42 million) of Georgia-Pacific's past remediation costs. Judge Jonker did not determine the question of future remediation costs. Judge Jonker ordered that NCR pay 40% of Georgia-Pacific past costs (around US\$22 million (approximately £17 million)).
115. It is anticipated that NCR will look to Industries to pay 60% of any sums it becomes liable to pay to Georgia-Pacific on the basis, it would be asserted, that the river constitutes a 'Future Site' for the purposes of the Settlement Agreement. The Funding Agreement described above does not resolve any such claims, but does provide an agreed mechanism pursuant to which any surplus from the valuable recoveries of any third-party claims that remains after all Fox River related clean-up costs have been paid and Industries and NCR have been made whole may be applied towards Kalamazoo clean-up costs, in the event that NCR were to be successful in any claim for a portion of them from Industries or Appvion (subject to Appvion's cap, described below). Industries has defences to any claims made by NCR in relation to the Kalamazoo River. No such claims have been made against Industries.
116. Industries also anticipates that NCR may seek to recover from Appvion (subject to a cap of US\$25 million (approximately £19 million)) for 'Future Sites' under the Funding Agreement. The basis of the recovery would be the same as any demand NCR may make on Industries. Appvion entered Chapter 11 bankruptcy protection on 1 October 2017. The effect of the Chapter 11 proceedings on Appvion's liability for Future Sites payments under the Funding Agreement is currently uncertain.
117. Further hearings were held before Judge Jonker to determine the final form of the order reflecting this judgment. The parties commenced appeal proceedings against this judgment in July 2018. NCR also agreed an appeal bond with Georgia-Pacific to prevent enforcement of the judgment while it remained subject to appeal.
118. On 11 December 2019, NCR announced that it had entered into a Consent Decree with the US Government and the State of Michigan, pursuant to which it assumed liability for certain remediation work at the Kalamazoo River. This Consent Decree remains subject to approval by the District Court for the Western District of Michigan. The payments to be made on the face of the Consent Decree in respect of such work total approximately US\$245 million (approximately £185 million). The Consent Decree also provides for the withdrawal of NCR's appeal against Georgia-Pacific, and payment by NCR of the outstanding judgment against it of approximately US\$20 million (approximately £15 million) to Georgia-Pacific.
119. Pending final court approval of the Consent Decree, the quantum of the clean-up costs for the Kalamazoo River is presently unclear. It may well exceed the amounts which are payable on the face of the Consent Decree (even if approved).
120. As detailed above, Industries is taking active steps to protect its interests, including seeking to procure the repayment of the Windward dividends, pursuing the other valuable claims that are now within its control, and working with the other parties to the Funding Agreement to maximise recoveries from third parties with a view to ensuring that amounts funded towards clean-up related costs are later recouped under the agreed repayment mechanisms under the Funding Agreement.

## NOTES ON THE ACCOUNTS

### CONTINUED

## 27 Contingent liabilities and financial commitments continued

### Other environmental matters

121. RAI and its subsidiaries are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances. Such laws and regulations provide for significant fines, penalties and liabilities, sometimes without regard to whether the owner or operator of the property or facility knew of, or was responsible for, the release or presence of hazardous or toxic substances. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances. In the past, RJRT has been named a PRP with third parties under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) with respect to several superfund sites. RAI and its subsidiaries are not aware of any current environmental matters that are expected to have a material adverse effect on the business, results of operations or financial position of RAI or its subsidiaries.

### Criminal investigations

122. The Group has been investigating, and is aware of governmental authorities' investigations into, allegations of misconduct. It has been liaising with relevant authorities, including the UK's Serious Fraud Office, which is conducting an investigation into suspicions of corruption in the conduct of business by Group companies and associated persons, and the DOJ and OFAC in the United States, which are conducting an investigation into suspicions of breach of sanctions. The Group is cooperating with the authorities' investigations.

123. The potential for fines, penalties or other consequences cannot currently be assessed. As the investigations are ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

### Closed litigation matters

124. The following matters on which the Company reported in the contingent liabilities and financial commitments note 28 to the Group's 2018 financial statements have been dismissed, concluded or resolved as noted below:

Matter	Jurisdiction	Companies named as Defendants	Description	Disposition
West Virginia IPIC	USA	RJRT, Lorillard Tobacco and/or B&W	Personal injury case	Dismissed by court
Breathe DC	USA	RJRT, RAI, SFNTC	Class action	Settlement reached
Corwin	USA	RJRT, BAT	Class action shareholder case	Supreme Court decision
Sao Paulo Recoupment Claim	Brazil	Souza Cruz S.A.	Class action	Plaintiff appeal denied by Superior Court of Justice

### General Litigation Conclusion

125. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere.

126. As indicated above, on 1 March 2019 the Quebec Court of Appeal released its appeal judgment. The trial judgment was largely upheld by a unanimous decision of the five-member panel including the requirement that the defendants deposit the initial deposits in their solicitors' trust accounts within 60 days. This is the only executory aspect of the judgment. In these circumstances we are of the view that it is more likely than not that there will be an outlay and it is reasonably estimable at CAD\$758 million (approximately £436 million), the amount of the initial deposit. If further adverse judgments are entered against any of the Group's companies in any case, avenues of appeal will be pursued. Such appeals could require the appellants to post appeal bonds or substitute security (as has been necessary in Quebec) in amounts which could in some cases equal or exceed the amount of the judgment. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in any particular period could be materially adversely affected by the impact of a significant increase in litigation, difficulties in obtaining the bonding required to stay execution of judgments on appeal, or any final outcome of any particular litigation.

127. Having regard to all these matters, with the exception of the Quebec Class Actions, Fox River and certain *Engle* progeny cases identified above, the Group does not consider it appropriate to make any provision in respect of any pending litigation because the likelihood of any resulting material loss, on an individual case basis, is not considered probable and/or the amount of any such loss cannot be reasonably estimated. Notwithstanding the negative decision in the Quebec Class Actions, the Group does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition. If the facts and circumstances change and result in further unfavourable outcomes in the pending litigation, then there could be a material impact on the financial statements of the Group.

## 27 Contingent liabilities and financial commitments continued

### Other contingencies

128. *JTI Indemnities.* By a purchase agreement dated 9 March 1999, amended and restated as of 11 May 1999, referred to as the 1999 Purchase Agreement, R.J. Reynolds Tobacco Holdings, Inc. ("RJR") and RJRT sold their international tobacco business to JTI. Under the 1999 Purchase Agreement, RJR and RJRT retained certain liabilities relating to the international tobacco business sold to JTI, and agreed to indemnify JTI against: (i) any liabilities, costs and expenses arising out of the imposition or assessment of any tax with respect to the international tobacco business arising prior to the sale, other than as reflected on the closing balance sheet; (ii) any liabilities, costs and expenses that JTI or any of its affiliates, including the acquired entities, may incur after the sale with respect to any of RJR's or RJRT's employee benefit and welfare plans; and (iii) any liabilities, costs and expenses incurred by JTI or any of its affiliates arising out of certain activities of Northern Brands.
129. RJRT has received claims for indemnification from JTI, and several of these have been resolved. Although RJR and RJRT recognise that, under certain circumstances, they may have other unresolved indemnification obligations to JTI under the 1999 Purchase Agreement, RJR and RJRT disagree what circumstances described in such claims give rise to any indemnification obligations by RJR and RJRT and the nature and extent of any such obligation. RJR and RJRT have conveyed their position to JTI, and the parties have agreed to resolve their differences at a later date.
130. *ITG Indemnity.* In the Divestiture, RAI agreed to defend and indemnify, subject to certain conditions and limitations, ITG in connection with claims relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands on or before 12 June 2015, as well as in actions filed before 13 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands. In the purchase agreement relating to the Divestiture, ITG agreed to defend and indemnify, subject to certain conditions and limitations, RAI and its affiliates in connection with claims relating to the purchase or use of 'blu' brand e-cigarettes. ITG also agreed to defend and indemnify, subject to certain conditions and limitations, RAI and its affiliates in actions filed after 12 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands after 12 June 2015. ITG has tendered a number of actions to RAI under the terms of this indemnity, and RAI has, subject to a reservation of rights, agreed to defend and indemnify ITG pursuant to the terms of the indemnity. These claims are substantially similar in nature and extent to claims asserted directly against RJRT in similar actions.
131. *Loews Indemnity.* In 2008, Loews Corporation ("Loews"), entered into an agreement with Lorillard Inc., Lorillard Tobacco, and certain of their affiliates, which agreement is referred to as the "Separation Agreement". In the Separation Agreement, Lorillard agreed to indemnify Loews and its officers, directors, employees and agents against all costs and expenses arising out of third-party claims (including, without limitation, attorneys' fees, interest, penalties and costs of investigation or preparation of defence), judgments, fines, losses, claims, damages, liabilities, taxes, demands, assessments, and amounts paid in settlement based on, arising out of or resulting from, among other things, Loews' ownership of or the operation of Lorillard and its assets and properties, and its operation or conduct of its businesses at any time prior to or following the separation of Lorillard and Loews (including with respect to any product liability claims).
132. *SFRTI Indemnity.* In connection with the 13 January 2016 sale by RAI of the international rights to the Natural American Spirit brand name and associated trademarks, along with SFR Tobacco International GmbH ("SFRTI") and other international companies that distributed and marketed the brand outside the United States, to JT International Holding BV ("JTI Holding"), each of SFNTC, R. J. Reynolds Global Products, Inc., and R. J. Reynolds Tobacco B.V. agreed to indemnify JTI Holding against, among other things, any liabilities, costs, and expenses relating to actions (i) commenced on or before (a) 13 January 2019, to the extent relating to alleged personal injuries, and (b) in all other cases, 13 January 2021; (ii) brought by (a) a governmental authority to enforce legislation implementing European Union Directive 2001/37/EC or European Directive 2014/40/EU or (b) consumers or a consumer association; and (iii) arising out of any statement or claim (a) made on or before 13 January 2016, (b) by any company sold to JTI Holding in the transaction, (c) concerning Natural American Spirit brand products consumed or intended to be consumed outside of the United States and (d) that the Natural American Spirit brand product is natural, organic, or additive free. Under the terms of this indemnity, JTI has requested indemnification from Santa Fe Natural Tobacco Company Germany GmbH ("SFNTCG") in connection with an audit of SFNTCG relating to transfer pricing for the tax years 2007 to 2010 and 2012 to 2015. SFNTCG contests the audit results. The amount in dispute is approximately €21 million plus interest (approximately £18 million).
133. *Indemnification of Distributors and Retailers.* RJRT, Lorillard Tobacco, SFNTC, American Snuff Co. and RJR Vapor have entered into agreements to indemnify certain distributors and retailers from liability and related defence costs arising out of the sale or distribution of their products. Additionally, SFNTC has entered into an agreement to indemnify a supplier from liability and related defence costs arising out of the sale or use of SFNTC's products. The cost has been, and is expected to be, insignificant. RJRT, SFNTC, American Snuff Co. and RJR Vapor believe that the indemnified claims are substantially similar in nature and extent to the claims that they are already exposed to by virtue of their having manufactured those products.
134. Except as otherwise noted above, RAI is not able to estimate the maximum potential of future payments, if any, related to these indemnification obligations.
135. *Competition Investigations.* There are instances where Group companies are cooperating with relevant national competition authorities in relation to ongoing competition law investigations and/or engaged in legal proceedings at the appellate level, including (amongst others) in Ukraine, Cyprus and Netherlands.

## NOTES ON THE ACCOUNTS

CONTINUED

### 27 Contingent liabilities and financial commitments continued

#### Tax disputes

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with the Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense. While the amounts that may be payable or receivable in relation to tax disputes could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

The challenge from the South African Revenue Service regarding the debt financing of British American Tobacco South Africa was resolved in 2019.

The following matters may proceed to litigation:

#### Corporate taxes

##### Brazil

The Brazilian Federal Tax Authority has filed claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The reassessments are for the years 2004 until and including 2012 for a total amount of BRL1,683 million (£316 million) to cover tax, interest and penalties.

Souza Cruz appealed all reassessments. Regarding the first assessments (2004-2006) Souza Cruz's appeal was rejected in 2013 although the written judgment of that tribunal was received in 2016. Souza Cruz has appealed the decision. The appeal against the second assessments (2007 and 2008) was upheld at the second tier tribunal and was closed. In 2015, a further reassessment for the same period (2007 and 2008) was raised after the five-year statute of limitation which has been appealed against.

Souza Cruz received further reassessments in 2014 for the 2009 calendar year and in 2015 an assessment for the 2010 calendar year. Souza Cruz appealed both the reassessments in full. In December 2016, assessments were received for the calendar years 2011 and 2012 which have also been appealed.

##### Netherlands

The Dutch tax authority has issued a number of assessments on various issues across the years 2003-2016 in relation to various intra-group transactions. The assessments amount to an aggregate net liability across these periods of £921 million covering tax, interest and penalties. The Group has appealed against the assessments in full.

The Group believes that its companies have meritorious defences in law and fact in each of the above matters and intends to pursue each dispute through the judicial system as necessary. The Group does not consider it appropriate to make provision for these amounts nor for any potential further amounts which may be assessed in relation to these matters in subsequent years.

#### Indirect and other taxes

##### Bangladesh

On 25 July 2018, the Appellate Division of the Supreme Court of Bangladesh has reversed the decision of the High Court Division against BAT Bangladesh in respect of the retrospective demands for VAT and Supplementary Duty amounting to approximately £170 million. On 3 February 2020, the certified Court Order was received. The Attorney General has 30 days to file a review petition with the Court. The Group is not, at the date of this announcement, aware of any filing.

##### Egypt

British American Tobacco Egypt LLC is subject to two ongoing civil cases concerning the imposition of sales tax on low-price category brands brought by the Egyptian tax authority for £113 million. Management believes that the tax claims are unfounded and has appealed the tax claims. These cases are scheduled for hearings on 8 April 2020 and 24 June 2020.

##### South Korea

In 2016, the Board of Audit and Inspection of Korea ("BAI") concluded its tax assessment in relation to the 2014 year-end tobacco inventory, and imposed additional national excise, local excise, VAT taxes and penalties. This resulted in the recognition of a KRW 80.7 billion (approximately £53 million) charge by Group subsidiaries, BAT Korea Ltd., Rothmans Far East B.V. Korea Branch Office and BAT Korea Manufacturing Ltd. Management deems the tax and penalties to be unfounded and has appealed to the tax tribunal against the assessment. On grounds of materiality and the high likelihood of the tax and penalties being reversed in future, the Group classified the tax and penalties charge as an adjusting item in 2016.

On 23 August 2019, the trial court ruled in favour of Rothmans Far East B.V. Korea Branch Office on KRW 6.7 billion (approximately £4 million), the VAT portion of the assessment; appeals on the other elements of the assessment are still pending at trial court. The Korean government appealed the ruling on 16 September 2019. Management expects the final ruling by the Supreme Court by 2021. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling.

##### Brazil

On 15 March 2017, the Brazilian Supreme Court ruled that for all taxpayers VAT (ICMS) should not be included in the calculation of social contribution taxes (PIS/Cofins) which are levied based on revenue. However, the retrospective application of the basis of calculation is subject to an extraordinary appeal and the final decision is expected in early 2020.

The Group's Brazilian subsidiary, Souza Cruz, had filed an individual lawsuit to establish that it had overpaid taxes to the government. In 2019, Souza Cruz received a favourable decision in the lower court and has therefore recognised £86 million in other income representing management's best estimate of the amounts likely to be recovered at this time with the potential for further amounts in future periods.

If the ruling were to be enacted retrospectively for a period of five years, the potential asset is estimated to be around £723 million.

## 27 Contingent liabilities and financial commitments continued

### Commitments in relation to service contracts, non-capitalised leases

The total future minimum payments under non-cancellable service contracts based on when payments fall due:

	2019 £m	2018 £m
<b>Service contracts</b>		
Within one year	15	20
Between one and five years	20	17
Beyond five years	—	—
	<b>35</b>	<b>37</b>

Financial commitments arising from short-term leases and leases of low-value assets that are not capitalised under IFRS 16 *Leases* are £10 million for property and £11 million for plant, equipment and other assets. Refer to note 30 for more information on the adoption of IFRS 16.

### Performance guarantees

As part of the acquisition of TDR in 2015, the Group has committed to keeping the manufacturing facility in Kanfanar, Croatia operational for at least five years following completion of the acquisition. The maximum exposure under this guarantee is £42 million (2018: £45 million).

## 28 Interests in subsidiaries

### Subsidiaries with material non-controlling interests

Non-controlling interests principally arise from the Group's listed investment in Malaysia (British American Tobacco (Malaysia) Berhad), where the Group held 50% of the listed holding company in 2019, 2018 and 2017. The Group has assessed that it exercises de facto control over Malaysia as it has the practical ability to direct the business through effective control of the Company's Board as a result of the Group controlling the largest shareholding block in comparison to other shareholdings which are widely dispersed. Summarised financial information for Malaysia is shown below as required by IFRS 12. As part of the Group's reporting processes, Malaysia report consolidated financial information for the Malaysia group which has been adjusted to comply with Group accounting policies which may differ to local accounting practice. Goodwill in respect of Malaysia, which arose as a result of the acquisition of the Rothmans group referred to in note 8, has not been included as part of the net assets below. In addition, no adjustments have been made to the information below for the elimination of intercompany transactions and balances with the rest of the Group.

	2019 £m	2018 £m	2017 £m
<b>Summarised financial information</b>			
Revenue	191	231	237
Profit for the year	65	87	89
– <i>Attributable to non-controlling interests</i>	33	43	44
Total comprehensive income	65	87	87
– <i>Attributable to non-controlling interests</i>	33	43	43
Dividends paid to non-controlling interests	(36)	(40)	(64)
<b>Summary net assets:</b>			
Non-current assets	20	16	18
Current assets	97	116	101
Non-current liabilities	(4)	–	(5)
Current liabilities	(117)	(129)	(120)
Total equity at the end of the year	(4)	3	(6)
– <i>Attributable to non-controlling interests</i>	(2)	1	(3)
Net cash generated from operating activities	61	86	67
Net cash generated in investing activities	–	(2)	14
Net cash used in financing activities	(73)	(77)	(86)
Differences on exchange	–	1	(1)
Increase/(decrease) in net cash and cash equivalents	(12)	8	(6)
Net cash and cash equivalents at 1 January	10	2	8
Net cash and cash equivalents at 31 December	(2)	10	2

**NOTES ON THE ACCOUNTS****CONTINUED****28 Interests in subsidiaries continued****Subsidiaries subject to restrictions**

As a result of the Group's Canadian subsidiary, Imperial Tobacco Canada (ITCAN), entering CCAA protection, the assets of ITCAN are subject to restrictions. The table below summarises the assets and liabilities of ITCAN:

Summarised financial information	2019 £m	2018 £m
Non-current assets	2,403	2,781
Current assets	768	394
Non-current liabilities	(131)	(129)
Current liabilities	(447)	(498)
	2,593	2,548

Under the terms of CCAA, the court has appointed FTI Consulting Canada Inc. to act as a monitor. This monitor has no operational input and is not involved in the management of the business. The Group considers that ITCAN continues to meet the requirements of IFRS 10 *Consolidated Financial Statements*, and, until such requirements are not met, the Group will continue to consolidate the results of ITCAN.

Whilst the Group continues to control the operations of its Canadian subsidiary, there are restrictions over the ability to access or use certain assets including the ability to remit dividends. Included in current assets are cash and cash equivalents of £595 million, of which £445 million is restricted (2018: £248 million, none of which was restricted) (note 17) and inventories of £117 million (2018: £105 million). Included in non-current assets for 2019 and 2018 is goodwill of £2.3 billion subject to impairment reviews (note 8). Included in current liabilities are trade and other payables of £310 million (2018: £362 million), the majority of which are amounts payable in respect of duties and excise. Refer to note 27 for information on the Quebec Class Actions.

**Other shareholdings**

The Group holds 92% of the equity shares of PT Bentoel Internasional Investama Tbk ("Bentoel"). In 2011, the Group sold 984 million shares, representing approximately 14% of Bentoel's share capital, for the purposes of fulfilling certain obligations pursuant to Bapepam LK (Indonesia) takeover regulations. The Group simultaneously entered into a total return swap on 971 million of the shares. In June 2016, the Group and other investors participated in a rights issue by Bentoel, increasing its stake in Bentoel to 92%. Simultaneously, the Group amended the total return swap to take account of an addition 1,684 million shares. The shares subject to the total return swap now represent 7% of Bentoel's issued capital. While the Group does not have legal ownership of these shares, it retains the risks and rewards associated with them which results in the Group continuing to recognise an effective interest in 99% of Bentoel's net assets and results.

Refer to note 10 for information on the Group's 42% investment in Tisak d.d..

## 29 Condensed consolidating financial information

The following consolidating financial information is required by the rules of the Securities and Exchange Commission and has been prepared as a requirement of the Regulation S-X 3-10.

The following condensed consolidating financial information relates to the guarantees of:

- US\$10.3 billion RAI unsecured notes;
- US\$149.5 million of Lorillard unsecured notes;
- US\$14.96 billion of bonds representing the portion (99.7%) of a total US\$15 billion of bonds issued by B.A.T Capital Corporation (“BATCAP”) in connection with the acquisition of RAI exchanged for registered bonds in 2018; and
- US\$3.5 billion of bonds issued by BATCAP in connection with the Shelf Registration Statement on Form F-3 filed on July 17, 2019, pursuant to which BATCAP or BATIF may issue an indefinite amount of debt securities.

Note: The following condensed consolidating financial statements report the contribution of each applicable company to the Group’s results and not the separate financial statements for each applicable company as local financial statements are prepared in accordance with local legislative requirements and may differ from the financial information provided below. In particular, in respect of the United States region, all financial statements and financial information provided by or with respect to the US business or RAI (and/or RAI and its subsidiaries (collectively, the “RAI Group”)) are prepared on the basis of US GAAP and constitute the primary financial statements or financial information of the US business or RAI (and/or the RAI Group). Solely for the purpose of consolidation within the results of BAT p.l.c. and the BAT Group, this financial information is then converted to IFRS as issued by the IASB and adopted by the EU. To the extent any such financial information provided in these financial statements relates to the US business or RAI (and/or the RAI Group), it is provided as an explanation of the US business’s or RAI’s (and/or the RAI Group’s) primary US GAAP based financial statements and information.

### (a) RAI and Lorillard unsecured notes

The following condensed consolidating financial information relates to the guarantees of: US\$10.3 billion (2018: US\$11 billion) RAI unsecured notes (referred to as “RB” below) and US\$149.5 million (2018: US\$231 million) of Lorillard unsecured notes (referred to as “LB” below). The subsidiaries disclosed below are wholly owned and the guarantees provided are full and unconditional, and joint and several.

The following condensed consolidating financial information includes the accounts and activities of:

- a. British American Tobacco p.l.c. (parent guarantor of RB and LB), referred to as “BAT p.l.c.” in the financials below;
- b. R.J. Reynolds Tobacco Company (issuer of LB), referred to as “RJRT” in the financials below;
- c. Reynolds American Inc. (issuer of RB, subsidiary guarantor of LB), referred to as “RAI” in the financials below;
- d. R.J. Reynolds Tobacco Holdings Inc. (subsidiary guarantor of RB and LB), referred to as “RJRTH” in the financials below;
- e. other direct and indirect subsidiaries of the BAT Group that are not guarantors;
- f. elimination entries necessary to consolidate the parent with the issuer, the subsidiary guarantors and non-guarantor subsidiaries; and
- g. the BAT Group on a consolidated basis.

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 29 Condensed consolidating financial information continued

	Condensed Consolidating Income Statement						
	Year ended 31 December 2019						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	–	<b>8,474</b>	–	–	<b>17,746</b>	(343)	<b>25,877</b>
Raw materials and consumables used	–	(672)	–	–	(4,224)	297	(4,599)
Changes in inventories of finished goods and work in progress	–	(7)	–	–	169	–	162
Employee benefit costs	(4)	(203)	(10)	(1)	(3,004)	1	(3,221)
Depreciation, amortisation and impairment costs	–	(179)	–	–	(1,333)	–	(1,512)
Other operating income	–	2	26	–	3,589	(3,454)	163
Loss on reclassification from amortised cost to fair value	–	–	–	–	(3)	–	(3)
Other operating expenses	(122)	(6,765)	(18)	–	(4,482)	3,536	(7,851)
(Loss)/profit from operations	(126)	650	(2)	(1)	8,458	37	9,016
Net finance income/(costs)	121	2	(497)	3	(1,188)	(43)	(1,602)
Share of post-tax results of associates and joint ventures	–	–	–	–	498	–	498
<b>Profit before taxation</b>	(5)	652	(499)	2	7,768	(6)	7,912
Taxation on ordinary activities	–	(187)	125	–	(2,001)	–	(2,063)
Equity income from subsidiaries	5,854	2,595	3,697	3,086	–	(15,232)	–
<b>Profit for the year</b>	<b>5,849</b>	<b>3,060</b>	<b>3,323</b>	<b>3,088</b>	<b>5,767</b>	<b>(15,238)</b>	<b>5,849</b>
Attributable to:							
Owners of the parent	5,849	3,060	3,323	3,088	5,622	(15,238)	5,704
Non-controlling interests	–	–	–	–	145	–	145
	<b>5,849</b>	<b>3,060</b>	<b>3,323</b>	<b>3,088</b>	<b>5,767</b>	<b>(15,238)</b>	<b>5,849</b>

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Income Statement						
	Year ended 31 December 2018						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	–	7,752	–	–	16,959	(219)	24,492
Raw materials and consumables used	–	(662)	–	–	(4,161)	159	(4,664)
Changes in inventories of finished goods and work in progress	–	(4)	–	–	118	–	114
Employee benefit costs	(5)	(169)	(13)	–	(2,822)	4	(3,005)
Depreciation, amortisation and impairment costs	–	(91)	–	–	(947)	–	(1,038)
Other operating income	–	3	22	–	3,847	(3,787)	85
Loss on reclassification from amortised cost to fair value	–	–	–	–	(3)	–	(3)
Other operating expenses	(124)	(6,579)	(17)	–	(3,819)	3,871	(6,668)
(Loss)/profit from operations	(129)	250	(8)	–	9,172	28	9,313
Net finance income/(costs)	95	9	(421)	3	(947)	(120)	(1,381)
Share of post-tax results of associates and joint ventures	–	–	–	–	419	–	419
<b>Profit before taxation</b>	(34)	259	(429)	3	8,644	(92)	8,351
Taxation on ordinary activities	–	(100)	93	1	(2,135)	–	(2,141)
Equity income from subsidiaries	6,210	2,569	3,436	2,755	–	(14,970)	–
<b>Profit for the year</b>	6,176	2,728	3,100	2,759	6,509	(15,062)	6,210
<b>Attributable to:</b>							
Owners of the parent	6,176	2,728	3,100	2,759	6,331	(15,062)	6,032
Non-controlling interests	–	–	–	–	178	–	178
	6,176	2,728	3,100	2,759	6,509	(15,062)	6,210

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 29 Condensed consolidating financial information continued

	Condensed Consolidating Income Statement						
	Year ended 31 December 2017						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	–	3,459	–	–	16,243	(138)	19,564
Raw materials and consumables used	–	(346)	–	–	(4,286)	112	(4,520)
Changes in inventories of finished goods and work in progress	–	(7)	–	–	(507)	1	(513)
Employee benefit costs	(8)	(117)	(35)	(2)	(2,525)	8	(2,679)
Depreciation, amortisation and impairment costs	–	(28)	–	–	(874)	–	(902)
Other operating income	–	7	34	–	1,859	(1,756)	144
Other operating expenses	(101)	(2,889)	(6)	–	(3,499)	1,813	(4,682)
(Loss)/profit from operations	(109)	79	(7)	(2)	6,411	40	6,412
Net finance income/(costs)	3	11	(190)	9	(908)	(19)	(1,094)
Share of post-tax results of associates and joint ventures	–	–	–	–	24,209	–	24,209
<b>Profit before taxation</b>	(106)	90	(197)	7	29,712	21	29,527
Taxation on ordinary activities	–	(240)	61	(3)	8,311	–	8,129
Equity income from subsidiaries	37,656	3,870	4,259	3,893	–	(49,678)	–
<b>Profit for the year</b>	37,550	3,720	4,123	3,897	38,023	(49,657)	37,656
Attributable to:							
Owners of the parent	37,550	3,720	4,123	3,897	37,852	(49,657)	37,485
Non-controlling interests	–	–	–	–	171	–	171
	37,550	3,720	4,123	3,897	38,023	(49,657)	37,656

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Statement of Comprehensive Income						
	Year ended 31 December 2019						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
Profit for the year	5,849	3,060	3,323	3,088	5,767	(15,238)	5,849
Other comprehensive income/(expense)							
Items that may be reclassified subsequently to profit or loss:							
Differences on exchange	–	30	30	30	(3,217)	(89)	(3,216)
Cash flow hedges	–	–	–	–	(193)	–	(193)
Net investment hedges	–	–	–	–	3	–	3
Associates – share of OCI, net of tax	–	–	–	–	(115)	–	(115)
Tax on items that may be reclassified	–	–	–	–	56	–	56
Items that will not be reclassified subsequently to profit or loss:							
Retirement benefit schemes	–	167	185	167	(669)	(357)	(507)
Associates – share of OCI, net of tax	–	226	245	225	(813)	(472)	(589)
Tax on items that will not be reclassified	–	(59)	(60)	(58)	137	115	75
Total other comprehensive income/(expense) for the year, net of tax	–	197	215	197	(3,886)	(446)	(3,723)
Share of subsidiaries OCI (other reserves)	(507)	–	–	–	–	507	–
Share of subsidiaries OCI (retained earnings)	(3,216)	–	–	–	–	3,216	–
<b>Total comprehensive income/(expense) for the year, net of tax</b>	<b>2,126</b>	<b>3,257</b>	<b>3,538</b>	<b>3,285</b>	<b>1,881</b>	<b>(11,961)</b>	<b>2,126</b>
Attributable to:							
Owners of the parent	2,126	3,257	3,538	3,285	1,755	(11,961)	2,000
Non-controlling interests	–	–	–	–	126	–	126
	<b>2,126</b>	<b>3,257</b>	<b>3,538</b>	<b>3,285</b>	<b>1,881</b>	<b>(11,961)</b>	<b>2,126</b>

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 29 Condensed consolidating financial information continued

	Condensed Consolidating Statement of Comprehensive Income						
	Year ended 31 December 2018						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Profit for the year</b>	6,176	2,728	3,100	2,759	6,509	(15,062)	6,210
<b>Other comprehensive income/(expense)</b>							
<b>Items that may be reclassified subsequently to profit or loss:</b>	–	–	–	–	3,099	–	3,099
Differences on exchange	–	–	–	–	3,868	–	3,868
Cash flow hedges	–	–	–	–	(41)	–	(41)
Net investment hedges	–	–	–	–	(708)	–	(708)
Associates – share of OCI, net of tax	–	–	–	–	(38)	–	(38)
Tax on items that may be reclassified	–	–	–	–	18	–	18
<b>Items that will not be reclassified subsequently to profit or loss:</b>	–	–	–	–	115	–	115
Retirement benefit schemes	–	–	–	–	142	–	142
Associates – share of OCI, net of tax	–	–	–	–	6	–	6
Tax on items that will not be reclassified	–	–	–	–	(33)	–	(33)
<b>Total other comprehensive income for the year, net of tax</b>	–	–	–	–	3,214	–	3,214
Share of subsidiaries OCI (other reserves)	115	–	–	–	–	(115)	–
Share of subsidiaries OCI (retained earnings)	3,099	–	–	–	–	(3,099)	–
<b>Total comprehensive income/(expense) for the year, net of tax</b>	9,390	2,728	3,100	2,759	9,723	(18,276)	9,424
<b>Attributable to:</b>							
Owners of the parent	9,390	2,728	3,100	2,759	9,538	(18,276)	9,239
Non-controlling interests	–	–	–	–	185	–	185
	9,390	2,728	3,100	2,759	9,723	(18,276)	9,424

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Statement of Comprehensive Income Year ended 31 December 2017						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Profit for the year</b>	37,550	3,720	4,123	3,897	38,023	(49,657)	37,656
<b>Other comprehensive income/(expense)</b>							
<b>Items that may be reclassified subsequently to profit or loss:</b>	–	–	–	–	(3,809)	–	(3,809)
Differences on exchange	–	–	–	–	(3,084)	–	(3,084)
Cash flow hedges	–	–	–	–	(171)	–	(171)
Investments held at fair value	–	–	–	–	(27)	–	(27)
Net investment hedges	–	–	–	–	357	–	357
Associates-share of OCI, net of tax	–	–	–	–	(918)	–	(918)
Tax on items that may be reclassified	–	–	–	–	34	–	34
<b>Items that will not be reclassified subsequently to profit or loss:</b>	–	–	–	–	681	–	681
Retirement benefit schemes	–	–	–	–	827	–	827
Associates-share of OCI, net of tax	–	–	–	–	25	–	25
Tax on items that will not be reclassified	–	–	–	–	(171)	–	(171)
<b>Total other comprehensive expense for the year, net of tax</b>	–	–	–	–	(3,128)	–	(3,128)
Share of subsidiaries OCI (other reserves)	681	–	–	–	–	(681)	–
Share of subsidiaries OCI (retained earnings)	(3,809)	–	–	–	–	3,809	–
<b>Total comprehensive income/(expense) for the year, net of tax</b>	34,422	3,720	4,123	3,897	34,895	(46,529)	34,528
<b>Attributable to:</b>							
Owners of the parent	34,422	3,720	4,123	3,897	34,728	(46,529)	34,361
Non-controlling interests	–	–	–	–	167	–	167
	34,422	3,720	4,123	3,897	34,895	(46,529)	34,528

**NOTES ON THE ACCOUNTS**

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**29 Condensed consolidating financial information continued**

	Condensed Consolidating Balance Sheet						
	At 31 December 2019						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>							
Intangible assets	–	2,807	–	7,438	108,542	–	118,787
Property, plant and equipment	–	683	1	–	4,834	–	5,518
Investments in subsidiaries	23,510	16,613	29,714	18,812	–	(88,649)	–
Investments in associates and joint ventures	–	–	–	–	1,860	–	1,860
Retirement benefit assets	–	–	–	–	430	–	430
Deferred tax assets	–	360	22	4	38	–	424
Trade and other receivables	–	5	416	17	308	(498)	248
Investments held at fair value	–	–	–	1	11	–	12
Derivative financial instruments	–	–	–	–	452	–	452
<b>Total non-current assets</b>	<b>23,510</b>	<b>20,468</b>	<b>30,153</b>	<b>26,272</b>	<b>116,475</b>	<b>(89,147)</b>	<b>127,731</b>
Inventories	–	631	–	–	5,444	19	6,094
Income tax receivable	–	–	–	–	122	–	122
Trade and other receivables	6,719	770	749	69	5,574	(9,788)	4,093
Investments held at fair value	–	–	–	–	123	–	123
Derivative financial instruments	8	–	–	–	313	(8)	313
Cash and cash equivalents	5	–	–	–	2,526	(5)	2,526
	6,732	1,401	749	69	14,102	(9,782)	13,271
Assets classified as held-for-sale	–	–	–	–	3	–	3
<b>Total current assets</b>	<b>6,732</b>	<b>1,401</b>	<b>749</b>	<b>69</b>	<b>14,105</b>	<b>(9,782)</b>	<b>13,274</b>
<b>Total assets</b>	<b>30,242</b>	<b>21,869</b>	<b>30,902</b>	<b>26,341</b>	<b>130,580</b>	<b>(98,929)</b>	<b>141,005</b>
<b>Equity—capital and reserves</b>							
Share capital	614	14,378	13,794	21,721	–	(49,893)	614
Share premium, capital redemption and merger reserves	22,857	–	–	–	29,116	(25,364)	26,609
Other reserves	(418)	21	–	22	(3,555)	375	(3,555)
Retained earnings	5,470	4,419	6,654	4,561	38,270	(19,140)	40,234
Owners of the parent	28,523	18,818	20,448	26,304	63,831	(94,022)	63,902
Non-controlling interests	–	–	–	–	258	–	258
<b>Total equity</b>	<b>28,523</b>	<b>18,818</b>	<b>20,448</b>	<b>26,304</b>	<b>64,089</b>	<b>(94,022)</b>	<b>64,160</b>
<b>Liabilities</b>							
Borrowings	1,571	37	6,741	–	31,026	(1,571)	37,804
Retirement benefit liabilities	–	604	53	16	786	–	1,459
Deferred tax liabilities	–	5	–	–	17,045	–	17,050
Other provisions for liabilities	1	1	–	–	387	(1)	388
Trade and other payables	8	10	70	–	1,454	(508)	1,034
Derivative financial instruments	–	–	–	–	287	–	287
<b>Total non-current liabilities</b>	<b>1,580</b>	<b>657</b>	<b>6,864</b>	<b>16</b>	<b>50,985</b>	<b>(2,080)</b>	<b>58,022</b>
Borrowings	13	171	2,979	–	6,296	(1,897)	7,562
Income tax payable	–	22	29	–	628	4	683
Other provisions for liabilities	–	29	–	–	641	–	670
Trade and other payables	126	2,172	582	21	7,760	(934)	9,727
Derivative financial instruments	–	–	–	–	181	–	181
<b>Total current liabilities</b>	<b>139</b>	<b>2,394</b>	<b>3,590</b>	<b>21</b>	<b>15,506</b>	<b>(2,827)</b>	<b>18,823</b>
<b>Total equity and liabilities</b>	<b>30,242</b>	<b>21,869</b>	<b>30,902</b>	<b>26,341</b>	<b>130,580</b>	<b>(98,929)</b>	<b>141,005</b>

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Balance Sheet						
	At 31 December 2018						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>							
Intangible assets	—	2,935	—	7,737	113,342	(1)	124,013
Property, plant and equipment	—	763	1	—	4,402	—	5,166
Investments in subsidiaries	32,543	21,368	30,625	19,636	—	(104,172)	—
Investments in associates and joint ventures	—	—	—	—	1,737	—	1,737
Retirement benefit assets	—	—	—	—	1,147	—	1,147
Deferred tax assets	—	521	17	4	(198)	—	344
Trade and other receivables	—	5	464	32	762	(578)	685
Investments held at fair value	—	—	—	—	39	—	39
Derivative financial instruments	—	—	—	—	556	—	556
<b>Total non-current assets</b>	<b>32,543</b>	<b>25,592</b>	<b>31,107</b>	<b>27,409</b>	<b>121,787</b>	<b>(104,751)</b>	<b>133,687</b>
Inventories	—	711	—	—	5,319	(1)	6,029
Income tax receivable	—	—	—	—	74	—	74
Trade and other receivables	7,306	1,102	820	59	4,431	(10,130)	3,588
Investments held at fair value	—	—	—	—	178	—	178
Derivative financial instruments	—	—	—	—	179	—	179
Cash and cash equivalents	6	—	—	—	2,602	(6)	2,602
	7,312	1,813	820	59	12,783	(10,137)	12,650
Assets classified as held-for-sale	—	—	—	—	5	—	5
<b>Total current assets</b>	<b>7,312</b>	<b>1,813</b>	<b>820</b>	<b>59</b>	<b>12,788</b>	<b>(10,137)</b>	<b>12,655</b>
<b>Total assets</b>	<b>39,855</b>	<b>27,405</b>	<b>31,927</b>	<b>27,468</b>	<b>134,575</b>	<b>(114,888)</b>	<b>146,342</b>
<b>Equity – capital and reserves</b>							
Share capital	614	14,948	14,348	22,586	1,921	(53,803)	614
Share premium, capital redemption and merger reserves	22,854	—	—	—	28,755	(25,003)	26,606
Other reserves	204	(46)	(44)	(46)	(335)	(66)	(333)
Retained earnings	11,291	8,420	6,853	4,888	36,974	(29,869)	38,557
Owners of the parent	34,963	23,322	21,157	27,428	67,315	(108,741)	65,444
Non-controlling interests	—	—	—	—	244	—	244
<b>Total equity</b>	<b>34,963</b>	<b>23,322</b>	<b>21,157</b>	<b>27,428</b>	<b>67,559</b>	<b>(108,741)</b>	<b>65,688</b>
<b>Liabilities</b>							
Borrowings	1,571	126	8,140	—	35,018	(1,571)	43,284
Retirement benefit liabilities	—	853	53	18	741	—	1,665
Deferred tax liabilities	—	—	—	—	17,776	—	17,776
Other provisions for liabilities	1	1	—	—	330	(1)	331
Trade and other payables	8	15	89	—	1,529	(586)	1,055
Derivative financial instruments	—	—	—	—	214	—	214
<b>Total non-current liabilities</b>	<b>1,580</b>	<b>995</b>	<b>8,282</b>	<b>18</b>	<b>55,608</b>	<b>(2,158)</b>	<b>64,325</b>
Borrowings	2,062	98	1,573	—	3,497	(3,005)	4,225
Income tax payable	—	8	133	—	712	—	853
Other provisions for liabilities	—	20	—	—	298	—	318
Trade and other payables	1,248	2,962	782	22	6,599	(982)	10,631
Derivative financial instruments	2	—	—	—	302	(2)	302
<b>Total current liabilities</b>	<b>3,312</b>	<b>3,088</b>	<b>2,488</b>	<b>22</b>	<b>11,408</b>	<b>(3,989)</b>	<b>16,329</b>
<b>Total equity and liabilities</b>	<b>39,855</b>	<b>27,405</b>	<b>31,927</b>	<b>27,468</b>	<b>134,575</b>	<b>(114,888)</b>	<b>146,342</b>

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 29 Condensed consolidating financial information continued

	Condensed Consolidating Cash Flow Statement						
	Year ended 31 December 2019						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
Net cash (used in)/generated from operating activities	(43)	14	50	(3)	8,940	38	8,996
Net cash generated from/(used in) investing activities	165	2,797	3,770	3,175	(511)	(10,035)	(639)
Net cash (used in)/generated from financing activities	(123)	(2,811)	(3,820)	(3,172)	(11,564)	12,897	(8,593)
<b>Net cash flows (used in)/generated from operating, investing and financing activities</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3,135)</b>	<b>2,900</b>	<b>(236)</b>
Differences on exchange	–	–	–	–	(57)	–	(57)
<b>(Decrease)/increase in net cash and cash equivalents in the year</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3,192)</b>	<b>2,900</b>	<b>(293)</b>
Net cash and cash equivalents at 1 January*	6	–	–	–	2,322	–	2,328
<b>Net cash and cash equivalents at 31 December</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(870)</b>	<b>2,900</b>	<b>2,035</b>

	Condensed Consolidating Cash Flow Statement						
	Year ended 31 December 2018						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
Net cash (used in)/generated from operating activities	(45)	1,670	349	(7)	8,249	79	10,295
Net cash generated from/(used in) investing activities	187	3,039	4,280	3,366	(877)	(11,016)	(1,021)
Net cash (used in)/generated from financing activities	(140)	(4,711)	(4,631)	(3,359)	(11,391)	14,602	(9,630)
<b>Net cash flows generated from/(used in) operating, investing and financing activities</b>	<b>2</b>	<b>(2)</b>	<b>(2)</b>	<b>–</b>	<b>(4,019)</b>	<b>3,665</b>	<b>(356)</b>
Differences on exchange	(1)	–	–	–	(138)	1	(138)
<b>Increase/(decrease) in net cash and cash equivalents in the year</b>	<b>1</b>	<b>(2)</b>	<b>(2)</b>	<b>–</b>	<b>(4,157)</b>	<b>3,666</b>	<b>(494)</b>
Net cash and cash equivalents at 1 January*	5	2	2	–	2,813	–	2,822
<b>Net cash and cash equivalents at 31 December</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,344)</b>	<b>3,666</b>	<b>2,328</b>

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Cash Flow Statement						
	Year ended 31 December 2017						
	BAT p.l.c.	RJRT	RAI	RJRTH	All other companies	BAT Group	
	Parent guarantor	Issuer (LB)	Issuer (RB) Subsidiary guarantor (LB)	Subsidiary guarantor (LB & RB)	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m
Net cash (used in)/generated from operating activities	(12)	(1,860)	(270)	(11)	7,488	12	5,347
Net cash generated from/(used in) investing activities	2	(88)	1,116	1	(19,512)	(63)	(18,544)
Net cash generated from/(used in) financing activities	10	1,950	(844)	10	21,030	(7,397)	14,759
<b>Net cash flows generated from/(used in) operating, investing and financing activities</b>	<b>–</b>	<b>2</b>	<b>2</b>	<b>–</b>	<b>9,006</b>	<b>(7,448)</b>	<b>1,562</b>
Differences on exchange	–	–	–	–	(391)	–	(391)
<b>Increase/(decrease) in net cash and cash equivalents in the year</b>	<b>–</b>	<b>2</b>	<b>2</b>	<b>–</b>	<b>8,615</b>	<b>(7,448)</b>	<b>1,171</b>
Net cash and cash equivalents at 1 January*	5	–	–	–	1,646	–	1,651
<b>Net cash and cash equivalents at 31 December</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>–</b>	<b>10,261</b>	<b>(7,448)</b>	<b>2,822</b>

\* The opening balance of net cash and cash equivalents represents external cash held by the parent guarantor, issuers, subsidiary guarantors and non-guarantor subsidiaries.

### (b) BATCAP bonds

The following condensed consolidating financial information relates to the guarantees of:

- US\$14.96 billion of bonds representing the portion (99.7%) of a total US\$15 billion principal amount of bonds issued by BATCAP exchanged for registered bonds in 2018 in the exchange offer required by the registration rights agreement entered into in connection with the bond offering related to the acquisition of RAI; and
- Shelf Registration Statement on Form F-3 filed on 17 July 2019, pursuant to which B.A.T Capital Corporation ('BATCAP') or B.A.T. International Finance p.l.c. ('BATIF') may issue an indefinite amount of debt securities. Under this programme US\$3.5 billion of bonds have been issued by BATCAP.

The subsidiaries disclosed below are wholly-owned and the guarantees provided are full and unconditional, and joint and several.

The following condensed consolidating financial information includes the accounts and activities of:

- a. British American Tobacco p.l.c. (as the parent guarantor), referred to as 'BAT p.l.c.' in the financials below;
- b. B.A.T Capital Corporation (as an issuer or a subsidiary guarantor, as the case may be), referred to as "BATCAP" in financials below;
- c. B.A.T. International Finance p.l.c. (as an issuer or a subsidiary guarantor, as the case may be), referred to as 'BATIF' in the financials below;
- d. British American Tobacco Holdings (The Netherlands) B.V. (as a subsidiary guarantor of the US\$17.2 billion bonds only), referred to as 'BATHTN' in the financials below\*;
- e. B.A.T. Netherlands Finance B.V. and Reynolds American Inc. (as subsidiary guarantors), referred to as 'BATNF' and 'RAI' respectively in the financials below;
- f. other direct and indirect subsidiaries of the BAT Group that are not guarantors;
- g. elimination entries necessary to consolidate the parent with the issuer, the subsidiary guarantors and non-guarantor subsidiaries; and
- h. the BAT Group on a consolidated basis.

The information presented is based on the results for the 12-month period ended 31 December 2019, 2018 and 2017.

\* British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN") should be added to the column labelled 'All other companies, Non-guarantor subsidiaries' for the purposes of the condensed consolidating financial information relating to the guarantee of the US\$3.5 billion issued by BATCAP under the shelf programme, as BATHTN has not provided, and will not provide a guarantee in respect of these debt securities.

**NOTES ON THE ACCOUNTS****CONTINUED****29 Condensed consolidating financial information continued**

	Condensed Consolidating Income Statement							
	Year ended 31 December 2019							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	—	—	—	—	—	25,877	—	25,877
Raw materials and consumables used	—	—	—	—	—	(4,599)	—	(4,599)
Changes in inventories of finished goods and work in progress	—	—	—	—	—	162	—	162
Employee benefit costs	(4)	—	—	(2)	(10)	(3,209)	4	(3,221)
Depreciation, amortisation and impairment costs	—	—	—	—	—	(1,512)	—	(1,512)
Other operating income	—	—	—	—	26	137	—	163
Loss on reclassification from amortised cost to fair value	—	—	—	—	—	(3)	—	(3)
Other operating expenses	(122)	(2)	(5)	(3)	(18)	(7,823)	122	(7,851)
(Loss)/Profit from operations	(126)	(2)	(5)	(5)	(2)	9,030	126	9,016
Net finance income/(costs)	121	154	195	196	(497)	(1,760)	(11)	(1,602)
Share of post-tax results of associates and joint ventures	—	—	—	—	—	498	—	498
<b>Profit before taxation</b>	(5)	152	190	191	(499)	7,768	115	7,912
Taxation on ordinary activities	—	(35)	8	1	125	(2,162)	—	(2,063)
Equity income from subsidiaries	5,854	—	—	—	3,697	—	(9,551)	—
<b>Profit for the year</b>	5,849	117	198	192	3,323	5,606	(9,436)	5,849
Attributable to:								
Owners of the parent	5,849	117	198	192	3,323	5,461	(9,436)	5,704
Non-controlling interests	—	—	—	—	—	145	—	145
	5,849	117	198	192	3,323	5,606	(9,436)	5,849

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Income Statement							
	Year ended 31 December 2018							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	–	–	–	–	–	24,492	–	24,492
Raw materials and consumables used	–	–	–	–	–	(4,664)	–	(4,664)
Changes in inventories of finished goods and work in progress	–	–	–	–	–	114	–	114
Employee benefit costs	(5)	–	–	(2)	(13)	(2,990)	5	(3,005)
Depreciation, amortisation and impairment costs	–	–	–	–	–	(1,038)	–	(1,038)
Other operating income	–	–	–	–	22	63	–	85
Loss on reclassification from amortised cost to fair value	–	–	–	–	–	(3)	–	(3)
Other operating expenses	(124)	(3)	(1)	(4)	(17)	(6,643)	124	(6,668)
(Loss)/Profit from operations	(129)	(3)	(1)	(6)	(8)	9,331	129	9,313
Net finance income/(costs)	95	239	96	248	(421)	(599)	(1,039)	(1,381)
Share of post-tax results of associates and joint ventures	–	–	–	–	–	419	–	419
<b>Profit before taxation</b>	(34)	236	95	242	(429)	9,151	(910)	8,351
Taxation on ordinary activities	–	(79)	7	1	93	(2,163)	–	(2,141)
Equity income from subsidiaries	6,210	–	–	–	3,436	–	(9,646)	–
<b>Profit for the year</b>	6,176	157	102	243	3,100	6,988	(10,556)	6,210
Attributable to:								
Owners of the parent	6,176	157	102	243	3,100	6,810	(10,556)	6,032
Non-controlling interests	–	–	–	–	–	178	–	178
	6,176	157	102	243	3,100	6,988	(10,556)	6,210

## NOTES ON THE ACCOUNTS

### CONTINUED

#### 29 Condensed consolidating financial information continued

	Condensed Consolidating Income Statement							
	Year ended 31 December 2017							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	—	—	—	—	—	19,564	—	19,564
Raw materials and consumables used	—	—	—	—	—	(4,520)	—	(4,520)
Changes in inventories of finished goods and work in progress	—	—	—	—	—	(513)	—	(513)
Employee benefit costs	(8)	—	—	(3)	(35)	(2,641)	8	(2,679)
Depreciation, amortisation and impairment costs	—	—	—	—	—	(902)	—	(902)
Other operating income	—	1	—	1	33	109	—	144
Other operating expenses	(101)	(1)	(1)	(2)	(7)	(4,671)	101	(4,682)
(Loss)/Profit from operations	(109)	—	(1)	(4)	(9)	6,426	109	6,412
Net finance income/(costs)	3	(62)	(22)	636	(191)	(1,403)	(55)	(1,094)
Share of post-tax results of associates and joint ventures	—	—	—	—	—	24,209	—	24,209
<b>Profit before taxation</b>	(106)	(62)	(23)	632	(200)	29,232	54	29,527
Taxation on ordinary activities	—	10	(40)	4	61	8,094	—	8,129
Equity income from subsidiaries	37,656	—	—	—	4,259	—	(41,915)	—
<b>Profit for the year</b>	37,550	(52)	(63)	636	4,120	37,326	(41,861)	37,656
Attributable to:								
Owners of the parent	37,550	(52)	(63)	636	4,120	37,155	(41,861)	37,485
Non-controlling interests	—	—	—	—	—	171	—	171
	37,550	(52)	(63)	636	4,120	37,326	(41,861)	37,656

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Statement of Comprehensive Income							
	Year ended 31 December 2019							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies		BAT Group
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Profit for the year</b>	<b>5,849</b>	<b>117</b>	<b>198</b>	<b>192</b>	<b>3,323</b>	<b>5,606</b>	<b>(9,436)</b>	<b>5,849</b>
<b>Other comprehensive income/(expense)</b>								
<b>Items that may be reclassified subsequently to profit or loss:</b>								
Differences on exchange	–	–	–	–	30	(2,997)	–	(2,967)
Cash flow hedges	–	(214)	9	–	–	12	–	(193)
Net investment hedges	–	–	(30)	–	–	33	–	3
Associates – share of OCI, net of tax	–	–	–	–	–	(115)	–	(115)
Tax on items that may be reclassified	–	–	–	–	–	56	–	56
<b>Items that will not be reclassified subsequently to profit or loss:</b>								
Retirement benefit schemes	–	–	–	–	245	(834)	–	(589)
Associates – share of OCI, net of tax	–	–	–	–	–	7	–	7
Tax on items that will not be reclassified	–	–	–	–	(60)	135	–	75
<b>Total other comprehensive (expense)/income for the year, net of tax</b>	<b>–</b>	<b>(214)</b>	<b>(21)</b>	<b>–</b>	<b>215</b>	<b>(3,703)</b>	<b>–</b>	<b>(3,723)</b>
Share of subsidiaries OCI (other reserves)	(507)	–	–	–	–	–	507	–
Share of subsidiaries OCI (retained earnings)	(3,216)	–	–	–	–	–	3,216	–
<b>Total comprehensive income/(expense) for the year, net of tax</b>	<b>2,126</b>	<b>(97)</b>	<b>177</b>	<b>192</b>	<b>3,538</b>	<b>1,903</b>	<b>(5,713)</b>	<b>2,126</b>
<b>Attributable to:</b>								
Owners of the parent	2,126	(97)	177	192	3,538	1,777	(5,713)	2,000
Non-controlling interests	–	–	–	–	–	126	–	126
	<b>2,126</b>	<b>(97)</b>	<b>177</b>	<b>192</b>	<b>3,538</b>	<b>1,903</b>	<b>(5,713)</b>	<b>2,126</b>

**NOTES ON THE ACCOUNTS****CONTINUED****29 Condensed consolidating financial information continued**

	Condensed Consolidating Statement of Comprehensive Income							
	Year ended 31 December 2018							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Profit for the year</b>	6,176	157	102	243	3,100	6,988	(10,556)	6,210
<b>Other comprehensive income/(expense)</b>								
<b>Items that may be reclassified subsequently to profit or loss:</b>	–	(101)	15	–	–	3,185	–	3,099
Differences on exchange	–	–	–	–	–	3,868	–	3,868
Cash flow hedges	–	(101)	15	–	–	45	–	(41)
Net investment hedges	–	–	–	–	–	(708)	–	(708)
Associates – share of OCI, net of tax	–	–	–	–	–	(38)	–	(38)
Tax on items that may be reclassified	–	–	–	–	–	18	–	18
<b>Items that will not be reclassified subsequently to profit or loss:</b>	–	–	–	–	–	115	–	115
Retirement benefit schemes	–	–	–	–	–	142	–	142
Associates – share of OCI, net of tax	–	–	–	–	–	6	–	6
Tax on items that will not be reclassified	–	–	–	–	–	(33)	–	(33)
<b>Total other comprehensive (expense)/ income for the year, net of tax</b>	–	(101)	15	–	–	3,300	–	3,214
Share of subsidiaries OCI (other reserves)	115	–	–	–	–	–	(115)	–
Share of subsidiaries OCI (retained earnings)	3,099	–	–	–	–	–	(3,099)	–
<b>Total comprehensive income/(expense) for the year, net of tax</b>	9,390	56	117	243	3,100	10,288	(13,770)	9,424
<b>Attributable to:</b>								
Owners of the parent	9,390	56	117	243	3,100	10,103	(13,770)	9,239
Non-controlling interests	–	–	–	–	–	185	–	185
	9,390	56	117	243	3,100	10,288	(13,770)	9,424

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Statement of Comprehensive Income Year ended 31 December 2017							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Profit for the year</b>	37,550	(52)	(63)	636	4,120	37,326	(41,861)	37,656
<b>Other comprehensive income/(expense)</b>								
<b>Items that may be reclassified subsequently to profit or loss:</b>	–	(242)	(21)	–	–	(3,546)	–	(3,809)
Differences on exchange	–	–	–	–	–	(3,084)	–	(3,084)
Cash flow hedges	–	(242)	(10)	–	–	81	–	(171)
Investments held at fair value	–	–	–	–	–	(27)	–	(27)
Net investment hedges	–	–	(11)	–	–	368	–	357
Associates – share of OCI, net of tax	–	–	–	–	–	(918)	–	(918)
Tax on items that may be reclassified	–	–	–	–	–	34	–	34
<b>Items that will not be reclassified subsequently to profit or loss:</b>	–	–	–	–	–	681	–	681
Retirement benefit schemes	–	–	–	–	–	827	–	827
Associates – share of OCI, net of tax	–	–	–	–	–	25	–	25
Tax on items that will not be reclassified	–	–	–	–	–	(171)	–	(171)
Total other comprehensive expense for the year, net of tax	–	(242)	(21)	–	–	(2,865)	–	(3,128)
Share of subsidiaries OCI (other reserves)	681	–	–	–	–	–	(681)	–
Share of subsidiaries OCI (retained earnings)	(3,809)	–	–	–	–	–	3,809	–
<b>Total comprehensive income/(expense) for the year, net of tax</b>	<b>34,422</b>	<b>(294)</b>	<b>(84)</b>	<b>636</b>	<b>4,120</b>	<b>34,461</b>	<b>(38,733)</b>	<b>34,528</b>
<b>Attributable to:</b>								
Owners of the parent	34,422	(294)	(84)	636	4,120	34,294	(38,733)	34,361
Non-controlling interests	–	–	–	–	–	167	–	167
	<b>34,422</b>	<b>(294)</b>	<b>(84)</b>	<b>636</b>	<b>4,120</b>	<b>34,461</b>	<b>(38,733)</b>	<b>34,528</b>

**NOTES ON THE ACCOUNTS**

CONTINUED

**29 Condensed consolidating financial information continued**

	Condensed Consolidating Balance Sheet							
	At 31 December 2019							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Intangible assets	–	–	–	–	–	118,787	–	118,787
Property, plant and equipment	–	–	–	–	1	5,517	–	5,518
Investments in subsidiaries	23,510	–	718	1,419	29,714	–	(55,361)	–
Investments in associates and joint ventures	–	–	–	–	–	1,860	–	1,860
Retirement benefit assets	–	–	–	39	–	391	–	430
Deferred tax assets	–	118	–	–	22	284	–	424
Trade and other receivables	–	12,604	15,496	–	416	(30,446)	2,178	248
Investments held at fair value	–	–	–	–	–	12	–	12
Derivative financial instruments	–	–	692	–	–	(3)	(237)	452
<b>Total non-current assets</b>	<b>23,510</b>	<b>12,722</b>	<b>16,906</b>	<b>1,458</b>	<b>30,153</b>	<b>96,402</b>	<b>(53,420)</b>	<b>127,731</b>
Inventories	–	–	–	–	–	6,094	–	6,094
Income tax receivable	–	–	–	–	–	122	–	122
Trade and other receivables	6,719	6,366	23,659	16	749	(26,144)	(7,272)	4,093
Investments held at fair value	–	–	–	–	–	123	–	123
Derivative financial instruments	8	–	419	–	–	(74)	(40)	313
Cash and cash equivalents	5	13	138	–	–	2,375	(5)	2,526
	6,732	6,379	24,216	16	749	(17,504)	(7,317)	13,271
Assets classified as held-for-sale	–	–	–	–	–	3	–	3
<b>Total current assets</b>	<b>6,732</b>	<b>6,379</b>	<b>24,216</b>	<b>16</b>	<b>749</b>	<b>(17,501)</b>	<b>(7,317)</b>	<b>13,274</b>
<b>Total assets</b>	<b>30,242</b>	<b>19,101</b>	<b>41,122</b>	<b>1,474</b>	<b>30,902</b>	<b>78,901</b>	<b>(60,737)</b>	<b>141,005</b>
<b>Equity – capital and reserves</b>								
Share capital	614	–	231	91	13,794	–	(14,116)	614
Share premium, capital redemption and merger reserves	22,857	30	–	1,223	–	30,002	(27,503)	26,609
Other reserves	(418)	(357)	(1,114)	226	–	(3,555)	1,663	(3,555)
Retained earnings	5,470	223	3,039	(79)	6,654	40,232	(15,305)	40,234
Owners of the parent	28,523	(104)	2,156	1,461	20,448	66,679	(55,261)	63,902
Non-controlling interests	–	–	–	–	–	258	–	258
<b>Total equity</b>	<b>28,523</b>	<b>(104)</b>	<b>2,156</b>	<b>1,461</b>	<b>20,448</b>	<b>66,937</b>	<b>(55,261)</b>	<b>64,160</b>
<b>Liabilities</b>								
Borrowings	1,571	15,168	14,590	–	6,741	(2,443)	2,177	37,804
Retirement benefit liabilities	–	–	–	–	53	1,406	–	1,459
Deferred tax liabilities	–	–	22	10	–	17,018	–	17,050
Other provisions for liabilities	1	–	–	–	–	388	(1)	388
Trade and other payables	8	–	4	–	70	960	(8)	1,034
Derivative financial instruments	–	237	302	–	–	(15)	(237)	287
<b>Total non-current liabilities</b>	<b>1,580</b>	<b>15,405</b>	<b>14,918</b>	<b>10</b>	<b>6,864</b>	<b>17,314</b>	<b>1,931</b>	<b>58,022</b>
Borrowings	13	3,706	23,591	1	2,979	(15,543)	(7,185)	7,562
Income tax payable	–	33	–	–	29	621	–	683
Other provisions for liabilities	–	–	–	–	–	670	–	670
Trade and other payables	126	29	3	2	582	9,168	(183)	9,727
Derivative financial instruments	–	32	454	–	–	(266)	(39)	181
<b>Total current liabilities</b>	<b>139</b>	<b>3,800</b>	<b>24,048</b>	<b>3</b>	<b>3,590</b>	<b>(5,350)</b>	<b>(7,407)</b>	<b>18,823</b>
<b>Total equity and liabilities</b>	<b>30,242</b>	<b>19,101</b>	<b>41,122</b>	<b>1,474</b>	<b>30,902</b>	<b>78,901</b>	<b>(60,737)</b>	<b>141,005</b>

## 29 Condensed consolidating financial information continued

Condensed Consolidating Balance Sheet							
At 31 December 2018							
BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>							
Intangible assets	—	—	—	—	124,013	—	124,013
Property, plant and equipment	—	—	—	—	5,165	—	5,166
Investments in subsidiaries	32,543	—	718	3,732	30,625	—	(67,618)
Investments in associates and joint ventures	—	—	—	—	—	1,737	—
Retirement benefit assets	—	—	—	15	—	1,132	—
Deferred tax assets	—	74	—	—	17	253	—
Trade and other receivables	—	15,707	21,911	—	464	(38,343)	946
Investments held at fair value	—	—	—	—	—	39	—
Derivative financial instruments	—	—	708	—	—	(7)	(145)
<b>Total non-current assets</b>	<b>32,543</b>	<b>15,781</b>	<b>23,337</b>	<b>3,747</b>	<b>31,107</b>	<b>93,989</b>	<b>(66,817)</b>
Inventories	—	—	—	—	—	6,029	—
Income tax receivable	—	—	—	—	—	74	—
Trade and other receivables	7,306	2,567	19,576	15	820	(13,626)	(13,070)
Investments held at fair value	—	—	—	—	—	178	—
Derivative financial instruments	—	—	405	—	—	(215)	(11)
Cash and cash equivalents	6	9	56	—	—	2,537	(6)
	7,312	2,576	20,037	15	820	(5,023)	(13,087)
Assets classified as held-for-sale	—	—	—	—	—	5	—
<b>Total current assets</b>	<b>7,312</b>	<b>2,576</b>	<b>20,037</b>	<b>15</b>	<b>820</b>	<b>(5,018)</b>	<b>(13,087)</b>
<b>Total assets</b>	<b>39,855</b>	<b>18,357</b>	<b>43,374</b>	<b>3,762</b>	<b>31,927</b>	<b>88,971</b>	<b>(79,904)</b>
<b>Equity – capital and reserves</b>							
Share capital	614	—	231	91	14,348	614	(15,284)
Share premium, capital redemption and merger reserves	22,854	30	—	3,401	—	33,562	(33,241)
Other reserves	204	(195)	(1,091)	363	(44)	(333)	763
Retained earnings	11,291	105	2,841	(100)	6,853	38,557	(20,990)
Owners of the parent	34,963	(60)	1,981	3,755	21,157	72,400	(68,752)
Non-controlling interests	—	—	—	—	—	244	—
<b>Total equity</b>	<b>34,963</b>	<b>(60)</b>	<b>1,981</b>	<b>3,755</b>	<b>21,157</b>	<b>72,644</b>	<b>(68,752)</b>
<b>Total equity and reserves</b>	<b>34,963</b>	<b>(60)</b>	<b>1,981</b>	<b>3,755</b>	<b>21,157</b>	<b>72,644</b>	<b>(68,752)</b>
<b>Liabilities</b>							
Borrowings	1,571	15,599	18,450	—	8,140	(1,422)	946
Retirement benefit liabilities	—	—	—	—	53	1,612	—
Deferred tax liabilities	—	—	30	4	—	17,742	—
Other provisions for liabilities	1	—	—	—	—	331	(1)
Trade and other payables	8	—	4	—	89	962	(8)
Derivative financial instruments	—	145	217	—	—	(3)	(145)
<b>Total non-current liabilities</b>	<b>1,580</b>	<b>15,744</b>	<b>18,701</b>	<b>4</b>	<b>8,282</b>	<b>19,222</b>	<b>792</b>
Borrowings	2,062	2,637	22,293	1	1,573	(12,519)	(11,822)
Income tax payable	—	2	—	—	133	718	—
Other provisions for liabilities	—	—	—	—	—	318	—
Trade and other payables	1,248	25	30	2	782	8,677	(133)
Derivative financial instruments	2	9	369	—	—	(89)	11
<b>Total current liabilities</b>	<b>3,312</b>	<b>2,673</b>	<b>22,692</b>	<b>3</b>	<b>2,488</b>	<b>(2,895)</b>	<b>16,329</b>
<b>Total equity and liabilities</b>	<b>39,855</b>	<b>18,357</b>	<b>43,374</b>	<b>3,762</b>	<b>31,927</b>	<b>88,971</b>	<b>(79,904)</b>
<b>Total assets and liabilities</b>	<b>39,855</b>	<b>18,357</b>	<b>43,374</b>	<b>3,762</b>	<b>31,927</b>	<b>88,971</b>	<b>(79,904)</b>

**NOTES ON THE ACCOUNTS****CONTINUED****29 Condensed consolidating financial information continued**

	Condensed Consolidating Cash Flow Statement							
	Year ended 31 December 2019							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
Net cash (used in)/generated from operating activities	(43)	(148)	(59)	(4)	50	9,156	44	8,996
Net cash generated from/(used in) investing activities	165	870	848	–	3,770	(5,763)	(529)	(639)
Net cash (used in)/generated from financing activities	(123)	(719)	(882)	4	(3,820)	(3,645)	592	(8,593)
<b>Net cash flows (used in)/generated from operating, investing and financing activities</b>	<b>(1)</b>	<b>3</b>	<b>(93)</b>	<b>–</b>	<b>–</b>	<b>(252)</b>	<b>107</b>	<b>(236)</b>
Differences on exchange	–	(1)	(7)	–	–	(47)	(2)	(57)
(Decrease)/increase in net cash and cash equivalents in the year	(1)	2	(100)	–	–	(299)	105	(293)
Net cash and cash equivalents at 1 January*	6	9	(35)	–	–	2,348	–	2,328
<b>Net cash and cash equivalents at 31 December</b>	<b>5</b>	<b>11</b>	<b>(135)</b>	<b>–</b>	<b>–</b>	<b>2,049</b>	<b>105</b>	<b>2,035</b>

	Condensed Consolidating Cash Flow Statement							
	Year ended 31 December 2018							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
Net cash (used in)/generated from operating activities	(45)	(81)	19	(13)	349	10,025	41	10,295
Net cash generated from/(used in) investing activities	187	946	709	2	4,280	(6,853)	(292)	(1,021)
Net cash (used in)/generated from financing activities	(140)	(980)	(1,355)	11	(4,631)	(3,663)	1,128	(9,630)
<b>Net cash flows generated from/(used in) operating, investing and financing activities</b>	<b>2</b>	<b>(115)</b>	<b>(627)</b>	<b>–</b>	<b>(2)</b>	<b>(491)</b>	<b>877</b>	<b>(356)</b>
Differences on exchange	(1)	2	34	–	–	(173)	–	(138)
Increase/(decrease) in net cash and cash equivalents in the year	1	(113)	(593)	–	(2)	(664)	877	(494)
Net cash and cash equivalents at 1 January*	5	122	558	–	2	2,135	–	2,822
<b>Net cash and cash equivalents at 31 December</b>	<b>6</b>	<b>9</b>	<b>(35)</b>	<b>–</b>	<b>–</b>	<b>1,471</b>	<b>877</b>	<b>2,328</b>

## 29 Condensed consolidating financial information continued

	Condensed Consolidating Cash Flow Statement Year ended 31 December 2017							
	BAT p.l.c.	BATCAP	BATIF	BATHTN	BATNF and RAI	All other companies	BAT Group	
	Parent guarantor	Issuer / Subsidiary guarantor	Issuer / Subsidiary guarantor	Subsidiary guarantor	Subsidiary guantors	Non-guarantor subsidiaries	Eliminations	Consolidated
	£m	£m	£m	£m	£m	£m	£m	£m
Net cash (used in)/generated from operating activities	(12)	67	10	69	(270)	5,470	13	5,347
Net cash generated from/(used in) investing activities	2	113	350	–	1,116	(20,020)	(105)	(18,544)
Net cash generated from/(used in) financing activities	10	(52)	237	(69)	(844)	22,772	(7,295)	14,759
<b>Net cash flows generated from/(used in) operating, investing and financing activities</b>	<b>–</b>	<b>128</b>	<b>597</b>	<b>–</b>	<b>2</b>	<b>8,222</b>	<b>(7,387)</b>	<b>1,562</b>
Differences on exchange	–	(6)	15	–	–	(400)	–	(391)
<b>Increase/(decrease) in net cash and cash equivalents in the year</b>	<b>–</b>	<b>122</b>	<b>612</b>	<b>–</b>	<b>2</b>	<b>7,822</b>	<b>(7,387)</b>	<b>1,171</b>
<b>Net cash and cash equivalents at 1 January*</b>	<b>5</b>	<b>–</b>	<b>(56)</b>	<b>–</b>	<b>–</b>	<b>1,702</b>	<b>–</b>	<b>1,651</b>
<b>Net cash and cash equivalents at 31 December</b>	<b>5</b>	<b>122</b>	<b>556</b>	<b>–</b>	<b>2</b>	<b>9,524</b>	<b>(7,387)</b>	<b>2,822</b>

\* The opening balance of net cash and cash equivalents represents external cash held by the parent guarantor, issuers, subsidiary guarantors and non-guarantor subsidiaries.

## 30 Accounting policy changes

### Adoption of new accounting standards effective 1 January 2019

#### Adoption of IFRS 16

With effect from 1 January 2019, the Group adopted IFRS 16 *Leases* with no revision of prior periods, as permitted by the Standard. In accordance with IFRS 16, the distinction between operating leases and finance leases has been removed. As a result, substantially all leasing arrangements were added to the balance sheet as lease liabilities and right-of-use assets.

On the initial implementation of the Standard, previously recognised operating leases were capitalised as right-of-use assets and financial liabilities were recognised at the same initial value. The Group has taken advantage of certain practical expedients available under the Standard including:

- ‘grandfathering’ previously recognised lease arrangements;
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- assessing whether a lease is onerous prior to applying the Standard;
- applying hindsight in determining the lease term if the contract contains options to extend or terminate the lease; and
- not applying the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

After implementation, the Group has adopted several practical expedients 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 and to leases of low-value assets; and
- not separating non-lease components from lease components (except in the case of property-related leases).

As disclosed in the Notes on the Accounts in the 2018 Annual Report on Form 20-F, the anticipated impact of IFRS 16 to the Group’s balance sheet at 1 January 2019 was the capitalisation of £565 million right-of-use assets and lease liabilities of £562 million.

**NOTES ON THE ACCOUNTS****CONTINUED****30 Accounting policy changes continued**

In 2019, as part of the implementation of IFRS 16, further lease commitments were identified resulting in an increase to right-of-use assets and lease liabilities. The impact of the new Standard to the Group's balance sheet at 1 January 2019 is shown below:

Minimum lease commitments	£m
<b>Property</b>	
Within one year	126
Between one and five years	290
Beyond five years	149
	<b>565</b>
<b>Plant, equipment and other</b>	
Within one year	63
Between one and five years	106
	<b>169</b>
<b>Total minimum lease commitments</b>	<b>734</b>
Additional commitments on the exercise of options	30
Low-value leases and short-term leases excluded	(24)
Discounted to present value	(133)
<b>To be capitalised as lease liabilities at 1 January 2019</b>	<b>607</b>
Prepaid leases reclassified from receivables	3
<b>To be capitalised as right-of-use assets at 1 January 2019</b>	<b>610</b>

The weighted average incremental borrowing rate applied in discounting lease commitments was 5.60%.

**Adoption of new accounting standards effective 1 January 2018****Adoption of IFRS 9**

With effect from 1 January 2018, the Group has adopted IFRS 9 *Financial Instruments* with no restatement of prior periods, as permitted by the Standard.

The cumulative impact of adopting the Standard, including the effect of tax entries, has been recognised as a restatement of opening reserves in 2018, and is £38 million, arising from the impairment of financial assets under the expected loss model. A simplified 'lifetime expected loss model' is available for balances arising as a result of revenue recognition, by applying a standard rate of provision on initial recognition of trade debtors based upon the Group'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 a decrease of trade and other debtors of £45 million as at 1 January 2018.

IFRS 9 also changes the classification and measurement of financial assets. The category of available-for-sale investments (where fair value changes were deferred in reserves until disposal of the investment) has been replaced with the category of financial assets at Fair Value through Profit and Loss (for most investments) and the category of financial assets at Fair Value through Other Comprehensive Income (for qualifying equity investments), and the available-for-sale reserve at 1 January 2018 has been reclassified into retained earnings. In addition, certain loans and receivables which do not meet the measurement tests for amortised cost classification under IFRS 9 have been reclassified as financial assets at Fair Value through Profit and Loss at the same date. The Group has used the term 'investments held at fair value' to refer to all of these financial assets both pre- and post- the adoption of IFRS 9.

# GROUP COMPANIES AND UNDERTAKINGS

This disclosure is made in accordance with Section 409 of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. A full list of subsidiary undertakings, associates and joint ventures and joint operations as defined by IFRS (showing the country of incorporation, effective percentage of equity shares held and full registered office addresses) as at 31 December 2019 is disclosed below.

The subsidiary undertakings that are held directly by British American Tobacco p.l.c. (the ultimate Parent Company) are indicated thus\*; all others are held by sub-holding companies.

Unless otherwise stated, the equity shares held are in the form of ordinary shares or common stock, except for those indicated thus#, which include preference shares. The effective percentage of equity shares held in subsidiary undertakings is 100% unless otherwise stated. Further, where the effective percentage of equity shares held by the sub-holding company is different from that held by British American Tobacco p.l.c., the percentage of equity shares held by British American Tobacco p.l.c. is indicated thus^ and is shown after the percentage interest held by the sub-holding company.

The results of a number of these subsidiary undertakings principally affect the financial statements of the Group. These principal subsidiary undertakings are highlighted in grey and are considered to be the main corporate entities in those countries which, in aggregate, contributed 76% of the Group revenue and 78% of profit from operations.

## Subsidiary Undertakings

### Albania

**Rruja e Kavajes, Ish Kombinati Ushqimor, Tirana, Albania**

British American Tobacco – Albania SH.P.K.

### Algeria

**Industrial Zone, Cheraga, El Omrane, Ouled Fayet Road, Lot 04 Ilot 789, Algiers, Algeria**

British American Tobacco (Algérie) S.P.A. (51%)

### Angola

**Viana Park, Polo Industrial, Viana, Luanda, Angola**

Agrangol Limitada (77%)

British American Tobacco – B.A.T. Angola, Limitada<sup>1</sup>

Fabrica de Tabacos de Cacuso (51%)

SETA, Sarl (98%)

Sociedade Geral de Distribuição e Comércio, Limitada

Sociedade Industrial Tabacos Angola LDA (76.60%)

Sociedade Unificada Tabacos Angola LDA (76.39%)

### Argentina

**San Martín 140, Floor 14, City of Buenos Aires, Argentina**

British American Tobacco Argentina S.A.I.C.y F. (99.98%)

### Australia

**166 William Street, Woolloomooloo, NSW 2011, Australia**

British American Tobacco (Australasia Holdings) Pty Limited<sup>10</sup>

British American Tobacco Australasia Limited<sup>10</sup>

British American Tobacco Australia Limited<sup>10</sup>

British American Tobacco Australia Overseas Pty Limited<sup>10</sup>

British American Tobacco Australia Services Limited<sup>10</sup>

British American Tobacco Manufacturing Australia Pty Ltd.<sup>10</sup>

Rothmans Asia Pacific Limited<sup># 10</sup>

The Benson & Hedges Company Pty. Limited<sup>10</sup>

W.D. & H.O. Wills Holdings Limited<sup>10</sup>

### Austria

**Dr. Karl Lueger Platz 5, 1010, Wien, Austria**

British American Tobacco (Austria) GmbH

### Bahrain

**Flat 2115, Building 2504, Road 2832, Block 428, Al Seef Area, Kingdom of Bahrain**

British American Tobacco Middle East S.P.C.

### Bangladesh

**New DOHS Road, Mohakhali, Dhaka 1206, Bangladesh**

British American Tobacco Bangladesh Company Limited (72.91%)

### Barbados

**Braemar Court, Deighton Road, St. Michael, Barbados**

B.C.O., Inc

**Chancery Chambers, Chancery House, High Street, Bridgetown, Barbados**

Southward Insurance Ltd.

### Belarus

**7th Floor, 3 Kuprevicha Str., Minsk, 220141, Belarus**

British-American Tobacco Trading Company Foreign Private Trading Unitary Enterprise

### Belgium

**Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom**

British American Tobacco Holdings Belgium N.V.

**Nieuwe Gentsesteenweg 21, 1702 Groot-Bijgaarden, Belgium**

British American Tobacco Belgium N.V.

Tabacofina-Vander Elst N.V.

**Rue de Koninck 38, 1080 Sint-Jans-Molenbeek, Belgium**

British American Tobacco Co-ordination Centre/L.P. Co-ordination Centre VOF

### Benin

**Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin**

British American Tobacco Benin SA

### Bolivia

**Av. Costanerita No. 71, esq Calle 6, floor 5, Zona de Obrajes, La Paz, Bolivia**

BAT Bolivia S.R.L.

## GROUP COMPANIES AND UNDERTAKINGS CONTINUED

### Bosnia and Herzegovina

Blajburških žrtava br. 62, Mostar, Bosnia and Herzegovina

TOBACCO PRESS d.o.o. Mostar

Fra Dominka Mandica 24 A, 88220 Široki Brijeg, Bosnia and Herzegovina

IPRESS d.o.o.

Ulica Carice Milice br. 11, 78000 Banja Luka, Bosnia and Herzegovina

British American Tobacco – BAT – BL d.o.o.

ul. Azize Šaćirbegović 1, 71000 Sarajevo-Novo Sarajevo, Bosnia and Herzegovina

TDR d.o.o. Sarajevo

ul. Kolodvorska 12, 71000 Sarajevo-Novo Sarajevo, Bosnia and Herzegovina

iNvine BH d.o.o.

Opresa d.o.o.

ul. Kralja Petra I Karadordevica br. 82, 78000 Banja Luka, Bosnia and Herzegovina

FDBL-B d.o.o. Banja Luka

### Botswana

Plot 20774 Broadhurst Industrial Estate, Gaborone, Botswana

British American Tobacco Botswana (Pty) Limited

Business Venture Investments Botswana 6773 (Pty) Ltd.

### Brazil

Rua Candelaria 66, Salas 101 a 1201, Rio de Janeiro, Brazil

Yolanda Participacoes S.A.

Souza Cruz LTDA

### Brunei Darussalam

6th Floor, Bang Hj Ahmad Laksamana Othman, 38-39, Jalan Sultan, Bandar Seri Begawan BS8811, Brunei Darussalam

Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%)^

### Bulgaria

115 M, Tsarigradsko Shose Blvd., Building D, Floor 5, Sofia, Mladost Municipality, 1784, Bulgaria

British American Tobacco Trading EOOD

### Burkina Faso

Ouagadougou, Avenue Yennega, BP: 882, Ouagadougou, Burkina Faso

Tobacco Marketing Consultant Burkina Faso SARL

### Burundi

Avenue de L'Uprina a Bujumbura, BP 345, Burundi

Tabarundi SARL

### Cambodia

1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia

British American Tobacco (Cambodia) Limited (71%)

British American Tobacco (Cambodge) International Limited

### Cameroon

Rue Njo Njo, Bonapriso – B.P. 259, Douala, Cameroon

British American Tobacco Cameroun S.A. (99.76%)

### Canada

30 Pedigree Court, Brampton, Ontario, L6T 5T8, Canada

Imperial Tobacco Canada Limited

Imperial Tobacco Company Limited

3711 St-Antoine West, Montreal, Quebec, H4C 3P6, Canada

Allan Ramsay and Company Limited

Cameo Inc.

Genstar Corporation<sup>2</sup>

Imperial Brands Limited

Imperial Tobacco Products Limited

Imperial Tobacco Services Inc.

John Player & Sons Limited

Liggett & Myers Tobacco Company of Canada Limited<sup>3</sup>

Marlboro Canada Limited

Medaillon Inc.

45 O'Connor Street, Suite 1500, Ottawa, Ontario, K1P 1A4, Canada

2004969 Ontario Inc.

### Cayman Islands

Trident Trust Company (Cayman) Ltd., One Capital Place, PO Box 847, Grand Cayman KY1-1103, Cayman Islands

R.J. Reynolds Tobacco (CI) Co.

### Chile

Isidora Goyenechea 3000, Piso 15, Las Condes, Chile

BAT Chile S.A. (100%) (99.51%)<sup>^</sup>

British American Tobacco Chile Operaciones S.A. (99.51%)

Inversiones Casablanca S.A.

### China (People's Republic of)

Floor 6, China Resources Tower, No. 2666 South Keyuan Road, Nanshan District, Shenzhen, People's Republic of China

Nicoventures Business Consulting (Shenzhen) Co., Ltd

Room 436, No. 1000, Zhenchen Road, Baoshan District, Shanghai, People's Republic of China

British American (Shanghai) Enterprise Development Co. Ltd

British American Nico Business Consulting (Shanghai) Co. Ltd

Unit 1001 in 901, 9/F, Building 3, No.8 Guanghuadongli, Chaoyang District, Beijing, People's Republic of China

British American Consulting (Beijing) Ltd

### Colombia

Av. Cra. 72 # 80-94 Piso 10. Bogotá, Colombia

British American Tobacco Colombia S.A.S.

Vype Colombia S.A.S.

### Congo (Democratic Republic of)

149, A&B Boulevard du 30 Juin, Gombe, Kinshasa, Democratic Republic of Congo

BAT Services Congo SARL

British American Tobacco Import SARL

1er étage, Immeuble du Centenaire, Gombe, Kinshasa, Democratic Republic of Congo

BAT Distribution SARL

British American Tobacco Congo SARL

### Costa Rica

325 Metros este del Puente de la Firestone, Llorente, Flores, Heredia, Costa Rica

BASS Americas S.A.

BATCCA Park Inversiones Immobiliarias, S.A.

BATCCA Servicios S.A.

**Croatia****Draškovićeva 27, 10000 Zagreb, Croatia**

Inovine d.d. (93.42%)

**Ivana Lučića 2/a, 10000 Zagreb, Croatia**

BAT HRVATSKA d.o.o. u likvidaciji

**Obala V. Nazora 1, 52210 Rovinj, Croatia**

Adista d.o.o.

TDR d.o.o.

**Osječka 2, 33000 Virovitica, Croatia**

Hrvatski Duhani d.d. Tobacco Leaf Processing (89.55%)

**Cuba****Calle Reyes, No. 6, entre Calzada de Luyano y Calle Princesa,  
Municipio 10 de Octubre, Ciudad de La Habana, Cuba**

Brascuba Cigarrillos S.A. (50%)

**Cyprus****Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia,  
CY-1060, Cyprus**

B.A.T (Cyprus) Limited

Rothmans (Middle East) Limited

**Czech Republic****Karolinská 654/2, Prague 8 – Karlín, 186 00, Czech Republic**

British American Tobacco (Czech Republic), s.r.o.

**Denmark****Vester Farimagsgade 19, 1606 Copenhagen, Denmark**

British American Tobacco Denmark A/S (House of Prince A/S)

Precis (1789) Denmark A/S

X-International ApS

**Egypt****Administrative unit no.1, 5th Floor, Building S2B, Sector A,  
Downtown Mall Katameya, 5th settlement, New Cairo, Egypt**

BETCO for General Services and Marketing LLC

BETCO for Trade and Distribution LLC

British American Tobacco Egypt LLC

British American Tobacco North Africa LLC

**Eritrea****P.O. Box 749, 62 Fel Ket Street, Asmara, Eritrea**British American Tobacco (Eritrea) Share Company<sup>#</sup>**Estonia****Tornimäe 7, 10145 Tallinn, Estonia**

British American Tobacco Estonia AS

**Ethiopia****Bole Road, TK Building 3rd Floor, Addis Ababa, Ethiopia**

Tobacco Marketing Consultants

**Fiji****Lady Maria Road, Nabua, Suva, Fiji**

British American Tobacco (Fiji) Marketing Pte Limited

Central Manufacturing Company Pte Limited

Rothmans of Pall Mall (Fiji) Pte Limited

**Finland****Itamerentori 2, 00180, Helsinki, Finland**

British American Tobacco Finland Oy

**France****8 Rue La Boétie, 75008 Paris, France**

Carreras France SAS

**Cœur Défense Tour A 100-110 Esplanade de Gaulle 92932 Paris**

La Défense Cedex, France

British American Tobacco France SAS

**France 23, Rue du Roule, 75001 Paris, France**

Nicoventures France S.A.S.

**Germany****Alsterufer 4, 20354 Hamburg, Germany**

BATIG Gesellschaft fur Beteiligungen m.b.H.

British American Tobacco (Germany) GmbH

British American Tobacco (Hamburg International) GmbH

British American Tobacco (Industrie) GmbH

**Schillerstr. 10, 28195 Bremen, Germany**

Chic Deutschland GmbH

**Schutterwalder Straße 23, 01458 Ottendorf-Okrilla, Germany**

Quantus Beteiligungs – und Beratungsgesellschaft mbH

**Ghana****F190/5 Josiah Tongogari Street, Opposite Tante Marie Restaurant,  
Labone-Accra, Ghana**

British American Tobacco Ghana Limited (97.09%)

**Greece****27, Ag. Thoma Street, Maroussi, 151 24, Greece**

British American Tobacco Hellas S.A.

**Guernsey****St. Martin's House, Le Bordage, St. Peter's Port, GY1 4AU,****Guernsey**

Belaire Insurance Company Limited

**Guyana****90 Carmichael Street, South Cummingsburg, Georgetown, Guyana**

Demerara Tobacco Company Limited (70.25%)

**Honduras****Boulevard del Sur, Zona El Cacao, San Pedro Sula, Depart. de  
Cortés, Honduras**

Tabacalera Hondureña S.A. (83.64%)

**Hong Kong****11/F, One Pacific Place, 88 Queensway, Hong Kong**

British American Tobacco China Investments Limited

**Level 30, Three Pacific Place, 1 Queen's Road East, Wanchai, Hong  
Kong**

British American Tobacco Asia-Pacific Region Limited

British-American Tobacco Company (Hong Kong) Limited

**LEHMAN, LEE & XU CORPORATE SERVICES, Suite 3313, Tower  
One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong**

Reynolds Asia-Pacific Limited

**Units 2501 and 2506 to 2510, 25/F Island Place Tower, Island Place  
510, King's Road, Hong Kong**

American Cigarette Company Limited

**Hungary****H-1124, Budapest, Csörsz utca 49-51. 3. em., Hungary**

BAT Pécsi Dohánygyár Korlátolt Felelosségu Társaság

## GROUP COMPANIES AND UNDERTAKINGS CONTINUED

### Indonesia

Capital Place Office Tower 6th Floor, Jl. Gatot Subroto Kav. 18, Jakarta 12710 Indonesia  
 PT Bentoel Internasional Investama, Tbk (92.48%)  
 Jl. Raya Karanglo, Desa Banjararum, Kecamatan Singosari, Jawa Timur 65153 Indonesia  
 PT Bentoel Prima<sup>4</sup> (100%) (92.48%)<sup>^</sup>  
 Jl. Susanto No. 2B, Ciptomulyo, Sukun, Malang, Jawa Timur 65148 Indonesia  
 PT Bentoel Distribusi Utama (100%) (92.48%)<sup>^</sup>

### Iran, Islamic Republic of

No.3, Aftab St., Khodami St., Vanak Sq., Post Code: 1994834589, Islamic Republic of Iran  
 B.A.T. Pars Company (Private Joint Stock) (99%)  
 No. 88, Baran Bld., Kuyeh Sayeh, Across Mellat Park, Vali'asr Ave., Teheean, Islamic Republic of Iran

TDR Parisian Co

### Iraq

Enkawa, Erbil, Kurdistan Region of Iraq  
 B.A.T. Iraquia Company for Tobacco Trading Limited

### Ireland

Suite D, 2nd Floor, The Apex Building, Blackthorn Road, Sandyford Industrial Estate, Dublin 18, Republic of Ireland  
 Carroll Group Distributors Limited  
 P.J. Carroll & Company Limited<sup>4</sup>  
 Rothmans of Pall Mall (Ireland) Limited<sup>5</sup>

### Isle of Man

c/o Boston MFO, 2nd Floor, St Mary's Court, 20 Hill Street, Douglas, IM1 1EU, Isle of Man  
 Abbey Investment Company Limited  
 The Raleigh Investment Company Limited  
 Tobacco Manufacturers (India) Limited

### Italy

Via Amsterdam 147, 00144 Rome, Italy  
 British American Tobacco Italia S.p.A.

### Ivory Coast

Rue des Jardins-Immeuble Woodin- 2eme étage, Abidjan, Cocody 2 plateaux, Ivory Coast  
 British American Tobacco RCI SARL

Marcory, Immeuble Plein Ciel Boulevard VGE – 6 BP 1377, Ivory Coast  
 Tobacco Marketing Consultant CDI SARL

### Jamaica

13A Ripon Road, Kingston 5, Jamaica  
 Carreras Limited (50.40%)<sup>8</sup>  
 Sans Souci Development Limited (100%) (50.40%)<sup>^ 8</sup>  
 Sans Souci Limited (100%) (50.40%)<sup>^ 8</sup>

### Japan

Midtown Tower 20F, 9-7-1 Akasaka, Minato-ku, Tokyo, Japan  
 British American Tobacco Japan, Ltd.

### Jersey

22 Grenville Street, St Helier, JE4 8PX, Jersey  
 Pathway 5 (Jersey) Limited

### Jordan

Salman Quadah Street, Behind Abdoun Mall Opp. Khaled Khreisat Complex, Villa No. (1), Abdoun, Amman, Jordan  
 British American Tobacco – Jordan Private Shareholding Company Limited<sup>11</sup>

### Kazakhstan

240G, Nursultan Nazarbayev avenue, A26F8D4 Almaty, Republic of Kazakhstan  
 British American Tobacco Kazakhstan Trading LLP

### Kenya

8 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya  
 African Cigarette Company (Overseas) Limited (100%) (60%)<sup>^</sup>

BAT Kenya Tobacco Company Limited (100%) (60%)<sup>^</sup>

9 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya  
 British American Tobacco Area Limited

10 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya  
 British American Tobacco Kenya plc (60%)

11 Likoni Road, Industrial Area P.O. Box 30000-00100, Nairobi, Kenya  
 East African Tobacco Company (Kenya) Limited (100%) (60%)<sup>^</sup>

### Korea, Republic of

Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Republic of Korea

British American Tobacco Korea Limited

141, Gongdan1-ro, Sanam-Myun, Sacheon City, Kyungsangnamdo, Republic of Korea

British American Tobacco Korea Manufacturing Limited

### Kosovo, Republic of

Llapllaselle p.n., 10500 Gracanicë, Republic of Kosovo

British American Tobacco Kosovo SH.P.K.

### Latvia

Mukusalas iela 101, Riga LV-1004, Latvia

British American Tobacco Latvia SIA

### Lithuania

J. Galvydžio g. 11-7, LT-08236 Vilnius Lithuania

UAB British American Tobacco Lietuva

### Luxembourg

1, Rue Jean Piret, 2350 Luxembourg, Grand Duchy of Luxembourg

British American Tobacco Brands (Switzerland) Limited

### Malawi

Northgate Arcade, Highway Chipembere, Blantyre, Malawi

British American Tobacco (Malawi) Limited

### Malaysia

12th Floor, Menara Symphony, No. 5, Jalan Semangat, Seksyen 13, 46200, Petaling Jaya, Selangor Darul Ehsan, Malaysia

British American Tobacco GSD (Kuala Lumpur) Sdn Bhd

Level 11, Sunway Geo Tower, Jalan Lagoon Selatan, Sunway South Quay, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia

BAT Aspac Service Centre Sdn Bhd

Level 19, Guoco Tower, Damansara City, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

British American Tobacco Malaysia Foundation<sup>7</sup>

British American Tobacco (Malaysia) Berhad (50%)

Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%)<sup>^</sup>

Rothmans Brands Sdn. Bhd. (100%) (50%)<sup>^</sup>

Tobacco Importers and Manufacturers Sdn. Bhd. (100%) (50%)<sup>^</sup>

**Mali****Djelibougou, Immeuble BASSARO, BP 2065, Bamako – Mali**

British American Tobacco (Mali) Sarl

**Malta****PM Building, Level 2, Mriehel Industrial Zone, Bone Street,  
Mriehel, BKR3000, Malta**

British American Tobacco (Malta) Limited

Central Cigarette Company Limited

Rothmans of Pall Mall (Malta) Limited

**Mexico****Francisco I Madero 2750 Poniente, Colonia Centro, Monterrey,  
Nuevo León, C.P. 64000, Mexico**

British American Tobacco Mexico Comercial, S.A. de C.V.

British American Tobacco Mexico, S.A. de C.V.<sup>4</sup>

British American Tobacco Servicios S.A. de C.V.

Cigarrera La Moderna, S.A. de C.V.

**Predio Los Sauces Sin número, Colonia Los Sauces, C.P. 63195,  
Tepic, Nayarit, Mexico**

Procesadora de Tabacos de Mexico, S.A. de C.V. (93%)

**Moldova, Republic of****65, Stephan cel Mare Str., off. 414-417, Chisinau, MD2001,  
Republic of Moldova**

British American Tobacco – Moldova S.R.L.

**Mozambique****2289 Avenida de Angola, Maputo, Mozambique**

British American Tobacco Mozambique Limitada (95%)

Sociedade Agricola de Tabacos Limitada (95%)

**Myanmar****Min Aye Yar Street, Plot No. 55/56, Survey Ward No.14, Schwe  
Than Lwin Industrial Zone, Hlaing Tharyar Township, Yangon,  
Myanmar**British American Tobacco Myanmar Limited (95%)<sup>8</sup>British American Tobacco Myanmar Services Limited<sup>8</sup>**Namibia****Shop 48, Second Floor Old Power Station Complex, Armstrong  
Street, Windhoek, Namibia**

British American Tobacco Namibia (Pty) Limited

**Netherlands****Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands**

Aruba Properties B.V.

B.A.T Finance B.V.

B.A.T. Netherlands Finance B.V.

British American Tobacco European Operations Centre B.V.

British American Tobacco Exports B.V.

British American Tobacco Holdings (Australia) B.V.

British American Tobacco Holdings (Malaysia) B.V.

British American Tobacco Holdings (South Africa) B.V.

British American Tobacco Holdings (The Netherlands) B.V.

British American Tobacco Holdings (Venezuela) B.V.

British American Tobacco Holdings (Vietnam) B.V.

British American Tobacco International (Holdings) B.V.

British American Tobacco International Investments B.V.

British American Tobacco Manufacturing B.V.

British American Tobacco Nederland B.V.

British American Tobacco Western Europe Region B.V.

Molensteegh Invest B.V.

Precis (1789) B.V.

Precis (1790) B.V.

Rothmans Far East B.V.

Rothmans International Holdings B.V.

Rothmans International Holdings II B.V.

Rothmans Tobacco Investments B.V.

Rothmans UK Holdings B.V.

Turmac Tobacco Company B.V.

**Paterswoldseweg 43, 9726 BB Groninge, Netherlands**

Koninklijke Theodorus Niemeyer B.V.

**New Zealand****2 Watt Street, Parnell, Auckland, 1052, New Zealand**

British American Tobacco (New Zealand) Limited

British American Tobacco Holdings (New Zealand) Limited

**c/o Mint Advisory Limited, Suite 6, 8 Turua Street, St Heliers,  
Auckland, 1071, New Zealand**New Zealand (UK Finance) Limited<sup>#</sup>**Niger****Rue du Parc, Quartier Terminus, Niamey, Niger**

British American Tobacco Niger

## GROUP COMPANIES AND UNDERTAKINGS CONTINUED

<b>Nigeria</b>	Krakowiakow 48, 02-255, Warszawa, Poland
1, Tobacco Road, Oluoyole Local Government Area, Ibadan, Oyo State, Nigeria	British American Tobacco Polska Trading sp. zo.o.
British American Tobacco (Nigeria) Limited	Rubiez 46, 61-612, Poznan, Poland
2 Olumegbon Road, Ikoyi, Lagos, Nigeria	eSMOKING INSITUTE sp.zoo
British American Tobacco Marketing Nigeria Limited	Ul. Ilzecka 26E, 02-135, Warsaw, Poland
<b>North Macedonia, Republic of</b>	Nicoventures Poland sp.z.o.o.
Bul. 8-mi Septemvri No. 18, 1000 Skopje, Republic of North Macedonia	Ul. Tytoniowa 16, 16-300, Augustow, Poland
TDR Skopje d.o.o.e.l. Skopje	British-American Tobacco Polska S.A.
<b>Norway</b>	
Dronning Eufemias Gate 42, 0191 Oslo, Norway	Edificio Amoreiras Square, Rua Carlos Alberto da Mota Pinto 17, 3e A, 1070-313, Amoreiras, Lisboa, Portugal
British American Tobacco Norway AS	COTAPO Empreendimentos Commerciais e Industriais S.A.
<b>Pakistan</b>	Sociedade Unificada de Tabacos Limitada (76%)
Serena Business Complex, Khayaban-e-Suhrawardy, Islamabad, Pakistan	
British American Tobacco SAA Services (Private) Ltd	<b>Qatar</b>
Pakistan Tobacco Company Limited (94.65%)	P O Box 6689, 41 Floor, Tornado Tower, West Bay, Doha, Qatar
Bun Khurma Chichian Road, Mirpur, Azad Kashmir, Pakistan	British American Tobacco Q LLC
Phoenix (Private) Limited (100%) (94.65%)^	
<b>Panama</b>	<b>Réunion</b>
Torre Banco Panama, Boulevard Costa Del Este y Aveida La Rotonda, Piso 14, Oficina 1400, Costa del Este Ciudad de Panama, Panama	5 Immeuble Cap 2000, Avenue Théodore Drouhet, ZAC Horizon 2000 – 97420 Le Port, La Réunion
BAT Caribbean, S.A.	B.A.T. La Reunion SAS
British American Tobacco Central America S.A. (87.76%)	
British American Tobacco Panama S.A.	<b>Romania</b>
Tabacalera Istmeña S.A.	319 Splaiul Independentei, Sema Parc 'City Building', 1st Floor, 6th Sector, Bucharest, Romania
<b>Papau New Guinea</b>	British American Shared Services (Europe) S.R.L.
Ashurst PNG, Level 11, MRDC Haus, Port Moresby, National Capital District, Papua New Guinea	Ploiesti, 17-19 Laboratorului Street, Prahova County, Romania
Rothmans of Pall Mall (P.N.G.) Limited	British-American Tobacco (Romania) Investment S.R.L.
British American Tobacco (PNG) Limited	Bucharest Business Park, Building A (3rd floor) and Building B2 (floors 2-4), 1A Bucuresti – Ploiesti (DN1) Road, Sector 1, Bucharest 013681, Romania
Papua New Guinea Tobacco Co. Ltd	British American Tobacco (Romania) Trading SRL
Paradise Tobacco Co. Limited	
<b>Paraguay</b>	<b>Russia</b>
Avenida Aviadores del Chaco N° 2050 (World Trade Center, Torre 2, Piso 17), Asunción, Paraguay	38, 3rd Konnaya Lakhta, Saint Petersburg, 197229 Russia
British American Tobacco Productora de Cigarrillos S.A.	JSC 'British American Tobacco-SPb'#
<b>Peru</b>	Building 2, 17 Krylatskaya Street, Moscow, 121614 Russia
Pasaje Santa Rosa 256, Ate, Lima, Perú	JSC 'International Tobacco Marketing Services'
British American Tobacco del Peru Holdings S.A. (98.55%)^	
British American Tobacco del Peru, S.A.C.	<b>Rwanda</b>
<b>Philippines</b>	Societe Rwandaise Dássurances, Boulevard de la Revolution P.O Box 650 Kigali, Rwanda
31 Tayuman Street, Tondo, Manila, Philippines	British American Tobacco Rwanda Limited
Alhambra Industries Inc.^	
<b>Poland</b>	<b>Saint Lucia</b>
Aleja Wojska Polskiego 23c, 63-500, Ostrzeszow, Poland	c/o ADCO Incorporated, 10 Manoel Street, Castries, Saint Lucia
CHIC sp.zo.o.	Carisma Marketing Services Ltd
CHIC sp.zo.osp.k.	Pointe Seraphine, Castries, Saint Lucia
Chic Holding sp.zo.o	Rothmans Holdings (Caricom) Limited
Chic Investments sp.zo.o.	
eSMOKING Liquids sp.zoo	<b>Samoa</b>
eSMOKING Liquids sp.zo.o.sp.k.	Vaitele, Apia, Samoa. P.O.Box 1304.
Nicoventures Polska sp. z.o.o.	British American Tobacco Company (Samoa) Limited
	<b>Senegal</b>
	Almadies, Route Hotel Meridien en Face Club Med, Dakar, Senegal BP 3174
	Tobacco Marketing Consultant TMC S.A.R.L.
	<b>Serbia</b>
	Bulevar Milutina Milankovica 1ž, Belgrade, 11070, Serbia
	British American Tobacco South – East Europe d.o.o.
	Kralja Stefana Provencanog 209, Vranje, 17500, Serbia
	British American Tobacco Vranje a.d.

**Singapore****15 Senoko Loop, Singapore 758168**

British American Tobacco International Services Pte Ltd

British-American Tobacco (Singapore) Private Limited

British-American Tobacco Marketing (Singapore) Private Limited

**18 Ah Hood Road #12-51, Hiap Hoe Bldg at Zhongshan Park, Singapore 329983**

British American Tobacco Sales &amp; Marketing Singapore Pte. Ltd.

**Shenton Way, #33-00 OUE Downtown, Singapore 068809**RHL Investments Pte Limited<sup>#</sup>**Slovenia****Bračničarjeva ulica 13, 1000 Ljubljana, Slovenia**

British American Tobacco d.o.o.

**Solomon Islands****Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands**

Solomon Islands Tobacco Company Limited

**South Africa****Unit 19, Frazzitta Business Park, Freedom Way, Marconi Beam, Cape Town 8000, South Africa**

Twisp (Pty) Limited

**Waterway House South, 3 Dock Road, V&A Waterfront, Cape Town 8000, South Africa**

Agrega EMEA (Pty) Limited

Amalgamated Tobacco Corporation (South Africa) (Pty) Limited

American Cigarette Company (Overseas) Ltd.

Benson &amp; Hedges (Pty) Limited

British American Shared Services Africa Middle East (Pty) Limited

British American Tobacco GSD (South Africa) (Pty) Limited

British American Tobacco Holdings South Africa (Pty) Limited<sup>#</sup>

British American Tobacco Properties South Africa (Pty) Ltd.

British American Tobacco Services South Africa (Pty) Limited

British American Tobacco South Africa (Pty) Limited

British American Tobacco Southern Africa Markets (Pty) Limited

Brown &amp; Williamson Tobacco Corporation (Pty) Limited

Business Venture Investments No 216 (Pty) Limited

Carlton Cigarette Company (Pty) Limited

Intercontinental Tobacco Company (Pty) Ltd.

John Chapman (Pty) Limited

John Player &amp; Sons (Pty) Limited

Kentucky Tobacco Corporation (Pty) Limited

Martins of London (Pty) Limited

Rembrandt Tobacco Corporation (Overseas) Ltd

Riggio Tobacco Corporation of New York Ltd

Rothmans of Pall Mall London Limited

St. Regis Tobacco Corporation Ltd

Thomas Bear's Son &amp; Co (Pty) Limited

Tobacco Research and Development Institute (Pty) Limited

W.D. &amp; H.O. Wills (Pty) Limited

Westminster Tobacco Company (Cape Town &amp; London) (Pty) Limited

Winfield Tobacco Corporation (Pty) Limited

Winston Tobacco Company Limited

**Spain****Torreo Espacio, Paseo de la Castellana, 259D, 28046 Madrid, Spain**

British American Tobacco España, S.A.

**Sri Lanka****178 Srimath Ramanathan Mawatha, Colombo, 15, Sri Lanka**

Ceylon Tobacco Company Plc (84.13%)

**Sudan****Byblos Tower, Al-Muk Nemer Street, Postal Code 11111, P.O Box 1381, Khartoum, Sudan**

Blue Nile Cigarette Company Limited

**Swaziland****Rhus Office Park, Kal Grant Street, P.O. Box 569, Mbabane, Swaziland**

British American Tobacco Swaziland (Pty) Limited

**Sweden****Stre Järnvägsgatan 13, 4 fl. SE-252 24 Helsingborg, Sweden**

Niconovum AB

**Västra Trädgårdsgatan 15, 111 53 Stockholm, Sweden**

British American Tobacco Sweden AB

**Sweden Stationsvägen 11, 523 74 Hökerum, Sweden**

Winnington AB

**Stenåldersgatan 23, 213 76 Malmö, Sweden**

Fiedler &amp; Lundgren AB

**Switzerland****Route de France 17, 2926 Boncourt, Geneva, Switzerland**

AD Tabacs International S.A.

American-Cigarette Company (Overseas) Limited

British American Tobacco Switzerland S.A.

British American Tobacco Switzerland Vending SA

Nicoventures Communications (Switzerland) AG

Rothmans of Pall Mall Limited

**Route de la Glâne 107, c/o NBA Fiduciaire S.A. 1752 Villars-sur-Glâne, Switzerland**

Intertab S.A. (50%)

**c/o Seepark AG, Gartenstrasse 4, 6300 Zug, Switzerland**

British American Tobacco International Limited in Liquidation

**Tanzania****Acacia Estate Building, Kinondoni Rd, P.O. Box 72484, Dar es Salaam, Tanzania**

British American Tobacco (Tanzania) Limited

International Cigarette Distributors Limited (99%)

Zanzibar Distribution Company Limited (99%)

**c/o IMMMA Advocates, Plot No.357, UN Road, Upanga, P.O Box 72484, Dar es Salaam, Tanzania**

BAT Distribution Tanzania Limited

**Trinidad and Tobago****Corner Eastern Main Road and Mt. D'or Road, Champs Fleurs, Trinidad and Tobago**

The West Indian Tobacco Company Limited (50.13%)

**Turkey****Orjin Maslak is Merkezi, Eski Büyükdere Caddesi, Kat: 9-10, Maslak, Sanyer, İstanbul, Türkiye – PK: 34485**

British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi

## GROUP COMPANIES AND UNDERTAKINGS

### CONTINUED

<b>Uganda</b>	British American Tobacco (GLP) Limited
10th Floor, Lotus Towers, Plot 16 Mackinnon Road, Nakasero, Kampala, Uganda	British American Tobacco (Investments) Limited
British American Tobacco Uganda Limited (90%)	British American Tobacco (Philippines) Limited
<b>Ukraine</b>	British American Tobacco (Serbia) Limited
13-15 Bolsunovska Str, Kyiv, 01014 Ukraine	British American Tobacco (South America) Limited
LLC 'British American Tobacco Sales and Marketing Ukraine'	British American Tobacco China Holdings Limited
21 Nezalezhnosti Str, Pryluky, Chernihiv Region, 17502 Ukraine	British American Tobacco Georgia Limited
PJSC 'A/T B.A.T. – Prilucky Tobacco Company'	British American Tobacco Global Travel Retail Limited
<b>United Arab Emirates</b>	British American Tobacco International Holdings (UK) Limited
Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates	British American Tobacco Investments (Central & Eastern Europe) Limited
British American Tobacco GCC DMCC	British American Tobacco Italy Investments Limited
British American Tobacco ME DMCC	British American Tobacco Italy Limited
<b>United Kingdom</b>	British American Tobacco Korea (Investments) Limited
212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland	British American Tobacco Malaysia (Investments) Limited
Murray, Sons & Company, Limited	British American Tobacco Peru Holdings Limited
7 More London, Riverside, London, SE1 2RT, United Kingdom	British American Tobacco UK Pension Fund Trustee Limited <sup>8</sup>
Ryesekks P.L.C. (50%)	British American Tobacco Western Europe Commercial Trading Limited
Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom	British-American Tobacco (Mauritius) p.l.c.
Advanced Technologies (Cambridge) Limited	Carreras Rothmans Limited <sup>#</sup>
Allen & Ginter (UK) Limited	Chelwood Trading & Investment Company Limited
B.A.T (U.K. and Export) Limited	East African Tobacco Company (U.K.) Limited
B.A.T Cambodia (Investments) Limited	Lord Extra Limited
B.A.T Far East Holding Limited	Myddleton Investment Company Limited
B.A.T Far East Leaf Limited	Nicovations Limited
B.A.T Services Limited	Nicoventures Holdings Limited
B.A.T Uzbekistan (Investments) Limited	Nicoventures Retail (UK) Limited
B.A.T Vietnam Limited	Nicoventures Trading Limited
B.A.T. (Westminster House) Limited	Powhattan Limited
B.A.T. China Limited	Precis (2396) Limited
BAT Finance COP Limited	Ridirectors Limited
BATIF Dollar Limited	Rothmans Exports Limited
BATUS Limited	Rothmans International Limited
Big Ben Tobacco Company Limited	Rothmans International Tobacco (UK) Limited
British American Shared Services (GSD) Limited	Rothmans International Services Limited
British American Shared Services Limited	Rothmans of Pall Mall (Overseas) Limited
British American Tobacco (AIT) Limited	Rothmans Trading Limited
	Ryservs (1995) Limited
	Ryservs (No.3) Limited
	Tobacco Exporters International Limited
	Tobacco Marketing Consultants Limited
	Venezuela Property Company Limited
	Westanley Trading & Investment Company Limited
	Westminster Tobacco Company Limited
	Globe House, 2 Milford Lane, London, WC2R 3LN, United Kingdom
	World Investment Company Limited

**Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom**

Amalgamated Tobacco Company Limited  
 American Cigarette Company (Overseas) Limited  
 Ardath Tobacco Company Limited  
 B.A.T Additional Retirement Benefit Scheme Trustee Limited  
 B.A.T Industries p.l.c.  
 B.A.T. International Finance p.l.c.\*  
 B.A.T. Operating Finance Limited  
 BATLaw Limited  
 BATMark Limited\*  
 Benson & Hedges (Overseas) Limited  
 Better Tomorrow Ventures Limited  
 British American Global Shared Services Limited  
 British American Tobacco (1998) Limited\*  
 British American Tobacco (2009) Limited  
 British American Tobacco (2009 PCA) Limited  
 British American Tobacco (2012) Limited  
 British American Tobacco (Brands) Limited  
 British American Tobacco (Corby) Limited  
 British American Tobacco (NGP) Limited  
 British American Tobacco Healthcare Trustee Limited  
 British American Tobacco Taiwan Logistics Limited  
 British-American Tobacco (Holdings) Limited  
 Brown & Williamson Tobacco Corporation (Export) Limited  
 Carreras Limited  
 Courtleigh of London Limited  
 Dunhill Tobacco of London Limited  
 John Sinclair Limited  
 Louisville Securities Limited  
 Moorgate Tobacco Co. Limited  
 Peter Jackson (Overseas) Limited  
 Precis (1789) Limited  
 Precis (1814) Limited  
 Rothmans International Enterprises Limited  
 Rothmans of Pall Mall Limited  
 Senior Service (Overseas) Limited  
 South Western Nominees Limited  
 The London Tobacco Company Limited  
 Tobacco Insurance Company Limited  
 Weston (2009) Limited  
 Weston Investment Company Limited  
**One, Eton Street, Richmond Upon Thames, London, TW9 1EF, United Kingdom**  
 British American Tobacco UK Limited  
 Ten Motives Limited  
 10 Motives Limited

**United States**

**2710 Gateway Oaks Drive, Suite 150N, Sacramento CA 95833, United States**  
 Genstar Pacific Corporation  
**251 Little Falls Drive, Wilmington, DE 19808, United States**  
 B.A.T Capital Corporation  
 BATUS Holdings Inc.  
 BATUS Japan, INC.  
 BATUS Retail Services, Inc.  
 British American Tobacco (Brands) Inc.  
 Brown & Williamson Holdings, Inc.  
 BTI 2014 LLC  
 Imasco Holdings Group, Inc.  
 Imasco Holdings, Inc.  
 ITL (USA) Limited  
 Louisville Corporate Services, Inc.  
 Nicoventures U.S. Limited  
**Farmers Bank Building, Suite 1402, 301 N. Market Street, Wilmington, DE 19801, United States**  
 Reynolds Finance Company  
**3700 Airpark Drive, Owensboro, KY 42301, United States**  
 Kentucky BioProcessing, Inc.  
**401 N. Main Street, Winston-Salem, NC 27101, United States**  
 CF Vapor Company, LLC  
 Conwood Holdings, Inc.  
 EXP Homes, LLC  
 Lorillard Licensing Company LLC  
 Lorillard, LLC  
 Niconovum USA, Inc  
 Northern Brands International, Inc.  
 R.J. Reynolds Global Products, Inc.  
**R.J. Reynolds Tobacco Company**  
 R.J. Reynolds Tobacco International, Inc  
 R.J. Reynolds Vapor Company  
 R.J. Reynolds Tobacco Co.  
 R.J. Reynolds Tobacco Holdings, Inc.  
 RAI Innovations Company  
 RAI International, Inc.  
**RAI Services Company**  
 RAI Strategic Holdings, Inc.  
**RAI Trade Marketing Services Company**  
 Reynolds American Inc.  
 Reynolds Brands Inc.  
 Reynolds Technologies, Inc.  
 RJR Realty Relocation Services, Inc.  
 RJR Vapor Co., LLC  
 Rosswil LLC  
 S.F. Imports, Inc.  
 Spot You More, Inc.

## GROUP COMPANIES AND UNDERTAKINGS

### CONTINUED

3220 Knotts Grove Road, Oxford, NC 27565, United States
Santa Fe Natural Tobacco Company, Inc
4550 Excel Parkway, Suite 100, Addison, TX 75001, United States
Hanu Life LLC (100%) (60%)^
VapeWild LLC (100%) (60%)^
VapeWild Franchising LLC (100%) (60%)^
VapeWild Holdings, LLC (60%)
VapeWild Retail Operations, LLC (100%) (60%)^
VapeWild Wholesale, LLC (100%) (60%)^
Wolfpack Wholesale Global, Ltd. (100%) (60%)^
5106, Tradeport Dr, Memphis, TN 38141, United States
American Snuff Company, LLC
<b>Uruguay</b>
Juncal 1392, Montevideo, Uruguay
Kellian S.A.
<b>Uzbekistan</b>
77 Minor Passage, Tashkent, 100084, Uzbekistan
JSC JV UZBAT A.O. (97.38%)
<b>Venezuela</b>
Registro Mecantil Primero de la Circunscripción, Judicial des Distrito, Capital y Estado, Miranda, Venezuela
Agrega de Venezuela, Agreven, C.A. (50%)
Avenida Francisco de Miranda, Edificio Bigott, Los Ruices, Caracas – Estado Miranda, 1010, Venezuela
Agrobigott, C.A.
Compania Anonima Cigarrera Bigott Sucesores
Distribuidora Bigott, C.A.
Avenida Francisco de Miranda, Torre Chacao 19.02, Municipio Chacao, Estado, Miranda, Caracas, Venezuela
Proyectos de Inversion BAT 1902 C.A.
<b>Vietnam</b>
19/F Mplaza Saigon, 39 Le Duan Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam
East Asia Area Services Company Limited
Area 8, Long Binh Ward, Bien Hoa City, Dong Nai Province, Vietnam
British American Tobacco – Vinataba Limited (70%)
Lot 45C/I, Road #7, Vinh Loc Industrial Park, Binh Chanh District, Ho Chi Minh City, Vietnam
VINA-BAT Joint Venture Company Limited (49%)
<b>Zambia</b>
20992 Kafue Road, P O Box 30622, Lusaka, Zambia
British American Tobacco (Zambia) plc (78%)
<b>Zimbabwe</b>
Manchester Road 1, Southerton, Harare, Zimbabwe
American-Cigarette Company (Overseas) (Private) Ltd
British American Tobacco Zimbabwe (Holdings) Limited (43.13%)
Rothmans Limited

## Associated undertakings and joint ventures

### Croatia

Slavonska avenija 11a, 10000 Zagreb, Croatia

Tisak d.d. (41.86%)

### Hungary

H-6800 Hódmezővásárhely, Erzsébeti út 5/b, Hungary

Országos Dohányboltellátó Korlátolt Felelosségu Társaság (49%)

### India

Virginia House, 37, J.L. Nehru Road, Kolkata, 700 071, India

ITC Limited (29.49%)

Azamabad, Andhra Pradesh, Hyderabad, 500 020, India

VST Industries Limited (32.16%)<sup>8</sup>

### Nepal

Shree Bal Sadan, Gha 2-513, Kantipath, Kathmandu, Nepal

Surya Nepal Pvt. Limited (61%) (19.44%)<sup>^</sup>

### Uganda

69/71 Jinja Road, P.O Box 7100, Kampala, Uganda

Uganda Tobacco Processors Limited (50%)

### United Kingdom

65a Hopton Street, London, SE1 9LR, United Kingdom

AYR Limited (13.14%)<sup>9</sup>

### Uzbekistan

Gulobod Village, Samarkand Region, 140100, Uzbekistan

FE "Samfruit" JSC (10.2%)

### Yemen

P.O. Box 14, Sanna, Yemen

Kamaran Industry and Investment Company (31%)

P.O. Box 5302, Hoban, Taiz, Yemen

United Industries Company Limited (32%)

## Joint operations

### Hong Kong

29/F, Oxford House, 979 King's Road, Taikoo Place, Quarry Bay,

Hong Kong

CTBAT International Co. Limited (50%)

### Notes

1. Ownership held in the class of USD 100 (100%) (76.30%)<sup>^</sup> and USD 49,900 (100%).

2. Ownership held in the class of Series F and 2nd Preferred shares.

3. Ownership held in the class of A shares (50%) and class of B shares (100%).

4. Ownership held in class of A shares and B shares.

5. Ownership held solely in class of preference shares.

6. Ownership held in class of Investment stock (98.98%) and Ordinary shares (98.35%).

7. Company limited by guarantee.

8. 31 March year-end.

9. 31 May year-end.

10. 30 June year-end.

11. 30 November year-end.

# BALANCE SHEET<sup>@</sup>

British American Tobacco p.l.c. – at 31 December

	Note	2019 £m	2018 £m
<b>Assets</b>			
<b>Fixed assets</b>			
Investments in Group undertakings	2	<b>27,908</b>	27,901
<b>Current assets</b>			
Debtors	3	<b>7,644</b>	8,276
Cash at bank and in hand		5	6
Derivative financial instruments		8	–
<b>Total current assets</b>		<b>7,657</b>	8,282
<b>Total assets</b>		<b>35,565</b>	36,183
<b>Equity</b>			
<b>Capital and reserves</b>			
Called up share capital		<b>614</b>	614
Share premium account		95	92
Capital redemption reserve		101	101
Merger reserves		23,116	23,116
Other reserves		90	90
Profit and loss account		8,529	5,919
<b>Total shareholders' funds</b>	4	<b>32,545</b>	29,932
<b>Liabilities</b>			
Creditors	5	<b>3,020</b>	6,249
Derivative financial instruments		–	2
<b>Total liabilities</b>		<b>3,020</b>	6,251
<b>Total Equity and liabilities</b>		<b>35,565</b>	36,183

The accompanying Notes on the Accounts are an integral part of the Parent Company financial statements.

On behalf of the Board

**Richard Burrows**

Chairman

17 March 2020

<sup>@</sup> denotes section, including accompanying text and tables, that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# STATEMENT OF CHANGES IN EQUITY®

British American Tobacco p.l.c. – for the year ended 31 December

	Called up share capital £m	Share premium account £m	Merger Reserve £m	Capital redemption reserves £m	Other Reserves £m	Profit and loss account £m	Total Equity £m
<b>1 January 2019</b>	<b>614</b>	<b>92</b>	<b>23,116</b>	<b>101</b>	<b>90</b>	<b>5,919</b>	<b>29,932</b>
Increase in share capital – share options	–	3	–	–	–	–	3
Profit for the financial year	–	–	–	–	–	6,106	6,106
Dividends – on equity shares	–	–	–	–	–	(3,476)	(3,476)
Consideration paid for purchase of own shares held in Employee Share Ownership Trusts	–	–	–	–	–	(115)	(115)
Other movements*	–	–	–	–	–	95	95
<b>31 December 2019</b>	<b>614</b>	<b>95</b>	<b>23,116</b>	<b>101</b>	<b>90</b>	<b>8,529</b>	<b>32,545</b>

	Called up share capital £m	Share premium account £m	Merger Reserve £m	Capital redemption reserves £m	Other Reserves £m	Profit and loss account £m	Total Equity £m
<b>1 January 2018</b>	<b>614</b>	<b>88</b>	<b>23,116</b>	<b>101</b>	<b>90</b>	<b>6,163</b>	<b>30,172</b>
Accounting policy change	–	–	–	–	–	(42)	(42)
<b>1 January 2018 (revised)</b>	<b>614</b>	<b>88</b>	<b>23,116</b>	<b>101</b>	<b>90</b>	<b>6,121</b>	<b>30,130</b>
Increase in share capital – share options	–	4	–	–	–	–	4
Profit for the financial year	–	–	–	–	–	4,314	4,314
Dividends – declared on equity shares	–	–	–	–	–	(4,463)	(4,463)
Consideration paid for purchase of own shares held in Employee Share Ownership Trusts	–	–	–	–	–	(125)	(125)
Other movements*	–	–	–	–	–	72	72
<b>31 December 2018</b>	<b>614</b>	<b>92</b>	<b>23,116</b>	<b>101</b>	<b>90</b>	<b>5,919</b>	<b>29,932</b>

\* Other movements includes share-based payments.

There was no difference between profit and loss for the period and total comprehensive income for the period.

For movements on dividends – on equity shares, refer to note 8 'Dividends and other appropriations'.

The profit and loss account is stated after deducting the cost of treasury shares which was £5,247 million at 31 December 2019 (31 December 2018: £5,227 million).

® denotes section, including accompanying text and tables, that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

# NOTES TO THE ACCOUNTS@

## 1 Accounting policies

### Basis of accounting

The financial statements of the Company have been prepared 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 Companies Act 2006 and where advantage of certain disclosure exemptions available under FRS 101 have been taken, including those relating to:

- a cash flow statement and related notes;
- comparative period reconciliations;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of the Group include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of disclosures under IFRS 2 related to group settled share-based payments.

The preparation of the financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of revenues, 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 on the Accounts.

The critical accounting judgements include the determination as to whether to recognise provisions and the exposures to contingent liabilities (see note 7) and the determination that the dividend recognition error was not material (see note 8). The critical accounting estimates include the review of the carrying values of investments in Group companies (note 2).

As permitted by Section 408 of the Companies Act 2006, the profit and loss of the Company has not been presented in these financial statements.

The Company is a public limited company which is listed on the London Stock Exchange and the Johannesburg Stock Exchange and is incorporated and domiciled in the UK. In addition, the Company's shares are traded on the New York Stock Exchange in the form of American Depository Shares (ADSs).

### 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. 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.

### Income

Income consists of dividend income from Group undertakings, fee income from financial guarantees and interest income. These are included in the profit and loss account when all contractual or other applicable conditions for recognition have been met. Dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

### Taxation

Taxation is that chargeable on the profits for the period, together with deferred taxation. Income tax charges, where applicable, are calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. 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.

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. As required under IAS 12 *Income Taxes* deferred tax assets and liabilities are not discounted.

### Investments in Group companies

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

### Dividends

In 2017 and 2018, dividend distributions to the Company's shareholders were recognised as a liability in the Company's financial statements in the period in which they were approved by shareholders (final dividends) or confirmed by the Directors (interim dividends). With effect from 1 January 2018, the Company moved to quarterly payments of interim dividends. As referred to in note 8, from 2019 the Company recognises the interim dividend as an appropriation of reserves in the period in which it is paid. This change in treatment has no impact to the timing of when shareholders will receive the dividend.

### Repurchase of share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

### Related parties

The Company has taken advantage of the exemption under FRS 101 from disclosing transactions with related parties that are wholly-owned subsidiaries of British American Tobacco p.l.c. Group.

### Financial instruments

With effect from 1 January 2018, the Company has adopted IFRS 9 *Financial Instruments*. The cumulative impact of adopting IFRS 9, including the effect of tax entries, has been recognised as restatement of opening reserves in 2018 and is £42 million arising from the impairment of financial assets under the expected loss model.

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

Financial instruments are initially recognised at fair value.

The Company's non-derivative financial assets, including debtors, are held in order to collect contractual cash flows and are subsequently carried at amortised cost. Non-derivative financial liabilities, including creditors, are subsequently carried at amortised cost using the effective interest method. Financial guarantees are initially recorded at fair value, and subsequently carried at this fair value less accumulated amortisation within other creditors.

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 in profit and loss.

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**NOTES ON THE ACCOUNTS<sup>®</sup>****CONTINUED****1 Accounting policies continued****Impairment of financial assets held at amortised cost**

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. 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 were reviewed for impairment at each balance sheet date, or whenever events indicated that the carrying amount might not be recoverable.

**Share-based payments**

The Company has equity-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period.

Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**2 Investments in Group companies**

The Company's directly-owned subsidiaries are British American Tobacco (1998) Limited, B.A.T. International Finance p.l.c. and BATMark Limited. A full list of indirect subsidiaries and other undertakings as required by Section 409 of the Companies Act 2006 is shown on pages 237 to 246 of the Group's financial statements.

Other movements in investments (additions) are related to parental guarantees issued by the Company.

The Directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the Balance Sheet.

**Shareholdings at cost less provisions and other fixed asset investments**

	2019 £m	2018 £m
1 January	27,901	27,898
Additions	7	3
<b>31 December</b>	<b>27,908</b>	<b>27,901</b>

**3 Debtors**

	2019 £m	2018 £m
Amounts due from Group undertakings	7,644	8,276
Current	6,826	7,431
Non-current	853	882
Allowance account	(35)	(37)
<b>31 December</b>	<b>7,644</b>	<b>8,276</b>

	2019 £m	2018 £m
Allowance account		
1 January	37	42
Released during the year	(2)	(5)
<b>31 December</b>	<b>35</b>	<b>37</b>
Current	8	7
Non-current	27	30
<b>31 December</b>	<b>35</b>	<b>37</b>

Included within amounts due from Group undertakings is an amount of £6,681 million (2018: £7,278 million) which is unsecured, interest-bearing and repayable on demand. The interest rate is based on LIBOR.

Amounts due from Group undertakings include £989 million (2018: £1,031 million) representing the value of the fees receivable from the parental guarantees issued by the Company, of which £136 million (2018: £150 million) is due within one year and £853 million (2018: £882 million) is due after more than one year. In addition, amounts due from Group undertakings include balances of £9 million (2018: £4 million) which are unsecured, interest free and repayable on demand.

The adoption of IFRS 9 resulted in the recognition of an expected credit loss allowance of £42 million as at 1 January 2018.

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## 4 Shareholders' funds

### Profit and loss account

The accounting policy change for the adoption of IFRS 9 as at 1 January 2018 was a charge to the profit and loss reserve of £42 million.

In 2017 and 2018, dividend distributions to the Company's shareholders were recognised as a liability in the Group's financial statements in the period in which they were confirmed by the Directors. As referred to in Note 8, Dividends and other appropriations, from 2019, the Group recognises the interim dividend in the period in which it is paid. This change has no impact to the timing of when shareholders will receive the dividend.

As permitted by Section 408 of the Companies Act 2006, the profit and loss of the Company has not been presented in these Financial Statements. The profit for the year ended 31 December 2019 was £6,106 million (2018: £4,314 million).

Details of the Director's remuneration, share options and retirement benefits are given in the Remuneration Report in the Group Annual Report and Accounts. Details of key management compensation are included in note 26 of the Group financial statements. The Company had two employees at 31 December 2019 (2018: two). These two employees are Jack Bowles and Tadeu Marroco. The details of their remuneration are shown on page 98 of the Group's Annual Report and Accounts for the year ended 31 December 2019. The costs of these employees are borne by another Group company.

Shareholders' funds are stated after deducting the cost of treasury shares which include £4,845 million (2018: £4,845 million) for shares repurchased and not cancelled and £402 million (2018: £382 million) in respect of the cost of own shares held in Employee Share Ownership Trusts.

As at 31 December 2019, treasury shares include 8,049,187 (2018: 7,312,975) of shares held in trust and 162,645,590 (2018: 162,645,590) of shares repurchased and not cancelled as part of the Company's share buy-back programme.

Other movements in shareholders' funds principally relate to the release of treasury shares as a result of the exercise of share options.

### Called up Share Capital

Called up Share Capital	Ordinary Shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2019	2,456,415,884	614.09
Changes during the year		
-share option schemes	104,854	0.03
31 December 2019	2,456,520,738	614.12

Called up Share Capital	Ordinary Shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2018	2,456,278,414	614.06
Changes during the year		
-share option schemes	137,470	0.03
31 December 2018	2,456,415,884	614.09

### Merger reserve

In 2017, the Company announced the completion of the acquisition of the remaining 57.8% of Reynolds American Inc. ('RAI') it did not already own. Pursuant to the Merger Agreement, the Company, on behalf of its indirect subsidiary BATUS Holdings Inc ('BATUS'), agreed to issue new shares, represented by American Depository Shares, for the benefit of RAI shareholders. In consideration for the Company issuing new shares, BATUS agreed to issue to the Company an assignable obligation owed by BATUS to issue shares to the holder of that obligation.

As a consequence, the Company issued 429,045,762 new shares with a nominal value of £107,261,441.

In accordance with Section 612 of the Companies Act 2006, the excess of the fair value of the shares issued over the nominal value of the shares has been treated as a merger reserve.

### Capital redemption premium

On the purchase of own shares, as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of the shares purchased. The Company suspended its share buy-back programme from 30 July 2014.

### Other reserves

As part consideration for the acquisition of Rothmans International BV in 1999, convertible redeemable preference shares were issued by the Company. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The balance of £90 million in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

### Share premium

The share premium increase of £3 million (2018: £4 million) relates solely to ordinary shares issued under the Company's share option schemes. These schemes are described in the Remuneration Report.

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## NOTES ON THE ACCOUNTS<sup>@</sup>

### CONTINUED

#### 5 Creditors

	2019 £m	2018 £m
Amounts due to Group undertakings	114	124
Loans due to Group undertakings	1,571	3,617
Ordinary dividends payable	–	1,116
Other creditors	1,327	1,384
Deferred income	8	8
	<b>3,020</b>	<b>6,249</b>
Current	282	3,453
Non-current	2,738	2,796
	<b>3,020</b>	<b>6,249</b>

Amounts due to Group undertaking of £114 million (2018: £124 million) are unsecured, interest free and repayable on demand.

Loans due to Group undertakings of £1,571 million (2018: £3,617 million) are unsecured, bear interest at rates between 1.51% and 2.38% (2018: 0.9% and 2.28%). An amount of £2,046 million was repaid in 2019, and the remaining amount of £1,571 million is repayable in 2022.

Included in other creditors is a provision of £1,301 million (2018: £1,360 million) in respect of subsidiary undertaking borrowings guaranteed by the Company. Out of this amount, a total of £144 million (2018: £142 million) represents amounts to be settled within one year.

The movement in ordinary dividends payable relates to the correction for the accounting for dividends as discussed in Note 8.

#### 6 Audit Fees

	2019	2018
Fees payable to KPMG		
– Audit fees	£30,000	£30,000
– Fees paid for other services	£nil	£nil

The audit fees are borne by another Group Company.

#### 7 Contingent Liabilities

British American Tobacco p.l.c. has guaranteed borrowings by subsidiary undertakings of £43.0 billion (2018: £45.1 billion) and total borrowing facilities of £48.7 billion (2018: £51.9 billion). The Company has cross-guaranteed the liabilities of the British American Tobacco UK Pension Fund which had a deficit according to the last formal triennial valuation in March 2017 of £23 million and which had a surplus on an IAS 19 basis at 31 December 2019 of £326 million (2018: £1,063 million). In addition, there are contingent liabilities in respect of litigation in various countries (note 27 to the Group financial statements).

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## 8 Dividends and other appropriations

During the year, as an outcome of the Financial Reporting Council's (FRC's) review of the Company's 2018 Report and Accounts, it was identified that the interim dividend paid in February 2018, and in February 2019, should not have been accrued in the balance sheet of the prior period. The error was identified by reference to the ICAEW Technical Release 02/17BL regarding 'Guidance on Realised and Distributable Profits under the Companies Act 2006'. This translated into an overstatement of liabilities and understatement equity by £1,000 million in 2017 and £1,116 million in 2018.

Accordingly, the Company has revised the treatment with respect to dividends, to recognise interim dividends in the period in which they are paid. The review conducted by the FRC was based solely on the Company's published accounts and does not provide any assurance that the accounts are correct in all material respects.

After considering the requirements of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Directors determined that the impact of the error would not influence the economic decisions of the users of the financial statements with the share price trading 'ex-dividend' at the balance sheet date. The Directors also determined that there was no impact on the amount or timing of the cash received by shareholders, no impact to the Company's Income Statement in those periods and had no impact on the Company's performance metrics on an actual or forecast basis. Accordingly, the Directors concluded that the error was not material and that the prior years would not be restated.

From 2019, the Company will recognise dividends as a liability in the Company's financial statements in the period in which they are paid as all dividends are interim dividends. This does not constitute any change in the Company's approach to dividend distribution to shareholders which remains being the declaration of the dividend by the Directors in February following the balance sheet date, payable over four equal quarterly instalments.

## 9 Post balance sheet event

On 6 February 2020, the fourth quarterly interim dividend of 50.75p (£1,161 million) declared by the Directors in February 2019, and reconfirmed to the market prior to 31 December 2019, was paid to shareholders. The impact of this on the Company was to reduce the level of profit and loss reserve from £8,529 million to £7,368 million.

In addition, on 27 February 2020, the Board declared an interim dividend of 210.4p per ordinary share of 25p for the year ended 31 December 2019, payable in four equal quarterly instalments of 52.6p per ordinary share in May 2020, August 2020, November 2020 and February 2021. These payments will be recognised as appropriations from reserves in 2020 and 2021. The total amount payable is estimated to be £4,826 million based on the number of shares outstanding at the date of these accounts

<sup>@</sup> denotes section, including accompanying text and tables, that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

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# INFORMATION ON THE GROUP

## Overview

British American Tobacco p.l.c. is the parent holding company of the Group, a leading, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world. According to the Group's internal estimates, the BAT Group is a market leader by volume in more than 50 countries, producing the cigarette chosen by one in eight of the world's one billion smokers. Effective 1 January 2018, the Group, excluding the Group's associated undertakings, was organised into four regions: the United States (US – Reynolds American Inc.), Asia-Pacific and the Middle East (APME), Americas and Sub-Saharan Africa (AmSSA) and Europe and North Africa (ENA). For presentation purposes within this Annual Report and Form 20-F, all prior periods have been revised to be consistent with the current reporting structure. The Group has a devolved structure, with each local company having responsibility for its operations.

The Group's range of combustible products covers all segments, from value-for-money to premium with a portfolio of international, regional and local tobacco brands to meet a broad array of adult tobacco consumer preferences wherever the Group operates. The Group is investing in building a portfolio of potentially less harmful tobacco and nicotine products alongside its traditional tobacco business – including vapour products, tobacco heating products (THPs) and Modern Oral products, which are collectively termed the New Categories, as well as Traditional Oral products.

The Group manages a globally-integrated supply chain and its products are distributed to retail outlets worldwide.

## History and development of BAT

The Group has had a significant global presence in the tobacco industry for over 100 years. BAT Ltd. was incorporated in 1902, when the Imperial Tobacco Company and the American Tobacco Company agreed to form a joint venture company. BAT Ltd. inherited companies and quickly expanded into major markets, including India and Ceylon, Egypt, Malaya, Northern Europe and East Africa. In 1927, BAT Ltd. expanded into the US market through its acquisition of B&W.

During the 1960s, 1970s and 1980s, the Group diversified its business under the umbrella of B.A.T Industries p.l.c., with acquisitions in the paper, cosmetics, retail and financial services industries, among others. Various business reorganisations followed as the business was eventually refocused on the Group's core cigarette, cigars and tobacco products businesses with BAT becoming a separately listed entity on the LSE in 1998.

In 1999, the Group announced a global merger with Rothmans International, at that time the fourth largest tobacco company in the world. The Group acquired Imperial Tobacco Canada in 2000, and in 2003 the Group acquired Ente Tabacchi Italiani S.p.A., Italy's state-owned tobacco company. Investments were made in Peru and Serbia in 2003, through the acquisitions of Tabacalera Nacional and Duvanska Industrija Vranje. In July 2004, the US assets, liabilities and operations, other than certain specified assets and liabilities, of BAT's wholly-owned subsidiary, B&W, were combined with RJR Tobacco Company. RAI was formed as a new holding company for these combined businesses. As a result of the B&W business combination, B&W acquired beneficial ownership of approximately 42% of the RAI shares. In 2008, the BAT Group acquired Tekel, the Turkish state-owned tobacco company, as well as 100% of the cigarette and snus business of Skandinavisk Tobakskompagni A/S. Following the acquisition of its business during 2009, the Group recognised an effective 99% interest in Bentoel in Indonesia. In 2011, the Group completed the acquisition of 100% of Protabaco in Colombia.

In 2012, the Group acquired CN Creative Limited, a UK-based start-up company specialising in the development of e-cigarette technologies. During 2013, the Group entered into joint operations in China. In 2015, the Group acquired: the shares it did not already own in Souza Cruz; the CHIC Group, a vapour product business in Poland; and TDR d.o.o., a cigarette manufacturer in Central Europe. Also in 2015, in connection with RAI's purchase of Lorillard Inc, the Group invested US\$4.7 billion to maintain its approximate 42% equity position in the enlarged RAI.

In 2016, the Group acquired Ten Motives, a UK-based e-cigarette business with particular strength in traditional grocery and convenience channels.

In 2017, the Group completed the acquisition of the remaining 57.8% of RAI the Group did not already own. Following completion of the acquisition, RAI became an indirect, wholly-owned subsidiary of BAT and is no longer a publicly-held corporation.

During 2017, the Group acquired certain tobacco assets from Bulgartabac Holding AD in Bulgaria and Fabrika Duhana Sarajevo (FDS) in Bosnia. The Group also acquired Winnington Holdings AB in Sweden and certain assets from Must Have Limited in the UK, including the electronic cigarette brand ViP. The financial impact of these transactions to the Group were immaterial individually and in aggregate.

In 2018, the Group acquired Quantus Beteiligungs-und Beratungsgesellschaft mbH, which houses the vapour retail business of High End Smoke in Germany.

In 2019, the Group acquired 60% of VapeWild Holdings LLC, a vertically integrated manufacturer and retailer in the US, and Twisp Proprietary Limited, a South African e-cigarette/nicotine vapour company.

British American Tobacco p.l.c. was incorporated in July 1997 under the laws of England and Wales as a public limited company and is domiciled in the United Kingdom.

## Seasonality

The Group's business segments are not significantly affected by seasonality although in certain markets cigarette consumption trends rise during summer months due to longer daylight time and tourism.

## Patents and trademarks

Our trademarks, which include the brand names under which our products are sold, are key assets which we consider, in the aggregate, to be important to the business as a whole. As well as protecting our brand names by way of trademark registration, we also protect our innovations by means of patents and designs in key global jurisdictions.

# SELECTED FINANCIAL INFORMATION

This information set out below has been derived from, in part, the audited consolidated financial statements of the Group commencing on page 124. This selected financial information should be read in conjunction with the consolidated financial statements and the Strategic Report.

	As of and for the Year Ended 31 December <sup>1</sup>				
All items shown in £m except per share information	2019	2018	2017	2016	2015
<b>Income statement data</b>					
Revenue <sup>2</sup>	25,877	24,492	19,564	14,130	12,536
Raw materials and consumables used	(4,599)	(4,664)	(4,520)	(3,777)	(3,217)
Changes in inventories of finished goods and work in progress	162	114	(513)	44	184
Employee benefit costs	(3,221)	(3,005)	(2,679)	(2,274)	(2,039)
Depreciation, amortisation and impairment costs	(1,512)	(1,038)	(902)	(607)	(428)
Other operating income	163	85	144	176	225
Loss on reclassification from amortised cost to fair value	(3)	(3)	–	–	–
Other operating expenses	(7,851)	(6,668)	(4,682)	(3,037)	(2,704)
Profit from operations	9,016	9,313	6,412	4,655	4,557
Net finance (costs)/income	(1,602)	(1,381)	(1,094)	(637)	62
Share of post-tax results of associates and joint ventures	498	419	24,209	2,227	1,236
Profit before taxation	7,912	8,351	29,527	6,245	5,855
Taxation on ordinary activities	(2,063)	(2,141)	8,129	(1,406)	(1,333)
<b>Profit for the year</b>	<b>5,849</b>	<b>6,210</b>	<b>37,656</b>	<b>4,839</b>	<b>4,522</b>
<b>Per share data</b>					
Basic weighted average number of ordinary shares, in millions	2,284	2,285	2,044	1,858	1,858
Diluted weighted average number of ordinary shares, in millions	2,291	2,292	2,051	1,865	1,863
Earnings per share-basic (pence)	249.7p	264.0p	1,833.9p	250.2p	230.9p
Earnings per share-diluted (pence)	249.0p	263.2p	1,827.6p	249.2p	230.3p
Dividends per share (pence) <sup>3</sup>	210.4p	203.0p	195.2p	169.4p	154.0p
Dividends per share (US dollars) <sup>3</sup>	\$2.69	\$2.71	\$2.54	\$2.30	\$2.35
<b>Balance sheet data</b>					
<b>Assets</b>					
Non-current assets	127,731	133,687	127,088	27,414	21,701
Current assets	13,274	12,655	13,966	12,359	9,814
Total assets	141,005	146,342	141,054	39,773	31,515
<b>Liabilities</b>					
Non-current liabilities	58,022	64,325	64,468	19,511	17,477
Current liabilities	18,823	16,329	15,605	11,856	9,006
Total borrowings	45,366	47,509	49,450	19,495	17,001
<b>Equity</b>					
Share capital	614	614	614	507	507
Total equity	64,160	65,688	60,981	8,406	5,032
<b>Cash flow data</b>					
Net cash generated from operating activities	8,996	10,295	5,347	4,610	4,720
Net cash used in investing activities	(639)	(1,021)	(18,544)	(640)	(3,991)
Net cash (used in)/generated from financing activities	(8,593)	(9,630)	14,759	(4,229)	(219)

**Notes:**

1. All of the information above is in respect of continuing operations, revised for the fully retrospective adoption of IFRS 15.

2. Revenue is net of duty, excise and other taxes of £39,826 million, £38,553 million, £37,780 million, £32,136 million and £27,896 million for the years ended 31 December 2019, 31 December 2018, 2017, 2016 and 2015, respectively.

3. In February 2020, the BAT directors declared an interim dividend of 210.4 pence per ordinary share of 25p, payable in four equal quarterly instalments of 52.6 pence per ordinary share. This will be paid in May 2020, August 2020, November 2020 and February 2021. The equivalent quarterly dividends receivable by holders of ADSs in US dollars will be calculated based on the exchange rate on the applicable payment date. The BAT Directors declared an interim dividend of 203.0 pence per share for the year ended 31 December 2018, payable in four equal instalments of 50.75 pence per ordinary share. The interim dividend was paid to BAT shareholders in May 2019, August 2019, November 2019 and February 2020.

# NON-FINANCIAL KPIS

## Volume

Volume is defined as the number of units sold. Units may vary between categories. This can be summarised for the principal metrics as follows:

- Factory made cigarettes (FMC) – sticks, regardless of weight or dimensions;
- Roll-Your-Own / Make-Your-Own – kilos, converted to a stick equivalent based upon 0.8 grams (per stick equivalent) for Roll-Your-Own and between 0.5 and 0.7 grams (per stick equivalent) for Make-Your-Own;
- Traditional oral – pouches (being 1:1 conversion to stick equivalent) and kilos, converted to a stick equivalent based upon 2.8 grams (per stick equivalent) for Moist Snuff, 2.0 grams (per stick equivalent) for Dry Snuff and 7.1 grams (per stick equivalent) for other oral;
- Modern Oral – pouches, being 1:1 conversion to stick equivalent;
- Tobacco Heat sticks - sticks, being 1:1 conversion to stick equivalent; and
- Vapour - pods and 10 millilitre bottles. There is no conversion to a stick equivalent.

Volume is recognised in line with IFRS 15 *Revenue from Contracts with Customers*, based upon transfer of control. It is assumed that there is no material difference, in line with the Group's recognition of revenue, between the transfer of control and shipment date.

Volume is used by management and investors to assess the relative performance of the Group and its brands within categories, given volume is a principal determinant of revenue.

## Volume share

Volume share is the number of units bought by consumers of a specific brand or combination of brands, as a proportion of the total units bought by consumers in the industry, category or other sub-categorisation. Sub-categories include, but are not limited to, the total nicotine category, modern oral, vapour, traditional oral or cigarette.

Where possible, the Group utilises data provided by third-party organisations, including AC Nielsen, based upon retail audit of sales to consumers. In certain markets, where such data is not available, other measures are employed which assess volume share based upon other movements within the supply chain, such as sales to retailers. This may depend on the provision of data to the industry by the customers including distributors / wholesalers.

Volume share is used by management to assess the relative performance to the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates. The Group's management believes that this measure is useful to investors to understand the relative performance of the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates.

Volume share in each year compares the average volume share in the year with the average volume share in the prior year. This is a more robust measure of performance, removing short-term volatility that may arise at a point in time.

However, in certain circumstances, related to periods of introduction to a market, in order to illustrate the latest performance, data may be provided as at the end of the period rather than the average in that period. In these instances the Group states these are at a specific date (for instance, December 2019).

## Value share

Value share is the retail value of units bought by consumers of a particular brand or combination of brands, as a proportion of the total retail value of units bought by consumers in the industry, category or other sub-categorisation in discussion.

Where possible, the Group utilises data provided by third party organisations, including AC Nielsen, based upon retail audit of sales to consumers. In certain markets, where such data is not available, other measures are employed which assess value share based upon other movements within the supply chain, such as sales to retailers. This may depend on the provision of data to the industry by the customers (including distributors and wholesalers).

Value share is used by management to assess the relative performance of the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates, specifically indicating the Group's ability to realise value relative to the market. The Group's management believes that this measure is useful to investors to apprehend the relative performance of the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates, specifically indicating the Group's ability to realise value relative to the market.

Value share in each year compares the average value share in the year with the average value share in the prior period. This is a more robust measure of performance, removing short-term volatility that may arise at a point of time. However, in certain circumstances, related to periods of introduction to a market, in order to illustrate the latest performance, data may be provided that is as at the end of the period rather than the average in that period. In these instances the Group states these are at a specific date (for instance, December 2019).

## Price mix

Price mix is a term used by management and investors to explain the movement in revenue between periods. Revenue is affected by the volume (how many units are sold) and the value (how much is each unit sold for). Price mix is used to explain the value component of the sales as the Group sells each unit for a value (price) but may also achieve a movement in revenue due to the relative proportions of higher value volume sold compared to lower value volume sold (mix).

This term is used to explain the Group's relative performance between periods only. It is calculated as the difference between the movement in revenue (between periods) and volume (between periods). For instance, the growth in combustibles revenue of 4.2% in 2019, with a decline in cigarette volume of 4.7% in 2019, leads to a price mix of 8.9% in 2019. No assumptions underlie this metric as it utilises the Group's own data.

# NON-GAAP MEASURES

To supplement the presentation of the Group's results of operations and financial condition in accordance with IFRS, we also present several non-GAAP measures used by management to monitor the Group's performance. The Group's management regularly reviews the measures used to assess and present the financial performance of the Group and, as relevant, its geographic segments.

## Changes to non-GAAP measures in 2019

<sup>®</sup>The Group introduced new non-GAAP measures called 'Free cash flow before dividends' and 'Free cash flow after dividends'. These metrics identify the level of cash earned before the payment of dividends, to identify the free cashflow generated before distributions to shareholders, and after the payment of dividends to shareholders, as the latter provides the cash flow earned in the year prior to investments and payment of debt.<sup>®</sup>

The Group also introduced the metric 'Change in adjusted revenue from New Categories, at constant rates'. This provides users with an understanding of the revenue earned from the products within Vapour, THP and Modern Oral, collectively termed 'New Categories', excluding the impact of adjusting items and translational foreign exchange. As part of the analysis, the Group has provided additional disclosures regarding revenue from all the main product categories including Combustibles, Vapour, THP, Modern Oral and Traditional Oral.

<sup>®</sup>The Group also introduced the metric 'Adjusted return on capital employed'. This provides users with an annual assessment of the return generated (by reference to profit from operations excluding adjusting items and including dividends from associates and joint ventures) from the average capital employed in that period. The metric includes dividends from associates and joint ventures as the Group's total asset position is inclusive of the investment in those associates and joint ventures.<sup>®</sup>

## Results on a representative basis

**Definition – the performance of the business including the results of acquisitions for the whole of the immediately preceding comparator period.**

The acquisitions undertaken during 2017 impact the understanding of the Group's results in 2018, as, in the year of acquisition, the results include less than a full year's contribution from the acquired entities. To supplement BAT's results presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews certain of its results, including volume, revenue, profit from operations, and non-GAAP measures including adjusted revenue, adjusted revenue growth from the Strategic Portfolio and adjusted profit from operations, against the prior year as though the Group had owned the acquisitions made in 2017 for the whole of that year, and for profit from operations including an estimated £250 million of additional adjusting items related to the acquired companies, primarily related to *Engle Progeny* and transaction costs. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results provide additional useful information to investors regarding the underlying performance of the business on a comparable (or 'representative') basis. Accordingly, the financial measures on a representative basis appearing in this document should be read in conjunction with the Group's results as reported under IFRS.

The table below reconciles the Group's revenue in 2017 to adjusted revenue on a representative basis.

		For the year ended 31 December (£m)				
		Reported	Adjusting items	Adjusted	Include acquisitions	Adjusted repres
		£m	£m	£m	£m	£m
US		4,160	–	4,160	5,531	9,691
APME		4,973	–	4,973	(4)	4,969
AmSSA		4,323	–	4,323	(3)	4,320
ENA		6,108	(258)	5,850	53	5,903
		19,564	(258)	19,306	5,577	24,883

The table below reconciles the Group's profit from operations in 2017 to adjusted profit from operations on a representative basis.

**Profit from operations**

		2017				
		Reported	Adjusting items*	Adjusted	Include acquisitions	Adjusted repres
		£m	£m	£m	£m	£m
US		1,165	763	1,928	2,502	4,430
APME		1,902	147	2,049	25	2,074
AmSSA		1,648	134	1,782	22	1,804
ENA		1,697	473	2,170	29	2,199
		6,412	1,517	7,929	2,578	10,507

\* Refer to page 262 for further details on the adjusting items.

<sup>®</sup> denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

## Results on an organic basis

### Definition – the performance of the business before inclusion of acquired entities

The acquisition of Reynolds American Inc. and Winnington, and the business and certain tobacco assets of Bulgartabac and Fabrika Duhana Sarajevo impacted the Group's results in 2017. To supplement BAT's results presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews certain of its results, including volume, revenue, profit from operations and non-GAAP measures including adjusted revenue and adjusted profit from operations, prior to the impact of acquisitions. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of acquisitions provide additional useful information to investors regarding the underlying performance of the business on a comparable basis. Accordingly, the organic financial measures appearing in this document should be read in conjunction with the Group's results as reported under IFRS.

We also present the growth in organic adjusted operating margin in 2017 compared to adjusted operating margin in 2016; 2017 organic adjusted operating margin represents the ratio of profit from operations before adjusting items and the impact of 2017 acquisitions to revenue before adjusting items and the impact of 2017 acquisitions. Please see the following reconciliations of revenue to adjusted revenue and profit from operations to adjusted profit from operations.

### Adjusted revenue

#### Definition – revenue before the impact of adjusting items.

To supplement BAT's revenue presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted revenue to evaluate the underlying business performance of the Group and its geographic segments. The Group's Management Board defines adjusted revenue as revenue before the impact of adjusting items, specifically the excise on bought-in goods that the Group will acquire and sell, for a limited period, will be recorded in accordance with IFRS as a cost of sale and within revenue, with a dilutive effect on operating margin. Once the short-term arrangements cease, the goods will be manufactured by the Group, and the excise, in accordance with Group policy, will not be included in cost of sales or revenue – leading to a reduction in revenue and improvement in operating margin that does not represent the underlying performance of the Group. As such, the excise on bought-in goods meets the Group's definition of an adjusting item, as defined in note 1 in the Notes on the Accounts.

The Group's Management Board also believes that adjusted revenue provides information that enables investors to better compare the Group's business performance across periods. Adjusted revenue has limitations as an analytical tool. The most directly comparable IFRS measure to adjusted revenue is revenue. Adjusted revenue is not a presentation made in accordance with IFRS, and is not a measure of financial condition or liquidity and should not be considered as an alternative to revenue as determined in accordance with IFRS. Adjusted revenue is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this performance measure in isolation from, or as a substitute analysis for, BAT's results as determined in accordance with IFRS.

The table below reconciles the Group's revenue to adjusted revenue for the periods presented and to adjusted revenue at constant rates based on a re-translation of adjusted revenue for each year at the previous year's exchange rates. Refer to note 2 in the Notes on the Accounts for further discussion of the segmental results and for the reconciliation of adjusted revenue at current and constant rates of exchange to segmental revenue and to Group revenue for the years ended 31 December 2019, 2018 and 2017.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Revenue</b>	<b>25,877</b>	24,492	19,564	14,130	12,536
Less: Excise on goods bought-in on short-term arrangements	(50)	(180)	(258)	–	–
<b>Adjusted revenue</b>	<b>25,827</b>	24,312	19,306	14,130	12,536
Impact of translational foreign exchange	(144)	1,448	(700)	(687)	1,545
<b>2019 adjusted revenue re-translated at 2018 exchange rates</b>	<b>25,683</b>				
2018 adjusted revenue re-translated at 2017 exchange rates		25,760			
2017 adjusted revenue re-translated at 2016 exchange rates			18,606		
2016 adjusted revenue re-translated at 2015 exchange rates				13,443	
2015 adjusted revenue re-translated at 2014 exchange rates					14,081
<b>Change in adjusted revenue at prior year's exchange rates (constant rates)</b>	<b>+5.6%</b>	+33.4%	+31.7%	+7.2%	+5.4%

**NON-GAAP MEASURES**

CONTINUED

**Adjusted revenue by product category – including revenue from New Categories**

**Definition** – revenue by product category, before the impact of adjusting items and at the prior year's prevailing exchange rate, derived from the principal product categories of combustibles, New Categories (being comprised of revenue from Vapour, THP and Modern oral) and Traditional oral.

To supplement BAT's revenue presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted revenue growth from the principal product categories of combustibles, New Categories and Traditional oral to evaluate the underlying business performance of the Group reflecting the focus of the Group's investment activity. The Group's Management Board assesses adjusted revenue by product category, at constant rates of exchange, as revenue before the impact of adjusting items and translated to the Group's reporting currency at the prior period's prevailing exchange rate, derived from the Group's combustible portfolio (including but not limited to Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US), Natural American Spirit (US)), the Group's New Category portfolio (being vapour, THP and Modern oral) and the Group's Traditional oral portfolio.

The Group's Management Board also believes that the adjusted revenue performance by product category provides information that enables investors to better compare the Group's business performance across periods and by reference to the Group's investment activity. Adjusted revenue performance by product category has limitations as an analytical tool. The most directly comparable IFRS measure to adjusted revenue by product category is revenue. Adjusted revenue by product category is not a presentation made in accordance with IFRS, is not a measure of financial condition or liquidity and should not be considered as an alternative to revenue as determined in accordance with IFRS. Adjusted revenue by product category is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this performance measure in isolation from, or as a substitute analysis for, BAT's results as determined in accordance with IFRS.

**Reconciliation of revenue by product category to adjusted revenue by product category at constant rates of exchange – 2019-2018**

	2019						2018			
	Reported £m	vs 2018 %	Adjusting items £m	Impact of exchange £m	Adjusted at constant £m	Adjusted at constant vs 2018 %	Reported £m	Adjusting items £m	Uplift for acquisitions £m	Adjusted £m
<b>Combustible</b>	<b>23,001</b>	<b>+4.2%</b>	<b>(50)</b>	<b>(59)</b>	<b>22,892</b>	<b>+4.6%</b>	<b>22,072</b>	<b>(180)</b>	<b>–</b>	<b>21,892</b>
Vapour	401	+26.1%	–	(9)	392	+23.4%	318	–	–	318
THP	728	+28.9%	–	(35)	693	+22.7%	565	–	–	565
Modern oral	126	+267%	–	3	129	+273%	34	–	–	34
<b>New Categories</b>	<b>1,255</b>	<b>+36.9%</b>	<b>–</b>	<b>(41)</b>	<b>1,214</b>	<b>+32.4%</b>	<b>917</b>	<b>–</b>	<b>–</b>	<b>917</b>
<b>Traditional oral</b>	<b>1,081</b>	<b>+15.0%</b>	<b>–</b>	<b>(45)</b>	<b>1,036</b>	<b>+10.2%</b>	<b>941</b>	<b>–</b>	<b>–</b>	<b>941</b>
<b>Other</b>	<b>540</b>	<b>-4.0%</b>	<b>–</b>	<b>1</b>	<b>541</b>	<b>-3.8%</b>	<b>562</b>	<b>–</b>	<b>–</b>	<b>562</b>
<b>Revenue</b>	<b>25,877</b>	<b>+5.7%</b>	<b>(50)</b>	<b>(144)</b>	<b>25,683</b>	<b>+5.6%</b>	<b>24,492</b>	<b>(180)</b>	<b>–</b>	<b>24,312</b>

**Reconciliation of revenue by product category to adjusted revenue by product category at constant rates of exchange – 2018-2017**

	2018						2017			
	Reported £m	vs 2017 %	Adjusting items £m	Impact of exchange £m	Adjusted at constant £m	Adjusted at constant vs 2017 repres %	Reported £m	Adjusting items £m	Uplift for acquisitions £m	2017 repres £m
<b>Combustible</b>	<b>22,072</b>	<b>+21.5%</b>	<b>(180)</b>	<b>1,359</b>	<b>23,251</b>	<b>+1.8%</b>	<b>18,171</b>	<b>(258)</b>	<b>4,926</b>	<b>22,839</b>
Vapour	318	+89%	–	7	325	+26.0%	168	–	90	258
THP	565	+180%	–	11	576	+183.7%	202	–	1	203
Modern oral	34	+127%	–	2	36	+140.0%	15	–	–	15
<b>New Categories</b>	<b>917</b>	<b>+138%</b>	<b>–</b>	<b>20</b>	<b>937</b>	<b>+96.8%</b>	<b>385</b>	<b>–</b>	<b>91</b>	<b>476</b>
<b>Traditional oral</b>	<b>941</b>	<b>+127%</b>	<b>–</b>	<b>34</b>	<b>975</b>	<b>+7.9%</b>	<b>415</b>	<b>–</b>	<b>488</b>	<b>903</b>
<b>Other</b>	<b>562</b>	<b>-5.3%</b>	<b>–</b>	<b>35</b>	<b>597</b>	<b>-10.2%</b>	<b>593</b>	<b>–</b>	<b>72</b>	<b>665</b>
<b>Revenue</b>	<b>24,492</b>	<b>+25.2%</b>	<b>(180)</b>	<b>1,448</b>	<b>25,760</b>	<b>+3.5%</b>	<b>19,564</b>	<b>(258)</b>	<b>5,577</b>	<b>24,883</b>

## Adjusted revenue growth from the Strategic Portfolio, at constant rates of exchange

Definition – change in revenue before the impact of adjusting items and at the prior year's prevailing exchange rate, derived from Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US), Natural American Spirit (US), the Group's New Category portfolio and certain brands within Traditional Oral.

To supplement BAT's revenue presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted revenue growth from the Strategic Portfolio to evaluate the underlying business performance of the Group reflecting the focus of the Group's investment activity. The Group's Management Board defines the growth in adjusted revenue from the Strategic Portfolio, at constant rates of exchange, as revenue before the impact of adjusting items and translated to the Group's reporting currency at the prior periods prevailing exchange rate, derived from the Group's Strategic Combustible portfolio (Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US), Natural American Spirit (US)), the Group's New Category portfolio (being vapour, THP and modern oral) and certain brands within Traditional Oral.

The Group's Management Board also believes that the adjusted revenue growth from the Strategic Portfolio at constant rates of exchange provides information that enables investors to better compare the Group's business performance across periods and by reference to the Group's investment activity. Adjusted revenue growth from the Strategic Portfolio has limitations as an analytical tool. The most directly comparable IFRS measure to adjusted revenue growth from the Strategic Portfolio is revenue. Adjusted revenue growth from the Strategic Portfolio at constant rates of exchange is not a presentation made in accordance with IFRS, is not a measure of financial condition or liquidity and should not be considered as an alternative to revenue as determined in accordance with IFRS. Adjusted revenue growth from the Strategic Portfolio is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this performance measure in isolation from, or as a substitute analysis for, BAT's results as determined in accordance with IFRS.

### Reconciliation of revenue to adjusted revenue from the Strategic Portfolio at constant rates of exchange – 2019-2018

	2019 £m	Adjusting items £m	Impact of exchange £m	Adjusted at constant 2019 £m	Adjusted at constant vs 2018 %	2018 £m	Adjusting items £m	Adjusted 2018 £m
Strategic Portfolio comprises:								
Combustible portfolio	16,515	–	(200)	16,315	+5.6%	15,457	–	15,457
New Categories products								
Vapour	401	–	(9)	392	+23.4%	318	–	318
THP	728	–	(35)	693	+22.7%	565	–	565
Modern oral	126	–	3	129	+273.1%	34	–	34
New Categories	1,255	–	(41)	1,214	+32.4%	917	–	917
Traditional oral	1,023	–	(43)	980	+11.0%	883	–	883
Total New Categories and Traditional Oral	2,278	–	(84)	2,194	+21.9%	1,800	–	1,800
<b>Strategic Portfolio</b>	<b>18,793</b>	<b>–</b>	<b>(284)</b>	<b>18,509</b>	<b>+7.3%</b>	<b>17,257</b>	<b>–</b>	<b>17,257</b>
Other	7,084	(50)	140	7,174	+1.7%	7,235	(180)	7,055
<b>Revenue</b>	<b>25,877</b>	<b>(50)</b>	<b>(144)</b>	<b>25,683</b>	<b>+5.6%</b>	<b>24,492</b>	<b>(180)</b>	<b>24,312</b>

### Reconciliation of revenue to adjusted revenue from the Strategic Portfolio at constant rates of exchange – 2018-2017

	2018 £m	Adjusting items £m	Impact of exchange £m	Adjusted at constant 2018 £m	Adjusted at constant vs 2017 %	Adjusted at constant vs 2017 repres %	Adjusted 2017 £m	Uplift for acquisitions £m	2017 repres £m
Strategic Portfolio comprises:									
Combustible portfolio	15,457	–	816	16,273	+50.1%	+5.7%	10,842	4,553	15,395
New Categories products									
Vapour	318	–	7	325	+93.5%	+26.0%	168	90	258
THP	565	–	11	576	+185.1%	+183.7%	202	1	203
Modern oral	34	–	2	36	+140.0%	+140.0%	15	–	15
New Categories	917	–	20	937	+143.4%	+96.8%	385	91	476
Traditional oral	883	–	33	916	+136.7%	+9.0%	387	453	840
Total New Categories and Traditional Oral	1,800	–	53	1,853	+140.0%	+40.8%	772	544	1,316
<b>Strategic Portfolio</b>	<b>17,257</b>	<b>–</b>	<b>869</b>	<b>18,126</b>	<b>+56.1%</b>	<b>+8.5%</b>	<b>11,614</b>	<b>5,097</b>	<b>16,711</b>
Other	7,235	(180)	579	7,634	-0.8%	-6.6%	7,692	480	8,172
<b>Revenue</b>	<b>24,492</b>	<b>(180)</b>	<b>1,448</b>	<b>25,760</b>	<b>+33.4%</b>	<b>+3.5%</b>	<b>19,306</b>	<b>5,577</b>	<b>24,883</b>

**NON-GAAP MEASURES****CONTINUED****Adjusted profit from operations and adjusted operating margin**

**Definition – profit from operations before the impact of adjusting items and adjusted profit from operations as a percentage of adjusted revenue.**

To supplement BAT's results from operations presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted profit from operations to evaluate the underlying business performance of the Group and its geographic segments, to allocate resources to the overall business and to communicate financial performance to investors. The Group also presents adjusted operating margin, which is defined as adjusted profit from operations as a percentage of adjusted revenue, as defined previously. Adjusted profit from operations and adjusted operating margin are not measures defined by IFRS. The most directly comparable IFRS measure to adjusted profit from operations is profit from operations.

Adjusting items, as identified in accordance with the Group's accounting policies, represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting and provides details of items that are specifically excluded from being classified as adjusting items. Adjusting items in profit from operations include restructuring and integration costs, amortisation of trademarks and similar intangibles, the fair value movement in stock on acquisition, a gain on deemed partial disposal of a trademark, and certain litigation. The definition of adjusting items is explained in note 1 in the Notes on the Accounts.

The Group's Management Board believes that these additional measures are useful to investors and are used by the Group's Management Board as described above, because they exclude the impact of adjusting items in profit from operations, which have less bearing on the routine operating activities of the Group, thereby enhancing users' understanding of underlying business performance. The Group's Management Board also believes that adjusted profit from operations provides information that enables investors to better compare the Group's business performance across periods. Additionally, the Group's Management Board believes that similar measures are frequently used by securities analysts, investors and other interested parties in their evaluation of companies comparable to the Group, many of which present an adjusted operating profit-related performance measure when reporting their results. Adjusted profit from operations and adjusted operating margin have limitations as analytical tools. They are not presentations made in accordance with IFRS, are not measures of financial condition or liquidity and should not be considered as alternatives to profit for the year, profit from operations or operating margin as determined in accordance with IFRS. Adjusted profit from operations and adjusted operating margin are not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider these performance measures in isolation from, or as a substitute analysis for, BAT's results of operations as determined in accordance with IFRS.

The table below reconciles the Group's profit from operations to adjusted profit from operations, and to adjusted profit from operations at constant rates based on a re-translation of adjusted profit from operations for each year, at the previous year's exchange rates, and presents adjusted operating margin for the periods presented. Refer to note 2 in the Notes on the Accounts for further discussion of the segmental results and for the reconciliation of adjusted profit from operations at current and constant rates of exchange to segmental profit from operations and to Group profit for the years ended 31 December 2019, 2018 and 2017.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Profit from operations</b>	<b>9,016</b>	<b>9,313</b>	<b>6,412</b>	<b>4,655</b>	<b>4,557</b>
Add:					
Restructuring and integration costs	565	363	600	603	367
Amortisation and impairment of trademarks and similar intangibles	481	377	383	149	65
Impairment of goodwill	194	–	–	–	–
Charge in respect of an excise tax dispute in Russia	202	–	–	–	–
Charge in respect of Canada class action	436	–	–	–	–
Fair value movement in stock on acquisition	–	–	465	–	–
Fixed asset impairment (hyperinflation)	–	110	–	–	–
Fox River	–	–	–	20	–
Flintkote	–	–	–	–	3
Other	236	184	69	53	–
<b>Adjusted profit from operations</b>	<b>11,130</b>	<b>10,347</b>	<b>7,929</b>	<b>5,480</b>	<b>4,992</b>
<b>Operating margin</b>	<b>34.8%</b>	<b>38.0%</b>	<b>32.8%</b>	<b>32.9%</b>	<b>36.4%</b>
<b>Adjusted operating margin*</b>	<b>43.1%</b>	<b>42.6%</b>	<b>41.1%</b>	<b>38.8%</b>	<b>39.8%</b>
Impact of translational foreign exchange	(98)	577	(324)	(283)	628
<b>2019 adjusted profit from operations re-translated at 2018 exchange rates</b>	<b>11,032</b>				
2018 adjusted profit from operations re-translated at 2017 exchange rates		10,924			
2017 adjusted profit from operations re-translated at 2016 exchange rates			7,605		
2016 adjusted profit from operations re-translated at 2015 exchange rates				5,197	
2015 adjusted profit from operations re-translated at 2014 exchange rates					5,620
<b>Change in adjusted profit from operations at prior year's exchange rates (constant rates)</b>	<b>+6.6%</b>	<b>+37.8%</b>	<b>+38.8%</b>	<b>+4.1%</b>	<b>+4.0%</b>

\* Adjusted profit from operations as a percentage of adjusted revenue.

## Adjusted share of post-tax results of associates and joint ventures

**Definition – share of post-tax results of associates and joint ventures before the impact of adjusting items.**

To supplement BAT's performance presented in accordance with IFRS, the Group's share of post-tax results of associates and joint ventures is also presented before adjusting items (as defined in note 1 in the Notes on the Accounts). The Group's Management Board believes that adjusted share of post-tax results of associates and joint ventures provides information that enables investors to better compare the Group's business performance across periods. The Group's Management Board uses adjusted share of post-tax results from associates and joint ventures as part of the total assessment of the underlying performance of all the Group's business interests. Adjusted share of post-tax results of associates and joint ventures has limitations as an analytical tool. It is not a presentation made in accordance with IFRS, is not a measure of financial condition or liquidity, and should not be considered as an alternative to the Group's share of post-tax results of associates and joint ventures as determined in accordance with IFRS. Adjusted share of post-tax results of associates and joint ventures is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this performance measure in isolation from, or as a substitute analysis for, BAT's results of operations as determined in accordance with IFRS.

The most directly comparable IFRS measure to adjusted share of post-tax results of associates and joint ventures is share of post-tax results of associates and joint ventures.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Group's share of post tax results of associates and joint ventures</b>	<b>498</b>	419	24,209	2,227	1,236
Issue of shares and changes in shareholding	(25)	(22)	(29)	(11)	(22)
Gain on deemed divestment of RAI	–	–	(23,288)	–	–
Gain on disposal of assets	–	–	–	(941)	(371)
Other	–	(10)	120	52	100
<b>Adjusted Group's share of post tax results of associates and joint ventures</b>	<b>473</b>	387	1,012	1,327	943

## Underlying tax rate

**Definition – Tax rate incurred before the impact of adjusting items and to adjust for the inclusion of the Group's share of post-tax results of associates and joint ventures within the Group's pre-tax results.**

BAT management monitors the Group's underlying tax rate to assess the tax rate applicable to the Group's underlying operations, excluding the Group's share of post-tax results of associates and joint ventures in BAT's pre-tax results and adjusting items (as defined in note 1 in the Notes on the Accounts). Underlying tax rate is not a measure defined by IFRS. The table below provides the calculation of the Group's effective tax rate as determined in accordance with IFRS with underlying tax rate for the periods presented. The Group's Management Board believes that this additional measure is useful to investors, and is used by BAT management as described above, because it excludes the contribution from the Group's associates, recognised after tax but within the Group's pre-tax profits, and adjusting items, thereby enhancing users' understanding of underlying business performance.

Underlying tax rate has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to the effective tax rate as determined in accordance with IFRS. Underlying tax rate is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's effective tax rate as determined in accordance with IFRS. The table below provides the calculation of the Group's underlying tax rate for the periods presented.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Profit before taxation</b>	<b>7,912</b>	8,351	29,527	6,245	5,855
Less: Share of post-tax results of associates and joint ventures	(498)	(419)	(24,209)	(2,227)	(1,236)
Adjusting items within profit from operations	2,114	1,034	1,517	825	435
Adjusting items within finance costs/(income)	80	(4)	205	108	(489)
<b>Adjusted profit before taxation, excluding associates and joint ventures</b>	<b>9,608</b>	8,962	7,040	4,951	4,565
<b>Taxation on ordinary activities</b>	<b>(2,063)</b>	(2,141)	8,129	(1,406)	(1,333)
Adjusting items in taxation	(65)	(24)	(9,766)	61	22
Taxation on adjusting items	(373)	(199)	(454)	(128)	(80)
<b>Adjusted taxation</b>	<b>(2,501)</b>	(2,364)	(2,091)	(1,473)	(1,391)
<b>Effective tax rate</b>	<b>26.1%</b>	25.6%	(27.5%)	22.5%	22.8%
<b>Underlying tax rate</b>	<b>26.0%</b>	26.4%	29.7%	29.8%	30.5%

**NON-GAAP MEASURES**

CONTINUED

**Adjusted diluted earnings per share**

Definition – diluted earnings per share before the impact of adjusting items.

BAT management monitors adjusted diluted earnings per share, a measure which removes the impact of adjusting items, (as defined in note 1 in the Notes on the Accounts), from diluted earnings per share. Adjusted diluted earnings per share is used by management within the Group's incentive schemes, as reported within the Remuneration Report beginning on page 90 and reported in note 7 in the Notes on the Accounts. The Group's Management Board believes that this additional measure is useful to investors, and is used by BAT management as described above, as an indicator of diluted earnings per share before adjusting items. Adjusted diluted earnings per share has limitations as an analytical tool and should not be used in isolation from, or as a substitute for, diluted earnings per share as determined in accordance with IFRS. The most directly comparable IFRS measure to adjusted diluted earnings per share is diluted earnings per share and a reconciliation is provided in note 7 in the Notes on the Accounts. The definition of adjusting items is provided in note 1 in the Notes on the Accounts.

**Operating cash flow conversion ratio**

Definition – net cash generated from operating activities before the impact of adjusting items and dividends from associates and excluding trading loans to third parties, pension short fall funding, taxes paid and net capital expenditure, as a proportion of adjusted profit from operations.

<sup>®</sup> Operating cash flow conversion ratio is a measure of operating cash flow which is used within the Group's incentive schemes as reported within the Remuneration Report beginning on page 90. Operating cash flow conversion ratio has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to measures of liquidity or financial position as determined in accordance with IFRS. Operating cash flow conversion ratio is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's results of operations or cash flows as determined in accordance with IFRS. The table below shows the computation of operating cash flow conversion ratio for the periods presented.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Net cash generated from operating activities</b>	<b>8,996</b>	<b>10,295</b>	<b>5,347</b>	<b>4,610</b>	<b>4,720</b>
Cash related to adjusting items, including FII GLO	564	601	685	711	(483)
Dividends from associates	(252)	(214)	(903)	(962)	(593)
Tax paid	2,204	1,891	1,675	1,245	1,273
Net capital expenditure	(774)	(845)	(767)	(559)	(483)
Pension fund shortfall funding	–	75	156	78	148
Trading loans to third parties	4	(93)	101	–	–
Other	–	2	(9)	(1)	1
<b>Operating cash flow</b>	<b>10,742</b>	<b>11,712</b>	<b>6,285</b>	<b>5,122</b>	<b>4,583</b>
Exclude operating cash flow from RAI post acquisition (2017 only)	–	–	(628)	–	–
<b>Operating cash flow ex RAI (for LTIP incentive scheme – 2017 only)</b>	<b>10,742</b>	<b>11,712</b>	<b>5,657</b>	<b>5,122</b>	<b>4,583</b>
Adjusted profit from operations	11,130	10,347	7,929	5,480	4,992
Exclude adjusted profit from operations from RAI post acquisition	–	–	(1,928)	–	–
<b>Adjusted profit from operations ex RAI (for LTIP incentive scheme – 2017 only)</b>	<b>11,130</b>	<b>10,347</b>	<b>6,001</b>	<b>5,480</b>	<b>4,992</b>
<b>Operating cash flow conversion ratio</b>	<b>97%</b>	<b>113%</b>	<b>79%</b>	<b>93%</b>	<b>92%</b>
<b>Operating cash flow conversion ratio – for LTIP</b>	<b>97%</b>	<b>113%</b>	<b>94%</b>	<b>93%</b>	<b>92%</b>
<b>Cash conversion ratio*</b>	<b>100%</b>	<b>111%</b>	<b>83%</b>	<b>99%</b>	<b>104%</b>

\* Net cash generated from operating activities as a percentage of profit from operations.

In 2017, the Group brought forward the MSA payment (£1,397 million) which impacted operating cash conversion in that year.<sup>®</sup> To provide a view of the operating cash conversion, without such a distortion, the Group has provided the below computation for the periods presented.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Operating cash flow</b>	<b>10,742</b>	<b>11,712</b>	<b>6,285</b>	<b>5,122</b>	<b>4,583</b>
Normalisation of MSA payment	–	(1,397)	1,397	–	–
<b>Operating cash flow (normalised for MSA timing)</b>	<b>10,742</b>	<b>10,315</b>	<b>7,682</b>	<b>5,122</b>	<b>4,583</b>
Adjusted profit from operations	11,130	10,347	7,929	5,480	4,992
<b>Operating cash flow conversion (normalised for MSA timing)</b>	<b>97%</b>	<b>100%</b>	<b>97%</b>	<b>93%</b>	<b>92%</b>

## Adjusted cash generated from operations (adjusted CGFO)

Definition – net cash generated from operating activities before the impact of adjusting items (including FII GLO) and trading loans provided to a third party, excluding dividends received from associates, and after dividends paid to non-controlling interests, net interest paid and net capital expenditure.

<sup>a</sup>To supplement the Group's presentation of net cash generated from operating activities, BAT also presents adjusted cash generated from operations. Adjusted cash generated from operations is a measure of cash flow which is used by management to monitor the Group's financial position and is used within the Group's incentive schemes as reported within the Remuneration Report beginning on page 90. The most directly comparable IFRS measure to adjusted cash generated from operations is net cash generated from operating activities.

The Group's Management Board believes that this additional measure is useful to investors and is used by BAT management as described above, because it excludes the impact of adjusting items on cash, includes the impact of capital expenditure given this is a core component of the underlying performance of the Group and excludes the impact of financing or dividends received from associates which do not form part of the underlying performance of the Group's day-to-day operations. This measure is presented as it enhances users' understanding of underlying business performance. The definition of adjusting items is provided in note 1 in the Notes on the Accounts.

Adjusted cash generated from operations is not a measure defined by IFRS and has limitations as an analytical tool. It is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's liquidity or measures of financial position as determined in accordance with IFRS. The table below shows the reconciliation from net cash generated from operating activities to adjusted cash generated from operations for the periods presented.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015*
<b>Net cash generated from operating activities</b>	<b>8,996</b>	10,295	5,347	4,610	4,720
Net cash impact from adjusting items	564	601	685	711	480
Dividends paid to non-controlling interests	(157)	(142)	(167)	(147)	(235)
Net interest paid	(1,550)	(1,533)	(1,004)	(537)	(522)
Net capital expenditure	(774)	(845)	(767)	(559)	(483)
Dividends from associates	(252)	(214)	(903)	(962)	(593)
Trading loans to third parties	4	(93)	101	–	–
FII GLO	–	–	–	–	(963)
Other	–	2	(10)	(1)	1
<b>Adjusted cash generated from operations</b>	<b>6,831</b>	8,071	3,282	3,115	2,405
Impact of translational foreign exchange	(78)	405	(157)	(197)	288
<b>2019 adjusted CGFO re-translated at 2018 exchange rates</b>	<b>6,753</b>				
2018 adjusted CGFO re-translated at 2017 exchange rates		8,476			
2017 adjusted CGFO re-translated at 2016 exchange rates			3,125		
2016 adjusted CGFO re-translated at 2015 exchange rates				2,918	
2015 adjusted CGFO re-translated at 2014 exchange rates					2,693
<b>Change in adjusted CGFO at prior year's exchange rates (constant rates)</b>	<b>-16.3%</b>	+158%	+0.3%	+21.3%	+1.2%

\* For comparison purposes, the receipt, in 2015, of £963 million in relation to the Franked Investment Income Group Litigation Order (FII GLO) has been excluded from adjusted cash generated from operations in that year. This is in line with the treatment in that year for remuneration purposes as the receipt did not reflect the adjusted cash generated from operations in that year.

**NON-GAAP MEASURES****CONTINUED****©Free cash flow – before and after dividends paid to shareholders**

**Definition** – net cash generated from operating activities before the impact of trading loans provided to a third party and after dividends paid to non-controlling interests, net interest paid and net capital expenditure. This measure is presented before and after dividends paid to shareholders.

To supplement BAT's net cash generated from operating activities as presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews free cash flow (before and after dividends paid to shareholders) generated by the Group to evaluate the underlying business performance of the Group and its geographic segments. This is deemed by the Group Management Board to reflect the Group's ability to pay dividends (free cash flow before dividends paid to shareholders) or invest in other investing activities (free cash flow after dividends paid to shareholders).

Free cash flow (before dividends paid to shareholders) and free cash flow (after dividends paid to shareholders) are not measures defined by IFRS. The most directly comparable IFRS measure to free cash flow (before and after dividends paid to shareholders) is net cash generated from operating activities. The Group's Management Board believes that this additional measure is useful to the users of the financial statements in helping them to see the level of cash generated by the Group prior to the payment of dividends or debt and prior to other investing activities. Free cash flow (before and after dividends paid to shareholders) has limitations as an analytical tool. They are not a presentation made in accordance with IFRS and should not be considered as an alternative to net cash generated from operating activities as determined in accordance with IFRS. Free cash flow (before and after dividends paid to shareholders) are not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. The table below shows the reconciliation from net cash generated from operating activities to free cash flow (before and after dividends paid to shareholders) for the periods presented.

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Net cash generated from operating activities</b>	<b>8,996</b>	<b>10,295</b>	<b>5,347</b>	<b>4,610</b>	<b>4,720</b>
Dividends paid to non-controlling interests	(157)	(142)	(167)	(147)	(235)
Net interest paid	(1,550)	(1,533)	(1,004)	(537)	(522)
Net capital expenditure	(774)	(845)	(767)	(559)	(483)
Proceeds from associates' share buy-backs	–	–	–	23	–
Trading loans to third parties	4	(93)	101	–	–
Other	–	2	(10)	(1)	1
<b>Free cash flow (before dividends paid to shareholders)</b>	<b>6,519</b>	<b>7,684</b>	<b>3,500</b>	<b>3,389</b>	<b>3,481</b>
Dividends paid to shareholders	(4,598)	(4,347)	(3,465)	(2,910)	(2,770)
<b>Free cash flow (after dividends paid to shareholders)</b>	<b>1,921</b>	<b>3,337</b>	<b>35</b>	<b>479</b>	<b>711</b>

**Net debt**

**Definition** – total borrowings, including related derivatives, less cash and cash equivalents and current investments held at fair value.

The Group uses net debt to assess its financial capacity. Net debt is not a measure defined by IFRS. The most directly comparable IFRS measure to net debt is total borrowings. The Group's Management Board believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how business financing has changed over the year. Net debt has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to total borrowings or total liabilities determined in accordance with IFRS. Net debt is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. A reconciliation of borrowings to net debt is provided in note 19 in the Notes on the Accounts.

©The table below reconciles the movement in net debt during each financial year:

	For the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Opening net debt</b>	<b>(44,351)</b>	<b>(45,571)</b>	<b>(16,767)</b>	<b>(14,794)</b>	<b>(10,165)</b>
Free cash flow (before dividends paid to shareholders)	6,519	7,684	3,500	3,389	3,481
Other cash items, including dividends paid to owners of the parent	(4,910)	(4,688)	(23,263)	(3,552)	(8,014)
Acquired net debt	–	1	(9,915)	–	–
Other non-cash movements	(98)	186	(394)	(126)	16
Adoption of IFRS 16	(607)	–	–	–	–
Impact of foreign exchange	873	(1,963)	1,268	(1,684)	(112)
<b>Closing net debt</b>	<b>(42,574)</b>	<b>(44,351)</b>	<b>(45,571)</b>	<b>(16,767)</b>	<b>(14,794)</b>

## **Adjusted net debt to adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)**

Definition – net debt excluding the impact of the revaluation of RAI acquired debt arising as part of the purchase price allocation process (adjusted net debt), as a proportion of profit for the year (earnings) before net finance costs/income, taxation on ordinary activities, depreciation, amortisation, impairment costs, the Group's share of post-tax results of associates and joint ventures, and other adjusting items.

To supplement BAT's total borrowings as presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted net debt to adjusted EBITDA to assess its level of net debt (excluding the impact of the purchase price allocation adjustment to RAI acquired debt) in comparison to the underlying earnings generated by the Group to evaluate the underlying business performance of the Group and its geographic segments. This is deemed by the Group's Management Board to reflect the Group's ability to service and repay borrowings.

For the purposes of this ratio, adjusted net debt is net debt, as discussed and reconciled on page 266, adjusted for the uplift arising on the RAI debt as part of the purchase price allocation, as such an uplift in value is not reflective of the repayment value of the debt.

Adjusted EBITDA is not a measure defined by IFRS. The most directly comparable IFRS measure to adjusted EBITDA is profit for the year. The Group's Management Board believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. Adjusted EBITDA has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to profit from operations as determined in accordance with IFRS.

Adjusted net debt to adjusted EBITDA is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. The table below reconciles both total borrowings to adjusted net debt and profit for the year to adjusted EBITDA for the periods presented.

	As of the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Total borrowings</b>	<b>45,366</b>	47,509	49,450	19,495	17,001
Derivatives in respect of net debt:					
– Assets	(527)	(647)	(640)	(809)	(373)
– Liabilities	384	269	117	300	164
Cash and cash equivalents	(2,526)	(2,602)	(3,291)	(2,204)	(1,963)
Current investments held at fair value	(123)	(178)	(65)	(15)	(35)
Purchase price allocation adjustment to RAI debt	(848)	(944)	(947)	–	–
<b>Adjusted net debt</b>	<b>41,726</b>	43,407	44,624	16,767	14,794
<b>Profit for the year</b>	<b>5,849</b>	6,210	37,656	4,839	4,522
Taxation on ordinary activities	2,063	2,141	(8,129)	1,406	1,333
Net finance costs/(income)	1,602	1,381	1,094	637	(62)
Depreciation, amortisation and impairment costs	1,512	1,038	902	607	428
Share of post-tax results of associates and joint ventures	(498)	(419)	(24,209)	(2,227)	(1,236)
Other adjusting items (not related to depreciation, amortisation and impairment costs)	1,376	499	1,049	612	344
<b>Adjusted EBITDA</b>	<b>11,904</b>	10,850	8,363	5,874	5,329
<b>Adjusted net debt to adjusted EBITDA</b>	<b>3.5x</b>	4.0x	5.3x	2.9x	2.8x
Impact of translational foreign exchange on adjusted net debt	854	(1,694)			
<b>Adjusted net debt at constant rates of exchange</b>	<b>42,580</b>	41,713			
Impact of translational foreign exchange on adjusted EBITDA	(102)	590			
<b>Adjusted EBITDA at constant rates of exchange</b>	<b>11,802</b>	11,440			
<b>Adjusted net debt to adjusted EBITDA at constant rates of exchange</b>	<b>3.6x</b>	3.6x			

**NON-GAAP MEASURES****CONTINUED****<sup>®</sup>Adjusted Return on Capital Employed**

Definition – Profit from operations, excluding adjusting items and including dividends from associates and joint ventures, as a proportion of average total assets less current liabilities in the period.

The Group provides adjusted return on capital employed (adjusted ROCE) to provide users of the financial statements with an indication of the financial return (by reference to the financial performance in a given period), with the assets less current liabilities (defined as Capital Employed) in the period.

Adjusted ROCE is not a measure defined by IFRS. The most directly comparable IFRS measure to adjusted ROCE is profit from operations as a proportion of total assets less current liabilities. The Group's Management Board believes that this additional measure is useful to the users of the financial statements in helping them to see how the Group's capital employed has generated a return in any given period, by reference to Group's performance as reported via the income statement. Adjusted ROCE has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to other measures that may be derived from the financial statements prepared in accordance with IFRS.

Adjusted ROCE is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial performance or return as determined in accordance with IFRS. The table below reconciles profit from operations to adjusted profit from operations including dividends from associated and joint ventures and provides the constituent parts of average capital employed.

	As of the year ended 31 December (£m)				
	2019	2018	2017	2016	2015
<b>Profit from operations</b>	<b>9,016</b>	9,313	6,412	4,655	4,557
Adjusting items	2,114	1,034	1,517	825	435
Dividends received from associates and joint ventures	252	214	903	962	593
<b>Adjusted profit from operations, inclusive of dividends from associates and joint ventures</b>	<b>11,382</b>	10,561	8,832	6,442	5,585
Total Assets	141,005	146,342	141,054	39,773	31,515
Current Liabilities	18,823	16,329	15,605	11,856	9,006
<b>Capital employed at balance sheet date</b>	<b>122,182</b>	130,013	125,449	27,917	22,509
Average capital	126,099	127,731	76,683	25,213	19,954
<b>Adjusted ROCE</b>	<b>9.0%</b>	8.3%	11.5%	25.6%	28.0% <sup>®</sup>

**Results on a constant translational currency basis**

Movements in foreign exchange rates have impacted the Group's financial results. The Group's Management Board reviews certain of its results, including adjusted revenue, adjusted revenue growth from New Categories, adjusted revenue growth from the strategic portfolio, adjusted profit from operations, adjusted diluted earnings per share and <sup>®</sup>adjusted cash generated from operations<sup>®</sup>, at constant rates of exchange. The Group calculates these financial measures at constant rates of exchange based on a re-translation, at prior year exchange rates, of the current year's results of the Group and, where applicable, its geographic segments. The Group does not adjust for the normal transactional gains and losses in profit from operations that are generated by exchange movements. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group's Management Board does believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the Group's operating performance on a local currency basis. Accordingly, the constant rates of exchange financial measures appearing in the discussion of the Group results of operations (beginning on page 43) should be read in conjunction with the information provided in note 2 in the Notes on the Accounts.

In 2019, 2018 and 2017, results were affected by translational exchange rate movements. In 2019, at the prevailing exchange rates, adjusted revenue increased by 6.2%, adjusted profit from operations increased by 7.6%<sup>®</sup> and adjusted cash generated from operations decreased by 15.4%<sup>®</sup> versus 2018. At constant rates of exchange, adjusted revenue would have increased by 5.6%, adjusted profit from operations would have increased by 6.6%<sup>®</sup> and adjusted cash generated from operations would have declined by 16.3%<sup>®</sup>. These higher rates at prevailing exchange rates reflects the translational benefit as a result of the relative weakness of the pound sterling. In 2018, at the prevailing exchange rates, adjusted revenue increased by 25.9%, adjusted revenue growth from the strategic portfolio increased by 48.6%, adjusted profit from operations increased by 30.5%<sup>®</sup> and adjusted cash generated from operations increased by 146%<sup>®</sup> versus 2017. At constant rates of exchange, adjusted revenue would have increased by 33.4%, adjusted revenue growth from the strategic portfolio would have increased by 56.1%, adjusted profit from operations would have increased by 37.8% and <sup>®</sup>adjusted cash generated from operations would have increased by 158%<sup>®</sup>. This lower growth rate at prevailing exchange rates reflects the negative translational impact as a result on the relative strengthening of the pound sterling.

In 2019, 2018 and 2017, adjusted diluted earnings per share was affected by translational exchange rate movements. In 2019, the adjusted diluted earnings per share of 323.8p, an increase of 9.1%, would, when translated at 2018 exchange rates, have been 321.6p, an increase of 8.4%. This higher growth rate, in 2019, at prevailing exchange rates, reflects the translational benefit as a result of the relative weakness of the pound sterling. In 2018, the adjusted diluted earnings per share of 296.7p, an increase of 5.2%, would, when translated at 2017 exchange rates, have been 315.5p, an increase of 11.8%. This lower growth rate, in 2018, at prevailing exchange rates, reflects the negative translational impact as a result of the relative strength of the pound sterling.

# ADDITIONAL DISCLOSURES ON LIQUIDITY AND CAPITAL RESOURCES

The Group's cash inflows derive principally from its operating activities. They are supplemented when required by cash flows from financing activities, typically to support acquisitions. The principal sources of liquidity for the Group are cash flows generated from the operating business and proceeds from issuances of debt securities described below under 'capital resources'.

The Board reviews and agrees the overall treasury policies and procedures, delegating appropriate oversight to the Finance Director and the treasury function. The treasury policies include a set of financing principles and key performance indicators. The Group's treasury position is monitored by a Corporate Finance Committee chaired by the Finance Director. Treasury operations are subject to periodic independent reviews and audits, both internal and external.

In 2019, 2018 and 2017, all contractual borrowing covenants were met and none are expected to inhibit the Group's operations or funding plans.

## Capital expenditure

Gross capital expenditures include purchases of property, plant and equipment and purchases of certain intangibles. The Group's gross capital expenditures for 2019, 2018 and 2017 were £807 million, £883 million and £862 million, respectively, representing investment in the Group's global operational infrastructure (including, but not limited to, the manufacturing network, trade marketing and IT systems). The Group expects gross capital expenditures in 2020 of approximately £650 million, representing the ongoing investment in the Group's operational infrastructure, including the continued investment into New Categories. This is expected to be funded by the Group's cash flows and existing facilities.

## Hedging instruments

As discussed in note 22 in the Notes on the Accounts, the Group hedges its exposure to interest rate movements and currency movements. BAT's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. A certain number of forward foreign currency contracts were used to manage the currency profile of external borrowings. Interest rate swaps have been used to manage the interest rate profile of external borrowings, while cross-currency swaps have been used to manage the currency profile of external borrowings.

## Capital resources

### Policy

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to ensure that there is the maximum mobilisation of cash within the Group. The key objectives of treasury in respect of cash and cash equivalents are to protect the principal value of the Group's cash and cash equivalents, to concentrate cash at the centre to minimise the required long-term debt issuance and to optimise the yield earned. The amount of debt the Group issues is determined by forecasting the net debt requirement after the mobilisation of cash.

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms or through local borrowings by the subsidiaries in appropriate currencies. All contractual borrowing covenants have been met and none are expected to inhibit the Group's operations or funding plans.

### Borrowings

The following table sets out the Group's long- and short-term borrowings as of the dates indicated:

	Currency	Maturity dates	Interest rates at 31 December 2019	As of 31 December (£m) <sup>1</sup>		
				2019	2018	2017
Eurobonds <sup>3</sup>	Euro	2020 to 2045	0.9% to 4.9%	7,591	8,717	8,585
	Euro	2021	3m EURIBOR +50bps	931	986	1,326
	UK pound sterling	2021 to 2055	1.8% to 7.3%	4,161	4,671	4,680
	US dollar	2019	1.6%	–	512	482
	Swiss franc	2021 to 2026	0.6% to 1.4%	510	523	498
Bonds issued pursuant to Rules under the US Securities Act (as amended) <sup>3</sup>	US dollar	2020 to 2049	2.8% to 8.1%	23,805	25,428	25,545
	US dollar	2020 to 2022	USD 3m LIBOR +59bps to 88bps	1,325	1,381	1,665
Commercial Paper <sup>2,3</sup>				1,056	536	1,200
				4,624	3,859	4,466
Other loans				293	608	512
Bank loans				491	274	469
Bank overdrafts				579	14	22
Finance leases						
<b>Total</b>				<b>45,366</b>	<b>47,509</b>	<b>49,450</b>

### Notes:

- The financial data above has been extracted from the Group's consolidated financial statements.
- The interest on the commercial paper referred to in the table above is based on US\$ LIBOR plus a margin ranging between 22 and 63 basis points (2018: between 22 and 65 basis points, 2017: between 19 and 38 basis points) and EURIBOR plus a margin ranging between 10 and 24 basis point (2018: ranging between 8 and 15 basis points, 2017: ranging between 10 and 24 basis points)
- The issuers of these debt securities are B.A.T. International Finance p.l.c., B.A.T Capital Corporation, Reynolds American Inc., or R.J. Reynolds Tobacco Company, as applicable. British American Tobacco p.l.c. is the ultimate guarantor in each case.

## ADDITIONAL DISCLOSURES ON LIQUIDITY AND CAPITAL RESOURCES

### CONTINUED

#### Off-balance sheet arrangements and contractual obligations

Except for operating leases, the Group has no significant off-balance sheet arrangements. The Group has contractual obligations to make future payments on debt agreements. In the normal course of business, the Group enters into contractual arrangements where the Group commits to future purchases of services from unaffiliated parties and related parties.

The Group's undiscounted contractual obligations as of 31 December 2019 were as follows:

	Payments due by period (£m)				
	Total	Less than 1 Year	1–3 Years	3–5 Years	Thereafter
Long-term notes and other borrowings, exclusive of interest <sup>1</sup>	44,313	6,934	9,727	5,571	22,081
Interest payments related to long-term notes <sup>1</sup>	474	474	—	—	—
Lease liabilities	579	154	212	107	106
Purchase obligations <sup>2</sup>	995	928	49	18	—
<b>Total cash obligations</b>	<b>46,361</b>	<b>8,490</b>	<b>9,988</b>	<b>5,696</b>	<b>22,187</b>

Notes:

1. For more information about the Group's long-term debt, see note 19 in the Notes on the Accounts.

2. Purchase obligations primarily include commitments to acquire tobacco leaf. Purchase orders for the purchase of other raw materials and other goods and services are not included in the table, as the Group's operating subsidiaries are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders typically represent authorisations to purchase rather than binding agreements.

The table above does not include any amounts that the Group may pay to fund its retirement benefit plans as the timing and amount of any such future funding are unknown and dependent on, among other things, the future performance of defined benefit pension plan assets, interest rate assumptions and other factors. The net retirement benefit scheme liabilities totalled £1,029 million as of 31 December 2019, which is net of pension assets of £11,860 million. The Group expects to be required to contribute £80 million to its defined benefit plans during 2020. See note 11 in the Notes on the Accounts for further information.

#### US\$ exchange rate

The following table sets forth the high and low noon buying rates of each month of the last six months, as certified for customs purposes by the Federal Reserve Bank of New York, for the pound sterling expressed in US dollars per pound sterling.

	High	Low
September 2019	1.2493	1.2086
October 2019	1.2983	1.2206
November 2019	1.2965	1.2790
December 2019	1.3349	1.2917
January 2020	1.3195	1.2983
February 2020	1.3051	1.2778

The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for the pound sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years.

	Average
Year ended 31 December 2015	1.5250
Year ended 31 December 2016	1.3444
Year ended 31 December 2017	1.3016
Year ended 31 December 2018	1.3309
Year ended 31 December 2019	1.2803

On 13 March 2020, the latest practicable date prior to this filing, the noon buying rate was £1.00 = US\$1.2406.

The rates presented above may differ from the actual rates used in preparation of financial information appearing in this Annual Report and Form 20-F. The presentation of such rates is not meant to suggest that the US dollar amounts actually represent the pound sterling amounts or that such amounts could have been converted to US dollars at any particular rate.

# EMPLOYEES

As at 31 December 2019, the number of persons permanently employed by the Group was 59,989 worldwide. The Group believes that its labour relations are good.

Certain temporary employees are included in the below figures. The number of such temporary employees is approximately 3,300 in 2019 and largely relates to seasonal workers within operations.

The following table sets forth the number of Group employees by region in 2019, 2018 and 2017.

Region (number of employees worldwide)	As of 31 December		
	2019	2018	2017
US	5,020	5,019	5,201
APME	13,465	15,077	14,730
AmSSA	16,862	17,372	17,962
ENA <sup>1</sup>	24,642	26,409	24,377
<b>Total employees</b>	<b>59,989</b>	<b>63,877</b>	<b>62,270</b>

Notes:

1. Included within the employee numbers for ENA are certain employees in different locations in respect of central functions. Some of the costs of these employees are allocated or charged to the various regions and markets in the Group.

# GROUP RISK FACTORS

## Business execution and supply chain risks

### Risk: Competition from illicit trade.

#### Description

Illicit trade and tobacco trafficking in the form of counterfeit products, smuggled genuine products and locally manufactured products on which applicable taxes are evaded represent a significant and growing threat to the legitimate tobacco industry. Factors such as increasing levels of taxation, price increases, economic downturn, lack of law enforcement, appropriate penalties and weak border control are encouraging more adult tobacco consumers to switch to illegal cheaper tobacco products and are providing greater rewards for counterfeiters and smugglers. Regulatory restrictions such as plain packaging or graphic health warnings, display bans, taste or ingredient restrictions and increased compliance costs further disadvantage legitimate industry participants by providing competitive advantages to illicit manufacturers and distributors of illicit tobacco products.

#### Impact

Illicit trade can have an adverse effect on the Group's overall sales volume and may restrict the ability to increase selling prices. Illicit trade can also damage brand equity and reputation, which could undermine the Group's investment in Trade Marketing and Distribution. These factors in turn could reduce profits and have an adverse effect on the Group's results of operations and financial conditions.

### Risk: Geopolitical tensions that have the potential to disrupt the Group's business in multiple markets.

#### Description

The Group's operations and financial condition are influenced by the economic and political situations in the markets and regions in which it has operations, which are often unpredictable and outside of its control. Some markets in which the Group operates face the threat of civil unrest and can be subject to frequent changes in regime. In others, there is a risk of terrorism, conflict, global health crisis, war, organised crime or other criminal activity. The Group is also exposed to economic policy changes in jurisdictions in which it operates. In addition, some markets maintain trade barriers or adopt policies that favour domestic producers, preventing or restricting the Group's sales.

#### Impact

Deterioration of socio-economic or political conditions could potentially lead to loss of life or loss of assets that limit or eliminate the Group's access to particular markets or may disrupt the Group's operations, such as its supply chain, or manufacturing or distribution capabilities. Such disruption may result in increased costs due to the need for more complex supply chain arrangements, to build new facilities or to maintain inefficient facilities, or in a reduction of the Group's sales volume.

### Risk: Disruption to the Group's data and information technology systems, including by cyber attack or the malicious manipulation or disclosure of confidential or sensitive information.

#### Description

The Group increasingly relies on data and information technology systems for its daily business operations, internal communications, controls, reporting and relations with customers and suppliers. Some of these systems are managed by third-party service providers. A significant disruption of the Group's systems, including those managed by third-party service providers, due to computer viruses, cyber threats, malicious intrusions or unintended or malicious behaviour by employees, contractors or services providers could affect the Group's communications and operations. Computer viruses and cyber attacks are becoming more sophisticated and coordinated. In addition, such disruption may compromise the integrity of information and result in the inappropriate disclosure of confidential information, or may lead to false or misleading statements being made about the Group.

#### Impact

Any disruption to technology systems related to the Group's operations could adversely affect its business and result in financial and reputational losses. Any delays or failure to rapidly detect or respond to attempts to gain unauthorised access to the Group's information technology systems through a cyber attack can lead to a loss of access to systems or information being corrupted or lost, resulting in significantly increased costs for remediation and reputational consequences. Any delay in response will also impact the outcome.

Security breaches and the loss of data or operational capacity may disrupt relationships throughout the supply chain, expose the Group or our consumers to a risk of loss or misuse of information, which could further expose the Group to liability, impact the Group's reputation and lead to increased costs.

The disclosure of trade secrets or other commercially sensitive information may provide competitors with a competitive advantage resulting in competitive or operational damage to the Group. The disclosure of confidential and sensitive information about the Group's employees, customers, consumers, suppliers or other third parties could compromise data privacy and expose the Group to liability.

Failure to effectively prevent or respond to a major breach or cyber attack may also subject the Group to significant reputational damage.

**Risk: Failure to meet current or future New Categories demand****Description**

The New Categories supply chain is a multi-tiered and complex environment with reliance on multiple factors, such as third-party suppliers' ability to upscale production in order to meet demand while maintaining product quality, dependency on single suppliers at various points in the chain and the Group's ability to build adequate consumables production capacity in line with product demand. The geographical spread of suppliers and customers exposes the Group to political and economic conflicts such as Brexit and trade wars which may compromise the New Categories supply chain. Given the developing nature of the New Categories portfolio, there is also an enhanced risk that some products may not meet product quality and safety standards or may be subject to regulatory changes, leading to product recalls, which we have experienced in the past, or bans of certain ingredients or products. In addition, the New Categories supply chain may be vulnerable to changes in local legislation related to liquid nicotine that could increase import duties. Furthermore, the New Categories supply chain includes the development of sensitive trade secrets jointly with external design partners, which carries the risk of exposure of innovations to competitors.

**Impact**

Vulnerabilities in the New Categories supply chain may impact the Group's ability to maintain supply and meet the current and future demand requirements across the New Categories portfolio, potentially resulting in significant reputational harm and financial impact that may negatively affect the Group's results of operations and financial condition. Over-forecasting may also lead to write-off and negatively impact working capital. The design of New Categories devices may also prevent the scaling of commercial manufacturing, which will either restrict supply or increase the costs of production.

In addition, changes in local legislation related to liquid nicotine import duties may increase New Categories production costs, which may increase end market pricing. Furthermore, the exposure of sensitive trade secrets can lead to competitive disadvantages and further negatively impact the Group's results of operations and financial condition.

**Risk: Failure of a financial counterparty****Description**

The Group relies on transactions with a variety of financial counterparties to manage the Group's business and financial risks. In the event that any of these counterparties fails, payments due from such counterparties, such as under hedging or insurance contracts, may not be recovered. In addition, failure of a transactional banking party may lead to the loss of cash balances and disruption to payment systems involving such counterparty.

**Impact**

The inability to recover payments due from one or more failed financial counterparties or the loss of cash balances may cause significant financial loss and have an adverse impact on the Group's results of operations, financial condition and financial risk profile. In addition, the loss of cash balances or a disruption to payment systems may cause disruption to the Group's ongoing operations and ability to pay its creditors and suppliers.

**Risk: Exposure to unavailability of, and price volatility, in raw materials and increased costs of employment.****Description**

The availability and price of various commodities required in the manufacture of the Group's products fluctuate. Raw materials and other inputs used in the Group's business, such as wood pulp and energy, are commodities that are subject to price volatility caused by numerous factors, including political influence, market fluctuations and natural disasters.

Similarly, the Group is exposed to the risk of an increase above inflation in employment costs, including due to governmental action to introduce or increase minimum wages. Employment and health care law changes may also increase the cost of provided health care and other employment benefits expenses.

**Impact**

Restricted availability and price volatility of commodities may result in supply shortages and unexpected increases in costs for raw materials and packaging for the Group's products, which may affect the Group's results of operations and financial condition.

Similarly, the Group's profitability may be affected by increases in overall employment costs.

The Group may not be able to increase prices to offset increased costs without suffering reduced sales volume and revenue. In the absence of compensating for increased costs through pricing, significant increases in raw material, packaging and employment costs above inflation will impact product margins, leading to lower profits and negatively affecting the Group's results of operations and financial condition.

## GROUP RISK FACTORS

### CONTINUED

#### **Business Execution and Supply Chain Risks continued**

##### **Risk: Failure to retain key personnel or to attract and retain skilled talent.**

###### Description

The Group relies on a number of highly experienced employees with detailed knowledge of the tobacco industry and the Group's business. Similarly, the Group is dependent on its ability to identify, attract, develop and retain such qualified personnel in the future.

Furthermore, broader economic and ESG trends may impact the Group's ability to retain key employees and may increase competition for highly talented employees, potentially resulting in the loss of experienced employees.

###### Impact

If the Group is unable to retain its existing key employees or to attract and retain skilled talent in the future, critical positions may be left vacant, which could adversely impact the delivery of strategic objectives, which could ultimately impact the Group's results of operations and financial condition.

High voluntary employee turnover may also reduce organisational performance and productivity, which may have a further adverse impact on the Group's results of operations and financial condition.

##### **Risk: Disruption to the supply chain and distribution channels.**

###### Description

The Group has an increasingly global approach to managing its supply chain and distribution channels and is exposed to the risk of disruption to any aspect of the Group's supply chain, to suppliers' operations or to distribution channels, and the deterioration in the financial condition of a trading partner.

Such disruption may be caused by a cyber event, global health crisis, major fire, violent weather conditions or other natural disasters that affect manufacturing or other facilities of the Group's operating subsidiaries or those of their suppliers and distributors. In certain geographic areas where the Group operates, insurance coverage may not be obtainable on commercially reasonable terms, if at all. Coverage may be subject to limitations or the Group may be unable to recover damages from its insurers.

Disruption may also be caused by spread of infectious disease (such as Coronavirus) or by a deterioration in labour or union relations, disputes or work stoppages or other labour-related developments within the Group or its suppliers and distributors.

In addition, the Group's operating subsidiaries may not be able to establish or maintain relationships on favourable commercial terms with their suppliers and distributors. In some markets, distribution of the Group's products is through third-party monopoly channels, often licensed by governments. The Group may be unable to renew these third-party supplier and distribution agreements on satisfactory terms for numerous reasons, including government regulations or ESG considerations.

Furthermore, there are some product categories for which the Group does not have spare production capacity or where substitution between different production plants is very difficult. Consolidation of global suppliers and certain distributors that control large geographies may reduce the Group's availability of alternatives and negatively impact the Group's negotiating power with key suppliers and distributors.

These risks are particularly relevant in jurisdictions where the Group's manufacturing facilities are more concentrated or for certain product categories where production is more centralised.

###### Impact

Any disruption to the Group's supply chain and distribution channels could have an adverse effect on the results of operations and financial conditions of the Group through failures to meet shipment demand, contract disputes, increased costs and loss of market share.

##### **Risk: Exposure to product contamination.**

###### Description

The Group may experience product contamination, whether by accident or deliberate malicious intent, during supply chain or manufacturing processes, or may otherwise fail to comply with the Group's quality standards. The Group may also receive threats of malicious tampering.

###### Impact

Product contamination or threats of contamination may expose the Group to significant costs associated with recalling products from the market or temporarily ceasing production. In addition, adult tobacco consumers may lose confidence in the specific brand affected by the contamination, resulting in reputational damage and a loss of sales volume and market share. The Group could be subject to liability and costs associated with civil and criminal actions as well as regulatory sanctions brought in connection with a contamination of the Group's products. Each of these results may in turn have an adverse effect on the Group's results of operations and financial condition.

**Risk: Inability to obtain adequate supplies of tobacco leaf.****Description**

The Group purchases significant volumes of packed leaf each year. Tobacco leaf supplies are impacted by a variety of factors, including weather conditions, drought, flood and other natural disasters, growing conditions, diseases causing crop failure, climate change and local planting decisions. Tobacco production in certain countries is also subject to a variety of controls, including regulation affecting farming and production control programmes, and competition for land use from other agriculture products. Such controls and competition can further constrain the production of tobacco leaf, raising prices and reducing supply.

Human rights issues may arise in connection with our tobacco leaf supply chain. Due to the large number of casual and temporary workers, the use of family labour in small-scale farming and high levels of rural poverty, the agricultural sector as a whole is vulnerable to human rights issues. The Group recognises that child labour is a risk to our tobacco leaf supply chain.

**Impact**

Restricted availability of tobacco leaf may impact the quality of the Group's products to a level that may be perceptible by consumers and may impact the Group's ability to deliver on consumer needs. Accordingly, the reduction of tobacco leaf supply may impact supply and demand of the Group's products and have a negative impact on results of operations. The Group's commitment to ESG may result in higher tobacco leaf prices. Higher tobacco leaf prices may also increase the Group's costs for raw materials and have an adverse effect on its results of operations and financial condition.

**Risk: Failure to successfully design, implement and sustain an integrated operating model.****Description**

The Group aims to improve profitability and productivity through supply chain improvements and the implementation of an integrated operating model and organisational structure, including standardisation of processes, centralised back-office services and a common IT platform. The Group undertakes transformation initiatives periodically which aims to simplify the organisation and facilitate growth.

**Impact**

Failure by the Group to successfully design, implement and sustain the integrated operating model, organisational structure and transformation initiatives could lead to the failure to realise anticipated benefits, increased costs, disruption to operations, decreased trading performance, disgruntled employees, loss of institutional knowledge and reduced market share. These results could in turn reduce profitability and funds available for investment by the Group in long-term growth opportunities.

## GROUP RISK FACTORS

### CONTINUED

#### Legal, regulatory and compliance risks

##### **Risk: Exposure to increasingly stringent regulatory measures affecting the manufacture, packaging, sale and marketing of the Group's products.**

###### Description

Tobacco control measures are in place in nearly all markets in which we operate. Such restrictions are introduced by regulations and/or voluntary agreements. Most tobacco control measures can be categorised as follows:

- Place: including regulations restricting smoking in private and public spaces (e.g., public place smoking bans, including restaurants and bars);
- Product: including regulations on the use of and/or testing for ingredients, product design and attributes (e.g., ceilings regarding tar, nicotine and carbon monoxide yields, as well as restrictions on flavours, including menthol); product safety regulations (e.g., reduced cigarette ignition propensity standards); and regulatory product disclosure requirements (e.g., ingredients and emissions reporting);
- Packaging and labelling: including regulations on health warnings and other government-mandated messages (e.g., in respect of content, positioning, size and rotation); restrictions on the use of certain descriptors and brand names; requirements on pack shape, size, weight and colour; and mandatory plain packaging;
- Sponsorship, promotion and advertising: including partial or total bans on advertising, marketing, promotions and sponsorship; and restrictions on brand sharing and brand stretching (i.e., using tobacco branding on non-tobacco products);
- Purchase: including regulations on where the products are sold, such as type of outlet (e.g., supermarkets and vending machines) and how they are sold (e.g., above the counter or under the counter); and
- Price: including regulations that have implications on the prices that manufacturers can charge for their tobacco products (e.g., excise taxes and minimum prices).

The Group believes that the introduction of further regulation on tobacco control is inevitable over the medium term in many of the Group's markets. The actions of competitors contrary to the regulations applicable to certain markets, may cause reputational harm to the industry as a whole and may result in additional regulation or bans on certain products.

Many of the measures outlined in the FCTC have been or are in the process of being implemented through national legislation in many markets in which the Group operates. For example, the EU has adopted the revised Tobacco and Related Products Directive ('TPD2') which, among other things, bans the use of characterising flavours in combustible tobacco products, such as menthol. This is in line with a number of other jurisdictions banning or restricting the use of menthol in tobacco products.

In November 2018, the US Food and Drug Administration ("FDA") announced the acceleration of proposed rulemaking to seek a ban on menthol in combustible tobacco products. Bans or restrictions on the sale of flavoured tobacco products and menthol have been introduced, and may be introduced in the future, at a municipal, state, national or international level.

Further, various national or international regulatory regimes may seek to require the reduction of nicotine levels in tobacco products. For example, in March 2018, the FDA published its ANPRM titled "Tobacco Product Standard for Nicotine Level of Combusted Cigarettes" and invited interested parties to submit comments on, among other issues, maximum nicotine limits and whether any maximum nicotine level should apply to combustible tobacco products.

In the US, manufacturers of all tobacco products deemed to be under the authority of the FDA as of 2016 (which includes vapour and Modern Oral products) must submit information to the FDA seeking formal marketing authorisation of such products.

Several countries, including France, Belgium and Pakistan, have sought or are seeking to prohibit certain brands/brand variants or messaging on cigarette packaging that promotes a brand or usage.

Please refer to pages 287 to 290 for details of tobacco and nicotine regulatory regimes under which the Group's businesses operate.

With respect to New Categories, although a common framework for regulation and taxation has yet to emerge, the manufacture, sale, packaging and advertising of such products are increasingly being regulated. In fact, some regulators have applied or are considering applying combustible tobacco products' restrictive regulatory framework to New Categories, such as public place vaping bans or plain packaging. Some jurisdictions have banned or are considering banning New Categories altogether.

Recent reports in North America of individuals experiencing acute respiratory injury in suspected association with vaping certain e-liquids (EVALI) and youth usage have led to an increase in scrutiny of vapour products at the local, municipal, state, national and international levels.

**Impact**

Existing and future regulatory measures could adversely affect volume and profits as a result of restrictions on the Group's ability to sell its products or brands, including due to the loss of provisional sales approvals for New Categories. Increased regulatory cost may also make certain products/brands unprofitable, which may lead to discontinuations (e.g. VapeWild). Impediments to building or maintaining brand equity could also adversely impact volume and profits.

In addition, new regulation could lead to greater complexity, as well as higher production and compliance costs. For example, it may be that the recent incidents in the US prompt regulators to impose restrictions on the sale of vaping products and/or flavours. New product specifications may have a negative impact on sales volumes as consumers seek alternatives in illicit trade. The Group's share price has also experienced, and could in the future experience, shocks upon the announcement or enactment of restrictive regulation. All these effects may have an adverse effect on the Group's results of operations and financial conditions.

In particular, through the acquisition of RAI, the Group acquired the Newport brand, the leading menthol cigarette brand in the US, the Group's largest single market. The sales of Newport, together with the other menthol brands of the Group's operating subsidiaries, represent a significant portion of the Group's total net sales. Any action by the FDA or any other governmental authority banning or materially restricting the use of menthol in tobacco products could have a significant negative impact on sales volumes of the Newport brand and the Group's other menthol products which would, in turn, have an adverse effect on the results of operations and financial position of the Group. Any action by the FDA or any government authority restricting the use of New Category products could also have an adverse effect on the operation and financial position of the Group.

Failure to obtain formal marketing authorisation for products deemed to be under the authority of the FDA, such as RAI's vapour or Modern Oral products, could have a negative impact on RAI's financial position and, in turn, the financial position of the Group.

Similarly, regulations on nicotine levels in cigarettes and in other products that are being considered in a number of jurisdictions in which the Group operates could have a negative impact on sales volumes of the Group's products in the relevant jurisdictions.

In addition, taking into account the significant number of regulations that may apply to the Group's businesses across the world, the Group is and may in the future be subject to claims for breach of such regulations. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims.

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**Risk: Adverse implications of proposed EU legislation on single-use plastics that will result in on-pack environmental warnings and financial implications relating to the Extended Producer Responsibility (EPR).**


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**Description**

The EU adopted a Directive on single-use plastics in July 2019 which, among other products, targets tobacco products with filters containing plastic. The Cellulose Acetate in our filters is defined as a single-use plastic under the Directive and, as such, the Directive will have an impact on the Group's cigarettes, filters for other tobacco products and consumables for THPs.

Under the Directive, the Group will be subject to EPR schemes, requiring the Group to cover the costs of collecting, transporting, treating and cleaning-up of filters containing plastic. The Directive also imposes on tobacco manufacturers the obligation to finance consumer awareness campaigns and to place environmental markings on packs of products with filters containing plastic.

Prior to the anticipated implementation deadline for EPR schemes on 5 January 2023, the European Commission is expected to issue guidelines on the criteria for the costs of cleaning up litter. In addition, it is expected to adopt an Implementing Act harmonising specifications for required product markings in the first half of 2020. When transposing the Directive into national law, EU member states could decide to expand its scope under their respective laws, which may subject the Group to additional regulations and financial obligations.

It is noted that there is a growing level of scrutiny on the use of single-use plastic across the world and a number of markets in which the Group operates are considering ways to restrict (or ban) the use of filters made of plastic and/or introduce EPR schemes.

**Impact**

The financial implications of the proposed EPR schemes may have an adverse effect on the Group's results of operations and financial condition. If significant space is appropriated on the packaging of some of the Group's products, this may also be an impediment to maintaining or building brand equity of the Group's products which may, in turn, have a negative impact on the Group's sales volume.

**GROUP RISK FACTORS****CONTINUED****Legal, regulatory and compliance risks continued****Risk: Exposure to litigation on tobacco, nicotine, New Categories and other issues.****Description**

The Group is involved in litigation related to its tobacco and nicotine products, including legal and regulatory actions, proceedings and claims, brought against it in a number of jurisdictions. Claims brought against the Group may be based on personal injury (both individual claims and class actions), economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments), negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, deceptive/unfair trade practices, conspiracy, medical monitoring and violations of antitrust/racketeering laws. Certain actions, such as those in the US and Canada, involve claims in the tens or hundreds of billions of pounds sterling. The Group is also involved in proceedings that are not directly related to its tobacco and nicotine products, including proceedings based on environmental pollution claims.

Additional legal and regulatory actions, proceedings and claims may be brought against the Group in the future.

**Impact**

The Group's consolidated results of operations and financial position could be materially affected by any unfavourable outcome of certain pending or future litigation. The Group could be exposed to substantial liability, which may take the form of ongoing payments. Whether successful or not, the costs of the Group's involvement in litigation could materially increase due to costs associated with bringing proceedings and defending claims, which may also cause operational and strategic disruption by diverting management time away from business matters. Liabilities and costs in connection with litigation could result in bankruptcy of one or more Group entities which, in turn, could cause a material reduction in the Group's sales volume and profits. Any negative publicity resulting from these claims may also adversely affect the Group's reputation.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

**Risk: Significant and/or unexpected increases or structural changes in tobacco and nicotine-related taxes.****Description**

Tobacco and nicotine products are subject to high levels of taxation, including excise taxes, sales taxes, import duties and levies in most markets in which the Group operates. In many of these markets, taxes are generally increasing, but the rate of increase varies between markets and between different types of tobacco and nicotine products. Increases in, or the introduction of new, tobacco and nicotine-related taxes may be caused by a number of factors, including fiscal pressures, health policy objectives and increased lobbying pressure from anti-tobacco advocates.

With respect to New Categories, although a common framework for regulation and taxation has yet to emerge, the manufacture, sale, packaging and advertising of such products are increasingly being regulated.

**Impact**

Significant or unexpected increases in, or the introduction of new, tobacco-related taxes or minimum retail selling prices, changes in relative tax rates for different tobacco and nicotine products or adjustments to excise may result in the need for the Group to absorb such tax increases due to limits in its ability to increase prices, an alteration in the sales mix in favour of value-for-money brands or products, or growth in illicit trade, each of which could impact pricing, sales volume and profit for the Group's products.

**Risk: Failure to comply with health and safety and environmental laws.****Description**

The Group is subject to a variety of laws, regulations and operational standards relating to health and safety and the environment. The Group may fail to assess certain risks and implement the right level of control measures or to maintain adequate standards of health and safety or environmental compliance, which could cause injury, ill health, disability or loss of life to employees, contractors or members of the public, or harm to the natural environment and local communities in which the Group operates. Insufficient information, instruction and training in the relevant areas and a lack of knowledge of the existence and/or requirements of relevant regulations, or a failure to monitor, assess and implement the requirements of new or modified legislation, may increase these risks.

**Impact**

Any failure by the Group to comply with applicable health and safety or environmental laws, or the exposure to the consequences of a perceived failure, could result in business disruption, reputational damage, difficulties in recruiting and retaining staff, increased insurance costs, consequential losses, the obligation to install or upgrade costly pollution control equipment, loss of value of the Group's assets, remedial costs and damages, fines and penalties as well as civil or criminal liability. Each of these results could in turn adversely impact the Group's results of operations and financial condition.

### Risk: Exposure to unfavourable tax rulings.

#### Description

The Group is subject to tax laws in a variety of jurisdictions. The Group's interpretation and application of the tax laws could differ from those of the relevant tax authority, which may subject the Group to claims for breach of such laws, including for late or incorrect filings or for misinterpretation of rules. Tax authorities in a variety of jurisdictions, such as the Netherlands and Russia, have assessed, and may in the future assess, the Group for historical tax claims, including interest and penalties, arising from disputed areas of tax law. The Group is currently party to tax disputes in a number of jurisdictions, some of which involve claims for amounts in the hundreds of millions of pounds sterling.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

#### Impact

The Group's failure to comply with the relevant tax authority's interpretation and application of the tax laws could result in significant financial and legal penalties, including the payment of additional taxes, fines and interest in the event of an unfavourable ruling by a tax authority in a disputed area, as well as the payment of dispute costs. Disruption to the business could occur as a result of management's time being diverted away from business matters. Each of these results could negatively affect the Group's results of operations and financial condition.

### Risk: Unexpected legislative changes to corporate income tax laws.

#### Description

The Group is subject to corporate income tax laws in the jurisdictions in which it operates. These laws frequently change on a prospective or retrospective basis.

#### Impact

Legislative changes to corporate income tax laws and regulations may have an adverse impact on the Group's corporate income tax liabilities and may lead to a material increase of the Group's overall tax rate. This could, in turn, negatively affect the Group's results of operations and financial condition.

### Risk: Exposure to potential liability under competition or antitrust laws.

#### Description

According to the Group's internal estimates, the Group is a market leader by volume in a number of countries in which it operates and is one of a small number of tobacco companies in certain other markets in which it operates. As a result, the Group may fail to comply with competition or antitrust laws and may be subject to investigation for alleged abuse of its position in markets in which it has significant market share or for alleged collusion with other market participants.

#### Impact

Failure by the Group to comply with competition or antitrust laws and investigations for violation of such laws may result in significant legal liability, fines, penalties and/or damages actions, criminal sanctions against the Group, its officers and employees, increased costs, prohibitions on conduct of the Group's business, forced divestment of brands and businesses (or parts of businesses) to competitors, director disqualifications and commercial agreements being held void. The Group may face increased public scrutiny and the investigation or imposition of sanctions by antitrust regulation agencies for violations of competition regimes which may subject the Group to reputational damage and loss of goodwill.

### Risk: Failure to establish and maintain adequate controls and procedures to comply with applicable securities, corporate governance and compliance regulations.

#### Description

The Group's operations are subject to a range of rules and regulations around the world. These include US securities, corporate governance and compliance laws and regulations such as the Sarbanes-Oxley Act of 2002 and the US Foreign Corrupt Practices Act of 1977, which applies to the Group's worldwide activities. While the Group continuously seeks to improve its systems of internal controls and to remedy any weaknesses identified, there can be no assurance that the policies and procedures will be followed at all times or effectively detect and prevent violations of applicable laws. In addition, the Group is subject to increasingly stringent reporting obligations under UK corporate reporting regulations.

#### Impact

The increased scope and complexity of applicable regulations to which the Group is subject may lead to higher costs for compliance. Failure to comply with laws and regulations may result in significant legal liability, fines, penalties, and/or damages actions, criminal sanctions against the Group, its officers and employees, and damage to the Group's reputation. Non-compliance with such regulations could also lead to a loss of the Group's listing on one or more stock exchanges or a loss of investor confidence with a subsequent reduction in share price.

## GROUP RISK FACTORS

### CONTINUED

#### Legal, regulatory and compliance risks continued

**Risk: Loss of confidential information, including through manipulation of data by employees, and failure to comply with the European General Data Protection Regulation, the UK Data Protection Act 2018 and other privacy laws governing the processing of personal data.**

##### Description

Unintended or malicious behaviour by employees, contractors, service providers and others using or managing the Group's confidential information (including sensitive or confidential information of third parties) or personal data (including sensitive consumer personal data) may affect the Group's communications and operations which may result in the unauthorised disclosure of such information.

In addition, a lack of infrastructure or application resilience, slow or insufficient disaster recovery service levels or the installation of new systems may increase the possibility that data, including confidential, personal or other sensitive information, stored or communicated by IT systems may be corrupted, lost or disclosed.

Various privacy laws, in particular the European General Data Protection Regulation ('GDPR'), and UK Data Protection Act 2018 ("UKDPA") mandate that in an unauthorised disclosure of personal data, depending on the risk to the individuals concerned, must be reported to the local data protection supervisory authority.

In addition, unauthorised disclosures of information (including personal data) through fraudulent abuses of data may cause the Group to fail to meet statutory or regulatory requirements in particular under the GDPR and/or UKDPA. Following the enforcement of the GDPR in May 2018, other jurisdictions in which the Group operates have enacted similar local legislation such as the California Consumer Privacy Act US and the "LGPD" in Brazil which potentially further increases the risks surrounding the processing of personal data.

##### Impact

The loss of personal data (which may include confidential information) may result in civil or criminal legal liability and prosecution by enforcement bodies, which may subject the Group to the imposition of material fines and/or penalties and the costs associated with defending these claims. In addition, the relevant data protection supervisory authority may order certain Group legal entities to cease processing activities, which would result in a significant operational disruption.

Inappropriate disclosure of confidential information or violation of the GDPR or other privacy laws may also result in significant reputational harm and public scrutiny, a loss of investor confidence and reduced third-party reliance on the Group's information technology systems or other data handling practices. In addition, restoration and remediation of disclosed confidential information or personal data may be costly, difficult or even impossible. These consequences may adversely impact the Group's results of operations and financial condition.

#### Risk: Failure to comply with product regulations due to uncertainty surrounding the proper interpretation and application of those regulations.

##### Description

The interpretation and application of regulations concerning the Group's products, such as the Tobacco and Related Products Directive (TPD2), may be subject to debate and uncertainty. This includes uncertainty over product classifications and restrictions on advertising. In particular with respect to the developing category of New Categories, which has grown in size and complexity in a relatively short period of time, a consensus framework for the interpretation and application of existing regulation, such as the rules concerning nicotine-containing liquids used in vapour products, has yet to emerge.

The continuously changing and evolving landscape of regulation concerning the Group's products contributes to the uncertainty surrounding interpretation and application and creates a risk that the Group may misinterpret or fail to comply with developing regulations in the various jurisdictions in which it operates, or becomes subject to enforcement actions from regulators. With the continuous changing of product cycle plans and expansion to new markets and innovations, there is a risk that such changes and launches fail to comply with the relevant regulations, including pre-approval and/or pre-registration requirements. For example, some governments have intentionally banned or are seeking to ban novel tobacco products and products containing nicotine, while others would need to amend their existing legislation to permit their sale. Even in countries where the sale of such products is currently permitted, some governments have adopted, or are seeking to adopt, bans on New Categories or restrictions on certain flavours.

##### Impact

The significant number of emerging regulations and the uncertainty surrounding their interpretation and application may subject the Group to claims for breach of such regulations. Financial costs of such enforcement actions include financial penalties, product recalls and litigation costs, and entail a significant risk of adverse publicity and damage to the Group's reputation and goodwill.

**Risk: Failure to uphold high standards of corporate behaviour, including under anti-bribery and anti-corruption laws.****Description**

The Group is subject to various anti-corruption laws and regulations (Anti-Corruption Laws). All employees of BAT, its subsidiaries and joint ventures which it controls are expected to uphold a high standard of corporate behaviour and comply with the Group Standards of Business Conduct (SoBC) which includes a requirement to comply with Anti-Corruption Laws. Employees, associates, suppliers, distributors and agents are prohibited from engaging in improper conduct to obtain or retain business or to improperly influence (directly or indirectly) a person working in an official capacity to decide in the Group's favour. The Group's employees may fail to comply with our SoBC and may violate applicable Anti-Corruption Laws.

For example, the Group is investigating, through external legal advisers, allegations of misconduct and is liaising with the UK Serious Fraud Office (SFO) and other relevant authorities. It was announced in August 2017 that the SFO had opened an investigation in relation to the Company, its subsidiaries and associated persons. The Group continues to cooperate with the SFO's investigation and a sub-Committee of the Board has oversight of these matters. The outcomes will be decided by the relevant authorities or, if necessary, the courts. It is too early to predict the outcomes, but these could include the prosecution of individuals and/or of a Group company or companies. Accordingly, the potential for fines, penalties or other consequences cannot currently be assessed but may be material. As the investigation is ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

**Impact**

Failure of the Group to comply with Anti-Corruption Laws or to deploy and maintain robust internal policies, procedures and controls could result in significant fines and penalties, criminal sanctions against the Group and its officers and employees, increased costs, prohibitions or other limitations on the conduct of the Group's business and reputational harm and may subject the Group to claims for breach of such regulations.

Even when proven untrue, there are often financial costs, time demands and reputational impacts associated with investigating and defending against such claims.

**Risk: Imposition of sanctions under sanctions regimes or similar international, regional or national measures.****Description**

National and international sanctions regimes or similar international, regional or national measures may affect jurisdictions in which the Group operates or third parties with which it may have commercial relationships.

In particular, the Group has operations in a number of countries that are subject to various sanctions, including Iran and Cuba. Operations in these countries expose the Group to the risk of significant financial costs and disruption in operations that may be difficult or impossible to predict or avoid or the activities could become commercially and/or operationally unviable.

National and international sanctions regimes may also affect third parties with which the Group has commercial relationships and could lead to supply and payment chain disruptions.

For example, the Group has been investigating, and is aware of governmental authorities' investigations into, allegations of misconduct. It has been liaising with the DOJ and OFAC in the United States, which are conducting an investigation into suspicions of breach of sanctions. The Group is cooperating with the authorities' investigations. The potential for fines, penalties or other consequences cannot currently be assessed but may be material. As the investigations are ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

**Impact**

As a result of the limitations imposed by sanctions, it may become commercially and/or operationally unviable for the Group to operate in certain jurisdictions and the Group may be required to exit existing operations in such jurisdictions. The Group may also experience difficulty in sourcing materials or importing products and be exposed to increased costs. In addition, the costs of complying with sanctions may increase as a result of changes to existing sanctions regimes.

Any failure to comply with sanctions regimes or similar international, regional or national measures may result in significant legal liability, fines and/or penalties, criminal sanctions against the Group, its officers and employees, damage to commercial relationships and reputational harm. Reputational harm may result regardless of whether the Group complies with imposed sanctions.

## GROUP RISK FACTORS

### CONTINUED

#### Economic and financial risks

##### Risk: Foreign exchange rate exposures.

###### Description

The Group's reporting currency is the pound sterling. The Group is exposed to the risk of fluctuations in exchange rates affecting the translation of net assets and earned profits of overseas subsidiaries into the Group's reporting currency. These translational exposures are not normally hedged.

Exposures also arise from the foreign currency denominated trading transactions undertaken by subsidiaries and dividend flows. Where not offset by opposing flows, these exposures are generally hedged according to internal policies, but hedging of exposure to certain currencies might not be possible due to exchange controls, limited currency availability or prohibitive costs, and errors in hedging may occur. Fiscal policy divergence in relation to interest rates between key markets may also increase these risks.

###### Impact

During periods of exchange rate volatility, the impact of exchange rates on the Group's results of operations and financial condition can be significant. Fluctuations in exchange rates of key currencies against the pound sterling may result in volatility in the Group's reported earnings per share, cash flow and balance sheet. Furthermore, the dividend paid by the Group may be impacted if the payout ratio is not adjusted. Differences in translation between earnings and net debt may also affect key ratios used by credit rating agencies, which may have an adverse effect on the Group's credit ratings.

In addition, volatility and/or increased costs in the Group's business due to transactional foreign exchange rate exposures may adversely affect operating margins and profitability and attempts to increase prices to offset such increases could adversely impact sales volumes.

##### Risk: Inability to obtain price increases and exposure to risks from excessive price increases and value chain erosion.

###### Description

Annual manufacturers' price increases are among the key drivers in increasing market profitability. However, the Group has in the past been, and may in the future be, unable to obtain such price increases as a result of increased regulation; increased competition from illicit trade; stretched consumer affordability arising from deteriorating political and economic conditions and rising prices; sharp increases or changes in excise structures; and competitors' pricing.

As the New Category market continues to develop, the Group may face erosion in the value chain for New Categories through lower market prices, excise taxes, high retail trade margins or high production costs that make New Categories less competitive versus combustible tobacco products.

In addition, the Group faces the risk that price increases it has conducted in the past, and may conduct in the future, may be excessive and not find adequate adult tobacco consumer acceptance.

###### Impact

If the Group is unable to obtain price increases or is adversely affected by impacts of excessive price increases, it may be unable to achieve its strategic growth metrics, have fewer funds to invest in growth opportunities, and, in the case of excessive price increases, be faced with quicker reductions in sales volumes than anticipated due to accelerated market decline, down-trading (switching to a cheaper brand) and increased illicit trade. These in turn impact the Group's market share, results of operations and financial condition.

In addition, erosion in the value chain for New Categories could have a negative impact on the Group's sales volume or pricing for these products. High excise could dampen demand for New Categories or result in lower profit margins. Lower market prices, high retail trade margins or increases in production costs could also negatively impact profit margins or lead to uncompetitive pricing.

**Risk: Effects of declining consumption of legitimate tobacco products and a tough competitive environment.****Description**

Evidence of market contraction and the growth of illicit trade of tobacco products is apparent in several key global markets in which the Group operates. This decline is due to multiple factors, including increases in excise taxes leading to continued above-inflation price rises, changes in the regulatory environment, the continuing difficult economic environment in many countries impacting consumers' disposable incomes, the increase in the trade of illicit tobacco products, health concerns, a decline in the social acceptability of smoking and an increase in New Category uptake.

The Group competes on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. The Group is subject to highly competitive conditions in all aspects of its business. The competitive environment and the Group's competitive position can be significantly influenced by the prevailing economic climate, consumers' disposable income, regulation, competitors' introduction of lower-price or innovative products, higher tobacco product taxes, higher absolute prices, governmental action to increase minimum wages, employment costs, interest rates and increase in raw material costs.

Furthermore, the Group is subject to substantial payment obligations under the State Settlement Agreements, which adversely affect the ability of the Group to compete in the US with manufacturers of deep-discount cigarettes that are not subject to such substantial obligations.

**Impact**

Any future decline in the demand for legitimate tobacco products could have an adverse effect on the Group's results of operations and financial conditions.

In a tough competitive environment, factors such as market size reduction, customer down-trading, illicit trade and competitors aggressively taking market share through price re-positioning or price wars generally reduce the overall profit pool of the market and may impact the Group's profits. These risks may also lead to a decline in sales volume of the Group, loss of market share, erosion of its portfolio mix and reduction of funds available to it for investment in growth opportunities.

**Risk: Funding, liquidity and interest rate risks.****Description**

The Group cannot be certain that it will have access to bank financing or to the debt and equity capital markets at all times and is therefore subject to funding and liquidity risks. In addition, the Group's access to funding may be affected by restrictive covenants to which it is subject under some of its credit facilities. Furthermore, broader ESG trends may impact the Group's access to funding.

The Group is also exposed to increases in interest rates in connection with both existing floating rate debt and future debt refinancings. The current economic environment, with historically low interest rates, increases the likelihood of higher interest rates in the future. The phaseout of LIBOR and uncertainty regarding the appropriate benchmark replacement similarly increases uncertainty with respect to the interest rates applicable to the Group's floating rate debt.

Furthermore, the Group operates in several markets closely regulated by governmental bodies that intervene in foreign exchange markets by imposing limitations on the ability to transfer local currency into foreign currency and introducing other currency controls that expose cash balances to devaluation risks or that increase costs to obtain hard currency. As a result, the Group's operational entities in these markets may be restricted from using end-market cash resources to pay for imported goods, dividend remittances, interest payments and royalties. The inability to access end-market cash resources in certain markets contributes to the Group's funding and liquidity risks.

**Impact**

Adverse developments in the Group's funding, liquidity and interest rate environment may lead to shortages of cash and cash equivalents needed to operate the Group's business and to refinance its existing debt. Inability to fund the business under the Group's current capital structure, failure to access funding and foreign exchange or increases in interest rates may also have an adverse effect on the Group's credit rating, which would in turn result in further increased funding costs and may require the Group to issue equity or seek new sources of capital. Non-compliance with the Group's covenants under certain credit facilities could lead to an acceleration of its debt. The phaseout of LIBOR may result in the Group being subject to higher or uncertain interest rates with respect to outstanding future and floating rate debt.

All these factors may have material adverse effects on the Group's results of operations and financial conditions. These conditions could also lead to underperforming bond prices and increased yields.

In the case of funding or liquidity constraints, the Group may also suffer reputational damage due to its perceived failure to manage the financial risk profile of its business, which may result in an erosion of shareholder value reflected in an underperforming share price, and/or underperforming bond prices and higher yields. In addition, the Group's ability to finance strategic opportunities or respond to threats may be impacted by limited access to funds.

**GROUP RISK FACTORS****CONTINUED****Economic and financial risks continued****Risk: Failure to achieve growth through mergers, acquisitions and joint ventures.****Description**

The Group's growth strategy includes a combination of organic growth as well as mergers, acquisitions and joint ventures. The Group may be unable to acquire attractive businesses on favourable terms and may inappropriately value or otherwise fail to identify or capitalise on growth opportunities. The Group may not be able to deliver strategic objectives and revenue improvements from business combinations, successfully integrate businesses it acquires or establishes, or obtain appropriate regulatory approvals for business combinations. Risks from integration of businesses also include the risk that the integration may divert the Group's focus and resources from its other strategic goals.

Additionally, the Group could be exposed to financial, legal or reputational risks if it fails to appropriately consider any compliance or antitrust aspects of a transaction. Further, the Group has certain uncapped indemnification obligations in connection with divestitures and could incur similar obligations in the future.

**Impact**

Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities and have an adverse effect on the Group's results of operations and financial condition, and in the case of a breach of compliance or antitrust regulation, could lead to reputational damage, fines and potentially criminal sanctions.

The Group may become liable for claims arising in respect of conduct prior to any merger or acquisition of businesses if deemed to be a successor to the liabilities of the acquired company or indemnification claims relating to divestitures, and any resulting adverse judgment against the Group may adversely affect its results of operations and financial condition.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

**Risk: Unforeseen underperformance in key global markets.****Description**

A substantial majority of the Group's profit from operations is based on its operations in certain key markets, including the US. A number of these markets are declining for a variety of factors, including price increases, restrictions on advertising and promotions, smoking prevention campaigns, increased pressure from anti-tobacco groups, migration to smokeless products and private businesses adopting policies that prohibit or restrict, or are intended to discourage, smoking and tobacco use.

Economic and political factors affecting the Group's key markets include the prevailing economic climate, governmental austerity measures, levels of employment, inflation, governmental action to increase minimum wages, employment costs, interest rates, raw material costs, consumer confidence and consumer pricing.

**Impact**

Any change to the economic and political factors in any of the key markets in which the Group operates could affect consumer behaviour and have an impact on the Group's results of operations and financial condition.

**Risk: Increases in net liabilities under the Group's retirement benefit schemes.****Description**

The Group currently maintains and contributes to defined benefit pension plans and other post-retirement benefit plans that cover various categories of employees and retirees worldwide. The Group's obligations to make contributions under these arrangements may increase in the case of increases in pension liabilities, decreases in asset returns, salary increases, inflation, decreases in long-term interest rates, increases in life expectancies, changes in population trends and other actuarial assumptions.

Please refer to the information under the caption 'Retirement benefit schemes' on page 158 and to note 11 in the Notes on the Accounts for details of the Group's retirement benefit schemes.

**Impact**

Higher contributions to the Group's retirement benefit schemes could have an adverse impact on the Group's results of operations, financial condition and ability to raise funds.

**Risk: Adverse consequences of the UK's exit from the EU.****Description**

The consequences of the UK's exit from the EU are uncertain, but could include reductions in the size of the UK market, down-trading as a result of affordability pressure/weakening economy in the UK, an increased cost of doing business in the UK, higher cost of capital in the UK and both transactional and translational foreign exchange impacts, disruption to supply of materials due to changed customs procedures or duties, increased complexity and scrutiny on tax-related activities, or other changes to UK law. In addition, the UK's exit from the EU may impose restrictions on employment and cross-border movements.

**Impact**

Any of the consequences of the UK's exit from the EU may have a negative effect on the Group's results of operations and financial conditions. In addition, any restrictions on employment and cross-border movements may result in additional employment and hiring costs and reduce the Group's ability to attract and retain highly talented individuals from the EU in the UK.

**Product pipeline, commercialisation and Intellectual Property risks****Risk: Inability to predict consumers' changing behaviours and launch innovative products that offer adult tobacco and nicotine consumers meaningful value-added differentiation.****Description**

The Group focuses its research and development activities on both creating new products, including New Category product, and maintaining and improving the quality of its existing products. In a competitive market, the Group believes that innovation is key to growth. The Group considers that one of its key challenges in the medium and long term is to provide adult tobacco and nicotine consumers with high-quality products that take into account their changing preferences and expectations, including those in relation to ESG, while complying with evolving regulation.

The Group is in the early stages of development and roll-out of its New Category portfolio which requires significant initial investment. The Group may be unsuccessful in developing and launching innovative products or maintaining and improving the quality of existing products across both combustibles and New Categories that offer consumers meaningful value-added differentiation. The Group may fail to keep pace with innovation in its sector or changes in consumer expectations and is also exposed to the risk of an inability to build a strong enough brand equity through social media and other technological tools to compete with its competitors. There are potential bans and restrictions in key markets when using social media to advertise and communicate. Competitors may be more successful in predicting changing consumer behaviour, developing and rolling out consumer-relevant products and may be able to do so more quickly and at a lower cost.

In addition, the Group devotes considerable resources to the research and development of innovative products, in particular in New Categories that may have the potential to reduce the risks of smoking-related diseases. The complex nature of research and development programmes necessary to satisfy emerging regulatory and scientific requirements creates a substantial risk that these programmes will fail to demonstrate health-related claims regarding New Categories or to achieve adult tobacco consumer, regulatory and scientific acceptance.

Furthermore, the regulatory environment impacting non-combustible tobacco products, vapour products and other non-tobacco nicotine products, including classification of products for regulatory and excise purposes, is still developing and it cannot be predicted whether regulations will permit the marketing of such New Categories in any given market in the future. Categorisation as medicines, for example, and restrictions on advertising could stifle innovation, increase complexity and costs and significantly undermine the commercial viability of these products. Alternatively, categorisation of any New Categories, as tobacco products for instance, could result in the application of onerous regulation, which could further stifle uptake.

**Impact**

The inability to timely develop and roll out innovations or products in line with consumer demand, including any failure to predict changes in adult tobacco consumer and societal behaviour and expectations and to fill gaps in the product portfolio, as well as the risk of poor product quality, could lead to missed opportunities, under- or over-supply, loss of competitive advantage, unrecoverable costs and/or the erosion of the Group's consumer base or brand equity.

Restrictions on packaging and labelling or on promotion and advertising could impact the Group's ability to communicate its innovations and product differences to adult tobacco consumers, leading to unsuccessful product launches. An inability to provide robust scientific results sufficient to substantiate health-related product claims poses a significant threat to the ability to launch innovative products and comply with emerging regulatory and legal regimes.

The occurrence of any of the above effects could in turn have an adverse effect on the Group's results of operations and financial condition and cause the Group to fail to deliver on its strategic growth plans.

**GROUP RISK FACTORS****CONTINUED****Risk: Exposure to risks associated with intellectual property rights, including the failure to identify, protect and prevent infringement of the Group's intellectual property rights and potential infringement of, or the failure to retain licences to use, third-party intellectual property rights.****Description**

The Group relies on trademarks, patents, registered designs, copyrights and trade secrets. The brand names under which the Group's products are sold are key assets of its business. The protection and maintenance of the reputation of these brands is important to the Group's success. Protection of intellectual property rights is also important in connection with the Group's innovative products, including New Categories.

The Group is exposed to the risk of infringements of its intellectual property rights by third parties due to limitations in judicial protection, failure to identify, protect and register its innovations and/or inadequate enforceability of these rights in some markets in which the Group operates.

Some brands and trademarks under which the Group's products are sold are licensed for a fixed period of time in certain markets. If any of these licences are terminated or not renewed after the end of the applicable term, the Group would no longer have the right to use, and to sell products under, those brand(s) and trademark(s).

In addition, as third-party rights are not always identifiable, the Group may be subject to claims for infringement of third-party intellectual property rights.

**Impact**

Any erosion in the value of the Group's brands, or failure to obtain or maintain adequate protection of intellectual property rights for any reason, or the loss of brands or trademarks under licence to Group companies, may have a material adverse effect on the Group's market share, results of operations and financial condition. Any inability to appropriately protect the Group's products and key innovations will also limit its growth and affect competitiveness and return on innovation investment.

Any infringement of third-party intellectual property rights could result in interim injunctions, product recalls, legal liability and the payment of damages, any of which may disrupt operations, negatively impact the Group's reputation and have an adverse effect on its results of operations and financial condition.

# REGULATION OF THE GROUP'S BUSINESS

## Overview

The Group's businesses operate under increasingly stringent regulatory regimes worldwide. The tobacco industry is one of the most highly-regulated in the world, with manufacturers required to comply with a variety of different regulatory regimes across the globe. The Group continues to respond to these regimes and engages with governments and other regulatory bodies to find solutions to changing regulatory landscapes. Restrictions on the manufacture, sale, marketing and packaging of tobacco products are in place in nearly all countries and markets.

Regulation can typically be categorised as follows:

- **Place:** including regulations restricting smoking in private, public and work places (e.g. public place smoking bans);
- **Product:** including: regulations on the use of ingredients, product design and attributes (e.g. ceilings regarding tar, nicotine and carbon monoxide yields, as well as restrictions on flavours); product safety regulations (e.g. General Product Safety Directive (2001/95/EC), electrical safety regulations and reduced cigarette ignition propensity standards); and regulatory product disclosure requirements (e.g. in relation to ingredients and emissions);
- **Packaging and labelling:** including regulations on health warnings and other government-mandated messages (e.g. in respect of content, positioning, size and rotation); restrictions on the use of certain descriptors and brand names; requirements on pack shape, size, weight and colour and mandatory plain packaging;
- **Sponsorship, promotion and advertising:** including partial or total bans on tobacco advertising, marketing, promotions and sponsorship and restrictions on brand sharing and stretching (the latter refers to the creation of an association between a tobacco product and a non-tobacco product by the use of tobacco branding on the non-tobacco product);
- **Purchase:** including regulations on the manner in which tobacco products are sold, such as type of outlet (e.g. supermarkets and vending machines) and how they are sold (e.g. above-the-counter versus beneath-the-counter); and
- **Price:** including regulations which have implications for the prices that manufacturers can charge for their tobacco products (e.g. excise taxes and minimum prices).

In addition, the Group operates a number of global policies, and in some cases its businesses have also entered into voluntary agreements, which may impose more onerous obligations or standards than those imposed by local legislation.

## World Health Organization Framework Convention on Tobacco Control

Much of the recent development in regulation at a global level has been driven by the World Health Organization Framework Convention on Tobacco Control (FCTC). The FCTC came into force in 2005 and contains provisions aimed at, among other things, reducing tobacco consumption and toxicity. The original treaty is supplemented by protocols and guidelines. While these guidelines are not legally binding, they provide a framework of recommendations for parties to the guidelines.

To date, the FCTC has been ratified by 181 countries, not including the US. The FCTC has led to increased efforts by tobacco-control advocates and public health organisations to reduce the supply of, and demand, for tobacco products, and to encourage governments to further regulate the tobacco industry. As national regulations increasingly reflect global influences, the scope of areas regulated will likely further expand. The guidelines on advertising, promotion and sponsorship, for example, seek to broaden the definition of tobacco advertising to include product display, the use of vending machines as well as the design of the pack itself. Where adopted by contracting parties, a number of the measures referred to in the guidelines may result in either additional costs for the tobacco industry or restrictions on a manufacturer's ability to differentiate its products and communicate those differences to adult smokers. For example, a change in the number and size of on-pack health warnings requires new printing cylinders to be commissioned, while the implementation of new plant protection product standards, product testing and the submission of ingredients information to national governments require extensive resources, time and material.

## EU Tobacco and Related Products Directive (2014/40/EU)

Other developments in regulation have been driven by tobacco control activities undertaken outside the FCTC process. For example, the EU Tobacco Products Directive (2001/37/EC), referred to as TPD1, was adopted by the EU in May 2001 for transposition into EU member states' laws by September 2002. TPD1 included provisions that set maximum tar, nicotine and carbon monoxide yields, introduced larger health warnings and banned descriptors such as 'light' and 'mild'.

A revised TPD1, the EU Tobacco and Related Products Directive (2014/40/EU), referred to as the TPD2, was adopted in April 2014 for transposition into EU member states' law by May 2016. Provisions of the TPD2 include: larger combined pictorial and textual health warnings covering 65% of the two main pack surfaces (front and back) for cigarettes; restrictions on pack shape and size, including minimum pack sizes of 20 sticks for cigarettes and 30g for roll-your-own and make-your-own tobacco; increased ingredients reporting; 'tracking and tracing' requirements; and for e-cigarettes: nicotine limits, pre-market notification, ingredients reporting and advertising bans. Among other things, the TPD2 bans the sale of cigarettes and roll-your-own tobacco with a characterising flavour. Menthol-flavoured cigarettes are exempt from the ban until May 2020. (See 'The US' for information pertaining to the regulation of menthol in that market.)

The TPD2 also purports to leave open to EU member states the possibility of further standardising the packaging of tobacco products and to apply its provisions in different ways. For example, it provides, among other things, that the labelling, packaging and the tobacco product itself shall not include any element or feature that suggests that a particular tobacco product has vitalising, energetic, healing, rejuvenating, natural or organic properties or has other health or lifestyle benefits. On 1 February 2017, the French government applied its laws transposing these provisions into French national law to prohibit the sale of all variants of Vogue cigarettes from February 2018, as well as the use of certain other tobacco brand and brand variant names. The law was subsequently annulled, but France may seek to reintroduce it. On 26 April 2019, Belgium adopted a Royal Decree that allows the Minister of Health to establish a procedure to put brands on a prohibited list and to draw up such a list. To date, such a procedure has not yet been established by the Belgian Minister of Health.

## REGULATION OF THE GROUP'S BUSINESS

### CONTINUED

#### **Single-use plastics**

The Single Use Plastics Directive (EU) 2019/904 (the SUP Directive) entered into force on 02 July 2019. The Directive requires that EU Member States introduce Extended Producer Responsibility (EPR) schemes covering the cost to clean up litter and the application of on-pack marking requirements for tobacco product filters. Member States must transpose the SUP Directive into national law by 3 July 2021, with an implementation deadline of 5 January 2023.

Other governments have passed or are considering similar legislation including Russia, South Korea and various levels of government in the United States.

#### **Restrictions on smoking in private, public and work places**

The Group operates in a number of markets which have in place restrictions on smoking in certain private, public and work places, including restaurants, bars and nightclubs. While these restrictions vary in scope and severity, extensive public and work place smoking bans have been enacted in markets including the US, Canada, the UK, Spain, New Zealand and Australia. Restrictions on smoking in private have also been adopted or proposed, and typically take the form of prohibitions on smoking in cars or residential homes when children are present, or smoking within a certain distance from specified public places (such as primary schools).

#### **Regulation of ingredients, including flavoured tobacco products**

A number of countries have restricted and others are seeking to restrict or ban the use of certain flavours or ingredients in cigarettes and other tobacco products, on the basis that such products are alleged to appeal disproportionately to minors, act as a catalyst for young people taking up smoking and/or increase the addictiveness or toxicity of the relevant product.

In Canada, the manufacture and sale of cigarettes, little cigars and blunt wraps with characterising flavours are banned, and a federal menthol ban for cigarettes is in effect across the country. In Australia, the majority of the states have banned flavours in cigarettes that give an 'overtly' fruit-flavoured taste and the government is reportedly considering further regulatory options. The TPD2 similarly bans the manufacture and sale of cigarettes and roll-your-own tobacco with a characterising flavour other than tobacco, subject to an exemption until May 2020 for menthol cigarettes.

An ingredients ban in Brazil, which would ban the use of certain ingredients with flavouring or aromatic properties, including menthol, is not currently in force due to ongoing legal challenges. In Turkey, a ban on the use of menthol in cigarettes has been fully implemented as of 5 January 2020. A number of the above regulations are subject to ongoing legal challenges. (See 'The US' for information pertaining to the regulation of menthol in that market).

Further legislation on ingredients is to be expected. In particular, the EU Commission is required to prepare a report by no later than 20 May 2021 in respect of, among other things, the benefits of establishing a single list of permitted ingredients at the EU level by reference to available scientific evidence on the toxic and addictive effects of different ingredients. Similarly, the Conference of Parties to the FCTC has tasked a working group to further elaborate the partial guidelines on the regulation of the contents of tobacco products and tobacco product disclosures.

#### **Plain and standardised packaging**

Plain (or 'standardised') packaging generally refers to a ban on the use of trademarks, logos and colours on packaging other than the use of a single colour and the presentation of brand name and variant in a specified font and location(s). The presentation of individual cigarettes may be similarly restricted.

Plain packaging is high on the agenda of tobacco control groups, and the FCTC guidelines recommend that contracting parties consider introducing plain packaging. To date, 19 countries (including Australia, Belgium, Canada, France, Ireland, New Zealand, Saudi Arabia, Singapore, Turkey, and the UK) have adopted plain packaging legislation, although in the majority of those countries the legislation has not yet been fully implemented. Countries, territories and states that are currently considering adopting plain packaging legislation include, but are not limited to, Brazil, Chile, Denmark, the Netherlands, and South Africa. Others, such as South Korea, are considering implementing large graphic health warnings.

#### **Product display bans at point of sale and licensing regimes**

Product display bans at point of sale and licensing regimes have been in place in a number of countries for several years and have been implemented both at national and state levels. Ireland was the first EU member state to introduce a point-of-sale display ban, which became effective in July 2009, with Norway, Iceland, Finland, New Zealand, Thailand, Canada, Australia, the UK and a number of other countries implementing or passing similar legislation banning tobacco displays. A number of countries, such as Hungary, have also sought to restrict the supply of tobacco products, including through the adoption of licensing regimes limiting the number of retail outlets from which it is possible to purchase tobacco products and/or by prohibiting the sale of tobacco products within a certain distance of specified public places.

#### **Illicit trade**

The illegal market for tobacco products is an increasingly important issue for governments and the industry across the world.

Euromonitor International estimates that approximately 456 billion cigarettes per year are smuggled, manufactured illegally or counterfeited. A number of governments, regulators and organisations have or are considering adopting regulation to support anti-illicit trade activities. Among other forms, such regulation may comprise mandatory 'tracking and tracing' requirements, enabling regulators to identify the point at which any seized product left the legal supply chain, security features to combat counterfeiting and inspection and authentication obligations in respect of seized product. The TPD2, for example, requires that all unit packets of tobacco are marked with a unique and irremovable identifier, which when scanned provides various information about that product's route to market.

In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products which includes a raft of supply chain control measures, including the implementation of 'tracking and tracing' technologies. The Protocol entered into force on 25 September 2018 and was considered at the first session of the Meeting of the Parties to the Protocol in October 2018. As at 1 January 2020, 58 parties have ratified the Protocol.

## Vapour products

More recently, significant debate has been generated regarding the appropriate regulation of vapour products, including regulation of the nicotine liquids used in them. As the nascent vapour category has grown in size and complexity in a relatively short period of time, a consensus framework for regulation and taxation has yet to emerge. The TPD2, for example, establishes frameworks for the regulation of novel tobacco products and e-cigarettes, introducing nicotine limits, health warnings requirements, advertising bans and pre-market notification and post-market disclosure obligations. Conversely, some governments have intentionally banned or are seeking to ban novel tobacco products and products containing nicotine, while others would need to amend their existing legislation in order to permit their sale. For example, in Australia nicotine is classified as poison, meaning that the importation of vaping products or nicotine refill liquids is illegal in every state and territory, as is the possession and use of these products. Even in countries where the sale of vapour products is permitted, some governments have adopted, or are seeking to adopt, bans on vaping in public places. Recent reports in North America of individuals experiencing acute respiratory injury in suspected association with vaping certain e-liquids (EVALI) and youth usage have led to an increase in scrutiny of vapour products, especially at State and Provincial levels in the United States and Canada.

## The US

Through the RAI subsidiaries, the Group is subject to US federal, state and local laws and regulations. In 2009, President Obama signed into law the Family Smoking Prevention and Tobacco Control Act (FSPTCA), which grants the US Food & Drug Administration (FDA) broad authority over the manufacture, sale, marketing and packaging of tobacco products but at the outset limited the agency's authority to cigarettes, smokeless tobacco products, cigarette tobacco and roll-your-own tobacco products. Key elements of the FSPTCA include: filing of facility registrations, product listing, constituent testing and ingredient information; obtaining FDA clearance for all new products or product modifications; banning all characterising flavours other than tobacco or menthol in cigarettes; establishing 'user fees' to fund the FDA's regulation of tobacco products; increasing the health warning size on cigarette packs with the option to introduce pictorial health warnings; implementing good manufacturing practices; revising the labelling and advertising requirements for smokeless tobacco products; and requiring the study of menthol. The US Congress did limit the FDA's authority in two areas, prohibiting it from:

- banning categories of tobacco products; and
- requiring the reduction of nicotine yields of a tobacco product to zero.

On 10 May 2016, the FDA issued a final regulation, referred to as the Deeming Rule, deeming all remaining products that meet the FSPTCA's definition of 'tobacco product' to be subject to the FDA's regulatory authority under the FSPTCA. The Final Rule became effective as of 8 August 2016, though each requirement of the Final Rule has its own compliance date. Such newly 'deemed' tobacco products subject to the FSPTCA include, among others, electronic nicotine delivery systems (including e-cigarettes, e-hookah, e-cigars, vape pens, advanced refillable personal vapourisers, electronic pipes and e-liquids mixed in vape shops), certain dissolvable tobacco products, cigars and pipe tobacco.

The 'grandfather' date under the Final Rule for newly deemed products remains the same as the 'grandfather' date for those tobacco products already subject to the FSPTCA – 15 February 2007. Any tobacco product that was not legally marketed as of 15 February 2007 will be considered a new tobacco product subject to pre-market review by the FDA. The FDA has recognised that few, if any, e-cigarettes were on the market as of 15 February 2007, but thousands of such products (including R.J. Reynolds Vapor's Vuse Digital Vapor Cigarette) subsequently have entered into commerce. To address this issue, the FDA established a compliance policy regarding the pre-market review requirements for all newly deemed tobacco products that are not grandfathered products, but were on the market as of 8 August 2016. The FDA will allow such products to remain on the market so long as the manufacturer has filed the appropriate Premarket Tobacco Application (PMTA) by a specific deadline.

The Final Rule established staggered initial compliance periods based on the expected complexity of the applications to be submitted. On 28 July 2017, as part of the FDA's announcement of a comprehensive regulatory plan for nicotine and tobacco, the FDA extended the deadline for submission of PMTAs for newly deemed products by several years (for e-cigarettes, the new deadline was August 2022). However, as a result of legal action, in July 2019 a federal court ultimately brought forward the filing deadline for non-combustible products to 12 May 2020. This court decision has been appealed and is currently under judicial review. In October 2019, R.J. Reynolds Vapor filed PMTAs for Vuse Solo and intends to file PMTAs for Vuse Vibe, Ciro, and Alto, as well as Revel and Velo, by May 2020. In the case of the later three PMTAs, certain data from ongoing tests will not be included, but will be submitted during the FDA review process. Based on the FDA's draft guidance setting forth the type of evidence that must be included within a pre-market review application, R.J. Reynolds Vapor expects the costs of preparing a PMTA to be significant.

In January 2020, the FDA reinforced the filing deadline of 12 May 2020 in its Guidance related to vapor, but reversed its previous compliance policy that allowed products to remain on the market without a PMTA and to enforce (as of February 2020) the PMTA requirements on certain products as follows: 1) Flavoured, cartridge-based vapor products except for tobacco- or menthol-flavoured products; 2) All other vapor products for which the manufacturer has failed to take (or is failing to take) adequate measures to prevent minors' access; 3) Any vapor products that targets or whose marketing is likely to promote use by minors; and 4) Any vapor product that is offered for sale in the United States after 12 May 2020, and for which the manufacturer has not submitted a premarket application. Flavoured disposable vapor products and flavoured open systems would remain available for sale unless 1) the manufacturer has failed to take adequate measures to prevent minors' access, 2) product that targets or whose marketing is likely to promote use by minors, or 3) fails to file PMTA by 12 May 2020.

## REGULATION OF THE GROUP'S BUSINESS

### CONTINUED

#### Comprehensive plan for tobacco and nicotine regulation

On 28 July 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation that recognises the continuum of risk for nicotine delivery. As part of that plan, the FDA planned to publish an Advance Notice of Proposed Rulemaking (ANPRM) to seek public input regarding the potential health benefits and possible adverse effects of lowering the level of nicotine in combustible cigarettes. The ANPRM would request comments from interested stakeholders regarding the potential impact of a nicotine product standard on, among other things:

- the likelihood that existing users of tobacco products will stop using cigarettes;
- the likelihood that those who do not use tobacco products will start using such products; and
- the illicit trade of cigarettes containing nicotine at levels higher than a non-addictive nicotine threshold.

In addition, the Center for Tobacco Products (CTP), which was established within the FDA in 2009, will coordinate with the FDA Center for Drug Evaluation and Research regarding medicinal nicotine and other therapeutic products as part of an agency-wide nicotine framework. As part of the comprehensive plan, the FDA also announced its intent to issue ANPRMs requesting public stakeholder input on the impact of flavours (including menthol) in increased initiation among youth and young adults as well as assisting adult smokers to switch to potentially less harmful forms of nicotine delivery, and the patterns of use and public health impact of premium cigars. This follows on from the FDA's decision to issue its own preliminary scientific evaluation regarding menthol cigarettes in 2013, which concluded that menthol cigarettes adversely affect initiation, addiction and cessation compared to non-menthol cigarettes.

In 2018, the FDA took several steps to further this plan. Firstly, in January 2018, the FDA held a public hearing to obtain input from a broad group of stakeholders on ways to streamline the regulatory process for the issuance of therapeutic claims for nicotine products. Secondly, in March 2018, the agency issued three ANPRMs, seeking information on (1) the lowering of nicotine levels to non-addictive or minimally addictive levels, (2) the impact of flavours (including menthol) in increased initiation among youth and young adults as well as assisting adult smokers to switch to potentially less harmful forms of nicotine delivery, and (3) the patterns of use and public health impact of premium cigars.

#### Additional regulation

In addition to the ANPRMs on reduced nicotine products and flavours, the FDA, in April 2019, issued a proposed rule on the format and content of substantial equivalence applications. This follows on the FDA's previous statements regarding the development of foundational rules so as to provide clarity and predictability to the tobacco product submission process, including not only substantial equivalence applications but new product applications as well as MRTP applications. To that end, FDA, in September 2019, published a proposed rule on the format and content of Premarket Tobacco Product Applications.

Under the FSPTCA, for a manufacturer to launch a new tobacco product or modify an existing tobacco product after 22 March 2011, the manufacturer must obtain an order from the CTP allowing the new or modified product to be marketed. Similarly, a manufacturer that introduced a cigarette or smokeless tobacco product between 15 February 2007 and 22 March 2011 was required to file a substantial equivalence report with the CTP demonstrating either (1) that the new or modified product had the same characteristics as a product commercially available as at 15 February 2007, referred to as a predicate product, or (2) if the new or modified product had different characteristics than the predicate product, that it did not raise different questions of public health. A product subject to such report is referred to as a provisional product. A manufacturer may continue to market a provisional product unless and until the CTP issues an order that the provisional product is not substantially equivalent (NSE), in which case the FDA could then require the manufacturer to remove the provisional product from the market. Substantially, all RAI subsidiaries' products currently on the market are provisional products. At present, there is substantial uncertainty over the approaches that the FDA and CTP will take to determining RAI subsidiaries' MRTP applications, PMTAs and substantial equivalence reports.

In January 2017, the FDA issued its first proposed product standard just prior to President Trump's inauguration whereby the agency would require the reduction, over a three-year period, of the levels of N-nitrosornicotine (NNN) contained in smokeless tobacco products. Since issuing this proposal, the agency has simply stated that it is evaluating submitted comments. It is not known whether or when this proposed rule will be adopted, and, if adopted, whether the final rule will be the same as or similar to the proposed rule.

On 18 December 2017, the CTP accepted for review MRTP applications for six Camel Snus smokeless tobacco products. In 2018, the CTP began its review of these applications which included facility inspections and a meeting on 13-14 September 2018 before the Tobacco Product Scientific Advisory Committee for its review and recommendation. The FDA is completing its independent review of the applications with no announced deadline for the agency to complete its review.

Cigarettes and other tobacco products are subject to substantial taxes in the US. All states and the District of Columbia currently impose cigarette excise taxes. Certain city and county governments, such as New York, Philadelphia and Chicago, also impose substantial excise taxes on cigarettes sold in those jurisdictions. Also, all states and the District of Columbia currently subject smokeless tobacco products to excise taxes. Various states and the District of Columbia impose a tax on vapour products, such as e-cigarettes, and many other states have proposed taxes on vapour products. Currently, there is no federal tax on vapour products, such as e-cigarettes.

State and local governments also consider and implement other legislation and regulation regarding the sale of tobacco products. Measures include, among others, limiting or prohibiting the sale of flavours in tobacco products, restricting where tobacco products may be sold and increasing the minimum age to purchase tobacco products.

The Group believes that, as a responsible business, it can contribute through information, ideas and practical steps, to help regulators address the key issues regarding its products, including underage access, illicit trade, product information, product design, involuntary exposure to smoke and the development of potentially less harmful products, while maintaining a competitive market that accommodates the significant percentage of adults who choose to be tobacco consumers. The Group is committed to working with national governments and multilateral organisations and welcomes opportunities to participate in good faith to achieve sensible and balanced regulation of traditional tobacco and potentially reduced-risk products.

# DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRA)

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities sanctioned under programmes relating to terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the US by non-US affiliates in compliance with applicable law, and whether or not the activities are sanctionable under US law.

As of the date of this report, BAT is not aware of any activity, transaction or dealing by the Group or any of its affiliates during the financial year ended 31 December 2019 that is disclosable under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Exchange Act, except as set forth below. This information is to the best of BAT's knowledge.

BAT has a local operation in Iran, established on 18 October 2003, through its wholly-owned non-US subsidiary, B.A.T. Pars Company (Private Joint Stock) (BAT Pars). BAT Pars produces its products, which include Kent, Pall Mall and Montana brands, in its own factory in Eshtehard, which is in the Alborz province of Iran. BAT Pars distributes its product via 75 sub-agents with national and provincial distribution licences, who sell products to wholesalers and retailers with the support of BAT Pars' sales representatives. BAT Pars has 307 direct employees and an additional 1,159 contract workers supplied by a private company.

Concerning the business of BAT Pars, various elements such as income tax, payroll, social security, other taxes, excise, monopoly fees, duties and other fees, including for utilities, licences and judicial fees to commence litigation, are payable to the Government of Iran and affiliated entities regarding BAT Pars' operation. BAT Pars maintains bank accounts in Iran with various banks to facilitate its operations in the country and to make any required payments, as described above, to the Government of Iran and affiliated entities regarding its operations.

During the year ended 31 December 2019, BAT did not have any gross revenues or net profits derived from transactions with the Government of Iran or affiliated entities.

BAT believes, and maintains policies and procedures designed to ensure, that its activities in Iran and elsewhere comply in all material aspects with the applicable and relevant trade sanctions laws and regulations, including US and other international trade sanctions and/or embargoes. BAT's sanctions policies and procedures have been designed to be as robust as possible. However, there can be no absolute assurance that these policies and procedures will be effective. Were they to be ineffective, penalties or sanctions could be imposed against BAT, which could be material. To the extent permitted under applicable law, and as long as it continues to meet BAT's risk management and operational requirements, BAT Pars' activities in Iran are expected to continue.

# MATERIAL CONTRACTS

## The Master Settlement Agreement & State Settlement Agreements

In 1998, the major US cigarette manufacturers (including R.J. Reynolds Tobacco Company, Lorillard and Brown & Williamson, businesses which are now part of Reynolds American) entered into the Master Settlement Agreement (MSA) with attorneys general representing most US states and territories. The MSA imposes a perpetual stream of future payment obligations on the major US cigarette manufacturers. The amounts of money that the participating manufacturers are required to annually contribute are based upon, among other things, the volume of cigarettes sold and market share (based on cigarette shipments in that year).

During 2012, R.J. Reynolds Tobacco Company, various other tobacco manufacturers, 17 states, the District of Columbia and Puerto Rico reached a final agreement related to Reynolds American's 2003 MSA activities, and three more states joined the agreement in 2013. Under this agreement, R.J. Reynolds Tobacco Company has received credits of more than US\$1 billion in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits have been applied against the company's MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations. During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. R.J. Reynolds Tobacco Company received US\$170 million in credits, which have been applied over a five-year period from 2014. During 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014. R.J. Reynolds Tobacco Company received US\$285 million in credits, which have been applied over a four-year period from 2016. During 2016, no additional states agreed to settle NPM disputes. During 2017, two more states agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US\$61 million in credits, which will be applied over a five-year period from 2017. During 2018, nine more states agreed to settle NPM disputes related to claims for the period 2004 to 2019, with an option through 2022, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$182 million in credits for settled periods through 2017, which will be applied over a five-year period from 2018. Also in 2018, one additional state agreed to settle NPM disputes related to claims for the period 2004 to 2024, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$205 million in credits for settled periods through 2017, which will be applied over a five-year period from 2019. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjusting items. Only credits in respect of prior year payments are included as adjusting items.

The BAT Group is subject to substantial payment obligations under the MSA and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (such settlement agreements, collectively State Settlement Agreements). RAI's operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2019 amounted to US\$2,762 million in respect of settlement expenses and US\$2,918 million in respect of settlement cash payments. RAI's operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2018 amounted to US\$2,741 million in respect of settlement expenses and US\$917 million in respect of settlement cash payments.

## Change of control provisions as at 31 December 2019

### Significant agreements

Nature of agreement	Key provisions
The revolving credit facilities agreement effective 25 July 2017 and entered into between the Company, B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V., British American Tobacco Holdings (The Netherlands) B.V. and B.A.T Capital Corporation (as borrowers and, in the case of the Company, as a guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders), pursuant to which the lenders agreed to make available to the borrowers £6 billion for general corporate purposes (the Facility).	<ul style="list-style-type: none"> <li>– should a borrower (other than the Company) cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it; and</li> <li>– where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the Facility to be repaid.</li> </ul>
Term loan facilities agreement dated 16 January 2017: B.A.T. International Finance p.l.c. and B.A.T Capital Corporation (as borrowers), the Company, (as guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers US\$25 billion for the acquisition of RAI. Facilities A and B have been repaid and facilities C and D, totalling the sterling equivalent of US\$5 billion, are still outstanding.	<ul style="list-style-type: none"> <li>– should a borrower cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it; and</li> <li>– where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the term loan facilities to be repaid.</li> </ul>
Packaging Materials Agreement dated 8 April 2015, between Souza Cruz S.A. and Amcor Group GmbH for the production and supply of packaging for a value of R\$1.5 billion.	<ul style="list-style-type: none"> <li>– that either party may terminate the agreement in the event of any direct or indirect acquisition of at least 25% of the voting shares of the supplier and/or its affiliates by directly or indirectly a competitor of Souza Cruz S.A., importer or distributor.</li> </ul>
On 25 July 2017, the Company acceded as a guarantor under the indenture of its indirect, wholly-owned subsidiary RAI. The securities issued under the indenture include approximately US\$11 billion aggregate principal amount of unsecured RAI debt securities.	<ul style="list-style-type: none"> <li>– with respect to each series of debt securities issued under the indenture, upon a change of control event, combined with a credit ratings downgrade of the series to below investment-grade level (such downgrade occurring on any date from the date of the public notice of an arrangement that could result in a change of control event until the end of the 60-day period following public notice of the occurrence of a change of control event), RAI is obligated to make an offer to repurchase all debt securities from each holder of debt securities. As a guarantor under the indenture, the Company guarantees such payments.</li> </ul>

### LTIPs

The rules of the long-term incentive plans 2007 and 2016 (the LTIPs).

- in the event of a change of control of the Company as a result of a takeover, reconstruction or winding-up of the Company (not being an internal reorganisation), LTIP awards will become exercisable for a limited period based on the period of time that has elapsed since the date of the award and the achievement of the performance conditions at that date, unless the Remuneration Committee determines this not to be appropriate in the circumstances; and
- the rules of the LTIPs allow (as an alternative to early release) that participants may, if permitted, exchange their LTIP awards for new awards of shares in the acquiring company on a comparable basis.

# PROPERTY, PLANT AND EQUIPMENT

The Group uses a combination of in-house and contract manufacturers to manufacture its products.

## BAT-owned manufacturing facilities<sup>1</sup>

	United States	APME	AmSSA	ENA	Total
Fully integrated cigarette manufacturing	2	16	15	12	45
Sites processing tobacco only	1	7	9	2	19
Site manufacturing other tobacco products, Snus, Modern Oral and Liquids	3	–	–	5	8
R&D facilities and Product Centres	1	1	3	2	7
<b>Total</b>	<b>7</b>	<b>24</b>	<b>27</b>	<b>21</b>	<b>79</b>

Note:

1. As of 31 December 2019.

The plants and properties owned or leased and operated by the Group's subsidiaries are maintained in good condition and are believed to be suitable and adequate for the Group's present needs.

The technology employed in the Group's factories is sophisticated, especially in the area of cigarette making and packing where throughputs can reach between 500 and 1,000 packs per minute. The Group can produce many different pack formats (e.g., the number of cigarettes per packet) and configurations (e.g., bevel edge, round corner, international) to suit marketing and consumer requirements. New technology machines are sourced from the leading machinery suppliers to the industry. Close cooperation with these organisations helps the Group support its marketing strategy by driving its product innovations, which are brought to the market on a regular basis.

The Group utilises quality standards, processes and procedures covering the entire end-to-end value chain to help to ensure quality products are provided to its customers and adult tobacco consumers according to the Group's requirements and end market regulatory requirements.

The Group has several improvement initiatives which it is currently managing. For example, the Group is continuing to realise the benefits of its Integrated Work System Programme launched in 2014, which is centrally led with an aim to improve the performance of the Group's factories globally by focusing on manufacturing standards, continuous improvement, assessment and benchmarking, and organisational development. The Group also utilises a survey process in the factories with an aim to improve factory productivity and reduce costs in the manufacturing environment. This process, known as 'Bulls Eye', has been in existence for a number of years and highlights productivity opportunities by benchmarking.

In 2019, the Group manufactured cigarettes in 45 cigarette factories in 43 countries. These plants and properties are owned or leased and operated by the Group's subsidiaries. The Group's factory outputs and establishments vary significantly in size and production capacity.

In 2019, the Group used third-party manufacturers to manufacture the components required, including the devices, related to New Categories. The Group also used third-party manufacturers to supplement the Group's own production facilities in the US and Poland to bottle the liquids used in the vapour products.

For more information on property, plant and equipment, see note 9 in the Notes on the Accounts.

# US CORPORATE GOVERNANCE PRACTICES

## Principles

In the US, ADSs of the Company are listed on the New York Stock Exchange (NYSE). The significant differences between the Company's corporate governance practices as a UK company and those required by NYSE listing standards for US companies are discussed below.

The Company has applied a robust set of board governance principles, which reflect the UK Corporate Governance Code 2018 and its principles-based approach to corporate governance. NYSE rules require US companies to adopt and disclose on their websites corporate governance guidelines. The Company complies with UK requirements, including a statement in this report of how the Company has applied the principles of the UK Corporate Governance Code 2018 and that the Company has complied with the provisions of the UK Corporate Governance Code 2018.

## Independence

The Company's Board governance principles require that all Non-Executive Directors be determined by the Board to be independent in character and judgement and free from any business or other relationships that could interfere materially with, or appear to affect, their judgement.

The Board also has formal procedures for managing conflicts of interest. The Board has determined that, in its judgement, all of the Non-Executive Directors are independent. In doing so, the Board has taken into consideration the independence requirements outlined in the NYSE's listing standards and considers these to be met by the Chairman and all of its Non-Executive Directors.

## Committees

The Company has a number of Board Committees that are broadly comparable in purpose and composition to those required by NYSE rules for domestic US companies. For instance, the Company has a Nominations (rather than nominating/corporate governance) Committee and a Remuneration (rather than compensation) Committee. The Company also has an Audit Committee, which NYSE rules require for both US companies and foreign private issuers.

These Committees are composed solely of Non-Executive Directors and, in the case of the Nominations Committee, the Chairman whom the Board has determined to be independent in the manner described above.

Each Board Committee has its own terms of reference, which prescribe the composition, main tasks and requirements of each of the Committees (see the Board Committee reports on pages 79, 83 and 111).

Under US securities law and the listing standards of the NYSE, the Company is required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and Section 303A.06 of the NYSE Listed Company Manual. The Company's Audit Committee complies with these requirements. The Company's Audit Committee does not have direct responsibility for the appointment, reappointment or removal of the independent auditors. Instead, it follows the UK Companies Act 2006 by making recommendations to the Board on these matters for it to put forward for shareholder approval at the AGM.

One of the NYSE's additional requirements for the audit committee states that at least one member of the audit committee is to have 'accounting or related financial management expertise'. The Board has determined that Luc Jobin, Holly Keller Koeppel and Kieran Poynter possess such expertise and also possess the financial and audit committee experiences set forth in both the UK Corporate Governance Code 2018 and SEC rules (see the Audit Committee report on page 83). Mr Jobin, Ms Keller Koeppel and Mr Poynter have also each been designated as an Audit Committee financial expert as defined in Item 16.A. of Form 20-F. The Board has also determined that each Audit Committee member meets the financial literacy requirements applicable under NYSE listing standards.

## Shareholder approval of equity compensation plans

The NYSE rules for US companies require that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions to those plans. The Company complies with UK requirements that are similar to the NYSE rules. The Board, however, does not explicitly take into consideration the NYSE's detailed definition of what are considered 'material revisions'.

## Codes of business conduct and ethics

The NYSE rules require US companies to adopt and disclose a code of business conduct and ethics for all directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. The Group Standards of Business Conduct (SoBC) described on pages 30 to 32 apply to all staff in the Group, including senior management and the Board, and satisfy the NYSE requirements. All Group companies have adopted the SoBC (or localised versions). The SoBC also set out the Group's whistleblowing policy, enabling staff, in confidence and anonymously, to raise concerns without fear of reprisal, including concerns regarding questionable accounting or auditing matters. The SoBC is available at bat.com/sobc.

The Company has also adopted a code of ethics for its Chief Executive, Finance Director, Group Financial Controller and Group Chief Accountant as required by the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules issued by the SEC. No waivers or exceptions to the Code of Ethics were granted in 2019. The Code of Ethics includes requirements in relation to confidentiality, conflicts of interest and corporate opportunities, and obligations for those senior financial officers to act with honesty and integrity in the performance of their duties and to promote full, fair, accurate, timely and understandable disclosures in all reports and other documents submitted to the SEC, the UK Financial Conduct Authority, and any other regulatory agency.

The Company considers that these codes and policies address the matters specified in the NYSE rules for US companies.

## Independent director contact

Interested parties may communicate directly with the independent directors, individually or as a group, by sending written correspondence addressed to the independent director(s) to the attention of the Company Secretary at the following address: c/o Paul McCrory, Company Secretary, British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG.

# CONTROLS AND PROCEDURES

## Evaluation of disclosure controls and procedures

### Disclosure controls and procedures

The Group maintains 'disclosure controls and procedures' (as such term is defined in Exchange Act Rule 13a-15(e)), that are designed to ensure that information required to be disclosed in reports the Group files or submits under the Exchange Act is recorded, processed, summarised and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management, including the Chief Executive and Finance Director, recognise that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Group have been detected. The Group's disclosure controls and procedures have been designed to meet, and management believes that they meet, reasonable assurance standards.

Management, with the participation of the Chief Executive and Finance Director, has evaluated the effectiveness of the Group disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this annual report. Based on that evaluation, the Chief Executive and Finance Director have concluded that the Group disclosure controls and procedures were effective at a reasonable assurance level.

### Management's report on internal control over financial reporting

Management, under the oversight of the Chief Executive and the Finance Director, is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. The Group's internal control over financial reporting consists of processes which are designed to: provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Group's financial statements for external reporting purposes in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB; provide reasonable assurance that receipts and expenditure are made only in accordance with the authorisation of management; and provide reasonable assurance regarding the prevention or timely detection of any unauthorised acquisition, use or disposal of assets that could have a material effect on the consolidated financial statements.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of the internal control over financial reporting (as defined in Rules 13(a)-13(f) and 15(d)-15(f) under the US Securities Exchange Act of 1934) based on the updated Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) (2013). Based on that assessment, management has determined that the Group's internal control over financial reporting was effective as at 31 December 2019.

Any internal control framework, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of controls and procedures and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

»KPMG LLP, an independent registered public accounting firm, who also audit the Group's consolidated financial statements, has audited the effectiveness of the Group's internal control over financial reporting as at 31 December 2019 and has issued an unqualified report thereon, which is included in this document.»

### Changes in internal control over financial reporting

During the period covered by this report, there were no changes in the Group's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting.

# STATEMENTS REGARDING COMPETITIVE POSITION

Statements referring to the competitive position of BAT and its subsidiaries are based on the Group's belief and best estimates. In certain cases, such statements and figures rely on a range of sources, including investment analyst reports, independent market surveys, and the Group's own internal assessments of market share.

# DIRECTORS' REPORT INFORMATION

This Other Information section of the British American Tobacco Annual Report and Form 20-F, which includes Additional Disclosures and Shareholder Information, forms part of, and includes certain disclosures which are required by law to be included in, the Directors' Report.

## Strategic Report disclosures

Section 414C(11) of the Companies Act 2006 allows the Board to include in the Strategic Report information that it considers to be of strategic importance that would otherwise need to be disclosed in the Directors' Report. The Board has chosen to take advantage of this provision and accordingly, the information set out below, which would otherwise be required to be contained in the Directors' Report, has been included in the Strategic Report.

Information required in the Directors' Report	Section in the Strategic Report
Information on dividends	Financial review
Certain risk information about the use of financial instruments	Financial review
An indication of likely future developments in the business of the Group	A strategy for accelerated growth
An indication of the activities of the Group in the field of research and development	Building world-class capabilities for innovation Our business model
A statement describing the Group's policy regarding the hiring, continuing employment and training, career development and promotion of disabled persons	Delivering our strategy: Winning organisation
Details of employee engagement: information, consultation, regard to employee interests, share scheme participation and the achievement of a common awareness of the financial and economic factors affecting the performance of the Group	Engaging with our stakeholders Delivering our strategy: Winning organisation
Details of business relationships: Directors' regard to business relationships with customers, suppliers and other external stakeholders	Engaging with our stakeholders
Details of charitable donations	Delivering our strategy: Sustainability
Disclosures concerning greenhouse gas emissions	Delivering our strategy: Sustainability

## Shareholder information disclosures

Information required in the Directors' Report	Section in Other Information
Change of control provisions	Material contracts
Information on dividends	Dividends
Share capital – structure and voting rights; restrictions on transfers of shares	Articles of Association
Major shareholders	Share capital and security ownership
Directors – appointment and retirement	Articles of Association
Amendment of Articles of Association	Articles of Association
Directors – share buy-back powers	Purchases of shares

## Listing Rules (LRs) disclosures

For the purpose of LR 9.8.4C R the applicable information required to be disclosed by LR 9.8.4 R	Section in Other Information
Section (12) – shareholder waivers of dividends	Group Employee Trust
Section (13) – shareholder waivers of future dividends	Group Employee Trust

## Directors: interests and indemnities

Interests	<ul style="list-style-type: none"> <li>– details of Directors' remuneration and emoluments, and their interests in the Company's shares (including share options and deferred shares) as at 31 December 2019 are given in the Remuneration Report; and</li> <li>– no Director had any material interest in a contract of significance (other than a service contract) with the Company or any subsidiary company during the year.</li> </ul>
Insurance	– appropriate cover provided in the event of legal action against the Company's Directors.
Indemnities	<ul style="list-style-type: none"> <li>– provision of indemnities to Directors in accordance with the Company's Articles of Association and to the maximum extent permitted by law; and</li> <li>– as at the date of this report, such indemnities are in force covering any costs, charges, expenses or liabilities that they may incur in or about the execution of their duties to the Company or to any entity which is an associated company (as defined in Section 256 of the Companies Act 2006), or as a result of duties performed by them on behalf of the Company or any such associated company.</li> </ul>

## Directors' Report approval and signature

The Directors' Report comprises the information on pages 63 to 89 and page 114<sup>®</sup> and pages 254 to 323. The Directors' Report was approved by the Board of Directors on 17 March 2020 and signed on its behalf by Paul McCrory, Company Secretary.

# CAUTIONARY STATEMENT

This document contains certain forward-looking statements, including "forward-looking" statements made within the meaning of Section 21E of the United States Securities Exchange Act of 1934. These statements are often, but not always, made through the use of words or phrases such as "believe," "anticipate," "could," "may," "would," "should," "intend," "plan," "potential," "predict," "will," "expect," "estimate," "project," "positioned," "strategy," "outlook," "target" and similar expressions. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. In particular, among other statements: (i) certain statements in the Overview section (pages 2 to 19), including the Chairman's introduction, Chief Executive's review and Finance Director's overview; (ii) certain statements in the Strategic Management section (pages 20 to 42), including the Global industry overview; (iii) certain statements in the Financial Review section (pages 43 to 57), including the Treasury and cash flow section and going concern discussions; and (iv) certain statements in the Other Information section (pages 254 to 323), including the Additional disclosures and Shareholder information sections.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this document. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates and the impact of an unfavourable ruling by a tax authority in a disputed area; adverse litigation and dispute outcomes and the effect of such outcomes on the Group's financial condition; changes or differences in domestic or international economic or political conditions; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the work place; the ability to maintain credit ratings and to fund the business under the current capital structure; the inability to develop, commercialise and deliver the New Categories strategy; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group. Further details on the principal risks that may affect the Group can be found in the 'Principal Group risks' section of the Strategic Report on pages 58 to 62 of this document. A summary of all the risk factors (including the principal risks) which are monitored by the Board through the Group's risk register is set out in the Additional Disclosures section under the heading 'Group risk factors' on pages 272 to 286.

It is believed that the expectations reflected in this document are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and the Group undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.

No statement in this document is intended to be a profit forecast and no statement in this document should be interpreted to mean that earnings per share of BAT for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT.

# SHARE PRICES AND LISTINGS

## Premium listing – London Stock Exchange (LSE)

The primary market for BAT's ordinary shares is the LSE (Share Code: BATS; ISIN: GB0002875804). BAT's ordinary shares have been listed on the LSE main market since 8 September 1998 and are a constituent element of the Financial Times Stock Exchange (FTSE) 100 Index.

## Secondary listing – Johannesburg Stock Exchange (JSE Limited), South Africa

BAT's ordinary shares have a secondary listing and are traded in South African rand on the Main Board of the JSE in South Africa (Abbreviated name: BATS; Trading code: BTI). BAT's ordinary shares have been listed on the JSE since 28 October 2008 and are a constituent element of the JSE Top 40 Index.

## American Depository Shares (ADSs) – New York Stock Exchange (NYSE)

BAT ordinary shares trade in the form of BAT ADSs in the United States under the symbol BTI (CUSIP Number: 110448107). The BAT ADSs have been listed on the NYSE since 25 July 2017 as a Sponsored Level III ADS programme for which Citibank, N.A. is the depositary (the 'Depositary') and transfer agent. Each ADS represents one ordinary share. ADSs are evidenced by American Depositary Receipts (ADRs).

### Share prices

The high and low prices at which the Company's ordinary shares and ADSs are recorded as having traded during the year on each of the LSE, JSE and NYSE are as follows:

	High	Low
LSE	£32.88	£23.75
JSE	R606.84	R424.18
NYSE	US\$42.80	US\$31.41

# DIVIDENDS

## Policy

The Group's policy is to pay dividends of 65% of long-term sustainable earnings, calculated with reference to adjusted diluted earnings per share, as defined on page 264, and reconciled from earnings per share in note 7 in the Notes on the Accounts. Please see page 47 of this Annual Report and Form 20-F 2019 for further discussion on the Group's dividend.

## Currencies and exchange rates

Details of foreign exchange rates are set out in the Financial Review section of the Strategic Report on page 51 of this Annual Report and Form 20-F 2019. There are currently no UK foreign exchange controls or restrictions on remittance of dividends on the ordinary shares or on the conduct of the Company's operations, other than restrictions applicable to certain countries and persons subject to EU economic sanctions or those sanctions adopted by the UK Government which implement resolutions of the Security Council of the United Nations.

## American Depository Shares – Dividends

The following table shows the dividends paid by British American Tobacco p.l.c. in the years ended 31 December 2015 to 31 December 2019 inclusive.

Announcement Year	Payment	Dividend period	Dividend per BAT ordinary share GBP	Dividend per BAT ADS <sup>1</sup> ADS ratio 2:1 USD <sup>2</sup>
2015	May	Final 2014	1.006	3.0616600
	September/October	Interim 2015	0.494	1.4928680
		<b>Total</b>	<b>1.500</b>	<b>4.5545280</b>
2016	May	Final 2015	1.046	3.0292160
	September/October	Interim 2016	0.513	1.3324660
		<b>Total</b>	<b>1.559</b>	<b>4.3616820</b>

Announcement Year	Payment	Dividend Period	Dividend Per BAT Ordinary Share GBP	Dividend Per BAT ADS <sup>1</sup> ADS ratio 1:1 USD <sup>2</sup>
2017	May	Final 2016	1.181	1.5239380
	September/October	Interim 2017	0.565	0.7585690
	February 2018	Second Interim 2017	0.436	0.6068680
2018		<b>Total</b>	<b>2.182</b>	<b>2.8893750</b>
	May	Quarterly Interim 2018	0.488	0.6611420
	August	Quarterly Interim 2018	0.488	0.6281530
	November	Quarterly Interim 2018	0.488	0.6217120
	February 2019	Quarterly Interim 2018	0.488	0.6324960
2019		<b>Total</b>	<b>1.952</b>	<b>2.5435030</b>
	May	Quarterly Interim 2019	0.5075	0.6596990
	August	Quarterly Interim 2019	0.5075	0.6155970
	November	Quarterly Interim 2019	0.5075	0.6521370
	February 2020	Quarterly Interim 2019	0.5075	0.6571610
		<b>Total</b>	<b>2.0300</b>	<b>2.5845940</b>

Notes:

1. ADS ratio change: prior to 14 February 2017, each BAT ADS represented two BAT ordinary shares; from 14 February 2017, each BAT ADS represents one BAT ordinary share.

2. Holders of BAT ADSs: dividends are receivable in US dollars based on the £ sterling/US dollar exchange rate on the applicable ADS payment date, being three business days after the payment date for the BAT ordinary shares.

## Quarterly Dividends for the year ended 31 December 2019

On 26 April 2017, the Group announced its move to quarterly dividends with effect from 1 January 2018.

The Board has declared an interim dividend of 210.4p per ordinary share of 25p which is payable in four equal quarterly instalments of 52.6p per ordinary share in May 2020, August 2020, November 2020 and February 2021. This represents an increase of 3.6% on 2018 (2018: 203.0p per share), and a payout ratio, on 2019 adjusted diluted earnings per share, of 65.0%.

The quarterly dividends will be paid to shareholders registered on either the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates set out under the heading 'Key dates' below.

### Holders of American Depository Shares (ADSs)

For holders of ADSs listed on the NYSE, the record dates and payment dates are set out below. The equivalent quarterly dividends receivable by holders of ADSs in US dollars will be calculated based on the exchange rate on the applicable payment date.

### South Africa branch register

In accordance with the JSE Listing Requirements, the finalisation information relating to shareholders registered on the South Africa branch register (comprising the amount of the dividend in South African rand, the exchange rate and the associated conversion date) will be published on the dates stated below, together with South Africa dividends tax information.

The quarterly dividends are regarded as 'foreign dividends' for the purposes of the South Africa Dividends Tax. For the purposes of South Africa Dividends Tax reporting, the source of income for the payment of the quarterly dividends is the United Kingdom.

#### Key dates

In compliance with the requirements of the LSE, the NYSE and Strate, the electronic settlement and custody system used by the JSE, the following are the salient dates for the quarterly dividend payments. All dates are 2020 unless otherwise stated.

Event	Payment No. 1	Payment No. 2	Payment No. 3	Payment No. 4
Preliminary announcement (includes declaration data required for JSE purposes)		27 February		
Publication of finalisation information (JSE)	17 March	30 June	21 September	7 December
No removal requests (in either direction) permitted between the UK main register and the South Africa branch register	17 March– 27 March (inclusive)	30 June– 10 July (inclusive)	21 September– 2 October (inclusive)	7 December– 18 December (inclusive)
Last day to trade (LDT) cum-dividend (JSE)	24 March	7 July	29 September	14 December
Shares commence trading ex-dividend (JSE)	25 March	8 July	30 September	15 December
No transfers permitted between the UK main register and the South Africa branch register	25 March– 27 March (inclusive)	8 July– 10 July (inclusive)	30 September – 2 October (inclusive)	15 December– 18 December (inclusive)
No shares to be dematerialised or rematerialised on the South Africa branch register	25 March– 27 March (inclusive)	8 July– 10 July (inclusive)	30 September– 2 October (inclusive)	15 December– 18 December (inclusive)
Shares commence trading ex-dividend (LSE)	26 March	9 July	1 October	17 December
Shares commence trading ex-dividend (NYSE)	26 March	9 July	1 October	17 December
Record date (LSE, JSE and NYSE)	27 March	10 July	2 October	18 December
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (LSE)	21 April	29 July	22 October	13 January 2021
Payment date (LSE and JSE)	13 May	19 August	12 November	3 February 2021
ADS payment date (NYSE)	18 May	24 August	17 November	8 February 2021

#### Note:

Further details of the total amounts of dividends paid in 2019 (with 2018 comparatives) are given in note 8 in the Notes on the Accounts.

# SHAREHOLDER TAXATION INFORMATION

The following discussion summarises material US federal income tax consequences and UK taxation consequences to US holders of owning and disposing of ordinary shares or ADSs. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction or under any US federal laws other than those pertaining to income tax. This discussion is based upon the US Internal Revenue Code of 1986 (the 'US Tax Code'), the Treasury regulations promulgated under the US Tax Code and court and administrative rulings and decisions, all as in effect on the date hereof. These laws may change, possibly retroactively, and any change could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those US holders of ordinary shares or ADSs who hold such equity interests as capital assets within the meaning of Section 1221 of the US Tax Code. Further, this discussion does not address all aspects of US federal income taxation that may be relevant to US holders in light of their particular circumstances or that may be applicable to them if they are subject to special treatment under the US federal income tax laws, including, without limitation:

- a bank or other financial institution;
- a tax-exempt organisation;
- an S corporation or other pass-through entity and an investor therein;
- an insurance company;
- a mutual fund;
- a regulated investment company or real estate investment trust;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market treatment;
- a US holder subject to the alternative minimum tax provisions of the US Tax Code;
- a US holder that received ordinary shares or ADSs through the exercise of an employee stock option, pursuant to a tax qualified retirement plan or otherwise as compensation;
- a US holder that is a tax-qualified retirement plan or a participant or a beneficiary under such a plan;
- a person that is not a US holder (as defined below);
- a person that has a functional currency other than the US dollar;
- a person required to recognise any item of gross income as a result of such income being recognised on an applicable financial statement;
- a US holder of ordinary shares or ADSs that holds such equity interest as part of a hedge, straddle, constructive sale, conversion or other integrated transaction;
- a US holder that owns (directly, indirectly or constructively) 10% or more of ordinary shares or ADSs by vote or by value; or
- a US expatriate.

The determination of the actual tax consequences to a US holder will depend on the US holder's specific situation. US holders of ordinary shares or ADSs should consult their own tax advisers as to the tax consequences of owning and disposing of ordinary shares or ADSs, in each case, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.

For purposes of this discussion, the term US holder means a beneficial owner of ordinary shares or ADSs (as the case may be) that:

- is for US federal income tax purposes: (i) an individual citizen or resident of the United States; (ii) a corporation, including any entity treated as a corporation for US federal income tax purposes, created or organised in or under the laws of the United States, any state thereof or the District of Columbia; (iii) a trust if a US court is able to exercise primary supervision over the trust's administration and one or more US persons are authorised to control all substantial decisions of the trust or it has a valid election in effect under applicable Treasury regulations to be treated as a US person; or (iv) an estate that is subject to US federal income tax on its income regardless of its source; and
- is not resident in the UK for UK tax purposes.

The US federal income tax consequences to a partner in an entity or arrangement treated as a partnership for US federal income tax purposes that holds ordinary shares or ADSs generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding any such equity interest should consult their own tax advisers.

## **Material US federal income tax consequences relating to the ownership and disposition of ordinary shares or ADSs**

The following is a discussion of the material US federal income tax consequences of the ownership and disposition by US holders of ordinary shares or ADSs. This discussion assumes that BAT is not, and will not become, a passive foreign investment company for US federal income tax purposes, as described below.

### **ADSs**

A US holder of ADSs, for US federal income tax purposes, generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for or from ADSs will not be subject to US federal income tax.

### **Taxation of Dividends**

The gross amount of distributions on the ordinary shares or ADSs will be taxable as dividends to the extent paid out of BAT's current or accumulated earnings and profits, as determined under US federal income tax principles. Such income will be includable in a US holder's gross income as ordinary income on the day actually or constructively received by the US holder. Such dividends will be treated as foreign source income and will not be eligible for the dividends received deduction allowed to corporations under the US Tax Code.

With respect to non-corporate US investors, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that the Treasury determines to be satisfactory for these purposes and that includes an exchange of information provision. The Treasury has determined that the treaty between the United States and the United Kingdom meets these requirements, and BAT believes that it is eligible for the benefits of the treaty. However, non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as 'investment income' pursuant to Section 163(d)(4) of the US Tax Code will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. US holders should consult their own tax advisers regarding the application of these rules to their particular circumstances.

The amount of any dividend paid by BAT in £ sterling (including any such amount in respect of ADSs that is converted into US dollars by the depositary bank) will equal the US dollar value of the £ sterling actually or constructively received, calculated by reference to the exchange rate in effect on the date the dividend is so received by the US holder, regardless of whether the £ sterling are converted into US dollars. If the £ sterling received as a dividend are converted into US dollars on the date received, the US holder generally will not be required to recognise foreign currency exchange gain or loss in respect of the dividend income. If the £ sterling received as a dividend are not converted into US dollars on the date of receipt, the US holder will have a basis in £ sterling equal to their US dollar value on the date of receipt. Any gain or loss realised on a subsequent conversion or other disposition of £ sterling will be treated as US source ordinary income or loss. US holders of ADSs should consult their own tax advisers regarding the application of these rules to the amount of any dividend paid by BAT in £ sterling that is converted into US dollars by the depositary bank.

To the extent that the amount of any distribution exceeds BAT's current and accumulated earnings and profits for a taxable year, as determined under US federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the US holder's adjusted basis of the ordinary shares or ADSs, and to the extent the amount of the distribution exceeds the US holder's tax basis, the excess will be taxed as capital gain recognised on a sale or exchange, as described below. BAT does not expect to determine earnings and profits in accordance with US federal income tax principles. Therefore, notwithstanding the foregoing, US holders should expect that distributions generally will be reported as dividend income for US information reporting purposes.

Distributions by BAT of additional ordinary shares (which may be distributed by the depositary bank to a holder of ADSs in the form of ADSs) to a US holder that is made as part of a pro rata distribution to all holders of ordinary shares and ADSs in respect of their ordinary shares or ADSs, and for which there is no option to receive other property (not including ADSs), generally will not be subject to US federal income tax. The basis of any new ordinary shares (or ADSs representing new ordinary shares) so received will be determined by allocating the US holder's basis in the previously held ordinary shares or ADSs between the previously held ordinary shares or ADSs and the new ordinary shares or ADSs, based on their relative fair market values on the date of distribution.

### **Passive foreign investment company**

A passive foreign investment company (PFIC), is any foreign corporation if, after the application of certain 'look-through' rules: (1) at least 75% of its gross income is 'passive income' as that term is defined in the relevant provisions of the US Tax Code; or (2) at least 50% of the average value of its assets produce 'passive income' or are held for the production of 'passive income.' The determination as to PFIC status is made annually.

BAT does not believe that it is, for US federal income tax purposes, a PFIC, and BAT expects to operate in such a manner so as not to become a PFIC. If, however, BAT becomes a PFIC, US holders could be subject to additional US federal income taxes on gain recognised with respect to the ordinary shares or ADSs and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate US holders will not be eligible for reduced rates of taxation on any dividends received from BAT if it is a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. BAT's US counsel expresses no opinion with respect to BAT's PFIC status.

### **Taxation of capital gains**

Upon a sale, exchange or other taxable disposition of ordinary shares or ADSs, a US holder will generally recognise capital gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realised on the disposition and the US holder's adjusted tax basis in the ordinary shares or ADSs as determined in US dollars. Such gain or loss generally will be US source gain or loss, and will be long-term capital gain or loss if the US holder has held the ordinary shares or ADSs for more than one year. Certain non-corporate US holders may be eligible for preferential rates of US federal income tax in respect of net long-term capital gains. The deductibility of capital losses is subject to limitations.

The amount realised on a sale, exchange or other taxable disposition of ordinary shares for an amount in foreign currency will be the US dollar value of that amount on the date of sale or disposition. On the settlement date, the US holder will recognise US source foreign currency exchange gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale, exchange or other disposition and the settlement date. However, in the case of ordinary shares traded on an established securities market that are sold by a cash-basis US holder (or an accrual-basis US holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no foreign currency exchange gain or loss will be recognised at that time.

A US holder's tax basis in ordinary shares or ADSs will generally equal the US dollar cost of the ordinary shares or ADSs. The US dollar cost of ordinary shares purchased with foreign currency will generally be the US dollar value of the purchase price on the date of purchase, or the settlement date for the purchase in the case of ordinary shares traded on an established securities market that are purchased by a cash-basis US holder (or an accrual-basis US holder that so elects).

## SHAREHOLDER TAXATION INFORMATION

### CONTINUED

#### **Information with respect to foreign financial assets**

Individuals and certain entities that own 'specified foreign financial assets' with an aggregate value in excess of US\$50,000 are generally required to file information reports with respect to such assets with their US federal income tax returns. Depending on the individual's circumstances, higher threshold amounts may apply. Specified foreign financial assets include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (1) stocks and securities issued by non-US persons; (2) financial instruments and contracts held for investment that have non-US issuers or counterparties; and (3) interests in non-US entities. If a US holder is subject to this information reporting regime, the failure to file information reports may subject the US holder to penalties. US holders are urged to consult their own tax advisers regarding their obligations to file information reports with respect to ordinary shares or ADSs.

#### **Medicare net investment tax**

Certain persons who are individuals (other than non-resident aliens), estates or trusts are required to pay an additional 3.8% tax on the lesser of (1) their 'net investment income' (in the case of individuals) or 'undistributed net investment income' (in the case of estates and trusts) (which includes dividend income in respect of, and gain recognised on the disposition of, ordinary shares or ADSs) for the relevant taxable year; and (2) the excess of their modified adjusted gross income (in the case of individuals) or adjusted gross income (in the case of estates and trusts) for the taxable year over specified dollar amounts. US holders are urged to consult their tax advisers regarding the applicability of this provision to their ownership of ordinary shares or ADSs.

#### **Credits or deductions for UK taxes**

As indicated under 'Material UK tax consequences' below, dividends in respect of, and gains on the disposition of, ordinary shares or ADSs may be subject to UK taxation in certain circumstances. A US holder may be eligible to claim a credit or deduction in respect of UK taxes attributable to such income or gain for purposes of computing the US holder's US federal income tax liability, subject to certain limitations. The US foreign tax credit rules are complex, and US holders should consult their own tax advisers regarding the availability of US foreign tax credits and the application of the US foreign tax credit rules to their particular situation.

#### **Information reporting and backup withholding**

Information reporting and backup withholding may apply to dividend payments and proceeds from the sale, exchange or other taxable disposition of ordinary shares or ADSs. Backup withholding will not apply, however, to a US holder that: (1) furnishes a correct taxpayer identification number (TIN), certifies that such holder is not subject to backup withholding on Internal Revenue Service Form W-9 (or appropriate successor form) and otherwise complies with all applicable requirements of the backup withholding rules; or (2) provides proof that such holder is otherwise exempt from backup withholding. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules may be refunded or credited against a holder's US federal income tax liability, if any, provided that such holder furnishes the required information to the Internal Revenue Service in a timely manner. The Internal Revenue Service may impose a penalty upon any taxpayer that fails to provide the correct TIN.

**This summary of material US federal income tax consequences is not tax advice. The determination of the actual tax consequences for a US holder will depend on the US holder's specific situation. US holders of ordinary shares or ADSs, in each case, should consult their own tax advisers as to the tax consequences of owning and disposing of ordinary shares or ADSs, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.**

#### **Material UK tax consequences**

The following paragraphs summarise material aspects of the UK tax treatment of US holders of ordinary shares or ADSs and do not purport to be either a complete analysis of all tax considerations relating to holding ordinary shares or ADSs or an analysis of the tax position of BAT. They are based on current UK legislation and what is understood to be current HMRC practice, both of which are subject to change, possibly with retrospective effect.

The comments are intended as a general guide and (otherwise than where expressly stated to the contrary) apply only to US holders of ordinary shares or ADSs (other than under a personal equity plan or individual savings account) and who are the absolute beneficial owners of such shares. These comments do not deal with certain types of shareholders such as charities, dealers in securities, persons holding or acquiring shares in the course of a trade, persons who have or could be treated for tax purposes as having acquired their ordinary shares or ADSs by reason of their employment, collective investment schemes, persons subject to UK tax on the remittance basis and insurance companies. You are encouraged to consult an appropriate independent professional tax adviser with respect to your tax position.

#### **Tax on chargeable gains as a result of disposals of ordinary shares or ADSs**

Subject to the below, US holders will not generally be subject to UK tax on chargeable gains on a disposal of ordinary shares or ADSs provided that they do not carry on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment in connection with which the ordinary shares or ADSs are held.

A US holder who is an individual, who has ceased to be resident for tax purposes in the United Kingdom for a period of less than five years and who disposes of ordinary shares or ADSs during that period may be liable for UK tax on capital gains (in the absence of any available exemptions or reliefs). If applicable, the tax charge will arise in the tax year that the individual returns to the United Kingdom.

**Tax on dividends**

BAT is not required to withhold UK tax at source from dividends paid on ordinary shares or ADSs.

US holders will not generally be subject to UK tax on dividends received from BAT provided that they do not carry on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment in connection with which the ordinary shares or ADSs are held.

**Stamp duty and stamp duty reserve tax (SDRT)**

Based on current published HMRC practice and recent case law, transfers of ADSs should not be subject to SDRT or stamp duty provided that any instrument of transfer is executed and remains outside the UK. The transfer of an underlying ordinary share to the ADS holder in exchange for the cancellation of an ADS should also not give rise to a stamp duty or SDRT charge.

Transfers of ordinary shares outside of the depositary bank, including the repurchase of ordinary shares by BAT, will generally be subject to stamp duty or SDRT at the rate of 0.5% of the amount or value of the consideration given, except as described above in connection with the cancellation of an ADS. If ordinary shares are redeposited into a clearance service or depositary system, the redeposit will attract stamp duty or SDRT at the higher rate of 1.5%.

The purchaser or the transferee of the ordinary shares or ADSs will generally be responsible for paying any stamp duty or SDRT payable. Where stamp duty or SDRT is payable, it is payable regardless of the residence position of the purchaser.

**Inheritance tax**

A gift or settlement of ordinary shares or ADSs by, or on the death of, an individual shareholder may give rise to a liability to UK inheritance tax even if the shareholder is not a resident of, or domiciled in, the United Kingdom.

A charge to inheritance tax may arise in certain circumstances where ordinary shares or ADSs are held by close companies and trustees of settlements.

However, pursuant to the Estate and Gift Tax Treaty 1980 (the 'Treaty') entered into between the United Kingdom and the United States, a gift or settlement of ordinary shares or ADSs by shareholders who are domiciled in the United States for the purposes of the Treaty may be exempt from any liability to UK inheritance tax.

# SHARE CAPITAL AND SECURITY OWNERSHIP

## Share capital

Share capital Ordinary shares of 25p each	31 December 2019
Issued ordinary shares (excluding treasury shares)	2,293,875,148
Treasury shares	162,645,590
Total allotted and fully paid ordinary shares <sup>1</sup>	2,456,520,738
<b>Aggregate nominal value £m</b>	<b>614.1</b>

Note:

1. Includes treasury shares and shares owned by employee share trusts.

## Analyses of shareholders

### Ordinary Shares

At 31 December 2019, there was a total of 2,456,520,738 ordinary shares in issue held by 108,283 shareholders. These shareholdings are analysed as follows:

#### (a) by listing as at 31 December 2019:

Register	Total number of shares	% of issued share capital	Number of holders
UK	2,173,460,394	88.48	37,324
South Africa	283,060,344	11.52	70,959
<b>Total</b>	<b>2,456,520,738</b>	<b>100.00</b>	<b>108,283</b>

#### (b) by size of shareholding as at 31 December 2019:

##### UK Register

	Number of holders	% of UK ordinary share capital
1–1,999	31,657	0.63
2,000–9,999	4,059	0.72
10,000–199,999	1,126	2.58
200,000–499,999	182	2.66
500,000 and over	299	85.93
Treasury shares (UK)	1	7.48
<b>Total</b>	<b>37,324</b>	<b>100.00</b>

##### South Africa Register

	Number of holders	% of SA ordinary share capital
1–1,999	65,189	6.35
2,000–9,999	3,853	5.49
10,000–199,999	1,746	25.09
200,000–499,999	102	10.94
500,000 and over	69	52.13
<b>Total</b>	<b>70,959</b>	<b>100.00</b>

## Combined registers

	Number of holders	% of issued ordinary share capital
1–1,999	96,846	1.29
2,000–9,999	7,912	1.27
10,000–199,999	2,872	5.17
200,000–499,999	284	3.62
500,000 and over	368	82.03
Treasury shares (UK)	1	6.62
<b>Total</b>	<b>108,283</b>	<b>100.00</b>

## American Depository Shares (ADSs)

At 31 December 2019, there was a total of 178,347,785 ADSs outstanding held by 9,715 registered holders. The ADS register is analysed by size of shareholding as at 31 December 2019 as follows:

	Number of holders	% of total ADSs
1–1,999	9,492	1.07
2,000–9,999	195	0.36
10,000–199,999	26	0.39
200,000–499,999	1	0.13
500,000 and over <sup>1</sup>	1	98.05
<b>Total</b>	<b>9,715</b>	<b>100.00</b>

Note:

1. One registered holder of ADSs represents 320,387 underlying shareholders.

## Security ownership of ordinary shares

As at 13 March 2020, there were 37,081 record holders of ordinary shares listed on the LSE (including Citibank as the depositary bank for the ADSs) and 2,181,571,009 of such ordinary shares outstanding. As at that date, to BAT's knowledge, 293 record holders, representing 0.01% of the ordinary shares listed on the LSE, had a registered address in the US. As at 13 March 2020, there were 770 record holders of ordinary shares listed on the JSE (including PLC Nominees (Proprietary) Limited as the nominee for the dematerialised ordinary shares listed on the JSE) and 274,978,175 of such ordinary shares outstanding. As at such date, to BAT's knowledge, no record holders of the ordinary shares listed on the JSE had a registered address in the US. As at 13 March 2020, based on information received from Citibank, there were 9,623 record holders of ADSs and 175,445,843 ADSs outstanding. As at that date, based on information received from Citibank, 9,546 record holders, representing 99.91% of ADSs representing ordinary shares, had a registered address in the US.

## Security ownership – major shareholders

At 31 December 2019, the following substantial interests (3% or more) in the Company's ordinary share capital (voting securities) had been notified to the Company in accordance with Section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs).

Name	Number of ordinary shares	% of issued share capital <sup>1</sup>
The Capital Group Companies, Inc. <sup>2</sup>	253,543,406	11.05
BlackRock, Inc.	132,891,526	5.79

### Notes:

1. The latest percentage of issued share capital excludes treasury shares.

2. Includes 24,494,199 ordinary shares represented by ADRs.

On 6 January 2020, The Capital Group Companies, Inc. notified the Company that on 3 January 2020 its interest had increased to 275,376,579 ordinary shares (12.00% of issued share capital), including 25,941,762 ordinary shares represented by ADRs.

All shares held by the significant shareholders represent the Company's ordinary shares. These significant shareholders have no special voting rights compared with other holders of the Company's ordinary shares.

### **Additional significant shareholding disclosure**

BlackRock, Inc. filed with the SEC a statement on Schedule 13G under the Exchange Act on 7 February 2020 disclosing that as of 31 December 2019 it beneficially owned 170,313,722 ordinary shares representing 7.4% of the Company's ordinary shares outstanding as of 31 December 2019.

Capital Research Global Investors, a division of Capital Research and Management Company, filed with the SEC an amendment to Schedule 13G under the Exchange Act on 14 February 2020 disclosing that as of 31 December 2019 it beneficially owned 120,959,021 ordinary shares representing 5.2% of the Company's ordinary shares outstanding as of 31 December 2019. The notifications regarding the holdings by The Capital Group Companies, Inc., listed below, indicate that Capital Research and Management Company is part of a chain of controlled undertakings with The Capital Group Companies, Inc.

In accordance with the DTRs, shareholders must notify the Company if their shareholding reaches, exceeds or falls below 3% of total voting rights and each 1% threshold thereafter. The notifications received by the Company during the past three years to the best of the Company's knowledge are set out below.

Reinet Investments S.C.A. notified the Company on 6 October 2017 that its interest had decreased below the notifiable threshold of 3% to 68,053,670 ordinary shares on 25 July 2017.

The Capital Group Companies, Inc. notified the Company on 15 March 2018 that its interest had increased above 10% to 229,777,471 ordinary shares on 14 March 2018.

The Capital Group Companies, Inc. notified the Company on 16 October 2018 that its interest had increased above 11% to 252,733,863 ordinary shares on 12 October 2018.

The Capital Group Companies, Inc. notified the Company on 14 January 2019 that its interest had decreased below 11% to 249,831,584 ordinary shares on 11 January 2019.

The Capital Group Companies, Inc. notified the Company on 8 March 2019 that its interest had increased above 11% to 253,390,697 ordinary shares on 7 March 2019.

The Capital Group Companies, Inc. notified the Company on 11 April 2019 that its interest had decreased below 11% to 252,158,534 ordinary shares on 10 April 2019.

The Capital Group Companies, Inc. notified the Company on 15 April 2019 that its interest had increased above 11% to 252,776,216 ordinary shares on 11 April 2019.

The Capital Group Companies, Inc. notified the Company on 16 April 2019 that its interest had decreased below 11% to 251,780,072 ordinary shares on 15 April 2019.

The Capital Group Companies, Inc. notified the Company on 19 November 2019 that its interest had increased above 11% to 253,543,406 ordinary shares on 18 November 2019.

The Capital Group Companies, Inc. notified the Company on 6 January 2020 that its interest had increased above 12% to 275,376,579 ordinary shares on 3 January 2020.

To the extent known by BAT, BAT is not directly or indirectly owned or controlled by another corporation, any foreign government or by any other natural or legal person, severally or jointly. BAT is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Group.

### **Security ownership of the Board of Directors and the Management Board**

The following table presents information regarding the total amount of ordinary shares beneficially owned (outright, by their family or by connected persons) by each current Director of BAT, each member of the Management Board and all Directors and the Management Board as a group, as of 13 March 2020. Unless otherwise indicated, the address for each Director and member of the Management Board listed is: c/o British American Tobacco p.l.c., Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom. The address for Guy Meldrum is Level 30, Three Pacific Place, 1 Queen's Road East, Hong Kong. The address for Ricardo Oberlander is 401 North Main Street, Winston-Salem, NC 27101, United States of America.

	Number of Ordinary Shares	Percentage of Class <sup>10</sup>
<b>Directors</b>		
Richard Burrows	19,000	0.0008
Jack Bowles <sup>1,2,3</sup>	210,577	0.0092
Tadeu Marroco <sup>1,2,3</sup>	61,477	0.0027
Sue Farr	–	–
Jerry Fowden <sup>4</sup>	2,000	0.0001
Dr Marion Helmes	4,500	0.0002
Luc Jobin <sup>4</sup>	45,236	0.0020
Holly Keller Koeppe <sup>4,5</sup>	8,416	0.0004
Savio Kwan	7,185	0.0003
Dimitri Panayotopoulos	3,300	0.0001
Kieran Poynter	5,000	0.0002

**SHARE CAPITAL AND SECURITY OWNERSHIP****CONTINUED**

	Number of Ordinary Shares	Percentage of Class <sup>10</sup>
<b>Management Board</b>		
Jerome Abelman <sup>6,7,8</sup>	84,762	0.0037
Marina Bellini <sup>6</sup>	159	0.0000
Luciano Comin <sup>6,7,8</sup>	25,988	0.0011
Alan Davy <sup>6,7,8</sup>	100,117	0.0044
Hae In Kim <sup>6,7,8</sup>	13,607	0.0006
Paul Lageweg <sup>6,7,8,9</sup>	122,124	0.0053
Guy Meldrum <sup>6,7,8</sup>	18,881	0.0008
David O'Reilly <sup>6,7,8</sup>	67,593	0.0029
Ricardo Oberlander <sup>6,7,8</sup>	108,828	0.0047
Johan Vandermeulen <sup>6,7,8</sup>	66,444	0.0029
Kingsley Wheaton <sup>6,7,8</sup>	57,243	0.0025
<b>All Directors and Management Board as a group (22 persons)</b>	<b>1,032,437</b>	<b>0.0450</b>

**Notes:**

1. The number of ordinary shares beneficially owned by the Executive Directors include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts next to the corresponding Executive Director include the following ordinary shares held in the trust under the SIP: (a) 573 ordinary shares for Mr Bowles, of which 311 have been held for less than three years; (b) 854 ordinary shares for Mr Marroco, of which 351 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with his instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.
2. The number of ordinary shares beneficially owned by the Executive Directors include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 13 March 2020: (a) 18,497 options under the LTIP for Mr Bowles; and (b) 14,755 options under the LTIP for Mr Marroco. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.
3. The number of ordinary shares beneficially owned by the Executive Directors include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 13 March 2020: (a) 8,997 ordinary shares for Mr Bowles; (b) 7,177 ordinary shares for Mr Marroco. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.
4. The ordinary shares beneficially owned by Mr Fowden, Mr Jobin and Ms Koeppel are represented by ADSs, each of which represents one ordinary share.
5. Ms Koeppel, being a former director of RAI and a participant in the Deferred Compensation Plan for Directors of RAI (DCP), holds DSUs which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment upon ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs increases on each dividend date by reference to the value of dividends declared on the ADSs underlying the DSUs. Ms Koeppel currently holds 23,333.51 DSUs.
6. The number of ordinary shares beneficially owned by the members of the Management Board include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts next to the corresponding Management Board member include the following ordinary shares held in the trust under the SIP: (a) 705 ordinary shares for Mr Abelman, of which 327 have been held for less than three years; (b) 159 ordinary shares for Ms Bellini, of which 105 have been held for less than three years; (c) 724 ordinary shares for Mr Comin, of which 330 have been held for less than three years; (d) 762 ordinary shares for Mr Davy, of which 350 have been held for less than three years; (e) 263 ordinary shares for Ms Kim, of which 263 have been held for less than three years; (f) 295 ordinary shares for Dr Lageweg, of which 261 have been held for less than three years; (g) 249 ordinary shares for Mr Meldrum, of which 249 have been held for less than three years; (h) 1,994 ordinary shares for Dr O'Reilly, of which 540 have been held for less than three years; (i) 191 ordinary shares for Mr Oberlander, of which 316 have been held for less than three years; (j) 701 ordinary shares for Mr Vandermeulen, of which 323 have been held for less than three years; and (k) 911 ordinary shares for Mr Wheaton, of which 373 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with their instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.
7. The number of ordinary shares beneficially owned by the members of the Management Board include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 13 March 2020: (a) 13,688 options under the LTIP for Mr Abelman; (b) 5,229 options under the LTIP for Mr Comin; (c) 13,350 options under the LTIP for Mr Davy; (d) 2,802 options under the LTIP for Ms Kim; (e) 25,205 options under the LTIP for Mr Lageweg; (f) 5,633 options under the LTIP for Mr Meldrum; (g) 12,354 options under the LTIP for Mr O'Reilly; (h) 15,375 options under the LTIP for Mr Oberlander; (i) 14,815 options under the LTIP for Mr Vandermeulen; (j) 14,946 options under the LTIP for Mr Wheaton. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.
8. The number of ordinary shares beneficially owned by the members of the Management Board include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 13 March 2020: (a) 6,658 ordinary shares for Mr Abelman; (b) 2,866 ordinary shares for Mr Comin; (c) 6,493 ordinary shares for Mr Davy; (d) 1,373 ordinary shares for Ms Kim; (e) 3,048 ordinary shares for Mr Lageweg; (f) 2,751 ordinary shares for Mr Meldrum; (g) 6,009 ordinary shares for Dr O'Reilly; (h) 7,478 ordinary shares for Mr Oberlander; (i) 7,206 ordinary shares for Mr Vandermeulen; and (j) 7,270 ordinary shares for Mr Wheaton. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.
9. The number of ordinary shares beneficially owned by Mr Lageweg includes 83,416 ADSs, each of which represents one ordinary share.
10. The information in this column is based on [2,293,894,961] ordinary shares outstanding (excluding treasury shares) as of 13 March 2020. Any securities not outstanding subject to options, warrants, rights or conversion privileges that give the beneficial owner the right to acquire the securities within 60 days are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class by any other person.

## Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board

The following table presents information regarding the options and the restricted share awards held by the Directors and the Management Board as of 13 March 2020. The following Directors (being the Chairman and the Non-Executive Directors) have not been granted share-based Awards or Options-based Awards over ordinary shares: Mr Burrows, Ms Farr, Mr Fowden, Dr Helmes, Mr Jobin, Ms Koepel, Mr Kwan, Mr Panayotopoulos and Mr Poynter.

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Directors</b>						
<b>Jack Bowles</b>						
LTIP <sup>1</sup>	26,463	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	43,785	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	176,532	28 Mar 2019	0.00	33.28	–	28 Mar 2024 – 27 Mar 2029
<b>Total Options<sup>3</sup></b>	<b>246,780</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	8,997	27 Mar 2020
	–	26 Mar 2018	–	–	12,064	26 Mar 2021
	–	28 Mar 2019	–	–	26,192	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	6	4 May 2020
	–	28 Sep 2017	–	–	3	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	3	9 May 2021
	–	8 Aug 2018	–	–	4	8 Aug 2021
	–	15 Nov 2018	–	–	6	15 Nov 2021
	–	7 Feb 2019	–	–	7	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	6	8 May 2022
	–	8 Aug 2019	–	–	8	8 Aug 2022
	–	14 Nov 2019	–	–	9	14 Nov 2022
	–	6 Feb 2020	–	–	7	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>47,564</b>	

## SHARE CAPITAL AND SECURITY OWNERSHIP

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	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Tadeu Marroco</b>						
LTIP <sup>1</sup>	21,109	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	28,248	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	36,057	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	495	23 Mar 2015	30.26	37.82	–	1 May 2020 – 31 Oct 2020
	266	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
<b>Total Options<sup>3</sup></b>	<b>86,175</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	7,177	27 Mar 2020
	–	26 Mar 2018	–	–	7,783	26 Mar 2021
	–	28 Mar 2019	–	–	13,233	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	8	4 May 2020
	–	28 Sep 2017	–	–	6	28 Sep 2020
	–	8 Feb 2018	–	–	4	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	6	9 May 2021
	–	8 Aug 2018	–	–	7	8 Aug 2021
	–	15 Nov 2018	–	–	10	15 Nov 2021
	–	7 Feb 2019	–	–	11	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	11	8 May 2022
	–	8 Aug 2019	–	–	13	8 Aug 2022
	–	14 Nov 2019	–	–	14	14 Nov 2022
	–	6 Feb 2020	–	–	12	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>28,544</b>	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Management Board</b>						
<b>Jerome Abelman</b>						
LTIP <sup>1</sup>	19,583	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	32,100	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	37,560	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	991	23 Mar 2015	30.26	37.82	–	1 May 2020 – 31 Oct 2020
<b>Total Options<sup>3</sup></b>	<b>90,234</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	6,658	27 Mar 2020
	–	26 Mar 2018	–	–	8,844	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	5	4 May 2020
	–	28 Sep 2017	–	–	4	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	4	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	8	15 Nov 2021
	–	7 Feb 2019	–	–	9	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	9	8 May 2022
	–	8 Aug 2019	–	–	10	8 Aug 2022
	–	14 Nov 2019	–	–	11	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>29,614</b>	
<b>Marina Bellini</b>						
LTIP <sup>1</sup>	29,296	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	785	28 Mar 2019	22.91	28.63	–	1 May 2022 – 31 Oct 2022
<b>Total Options<sup>3</sup></b>	<b>30,081</b>					
DSBS <sup>4</sup>	–	28 Mar 2019	–	–	5,525	28 Mar 2022
SIP <sup>5</sup>	–	1 Apr 2019	–	–	99	1 Apr 2022
	–	8 Aug 2019	–	–	1	8 Aug 2022
	–	14 Nov 2019	–	–	3	14 Nov 2022
	–	6 Feb 2020	–	–	2	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>5,630</b>	

**SHARE CAPITAL AND SECURITY OWNERSHIP****CONTINUED**

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Luciano Comin</b>						
LTIP <sup>1</sup>	7,482	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	10,313	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	31,550	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	533	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
<b>Total Options<sup>3</sup></b>	<b>49,878</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	2,866	27 Mar 2020
	–	26 Mar 2018	–	–	3,464	26 Mar 2021
	–	28 Mar 2019	–	–	5,084	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	5	4 May 2020
	–	28 Sep 2017	–	–	4	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	5	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	9	15 Nov 2021
	–	7 Feb 2019	–	–	8	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	9	8 May 2022
	–	8 Aug 2019	–	–	11	8 Aug 2022
	–	14 Nov 2019	–	–	12	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>11,744</b>	
<b>Alan Davy</b>						
LTIP <sup>1</sup>	19,099	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	26,579	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	33,804	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	221	24 Mar 2017	40.56	50.70	–	1 May 2020 – 31 Oct 2020
<b>Total Options<sup>3</sup></b>	<b>79,703</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	6,493	27 Mar 2020
	–	26 Mar 2018	–	–	7,323	26 Mar 2021
	–	28 Mar 2019	–	–	12,406	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	10	4 May 2020
	–	28 Sep 2017	–	–	6	28 Sep 2020
	–	8 Feb 2018	–	–	4	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	7	9 May 2021
	–	8 Aug 2018	–	–	7	8 Aug 2021
	–	15 Nov 2018	–	–	9	15 Nov 2021
	–	7 Feb 2019	–	–	11	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	11	8 May 2022
	–	8 Aug 2019	–	–	12	8 Aug 2022
	–	14 Nov 2019	–	–	13	14 Nov 2022
	–	6 Feb 2020	–	–	11	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>26,572</b>	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Hae In Kim</b>						
LTIP <sup>1</sup>	4,010	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	6,497	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	30,048	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	533	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
<b>Total Options<sup>3</sup></b>	<b>41,088</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	1,373	27 Mar 2020
	–	26 Mar 2018	–	–	1,863	26 Mar 2021
	–	28 Mar 2019	–	–	3,798	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	15 Nov 2018	–	–	2	15 Nov 2021
	–	7 Feb 2019	–	–	1	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	1	8 May 2022
	–	8 Aug 2019	–	–	3	8 Aug 2022
	–	14 Nov 2019	–	–	4	14 Nov 2022
	–	6 Feb 2020	–	–	3	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>7,297</b>	
<b>Paul Lageweg</b>						
LTIP <sup>1</sup>	4,540	28 Mar 2014	0.00	32.58	–	28 Mar 2017 – 27 Mar 2024
	8,954	27 Mar 2015	0.00	36.25	–	27 Mar 2018 – 26 Mar 2025
	5,956	12 May 2016	0.00	42.34	–	12 May 2019 – 11 May 2026
	8,234	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	11,471	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	29,296	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	1,309	28 Mar 2019	22.91	28.63	–	1 May 2024 – 31 Oct 2024
<b>Total Options<sup>3</sup></b>	<b>69,760</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	3,048	27 Mar 2020
	–	26 Mar 2018	–	–	2,039	26 Mar 2021
	–	28 Mar 2019	–	–	5,265	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	1	4 May 2020
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	1	9 May 2021
	–	15 Nov 2018	–	–	1	15 Nov 2021
	–	7 Feb 2019	–	–	1	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	1	8 May 2022
	–	8 Aug 2019	–	–	2	8 Aug 2022
	–	14 Nov 2019	–	–	3	14 Nov 2022
	–	6 Feb 2020	–	–	2	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>10,613</b>	

**SHARE CAPITAL AND SECURITY OWNERSHIP****CONTINUED**

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Guy Meldrum</b>						
LTIP <sup>1</sup>	8,059	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	11,066	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	31,550	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
<b>Total Options<sup>3</sup></b>	<b>50,675</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	2,751	27 Mar 2020
	–	26 Mar 2018	–	–	3,796	26 Mar 2021
	–	28 Mar 2019	–	–	5,651	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	1 Apr 2019	–	–	112	1 Apr 2022
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>12,447</b>	
<b>Dr David O'Reilly</b>						
LTIP <sup>1</sup>	17,674	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	24,364	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	30,048	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
<b>Total Options<sup>3</sup></b>	<b>72,086</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	6,009	27 Mar 2020
	–	26 Mar 2018	–	–	6,713	26 Mar 2021
	–	28 Mar 2019	–	–	11,028	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	32	4 May 2020
	–	28 Sep 2017	–	–	19	28 Sep 2020
	–	8 Feb 2018	–	–	15	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	21	9 May 2021
	–	8 Aug 2018	–	–	19	8 Aug 2021
	–	15 Nov 2018	–	–	29	15 Nov 2021
	–	7 Feb 2019	–	–	31	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	31	8 May 2022
	–	8 Aug 2019	–	–	32	8 Aug 2022
	–	14 Nov 2019	–	–	33	14 Nov 2022
	–	6 Feb 2020	–	–	29	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>24,290</b>	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Ricardo Oberlander</b>						
LTIP <sup>1</sup>	21,996	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	38,520	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	45,072	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	495	23 Mar 2015	30.26	37.82	–	1 May 2020 – 31 Oct 2020
<b>Total Options<sup>3</sup></b>	<b>106,083</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	7,478	27 Mar 2020
	–	26 Mar 2018	–	–	8,438	26 Mar 2021
	–	28 Mar 2019	–	–	16,542	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	7	4 May 2020
	–	28 Sep 2017	–	–	5	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	6	9 May 2021
	–	8 Aug 2018	–	–	4	8 Aug 2021
	–	15 Nov 2018	–	–	7	15 Nov 2021
	–	7 Feb 2019	–	–	7	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	7	8 May 2022
	–	8 Aug 2019	–	–	7	8 Aug 2022
	–	14 Nov 2019	–	–	8	14 Nov 2022
	–	6 Feb 2020	–	–	6	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>32,774</b>	
<b>Johan Vandermeulen</b>						
LTIP <sup>1</sup>	21,195	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	30,335	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	39,438	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	991	23 Mar 2015	30.26	37.82	–	1 May 2020 – 31 Oct 2020
<b>Total Options<sup>3</sup></b>	<b>91,959</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	7,206	27 Mar 2020
	–	26 Mar 2018	–	–	8,358	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	4	4 May 2020
	–	28 Sep 2017	–	–	4	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	4	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	7	15 Nov 2021
	–	7 Feb 2019	–	–	8	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	8	8 May 2022
	–	8 Aug 2019	–	–	10	8 Aug 2022
	–	14 Nov 2019	–	–	11	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>29,672</b>	

**SHARE CAPITAL AND SECURITY OWNERSHIP****CONTINUED**

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
<b>Kingsley Wheaton</b>						
LTIP <sup>1</sup>	21,382	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	32,100	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	43,194	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
Sharesave <sup>2</sup>	1,309	28 Mar 2019	22.91	28.63	–	1 May 2024 – 31 Oct 2024
<b>Total Options<sup>3</sup></b>	<b>97,985</b>					
DSBS <sup>4</sup>	–	27 Mar 2017	–	–	7,270	27 Mar 2020
	–	26 Mar 2018	–	–	8,358	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
SIP <sup>5</sup>	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	12	4 May 2020
	–	28 Sep 2017	–	–	8	28 Sep 2020
	–	8 Feb 2018	–	–	6	8 Feb 2021
	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	8	9 May 2021
	–	8 Aug 2018	–	–	8	8 Aug 2021
	–	15 Nov 2018	–	–	13	15 Nov 2021
	–	7 Feb 2019	–	–	13	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	13	8 May 2022
	–	8 Aug 2019	–	–	14	8 Aug 2022
	–	14 Nov 2019	–	–	16	14 Nov 2022
	–	6 Feb 2020	–	–	13	6 Feb 2023
<b>Total Restricted Share Awards<sup>6</sup></b>					<b>29,786</b>	

**Notes:****Options**

1. LTIP: grants or awards of ordinary shares under the LTIP are for nil consideration. The number of options shown is the maximum that may be exercised subject to the completion of the applicable performance period and conditions under the rules of the LTIP. The number of options which may vest and become exercisable may be less than the number of ordinary shares shown in the table.

2. Sharesave Scheme: grants of options under the Sharesave Scheme are: (a) normally granted at a discount of 20% to the market price of ordinary shares at the time of invitation, as permitted by the rules of the Sharesave Scheme; and (b) are exercisable at the end of a three-year or five-year savings contract up to a monthly limit of £500.

3. Each of the LTIP and Sharesave Scheme contains provisions which permit the Board of Directors or a duly authorised committee of the Board of Directors to establish further plans for the benefit of overseas employees based on the relevant share plan but modified as necessary or desirable to take account of overseas tax, exchange control or applicable securities laws. Any new ordinary shares issued under such plans would not count towards any applicable plan limits under the LTIP or the Sharesave Scheme.

**Restricted Share Awards**

4. DSBS: awards of deferred shares are made through the DSBS and comprise free ordinary shares normally held in trust for three years and no further performance conditions apply in that period. The ordinary shares carry no rights to vote in that period.

5. SIP: the SIP is an all-employee plan which includes the SRS under which eligible employees receive an award of ordinary shares (Free Shares) in April of each year in which the plan operates in respect of performance in the previous financial year. The Free Shares are held in a UK-based trust from the date of the award for a minimum period of three years. During that time the SIP participant is entitled to receive dividends on those ordinary shares which are re-invested by such trust to buy further ordinary shares (Dividend Shares) on behalf of the SIP participant. The Dividend Shares are also held in the trust from the date of acquisition for a minimum period of three years. During the three-year holding periods, the SIP participant may not remove the Free Shares or the Dividend Shares from the trust, but may direct the trust to exercise its voting rights in accordance with his or her instructions. In addition to the Free Shares and Dividend Shares, participants in the SIP are also eligible to purchase additional ordinary shares from their pre-tax salary up to an annual statutory limit (Partnership Shares). The SIP also provides that BAT has the right to offer additional ordinary shares to a participant at no cost for each Partnership Share the participant purchases, at a ratio of two such ordinary shares for each Partnership Share purchased (Matching Shares). BAT does not currently provide any Matching Shares.

6. BAT has established similar plans to the SIP for non-UK employees and specific plans for employees in Germany, Belgium and the Netherlands. Each of these plans has been modified to take account of overseas tax, exchange control and applicable securities laws.

# ARTICLES OF ASSOCIATION

The Company is incorporated under the name of British American Tobacco p.l.c. and is registered in England and Wales under registered number 3407696. Under the Companies Act 2006 (Companies Act), the Company's objects are unrestricted. The following descriptions summarise certain provisions of the Company's current Articles of Association (Articles) (as adopted by special resolution at the AGM on 28 April 2010), applicable English and Welsh law and the Companies Act. This summary is qualified in its entirety by reference to the Companies Act and the Articles, available on bat.com. The Articles may be altered or added to, or completely new articles may be adopted by, a special resolution of the shareholders of the Company, subject to the provisions of the Companies Act.

## Share capital – structure

### **Ordinary shares**

- all of the Company's ordinary shares are fully paid
- no further contribution of capital may be required by the Company from the holders of such shares

### **Alteration of share capital – the Company by ordinary resolution may:**

- consolidate and divide all or any of its shares into shares of a larger amount than its existing shares
- divide or sub-divide any of its shares into shares of smaller amount than its existing shares
- determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with the others

### **Alteration of share capital – the Company, subject to the provisions of the Companies Act, may:**

- reduce its share capital, its capital redemption reserve and any share premium account in any way
- purchase its own shares, including redeemable shares, and may hold such shares as treasury shares or cancel them

### **Dividend rights**

- shareholders may, by ordinary resolution, declare dividends but not in excess of the amount recommended by the Directors
- the Directors may pay interim dividends out of distributable profits
- no dividend shall be paid otherwise than out of the profits available for distribution as specified under the provisions of the Companies Act
- the Directors may, with the authority of an ordinary resolution of the shareholders, pay scrip dividends or satisfy the payment of a dividend by the distribution of specific assets
- unclaimed dividends for a period of 12 years may be forfeited and cease to be owed by the Company
- specific provisions enable the Directors to elect to pay dividends by bank or electronic transfer only

## Share capital – voting rights

### **Voting at general meetings**

- by a show of hands, unless a poll is demanded, and on a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held by the shareholder
- every proxy appointed by a shareholder and present at a general meeting has one vote except that if the proxy has been duly appointed by more than one shareholder entitled to vote on the resolution and is instructed by one or more of those shareholders to vote for the resolution and by one or more others to vote against it, or is instructed by one or more of those shareholders to vote in one way and is given discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way), he has one vote for and one vote against the resolution
- on a poll, every shareholder who is present in person or by proxy has one vote for every share held by the shareholder
- a shareholder (or his duly appointed proxy) entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way
- a poll may be demanded by any of the following:
  - (1) the Chairman of the meeting; (2) the Directors; (3) not less than five shareholders having the right to vote at the meeting;
  - (4) a shareholder or shareholders representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting (excluding any voting rights attached to treasury shares); or
  - (5) a shareholder or shareholders holding shares which confer a right to vote on the resolution at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right (excluding any voting rights attached to treasury shares)

### **Matters transacted at general meetings**

- ordinary resolutions can include resolutions for the appointment, reappointment and removal of Directors, the receiving of the Annual Report, the declaration of final dividends, the appointment and reappointment of the external auditor, the authority for the Company to purchase its own shares and the grant of authority to allot shares
- an ordinary resolution is passed when a simple majority of the votes cast at a meeting at which there is a quorum vote in favour of the resolution
- special resolutions can include resolutions amending the Company's Articles and resolutions relating to certain matters concerning a winding-up of the Company
- a special resolution is passed when not less than three-quarters of the votes cast at a meeting at which there is a quorum vote in favour of the resolution
- quorum for a meeting of the Company is a minimum of two shareholders present in person or by proxy or by a duly authorised representative(s) of a corporation which is a shareholder and entitled to vote
- convening a meeting: the Company may specify a time not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day) by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting

## ARTICLES OF ASSOCIATION

### CONTINUED

#### Share capital – pre-emptive rights and new issues of shares

- holders of ordinary shares have no pre-emptive rights under the Articles – the ability of the Directors to cause the Company to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted
- under the Companies Act, the Directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in a general meeting, but which in either event cannot last for more than five years
- under the Companies Act, a company may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders

#### Restrictions on transfers of shares

- Directors can, in their absolute discretion, refuse to register the transfer of a share in certificated form which is not fully paid, provided that such a refusal would not prevent dealings in shares in certificated form which are not fully paid from taking place on a proper basis
- The Directors may also refuse to register a transfer of a share in certificated form (whether fully paid or not) unless the instrument of transfer: (1) is lodged, duly stamped, and is deposited at the registered office of the Company or such other place as the Directors may appoint and is accompanied by a certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (2) is in respect of only one class of share; and (3) is in favour of not more than four transferees
- for uncertificated shares, transfers shall be registered only in accordance with the terms of the Uncertificated Securities Regulations 2001 so that Directors may refuse to register a transfer which would require shares to be held jointly by more than four persons
- if the Directors refuse to register a share transfer, they must give the transferee notice of this refusal as soon as practicable and in any event within two months of the instrument of transfer being lodged with the Company

#### Repurchase of shares

- subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act
- any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital

#### Directors

##### Appointment and retirement

- a Board of Directors of not fewer than five Directors and not subject to any maximum (unless otherwise determined by ordinary resolution of shareholders)
- Directors and the Company (by ordinary resolution) may appoint a person who is willing to act as a Director
- the Articles govern the minimum number of Directors who must be subject to retirement at each AGM and who may seek re-election
- notwithstanding the Articles, all of the Directors of the Company will be subject to re-election at the forthcoming AGM to be held on 30 April 2020 in accordance with the UK Corporate Governance Code
- fees for Non-Executive Directors and the Chairman are determined by the Directors but cannot currently exceed in aggregate an annual sum of £2,500,000, unless determined otherwise by ordinary resolution of the shareholders
- the remuneration of the Executive Directors is determined by the Remuneration Committee, which comprises independent Non-Executive Directors

##### Disclosure of interests

- specific provisions apply to the regulation and management of the disclosure of Directors' interests in transactions and any conflicts of interest that may occur in such situations including those which may arise as a result of the Director's office or employment or persons connected with him or her

##### Meetings and voting

- the quorum for a meeting of Directors is two Directors
- the Directors may delegate any of their powers to a person or a committee
- the Articles place a general prohibition on a Director voting at a Board meeting on any matter in which he has an interest other than by virtue of his interest in shares in the Company
- specific provisions apply to a Director's ability to vote in relation to: the giving of guarantees; the provision of indemnities; insurance proposals; retirement benefits; and transactions or arrangements with a company in which the Director may have an interest

##### Borrowing powers

- the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital
- the Directors may also issue debentures, debenture stock and other securities

**Additional disclosures****Disclosure of ownership of shares**

There are no provisions in the Articles whereby persons acquiring, holding or disposing of a certain percentage of the Company's ordinary shares are required to make disclosure of their ownership percentage, although there are such requirements under statute and regulation.

**Director retirement**

There is no requirement for a director to retire on reaching any age.

**Sinking Funds**

There is no sinking fund provision in the Articles applicable to the Company's ordinary shares.

**Limitations on voting and shareholding**

There are no limitations under the Articles restricting the right of non-resident or foreign owners to hold or vote ordinary shares in the Company.

**Distribution of assets on a winding up**

If the Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

**Anti-takeover devices and change of control**

There are no provisions in the Articles that would have the effect of delaying, deferring or preventing a takeover, or change of control, of the Company. Under English law, the Company's directors have a fiduciary duty to take only those actions that are in the interests of the Company and any anti-takeover devices employed by the directors in the future, if any, must accordingly be in the interests of the Company. The Company is also subject to the City Code on Takeovers and Mergers (the "City Code"), which governs the conduct of mergers and takeovers in the UK. Any takeover of the Company would have to be in accordance with the City Code.

# PURCHASES OF SHARES

## Renewal of authority for Company to purchase own shares

<b>Current authority to purchase shares</b>	<ul style="list-style-type: none"> <li>- this authority (granted at the 2019 AGM) will expire at the 2020 AGM; the share buy-back programme was suspended with effect from 30 July 2014; and</li> <li>- renewed authority to purchase the Company's ordinary shares in order that the appropriate mechanisms are in place to enable the share buy-back programme to be reinstated at any time and authority would be exercised when, in the opinion of the Directors, the exercise of the authority would result in an increase in the Company's earnings per share and would be in the interest of its shareholders generally.</li> </ul>
<b>Proposed authority to purchase shares</b>	<ul style="list-style-type: none"> <li>- the minimum price that may be paid for such shares is 25p, and the maximum price is the higher of: (i) an amount equal to 105% of the average of the middle-market prices shown in the quotation for an ordinary share as derived from the LSE Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid for an ordinary share in the Company on the trading venues where the market purchases by the Company will be carried out;</li> <li>- in the absence of the necessary practical arrangements, the proposed authority has not been extended to enable BAT to purchase its own ordinary shares on the JSE in South Africa or the NYSE in the form of ADSs; and</li> <li>- further details are set out in the Notice of Annual General Meeting 2020 which is made available to all shareholders and is published on bat.com.</li> </ul>
<b>Treasury shares</b>	<ul style="list-style-type: none"> <li>- in accordance with the Company's policy, any repurchased shares are expected to be held as treasury shares; at 31 December 2019, the number of treasury shares was 162,645,590 (2018: 162,645,590); no dividends are paid on treasury shares; treasury shares have no voting rights; and treasury shares may be resold at a later date.</li> </ul>

## Purchases of equity securities by the issuer and affiliated purchasers

At the AGM on 25 April 2019, authorisation was given to the Company to repurchase up to 229.3 million ordinary shares for the period until the next AGM in 2020. This authorisation is renewed annually at the AGM. No ordinary shares were repurchased by the Company during 2019. The following table provides details of ordinary share purchases made by the trustees of employee share ownership plans (ESOPs) and other purchases of ordinary shares and ADSs made to satisfy the commitments to deliver shares under certain employee share-based payment plans.

	Total number of ordinary shares purchased by ESOPs or certain employee share-based plans	Average price paid per ordinary share £	Total number of ADSs purchased by ESOPs or certain employee share-based plans	Average price paid per ADS US\$	Total number of ordinary shares purchased as part of a publicly announced plan <sup>1</sup>	Maximum number of shares that may yet be purchased as part of a publicly announced plan <sup>1</sup>
<b>2019</b>						
2 January	4,041	24.890000	—	—	—	—
6 February	3,608	27.760000	—	—	—	—
6 March	3,296	29.990000	—	—	—	—
29 March–2 April	2,900,000	31.944600	—	—	—	—
1 April	233,150	31.599204	—	—	—	—
3 April	3,078	31.200000	—	—	—	—
3 April	2,205*	31.350000	—	—	—	—
3 April	26,658	31.109000	—	—	—	—
25 April	63,067	30.270000	—	—	—	—
1 May	3,407	29.870000	—	—	—	—
5 June	3,640	28.475000	—	—	—	—
3 July	3,340	29.750000	—	—	—	—
7 August	3,271	29.750000	—	—	—	—
4 September	3,228	29.395000	—	—	—	—
2 October	3,224	29.750000	—	—	—	—
6 November	3,355	28.295000	—	—	—	—
4 December	3,103	29.740000	—	—	—	—
	<b>3,265,671</b>	<b>29.713988</b>	—	—	—	—

### Notes:

1. There was no publicly announced plan for BAT to purchase its own ordinary shares or ADSs during the year ended 31 December 2019.

2. All the purchases of ordinary shares and/or ADSs were made on open market transactions except for the purchase marked \* which was made by way of an arm's-length private treaty arrangement between BAT and the relevant trustee.

# GROUP EMPLOYEE TRUST

## The British American Tobacco Group Employee Trust (BATGET)

<b>Function</b>	<ul style="list-style-type: none"> <li>– used to satisfy the vesting and exercise of awards of ordinary shares under the BAT Deferred Share Bonus Scheme and Long-Term Incentive Plans; and</li> <li>– a committee of senior management reporting to the Board's Share Schemes Committee monitors the number of ordinary shares held in BATGET to satisfy outstanding awards.</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>– funded by interest-free loan facilities from the Company totalling £1 billion;</li> <li>– this enables BATGET to facilitate the purchase of ordinary shares to satisfy the future vesting or exercise of options and awards;</li> <li>– loan to BATGET: £788.24 million at 31 December 2019 (2018: £681.43 million);</li> <li>– the loan is either repaid from the proceeds of the exercise of options or, in the case of ordinary shares acquired by BATGET to satisfy the vesting and exercise of awards, the Company will subsequently waive the loan provided over the life of the awards; and</li> <li>– if any options lapse, ordinary shares may be sold by BATGET to cover the loan repayment.</li> </ul>

		1 Jan 2019	31 Dec 2019
<b>Ordinary shares held in BATGET</b>	Number of ordinary shares	7,312,975	8,049,187
	Market value of ordinary shares	£182.8m	£260.1m
	% of issued share capital of Company	0.30	0.33
<b>Dividends paid in 2019</b>	<ul style="list-style-type: none"> <li>– BATGET currently waives dividends on the ordinary shares held by it; and</li> <li>– quarterly interim dividends 2019: £15.67 million across 2019.</li> </ul>		
<b>Voting rights</b>	<ul style="list-style-type: none"> <li>– the trustee does not exercise any voting rights while ordinary shares are held in BATGET; and</li> <li>– share scheme participants may exercise the voting rights attaching to those ordinary shares once the ordinary shares have been transferred out of BATGET.</li> </ul>		

Notes:

1. **Company share – based payment arrangements:** details of the material equity share-based and cash-settled share-based arrangements are set out in note 24 in the Notes on the Accounts.

2. The values of ordinary shares shown are based on the closing mid-market share price on 31 December 2019: 3.232p (31 December 2018: 2.500p).

3. In addition to the ordinary shares held in BATGET, the trust held the following American Depository Shares (ADSs) which relate to the vesting and exercise of certain employee stock awards formerly granted by RAI over RAI common stock and which were assumed by BAT to be satisfied by the delivery of ADSs following the merger with RAI on 25 July 2017.

	1 Jan 2019	31 Dec 2019
Number of ADSs	75,267	15,197
Market value of ADSs <sup>(a)</sup>	US\$2.4m	US\$0.6m
% of issued share capital	0.003	0.0006

Note:

(a) The value of the ADSs shown is based on the closing price of ADSs on 31 December 2019 of US\$42.46.

# AMERICAN DEPOSITORY SHARES

## Fees and charges payable by ADS holders

Citibank, N.A. (Citibank) was appointed as the depositary bank (the 'Depositary') for BAT's ADS programme pursuant to the Amended and Restated Deposit Agreement dated 1 December 2008 and amended as of 14 February 2017 and 14 June 2017 between BAT, the Depositary and the owners and holders of ADSs (the 'Deposit Agreement'). Citibank was reappointed as the Depositary pursuant to the Second Amended and Restated Deposit Agreement dated 26 November 2018 (the 'Restated Deposit Agreement').

The Restated Deposit Agreement provides that ADS holders may be required to pay various fees to the Depositary, and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

Service	Fees
Issuance of ADSs upon deposit of ordinary shares (excluding issuances as a result of distributions of shares described below)	Up to US\$0.05 per ADS issued <sup>1</sup>
Cancellation of ADSs	Up to US\$0.05 per ADS surrendered <sup>1</sup>
Distribution of cash dividends or other cash distributions (i.e. sale of rights and other entitlements)	Up to US\$0.05 per ADS held <sup>2</sup>
Distribution of ADSs pursuant to: (1) stock dividends or other free stock distributions; or (2) exercise of rights to purchase additional BAT ADSs	Up to US\$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e. spinoff shares)	Up to US\$0.05 per ADS held
Depository bank services	Up to US\$0.05 per ADS held

### Notes:

1. Under the terms of a separate agreement between BAT and the Depositary, the Depositary has agreed to waive the fees that would otherwise be payable in connection with the issuance of ADSs upon deposit of ordinary shares and the cancellation of ADSs and corresponding withdrawal of ordinary shares, in each case by BAT or any of its affiliates, officers, directors or employees. The terms of this separate agreement may be amended at any time by BAT and the Depositary.

2. While under the Restated Deposit Agreement cash dividends paid in respect of ADSs are subject to a fee of up to US\$0.05 per ADS payable to the Depositary, under the terms of the separate agreement between BAT and the Depositary referred to above, such dividends are instead subject to a fee of up to US\$0.02 per ADS per year (a fee of US\$0.005 per dividend based on the distribution of four quarterly cash dividends per year). Under the separate agreement, this dividend fee may not be varied by the Depositary without the consent of BAT.

Contact details for Citibank Shareholder Services are on page 323.

In addition, ADS holders may be required under the Restated Deposit Agreement to pay the Depositary: (a) taxes (including applicable interest and penalties) and other governmental charges; (b) registration fees; (c) certain cable, telex and facsimile transmission and delivery expenses; (d) the expenses and charges incurred by the Depositary in the conversion of foreign currency; (e) such fees and expenses as are incurred by the Depositary in connection with compliance with applicable exchange control regulations and other regulatory requirements; and (f) the fees and expenses incurred by the Depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities. The Depositary may: (a) withhold dividends or other distributions or sell for the account of any ADS holder any or all of the shares underlying the ADSs in order to satisfy any tax or governmental charge; and (b) deduct from any cash distribution the applicable fees and charges of, and expenses incurred by, the Depositary and any taxes, duties or other governmental charges on account.

## Fees and payments made by the Depositary to BAT

Under the terms of the contractual arrangements set out in the separate agreement between BAT and the Depositary referred to above, BAT received a total of approximately US\$4.4 million from the Depositary, comprising fees charged in respect of dividends and a fixed contribution to BAT's ADS programme administration costs for the year ended 31 December 2019.

In 2019, these programme administration costs principally included those associated with AGM proxy mailings, exchange listing and regulatory fees, foreign private issuer analysis, legal fees, share registration fees and other expenses incurred by BAT in relation to the ADS programme.

Under these contractual arrangements, the Depositary has also agreed to waive certain standard fees associated with the administration of the ADS programme.

# SHAREHOLDING ADMINISTRATION AND SERVICES

## United Kingdom Registrar

Computershare Investor Services PLC  
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ  
tel: 0800 408 0094 or +44 370 889 3159  
web-based enquiries: [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

## [www.computershare.com/uk/investor/bri](http://www.computershare.com/uk/investor/bri)

Access the web-based enquiry service of Computershare Investor Services PLC for holders of shares on the UK share register. View details of your BAT shareholding and recent dividend payments and register for shareholder electronic communications to receive notification of BAT shareholder mailings by email.

## [www.computershare.com/dealing/uk](http://www.computershare.com/dealing/uk)

Go online or telephone 0370 703 0084 (UK) to buy or sell British American Tobacco shares traded on the London Stock Exchange. Before you can trade, you will need to register for this service. Please go to [www.computershare.trade/cert\\_faqs.html](http://www.computershare.trade/cert_faqs.html) for a list of permitted domiciles.

## South Africa Registrar

Computershare Investor Services Proprietary Limited  
Private Bag X9000, Saxonwold, 2132, South Africa  
tel: 0861 100 634; +27 11 870 8216  
email enquiries: [web.queries@computershare.co.za](mailto:web.queries@computershare.co.za)

## American Depository Shares

Enquiries regarding ADS holder accounts and payment of dividends should be directed to:

Citibank Shareholder Services  
PO Box 43077, Providence, Rhode Island 02940-3077, USA  
tel: +1 888 985 2055 (toll-free) or +1 781 575 4555  
email enquiries: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)  
website: [www.citi.com/dr](http://www.citi.com/dr)

## Documents on Display and Publications

This Annual Report and Form 20-F 2019 is available online at [bat.com/annualreport](http://bat.com/annualreport). Copies of current and past Annual Reports are available on request. Highlights from these publications can be produced in alternative formats such as Braille, audio tape and large print. Documents referred to in this Annual Report and Form 20-F 2019 do not form part of this Annual Report unless specifically incorporated by reference.

### Contact:

British American Tobacco Publications  
Unit 80, London Industrial Park, Roding Road, London E6 6LS  
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326  
email: [bat@team365.co.uk](mailto:bat@team365.co.uk)

Holders of shares held on the South Africa register can contact the Company's Representative office in South Africa using the contact details shown at the end of this Annual Report and Form 20-F 2019.

ADS holders can contact Citibank Shareholder Services in the United States using the contact details shown above.

The Company is subject to the information requirements of the US Securities Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, the company files its Annual Report on Form 20-F and other documents with the SEC. You also may call the SEC at +1 800-SEC-0330. In addition, BAT's SEC filings are available to the public, together with the public filings of other issuers, at the SEC's website, [www.sec.gov](http://www.sec.gov).

## Our website – [www.bat.com](http://www.bat.com)

Access comprehensive information about British American Tobacco and download shareholder publications at the corporate website. Visit the Investors section for valuation and charting tools, dividend and share price data and subscribe to the email alert services for key financial events in the British American Tobacco financial calendar. Download the British American Tobacco Investor Relations app to access all the latest financial information on your iPad, iPhone or Android device.

## Dividend Reinvestment Plan

Available to the majority of shareholders on the UK register, this is a straightforward and economic way of utilising your dividends to build up your shareholding in British American Tobacco. Contact Computershare Investor Services PLC in the UK for details.

## Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA – contact:

The Share Centre  
PO Box 2000, Aylesbury, Bucks HP21 8ZB  
tel: 0800 800 008; +44 1296 414 141  
email enquiries: [services@share.co.uk](mailto:services@share.co.uk)  
website: [www.share.com](http://www.share.com)

(The tax advantages of ISAs depend on your individual circumstances and the benefits of ISAs could change in the future. You should note that investments, their value and the income they provide can go down as well as up and you might not get back what you originally invested.)

## Capital gains tax

Fact sheet for British American Tobacco historical UK capital gains tax information; contact the British American Tobacco Company Secretarial Department, tel: +44 20 7845 1000 or access online at [www.bat.com/cgt](http://www.bat.com/cgt).

## Share Fraud

The practice of share fraud (also known as 'boiler room' scams) unfortunately continues with many companies' shareholders receiving unsolicited phone calls or mail from people offering to sell them what often turn out to be worthless or high risk shares in US or UK investments, or to buy shares at an inflated price in return for an upfront payment.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have lost money to investment fraud you should report it to Action Fraud on 0300 123 2040 or online at [www.actionfraud.police.uk](http://www.actionfraud.police.uk).

## Calendar 2020

Thu 30 April at 11:30am	<b>Annual General Meeting</b> Globe House, 4 Temple Place, London WC2R 2PG. Details of the business to be proposed at the meeting are in the Notice of AGM, which is made available to all shareholders and is published on <a href="http://www.bat.com">www.bat.com</a> . BAT provides for the vote on each resolution to be by poll rather than by a show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The voting results will be released on the same day in accordance with regulatory requirements and made available on bat.com.
Fri 31 July	<b>Half-Year Report</b>

# EXHIBITS

The following documents are filed in the SEC EDGAR system, as part of this Annual Report on Form 20-F, and can be viewed on the SEC's website, [www.sec.gov](http://www.sec.gov):

Exhibit Number	Description
1	Articles of Association of British American Tobacco p.l.c. <sup>1</sup>
2.1	Second Amended and Restated Deposit Agreement, dated as of 26 November 2018, by and among British American Tobacco p.l.c., Citibank, N.A., as depositary bank, and all holders and beneficial owners of American Depository Shares issued thereunder. <sup>2</sup>
2.2	Indenture, dated as of 15 August 2017, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee. <sup>3</sup>
2.3	Supplemental Indenture No. 1, dated as of 28 September 2018, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee. <sup>4</sup>
2.4	Indenture, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as trustee, authentication agent, transfer agent, registrar, calculation agent and initial paying agent. <sup>5</sup>
2.5	Supplemental Indenture No. 1, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee. <sup>6</sup>
2.6	Supplemental Indenture No. 2, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee. <sup>7</sup>
2.7	Supplemental Indenture No. 3, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee. <sup>8</sup>
2.8	Supplemental Indenture No. 4, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee. <sup>9</sup>
2.9	Thirty-first Supplemental Trust Deed, dated 1 May 2019, by and among B.A.T. International Finance p.l.c., B.A.T Capital Corporation, B.A.T. Netherlands Finance B.V., British American Tobacco p.l.c. and the Law Debenture Trust Corporation p.l.c., further modifying the Trust Deed, dated as of 6 July 1998 (as previously modified and restated) relating to the US\$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme. <sup>10</sup>
2.10	Description of Securities registered under Section 12 of the Exchange Act.
4.1	Term loan facilities agreement, dated as of 16 January 2017, among B.A.T. International Finance p.l.c. and B.A.T Capital Corporation, as original borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent, HSBC Bank USA, National Association, as US agent and the lenders and financial institutions party thereto. <sup>11</sup>
4.2	Revolving credit facilities agreement, dated as of 20 January 2017, among British American Tobacco p.l.c., B.A.T. International Finance p.l.c., British American Tobacco Holdings (The Netherlands) B.V., B.A.T. Netherlands Finance B.V. and B.A.T Capital Corporation, as borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent and euro swingline agent, HSBC Bank USA, National Association, as US agent and US\$ swingline agent, and the banks and financial institutions party thereto. <sup>12</sup>
4.3	Rules of the British American Tobacco 2007 Long-Term Incentive Plan. <sup>13</sup>
4.4	Rules of the British American Tobacco 2016 Long-Term Incentive Plan (Amended and Restated as of 25 February 2020)
4.5	British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme. <sup>14</sup>
4.6	Annex to British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme. <sup>15</sup>
4.7	British American Tobacco p.l.c. 2019 Deferred Annual Share Bonus Scheme. <sup>16</sup>
4.8	Rules of the British American Tobacco Restricted Share Plan. <sup>17</sup>
4.9	Deferred Compensation Plan for Directors of Reynolds American Inc. (Amended and Restated Effective 30 November 2017). <sup>18</sup>
4.10	Service Contract between British American Tobacco p.l.c. and Nicandro Durante, dated as of 10 December 2010. <sup>19</sup>
4.11	Service Contract between British American Tobacco p.l.c. and John Benedict Stevens, dated as of 26 March 2008. <sup>20</sup>
4.12	Service Contract between British American Tobacco p.l.c. and Jack Bowles, dated as of 11 December 2018. <sup>21</sup>
4.13	Letter Agreement between British American Tobacco p.l.c. and John Benedict Stevens, dated as of 23 July 2010. <sup>22</sup>
4.14	Service Contract between British American Tobacco p.l.c. and Tadeu Marroco, dated as of 27 February 2019.
4.15	Master Settlement Agreement, referred to as the MSA, dated 23 November 1998, between the Settling States named in the MSA and the Participating Manufacturers also named therein. <sup>23</sup>
4.16	Settlement Agreement dated 25 August 1997, between the State of Florida and settling defendants in The State of Florida v. American Tobacco Co. <sup>24</sup>
4.17	Comprehensive Settlement Agreement and Release dated 16 January 1998, between the State of Texas and settling defendants in The State of Texas v. American Tobacco Co. <sup>25</sup>
4.18	Settlement Agreement and Release in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of 8 May 1998. <sup>26</sup>
4.19	Settlement Agreement and Stipulation for Entry of Consent Judgment in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of 8 May 1998. <sup>27</sup>
4.20	Form of Consent Judgment by Judge Kenneth J. Fitzpatrick, Judge of District Court in re: The State of Minnesota v. Philip Morris, Inc. <sup>28</sup>

Exhibit Number	Description
4.21	Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order dated 2 July 1998, by and among the Mississippi Defendants, Mississippi and the Mississippi Counsel in connection with the Mississippi Action. <sup>29</sup>
4.22	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated 24 July 1998, by and among the Texas Defendants, Texas and the Texas Counsel in connection with the Texas Action. <sup>30</sup>
4.23	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated 11 September 1998, by and among the State of Florida and the tobacco companies named therein. <sup>31</sup>
4.24	Term Sheet agreed to by R. J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc., certain other Participating Manufacturers, 17 states, the District of Columbia and Puerto Rico. <sup>32</sup>
4.25	Revolving credit facilities agreement, dated as of 12 March 2020, among British American Tobacco p.l.c., B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V. and B.A.T Capital Corporation, as borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent and euro swingline agent, HSBC Bank USA, National Association, as US agent and US\$ swingline agent, and the banks and financial institutions party thereto.
8	List of Subsidiaries included on pages 237 to 246 in this report.
11	Code of Ethics. <sup>33</sup>
12	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13	Certification under Section 906 of the Sarbanes-Oxley Act of 2002. <sup>34</sup>
15	Consent of KPMG LLP (United Kingdom), independent registered public accounting firm of British American Tobacco p.l.c.
101	Interactive Data Files (formatted in XBRL (Extensible Business Reporting Language) and furnished electronically).

**Notes:**

1. Incorporated by reference to Exhibit 3.1 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
2. Incorporated by reference to Exhibit 4.1 to BAT's Registration Statement on Form S-8 (Reg. No. 333-237186) filed on 16 March 2020.
3. Incorporated by reference to Exhibit 2.4 to BAT's Annual Report on Form 20-F for the year ended 31 December 2017 filed on 15 March 2018.
4. Incorporated by reference to Exhibit 4.2 to BAT's Registration Statement on Form F-4 (Reg. No. 333-227658) filed on 2 October 2018.
5. Incorporated by reference to Exhibit 4.1 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
6. Incorporated by reference to Exhibit 4.2 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
7. Incorporated by reference to Exhibit 4.3 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
8. Incorporated by reference to Exhibit 4.4 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
9. Incorporated by reference to Exhibit 4.5 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
10. Incorporated by reference to Exhibit 4.1 to British American Tobacco p.l.c.'s Form F-3 filed on 17 July 2019.
11. Incorporated by reference to BAT's Amendment No. 4 to Schedule 13D filed on 17 January 2017.
12. Incorporated by reference to Exhibit 4.5 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017, and replaced by the revolving credit facilities agreement, dated as of 12 March 2020, included in Exhibit 4.25 hereto.
13. Incorporated by reference to Exhibit 10.6 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
14. Incorporated by reference to Exhibit 10.8 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
15. Incorporated by reference to Exhibit 4.6 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
16. Incorporated by reference to Exhibit 4.7 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
17. Incorporated by reference to Exhibit 4.2 to BAT's Registration Statement on Form S-8 (Reg. No. 333-237186) filed on 16 March 2020.
18. Incorporated by reference to Exhibit 10.43 to Reynolds American Inc.'s Annual Report on Form 10-K for the fiscal year ended 31 December 2007 filed on 27 February 2008.
19. Incorporated by reference to Exhibit 10.9 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
20. Incorporated by reference to Exhibit 10.10 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
21. Incorporated by reference to Exhibit 4.11 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
22. Incorporated by reference to Exhibit 10.11 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
23. Incorporated by reference to Exhibit 4 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 24 November 1998.
24. Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 5 September 1997.
25. Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 27 January 1998.
26. Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
27. Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
28. Incorporated by reference to Exhibit 99.3 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
29. Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
30. Incorporated by reference to Exhibit 99.4 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
31. Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 September 1998 filed on 12 November 1998.
32. Incorporated by reference to Exhibit 10.1 to Reynolds American Inc.'s Form 8-K dated 12 March 2013.
33. Incorporated by reference to Exhibit 11 to BAT's Annual Report on Form 20-F for the year ended 31 December 2017 filed on 15 March 2018.
34. These certifications are furnished only and are not filed as part of BAT's Annual Report on Form 20-F for the year ended 31 December 2019.

Certain instruments which define the rights of holders of long-term debt issued by BAT and its subsidiaries are not being filed because the total amount of securities authorised under each such instrument does not exceed 10% of the total consolidated assets of BAT and its subsidiaries. BAT agrees to furnish copies of any or all such instruments to the SEC on request.

# GLOSSARY

ADR	American Depository Receipt	@ROCE	Return on capital employed <sup>®</sup>
ADS	American Depository Share – 1 ADS is equivalent to 1 BAT ordinary share	SAFL	Sustainable Agriculture and Farmer Livelihoods
AGM	Annual General Meeting	SEC	United States Securities and Exchange Commission
AMSSA	Americas (excluding US) and Sub-Saharan Africa	SIP	Share incentive plan
APFO	Adjusted profit from operations	SoBC	Group Standards of Business Conduct
APME	Asia-Pacific and Middle East	SOx	United States Sarbanes-Oxley Act of 2002
BATGET	British American Tobacco Group Employee Trust	SRS	Share reward scheme
bps	Basis points	TaO	Programme to implement the new operating model, including one instance of SAP
CC	Constant currency	TCFD	Taskforce on Climate-related Financial Disclosures
CGFO	Cash generated from operations	TDR	TDR d.o.o
CO <sub>2</sub> e	Carbon dioxide equivalent	THP	Tobacco heating products
Code	UK Corporate Governance Code 2018	TPD1	European Tobacco Products Directive (directive 2001/37/EC)
CSR	Corporate Social Responsibility	TPD2	European Tobacco and Related Products Directive (directive 2014/40/EU)
DSBS	Deferred share bonus scheme	TSR	Total shareholder return
EMTN	European Medium Term Notes	US	United States of America
ENA	Europe and North Africa	UURBS	Unfunded unapproved retirement benefit scheme
EPS	Earnings per share	WHO	World Health Organisation
ESG	Environmental, Social and Governance		
EU	European Union		
FII GLO	Franked Investment Income Group Litigation Order		
FCTC	Framework Convention on Tobacco Control		
FMCG	Fast Moving Consumer Goods		
GAAP	Generally Accepted Accounting Practice		
GDB	Global Drive Brands, being Kent, Dunhill, Pall Mall, Lucky Strike and Rothmans		
GDPR	EU General Data Protection Regulation		
GDSB	Global Drive and Key Strategic Brands, being the GDBs, plus Shuang Xi and State Express 555		
GJ	Gigajoules (of energy use)		
IASB	International Accounting Standards Board		
IEIS	International Executive Incentive Scheme		
IFRS	International Financial Reporting Standards as issued by the IASB and as adopted by the EU		
ISA	International Standards on Auditing		
JSE	Johannesburg Stock Exchange		
KPI	Key performance indicator		
LIBOR	London Interbank Offered Rate		
LSE	London Stock Exchange		
LR	Listing rules		
LTIP	Long-Term Incentive Plan		
MCE	Million cigarettes equivalent		
MSA	Master Settlement Agreement		
NGP	Next Generation Product		
NTO	Net turnover or revenue		
NYSE	New York Stock Exchange		
OCF	Operating cash flow		
OECD	Organisation for Economic Co-operation and Development		
OTP	Other tobacco products, including but not limited to roll-your-own, make-your-own and cigars		
Parker Report	The Parker Review Committee's final report on ethnic diversity in UK boards published on 12 October 2017		
PCAOB	Public Company Accounting Oversight Board		
RAI	Reynolds American Inc.		
RAI Companies	Reynolds American Inc. group of companies		

# CROSS-REFERENCE TO FORM 20-F

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Incorporated in England and Wales No. 3407696

**Representative Office in South Africa**

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**Secretary**

Paul McCrory

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Enquiries should be directed to Mike Nightingale, Victoria Buxton,  
William Houston or John Harney  
tel: +44 20 7845 1180

**Press office**

Enquiries should be directed to Anna Vickerstaff  
tel: +44 20 7845 2888  
email: [press\\_office@bat.com](mailto:press_office@bat.com)

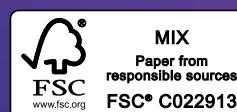
**Auditors**

KPMG LLP  
15 Canada Square, Canary Wharf, London E14 5GL

References in this publication to 'British American Tobacco', 'BAT', 'we', 'us', and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company) (No. 3407696) and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

Design and production: Radley Yeldar [www.ry.com](http://www.ry.com)

Printed in the UK by Pureprint Group on Revive 100% recycled papers, made entirely from post-consumer waste. All pulps used are Elemental Chlorine Free. The manufacturing mills hold the ISO14001 and EU Ecolabel (EMAS) certificates for environmental management.



# #DIVERSE



We believe in Diversity. At BAT we employ over 55,000 people and operate across more than 180 markets globally.

We understand and recognise that to be a truly global company we must have a truly global culture and values.

This diversity of people, thinking and ideas is key to delivering a better tomorrow for our consumers, society, shareholders and employees.



# #SCIENCE



We believe in Science. At BAT we are leaders in the field of plant genomics and bioinformatics, and have research facilities in the UK and USA employing over 150 PhDs.

Our pioneering, published genome data enables the scientific community to advance map-based gene discoveries and accelerates our research into new product categories.

This scientific capability is critical to delivering a better tomorrow for our consumers, employees, shareholders and society.



# GO ONLINE

## Explore the story of our year

Featuring downloadable versions of this Report, along with our Sustainability Summary Report and other content – all accessible on desktop, tablet and mobile.

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