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Directors' Report

Chairman's introduction



Richard Burrows
Chairman

Dear Shareholder

One of the key objectives of our Board is establishing and driving clear, transparent and rigorous systems of Corporate Governance. We aim to meet the best of international standards and regulatory requirements and review our ways of working regularly each year.

During 2015, both regulatory requirements and international standards were in sharp focus. The Board worked closely with the Audit Committee to consider the broader assessment of long-term solvency, liquidity and viability now required under the revised provisions of the UK Corporate Governance Code on risk management and internal control. These, together with our principal Group risk factors, are reported upon in detail in our Strategic Report on pages 37–44.

Our Standards of Business Conduct came under the spotlight in late 2015, as a result of media interest in allegations of bribes being paid in East Africa in 2012.

We take these allegations extremely seriously. Although we were aware of and had looked into some of the allegations in the past, given the high standards to which we hold ourselves and the number and nature of the allegations of which we are now aware, the Group has appointed an external law firm to conduct a full investigation.

We have also informed the Serious Fraud Office of our approach and we are liaising with them.

All our employees are required to understand and abide by our Standards of Business Conduct. We will not tolerate corruption in our business anywhere in the world.

The Group's Statement of Business Principles is another policy that underpins the Group's commitment to high standards of corporate behaviour and human rights. We demand high standards from our suppliers and in early 2016 we formalised this through a Supplier Code of Conduct which details the minimum standards we expect our suppliers to meet in these areas.

As reported in the 2014 Annual Report, the Audit Committee agreed to conduct a competitive audit tender ahead of the AGM on 29 April 2015. As a result of proposed litigation by a Group subsidiary against PricewaterhouseCoopers LLP (PwC), PwC had notified us that it would not seek reappointment as the Group's auditors at the AGM in April 2015. This situation arose from potential claims against PwC in respect of work carried out by PwC in relation to the audit of the accounts of a third party. These claims do not concern the audit of any Group Company. KPMG LLP was appointed as the Group Auditors in March 2015 and their appointment was confirmed by shareholders at our 2015 AGM. Further details of the audit tender can be found on page 60.

We continue to evaluate our own performance on an annual basis. The evaluation includes a 360-degree review of all Board members, including myself, and we receive individual feedback. The key outcomes from this year's evaluation are set out in this section, including our proposed actions for 2016.

We aim to have a Board that is as diverse as our geographic reach and our consumer profiles. Sue Farr, Pedro Malan and Dimitri Panayotopoulos, who joined the Board in February 2015, have added to the Board's diverse composition, bringing valuable business and geopolitical skills to the Board.

We also refreshed our Committee composition during 2015. As a result Christine Morin-Postel replaced Kieran Poynter as Chair of the Audit Committee and Kieran Poynter replaced Gerry Murphy as Chair of the Remuneration Committee.

We believe that this Annual Report presents a fair, balanced and understandable assessment of the Company's position, its performance and its prospects as well as its business model and strategy. The Board remains committed to ensuring that our governance processes and the culture throughout the Group continue to reflect the standards that you expect. Many of you share your thinking with me on this topic and I welcome this open and ongoing dialogue.

Richard Burrows
Chairman

Compliance statement

Throughout the year ended 31 December 2015 and to the date of this document, we applied the Main Principles of the UK Corporate Governance Code as revised in September 2014 (the Code). The Company was compliant with all provisions.

The Board considers that this Annual Report, and notably this section, provides the information shareholders need to evaluate how we have complied with our current obligations under the Code.

For ease of reference, we prepare a separate annual compliance report by reference to each provision of the Code. This report is available at www.bat.com/governance.

We comply with the Disclosure Rules 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 corporate disclosures section.

Governance

Leadership and effectiveness

Governance framework

The Board





The Board is collectively responsible to shareholders of the Company for its performance and for the Group's strategic direction, its values and its governance. It provides the leadership necessary for the Group to meet its performance objectives within a robust framework of internal controls.

Board responsibilities:

- Group strategy.
- Significant corporate activities.
- Group policies.
- Corporate Governance.
- Board succession plans.
- Group Budget.
- Risk management and internal control.
- Annual Report approval.
- Periodic financial reporting.
- Dividend policy.

Board Committees

The Board has four principal Board Committees, listed below, to which it has delegated certain responsibilities. The roles, memberships and activities of these Committees are described in their individual reports in this section. Each Committee has its own terms of reference, available at www.bat.com/governance, which are reviewed and updated regularly, most recently with effect from September 2015.

Audit Committee	CSR Committee	Nominations Committee	Remuneration Committee
 page 58	 page 64	 page 66	 page 92

Board programme

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 key activities of the Board in 2015, grouped under the Group's four strategy pillars of Growth, Productivity, Sustainability and Winning Organisation, are detailed on pages 52–53. The Board's strategic priorities for 2016 are identified within the key performance indicators set out in our Strategic Report on page 13.

The Board devotes considerable attention to Group Corporate Governance, including internal control and compliance issues. It receives verbal updates from the Chairmen of the Audit, Remuneration and CSR Committees following each Committee meeting and updates from the Nominations Committee on a periodic basis, where appropriate. Copies of the minutes of the Audit and CSR Committees are circulated to all members of the Board. With effect from 1 January 2016, copies of the minutes of all Committees (redacted where necessary) will be made available to all Directors.

Management Board

The Management Board, chaired by the Chief Executive, is responsible for overseeing the implementation of the Group's strategy and policies set by the Board, and for creating the framework for the day-to-day operation of the Group's operating subsidiaries. Its other members comprise the Finance Director and 11 senior Group executives, whose biographies are detailed on pages 50–51. Neil Withington, General Counsel, retired from the Management Board with effect from 30 April 2015. Jerome Abelman was appointed to the combined role of Director, Legal & External Affairs and General Counsel with effect from 1 May 2015.

Principal Management Board role:

- Developing Group strategy for Tobacco Products and Next Generation Products 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 talent.

Next Generation Products Governance

Until September 2015, the Board of British American Tobacco (NGP) Limited, a Group subsidiary, was exclusively responsible for the strategic oversight and governance of the Next Generation Products business. This facilitated a flexible and proactive approach to the early stages of building this new category. As the Next Generation Products business has developed and as non-combustible tobacco product development has progressed and become more integrated with the rest of the Group, the separation of its management and strategic oversight from that of the combustible tobacco business is no longer required. With effect from October 2015, all matters relating to the Next Generation Products business now also fall within the remit of the Management Board. The corporate structure of the Next Generation Products business is not affected by this change.

Leadership roles and responsibilities

Leadership

Chairman

- Leadership of the Board.
- Ensures Board effectiveness.
- Sets Board agenda.
- Interfaces with shareholders.
- Ensures effective shareholder engagement.

Chief Executive

- Overall responsibility for Group performance.
- Leadership of the Group.
- Enables planning and execution of objectives and strategies.
- Stewardship of Group assets.

Oversight

Non-Executive Directors (NEDs)

- Oversee Group strategy.
- Review management proposals.
- Monitor Group performance.
- Bring an external perspective and effective challenge to the Board.

Senior Independent Director (SID)

- Leads review of Chairman's performance.
- Presides at Board in Chairman's absence.
- Intermediary for other Directors.
- Available to meet with major shareholders.

Board of Directors



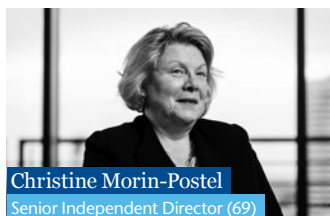
Richard Burrows
Chairman (70)

Nationality: Irish

Position: Chairman since November 2009; Non-Executive Director since September 2009; Chairman of the Nominations Committee.

Key appointments: NED and member of the Remuneration and Nominations Committees of Rentokil Initial plc; Supervisory Board member, member of the Audit Committee and Chairman of the Remuneration Committee at Carlsberg A/S.

Skills and experience: 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. Richard is a Fellow of the Institute of Chartered Accountants of Ireland.



Christine Morin-Postel
Senior Independent Director (69)

Nationality: French

Position: Senior Independent Director since 2013; Non-Executive Director since 2007; Chair of the Audit Committee and member of the Nominations and Remuneration Committees.

Key appointments: NED and member of the Nomination and Remuneration Committee of Groupe Bruxelles Lambert S.A.; NED and Chair of the Nomination and Remuneration Committee of Hightech Payment Systems S.A.; Member of the Investment Committee of Capmezzanine 2 private equity fund.

Skills and experience: Christine has extensive international board experience and has held a number of senior management positions, including Chief Executive of Société Générale de Belgique, Executive Vice-President and member of the Executive Committee of Suez and Chairman and CEO of Crédisuez S.A.



Nicandro Durante
Chief Executive (59)

Nationality: Brazilian/Italian

Position: Chief Executive since 2011.

Key appointments: Non-Executive Director and member of the Nomination and Remuneration Committees of Reckitt Benckiser Group plc.

Skills and experience: Nicandro has extensive leadership skills developed in various senior international roles within the Group. He joined Souza Cruz in Brazil in 1981, rising to become President of that company. Nicandro joined the Management Board in 2006 as Regional Director for the Africa and Middle East region and joined the Board in 2008 as Chief Operating Officer.



Ben Stevens
Finance Director (56)

Nationality: British

Position: Finance Director since 2008.

Key appointments: No external appointments.

Skills and experience: Ben joined the Group in 1990 and has broad international experience spanning both senior finance and general management roles. He was Head of Merger Integration following the merger with Rothmans and Chairman and Managing Director of both Pakistan Tobacco Company and British American Tobacco Russia. Ben was appointed to the Management Board in 2001 as Development Director and became Director, Europe, in 2004.



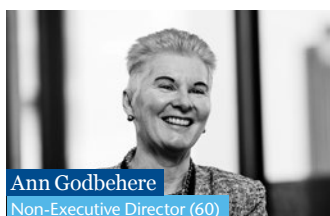
Sue Farr
Non-Executive Director (59)

Nationality: British

Position: Non-Executive Director since February 2015; member of the Corporate Social Responsibility and Nominations Committees.

Key appointments: Special Advisor, Chime Group; NED, member of the Audit, Nomination and Remuneration Committees and Chair of the Corporate Social Responsibility Committee of Dairy Crest Group plc; NED and member of the Remuneration and Nominations Committees of Millennium & Copthorne Hotels plc; NED and member of the Audit and Nominations & Remuneration Committees of Accsys Technologies PLC.

Skills and experience: Sue brings considerable expertise in marketing, branding and consumer issues to the Board. Sue is a former Chairwoman of both the Marketing Society and the Marketing Group of Great Britain. Prior to joining the Chime Group in 2003, where she was Director, Strategic and Business Development until 2015, Sue's career in corporate communications included roles with the BBC and Vauxhall Motors.



Ann Godbehere
Non-Executive Director (60)

Nationality: Canadian/British

Position: Non-Executive Director since 2011; member of the Audit, Nominations and Remuneration Committees.

Key appointments: NED, member of the Nominations Committee and Chair of the Audit Committee of Rio Tinto plc and Rio Tinto Limited; NED, member of the Audit Committee and Chair of the Compensation Committee of UBS Group AG and UBS AG; NED, member of the Nomination and Risk Committees and Chair of the Audit Committee of Prudential plc.

Skills and experience: Ann has more than 25 years' experience in the financial services industry. She spent ten years at Swiss Re Group, latterly as Chief Financial Officer from 2003 to 2007. From 2008 until 2009 she was Chief Financial Officer of Northern Rock during the initial phase of its public ownership. Ann is a Fellow of the Certified General Accountants of Canada and a Fellow of the Chartered Professional Accountants.



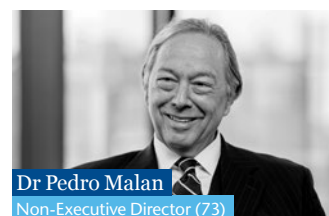
Savio Kwan
Non-Executive Director (67)

Nationality: British

Position: Non-Executive Director since January 2014; member of the Corporate Social Responsibility and Nominations Committees.

Key appointments: Co-Founder and CEO of A&K Consulting Co Ltd, advising entrepreneurs and their start-up businesses in China; Visiting Professor at Henley Business School; Member of APAC Advisory Board of UBS Wealth Management, UBS AG Hong Kong Branch; Non-Executive Director of The Hong Kong Entrepreneur Fund.

Skills and experience: Savio brings significant business leadership experience of Greater China and Asia to the Board. 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.



Dr Pedro Malan
Non-Executive Director (73)

Nationality: Brazilian

Position: Non-Executive Director since February 2015; member of the Corporate Social Responsibility and Nominations Committees.

Key appointments: Chairman of the International Advisory Board of Itaú Unibanco; member of the Advisory Board of EDP – Energias do Brasil SA; NED of Mills Estruturas e Serviços de Engenharia SA; Trustee of the Thomson Reuters Trust Principles; member of the Temasek International Panel.

Skills and experience: Pedro has extensive experience of Brazilian trade and industry and an in-depth knowledge of the international economy. Pedro was Minister of Finance for Brazil from 1995 to 2002, having been President of the Central Bank of Brazil from 1993 to 1994, and before that Chief External Debt Negotiator for Brazil from mid-1991 to 1993. He is a former Chairman of Unibanco and was NED of Souza Cruz S.A. from 2010 to 2015.



Dr Gerard Murphy
Non-Executive Director (60)

Nationality: Irish

Position: Non-Executive Director since 2009; member of the Audit and Nominations Committees.

Key appointments: Chairman of the Executive Committee of The Blackstone Group International Partners LLP; Chairman of Ideal Shopping Direct; and Supervisory Board member of Intertrust N.V. and Jack Wolfskin.

Skills and experience: Gerry brings wide-ranging senior board level and general management experience to the Board. He was Chief Executive Officer of Kingfisher plc, Carlton Communications plc, Exel plc and Greencore Group plc, and held senior operating roles at Grand Metropolitan plc (now Diageo plc).



Dimitri Panayotopoulos
Non-Executive Director (64)

Nationality: Greek/Tanzanian

Position: Non-Executive Director since February 2015; member of the Nominations and Remuneration Committees.

Key appointments: Senior Advisor at The Boston Consulting Group; NED and member of the Compensation Committee of Logitech International S.A.

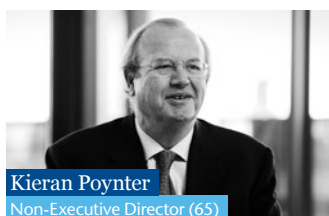
Skills and experience: Dimitri has extensive general management and international sales and brand building expertise. He was Vice Chairman and Advisor to the Chairman and CEO of Procter & Gamble (P&G), where he started his career in 1977. During his time at P&G Dimitri led on significant breakthrough 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.

Attendance at Board meetings in 2015

Name	Director since	Attended/Eligible to attend
Richard Burrows	2009	9/9
Christine Morin-Postel	2007	9/9
Nicandro Durante	2008	9/9
Ben Stevens	2008	9/9
Sue Farr	2015	9/9
Ann Godbehere ¹	2011	8/9
Savio Kwan ²	2014	8/9
Dr Pedro Malan ³	2015	8/9
Dr Gerry Murphy	2009	9/9
Dimitri Panayotopoulos ¹	2015	8/9
Kieran Poynter	2010	9/9
Karen de Segundo ⁴	2007	8/9
Dr Richard Tubb ⁵	2013	8/9

Notes:

1. Ann Godbehere and Dimitri Panayotopoulos missed the March ad hoc Board meeting, arranged at short notice, due to prior engagements.
2. Savio Kwan missed the January ad hoc Board meeting, arranged at short notice, due to a prior engagement.
3. Pedro Malan, missed the July ad hoc Board meeting, arranged at short notice, due to a prior engagement.
4. Karen de Segundo missed the October Board meeting due to illness.
5. Dr Richard Tubb missed the September Board meeting due to a family bereavement.
6. The Board held nine meetings in 2015. Six of these were scheduled. One meeting was held off site, in Brazil, to review the Group's strategy and the Group's Americas regional businesses. Six Board meetings are scheduled for 2016.
7. The Board of Directors is shown as at the date of this Annual Report.



Kieran Poynter
Non-Executive Director (65)

Nationality: British

Position: Non-Executive Director since 2010; Chairman of the Remuneration Committee; member of the Audit and Nominations Committees.

Key appointments: NED and member of the Audit and Compliance and Safety Committees of International Consolidated Airlines Group S.A.; Chairman and Chair of the Nominations, Audit and Compliance and Risk and Remuneration Committees of F&C Asset Management plc.

Skills and experience: 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 served on the President's Committee of the Confederation of British Industry and as member of an advisory committee for the Chancellor of the Exchequer. Kieran is a Chartered Accountant.



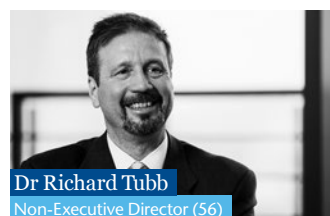
Karen de Segundo
Non-Executive Director (69)

Nationality: Dutch

Position: Non-Executive Director since 2007; Chair of the Corporate Social Responsibility Committee; member of the Nominations Committee. Will retire at the conclusion of the 2016 AGM.

Key appointments: Supervisory Board Member and member of the Finance & Investment and Nomination Committees at E.ON SE; member of the Board and member of the Audit Committee of Pöyry Oyj; NED of Cubico Sustainable Investments Holdings Limited.

Skills and experience: Karen has considerable leadership experience of global business. Karen spent more than 30 years with Shell, holding various senior executive roles before retiring as CEO Shell International Renewables and President Shell Hydrogen in 2005. Karen is a Council Member of the Anglo Netherlands Society.



Dr Richard Tubb
Non-Executive Director (56)

Nationality: US

Position: Non-Executive Director since 2013; member of the Corporate Social Responsibility and Nominations Committees. Will retire at the conclusion of the 2016 AGM.

Key appointments: White House Physician Emeritus; member of the Board of Reference for Project Rescue; Senior Managing Director, Shoreland, Inc; advisory position at Lonsdale.

Skills and experience: Richard is a leading public health figure actively involved in the science and policy development of tobacco harm reduction and alternative nicotine products. He was White House Physician from 1995 to 2009, including Physician to the President of the United States from 2002 until his retirement in 2009. Prior to that, Richard was Clinical Assistant Professor at the Uniformed Services University (retired) and Brigadier General (retired) in the US Air Force.

Management Board

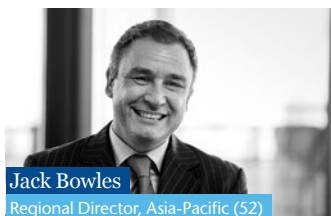


Jerome Abelman

Director, Legal & External Affairs and General Counsel (52)

Nationality: US

Jerry was appointed Director, Legal & External Affairs and General Counsel on 1 May 2015, having joined the Management Board as Group Corporate & Regulatory Affairs Director in January 2015. He has been with the Group for 13 years and has held a number of roles in Legal. Jerry was Regional General Counsel, Asia-Pacific from 2010 to 2014, before becoming Assistant General Counsel – Corporate & Commercial. Jerry joined the Board of the Group's associate company, Reynolds American Inc., on 4 February 2016.

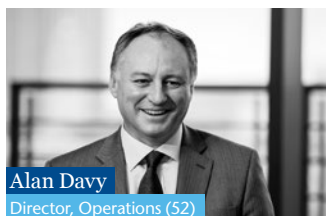


Jack Bowles

Regional Director, Asia-Pacific (52)

Nationality: French

Jack became Regional Director for Asia-Pacific in January 2013. Joining the Group in 2004, he was Chairman of British American Tobacco France in 2005, before taking up the role of Managing Director of British American Tobacco Malaysia in 2007. He joined the Management Board as Regional Director for Western Europe in October 2009 before becoming Regional Director for the Americas in October 2011.



Alan Davy

Director, Operations (52)

Nationality: British

Alan was appointed to 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.



Giovanni Giordano

Director, Group Human Resources (50)

Nationality: Italian/US

Giovanni joined the Management Board of British American Tobacco in June 2011. He is an international human resources executive with wide experience from senior roles at Procter & Gamble and Ferrero, where he was Chief Corporate Officer.



Andrew Gray

Director, Marketing (51)

Nationality: Brazilian/British

Andrew was appointed Marketing Director in September 2014. He joined the Management Board as Regional Director for Africa and the Middle East in January 2008 before being appointed Regional Director for Eastern Europe, Middle East and Africa (EEMEA) in January 2011. Joining Souza Cruz as an intern in 1986, he went on to hold a number of senior management positions in South America and the Caribbean (including President of Souza Cruz) and also in Malaysia.



Tadeu Marroco

Director, Business Development (49)

Nationality: Brazilian

Tadeu joined the Management Board as Business Development Director in September 2014. In addition to his role leading Strategy and M&A, Tadeu is responsible for IT, including the roll-out of the Group's revised operating model and single IT operating system. Tadeu joined British American Tobacco in Brazil over 20 years ago. He has held various senior finance positions, including Regional Finance Controller, EEMEA, and Group Finance Controller.



Dr David O'Reilly
Group Scientific Director (49)

Nationality: British

David was appointed Group Scientific Director in January 2012. He has been with British American Tobacco for over 20 years and has held various positions in Group Research and Development. He has led the Group's R&D efforts to develop reduced toxicant products and has also been Head of International Public Health & Scientific Affairs, responsible for engagement with the scientific, medical and public health communities.



Ricardo Oberlander
Regional Director, Americas (52)

Nationality: Brazilian

Ricardo joined the Management Board as Regional Director for the Americas in January 2013. He joined Souza Cruz in May 1989 and has held various roles including Marketing Director of our Malaysian business, Regional Marketing Manager for the Americas, General Manager in France and Global Consumer Director. Ricardo joined the Board of the Group's associate company, Reynolds American Inc., in December 2014 and was appointed to the Chief Marketing Officer (CMO) Council Latin America Advisory Board on 3 February 2016.



Naresh Sethi
Regional Director, Western Europe (49)

Nationality: Australian/Indian

Naresh was appointed Regional Director for Western Europe in January 2013. He has over 20 years of experience in the tobacco industry, holding various marketing roles in India, Indonesia, West Africa and Australasia before moving to Japan. He was Marketing Director in Japan and then the Group's General Manager. He became Group Head of Strategy and Planning and was appointed Director, Group Business Development in 2012.



Johan Vandermeulen
Regional Director, Eastern Europe, Middle East and Africa (48)

Nationality: Belgian

Johan joined the Management Board as Regional Director for Eastern Europe, Middle East and Africa in September 2014. He has been with British American Tobacco for more than 20 years and was previously General Manager in Russia, General Manager in Turkey and in the marketing function he was Global Brand Director for the Kent brand.



Kingsley Wheaton
Managing Director, Next Generation Products (43)

Nationality: British

Kingsley was appointed Managing Director, Next Generation Products, in January 2015. He joined the Group in 1996 and has held a number of roles in Marketing. He was Marketing Director in Nigeria and Russia, before becoming General Manager in Russia. He was then the Global Brand Director responsible for the Kent and Vogue brands, before taking his place on the Management Board in January 2012 as Deputy Corporate and Regulatory Affairs Director. In June 2012 he was appointed Director, Corporate and Regulatory Affairs.

Board activities in 2015

Growth

The Group's plans for continued investment in high growth markets, in Tobacco Products and Next Generation Products, is central to the Board's annual agenda, ensuring that growth remains our key strategic focus.

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 2015

Consideration of industry trends and the competitor environment for Tobacco Products and Next Generation Products;

Reviewing the implementation of the Group's Strategy in light of evolving global trends, in particular the slower economic recovery and its impact on emerging markets and changing consumer preferences. Agreeing key strategic imperatives to ensure that the Group Strategy remains relevant and appropriately targets key growth segments;

Receiving and agreeing to pursue M&A strategic and tactical opportunities for growth. In the tobacco sector this included the maintenance of the Group's shareholding of 42% in the enlarged Reynolds American Inc. following its purchase of Lorillard Inc.; the acquisition by the Group of the minority interest shareholding in Souza Cruz S.A.; the acquisition of TDR d.o.o., which has strong distribution networks for tobacco products in Croatia, Bosnia and Serbia; and the acquisition of the Blue Nile Cigarette Company Limited in Sudan, enhancing the Group's manufacturing and distribution capabilities in this market. In the Next Generation Products sector, this included the acquisition of the CHIC e-cigarette manufacturing business in Poland and the conclusion of a vapour products technology-sharing agreement with R.J. Reynolds Tobacco Company, a subsidiary of Reynolds American Inc. which provides a framework for collaboration and mutual cross-licensing of the parties' vapour product technologies until the end of 2022;

Reviewing operating performance and the continued impact of foreign exchange rates on the Group's financial performance, including measures taken by management to mitigate the foreign exchange risks;

Reviewing the quarterly financial performance of the Group's associate companies, Reynolds American Inc. and Imperial Tobacco Canada (ITCAN).

Activities in 2015

Monitoring the final stages of the roll-out of the Group's new operating model and global IT solution which will ensure standardisation and more effective management and use of Group data;

Working through the Audit Committee to establish and conduct a compressed audit tender process to appoint new Group Auditors and appointing KPMG LLP as Group Auditors in March 2015;

Reviewing the Group's trade marketing and distribution resources, including the proposal to leverage the Group's Direct to Store Distribution (DSD) networks in the Americas by partnering with other FMCG companies to distribute their products, to achieve further efficiencies and cost savings;

Regularly reviewing the Group's liquidity, confirming that the Company was conforming with its financing principles, and noting planned refinancing activities for the year ahead;

Monitoring the Group's IT security threat assessment process;

Reviewing progress on the merger of the Group Legal and the Corporate and Regulatory Affairs functions to form a combined Legal and External Affairs function.

Strategy deep dives

Delivering growth

In October 2015, the Board held a week of meetings in Brazil led by senior management from the Americas region. The Board participated in a comprehensive review of the Group's Product and Leaf Strategy, including the Must Win sources for high-quality leaf and issues of farmer sustainability and reviewed the Americas regional strategy and its implementation.

It also reviewed the Group's combustible product and innovation pipeline at the Regional Product Centre in Porto Alegre, in particular its process for innovation.

The Board spent a day visiting a contractor farmer, reviewing all aspects of the leaf growing and curing business and conducted a market visit in Rio de Janeiro.



For more information on our Group Strategy see pages 8–9 of our Strategic Report.

Sustainability

The Board places considerable emphasis on the need for our business to be sustainable for the long term, to meet the expectations of our stakeholders and inform our commitments to society.

Activities in 2015

Receiving updates on the Group's Next Generation Products business, including a new organisational structure and strategy for the Vapour Products and Tobacco Heating Products business. Reviewing performance following the launch of the Vype e-stick and Vype e-pen including the innovation pipeline in this area and proposed timelines and markets for future launches, including the 'glo iFuse' Tobacco Heating Product;

Monitoring progress made by the Group in securing regulatory approval for its nicotine inhalation product, Voke, for which a Medicines and Healthcare Products Regulatory Agency licence was received in February 2015;

Approving Group-wide Vapour Marketing Principles to govern the Group's advertising and promotion of Vapour Products;

Monitoring the status of the Group's litigation proceedings. This included receiving updates on the class actions in Quebec, Canada against the Group's subsidiary Imperial Tobacco Canada (ITCAN) and two other Canadian manufacturers, and the Plaintiffs' unsuccessful claim for a Provisional Execution order in July; the Plaintiffs' successful application for security for costs in October and preparations for ITCAN's appeal of the substantive judgment. Receiving updates on legacy litigation in relation to pollution in the US (Fox River and Kalamazoo River) and the settlement of asbestos-related claims made against a former US subsidiary of the Group's Canadian business (Flintkote);

Reviewing the Group's regulatory strategy in the context of the current regulatory landscape, including plain packaging proposals within the EU and their potential implications for the business, including the Group's legal challenge to the UK Government's proposed new packaging rules;

Reviewing the new risk management related requirements set out in the revised UK Corporate Governance Code; reviewing Group-wide and regional risks in the context of identified growth opportunities. Considering the Group's risk appetite and determining the Group's viability for Financial Reporting Council reporting purposes, taking account of the Company's current position and principal risks;

Reviewing future sustainability reporting plans to ensure continued focus on priority topics, namely sustainable agriculture, corporate conduct and harm reduction. Reviewing progress on the Group's activities to improve its relationships with its contracted farmers in key markets;

Monitoring compliance with the Group's Standards of Business Conduct and internal controls. A number of allegations were made towards the end of 2015 regarding historic misconduct in Africa. Although the Group was aware of and had looked into some of the allegations in the past, given the high standards to which we hold ourselves and the number and nature of the allegations of which the Group is now aware, the Board approved the appointment of an external law firm to conduct a full investigation and instructed that it be kept updated on the progress and findings of this investigation.

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 Guiding Principles and which harnesses diversity.

Activities in 2015

Reviewing the results of the Group-wide survey of employee engagement undertaken in late 2014, where all categories had improved compared to the 2012 survey and where, in the majority of categories the Group scores were higher than the average for comparable companies;

Receiving updates on the difficulties of attracting and retaining talent and factoring this into consideration of revised talent and remuneration policies;

Reviewing the application and continuing impact of the Remuneration Policy during 2015; agreeing proposals for a revised Policy and consulting with key shareholders in both early and late 2015 in relation to those proposals;

Reviewing the development of leaders in the Group, in particular activities to drive a high-performance leadership culture, including a revised performance management system to develop diverse leaders at all levels and a focus on external recruitment utilising social media;

Receiving updates on the Group's diversity ambitions with particular focus on gender and nationality diversity at senior grades;

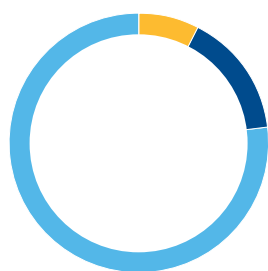
Reviewing detailed succession planning at Board level, including Executive Director and Management Board succession planning and monitoring the progress of Management Board development plans;

Reviewing the performance of the Executive Directors and Management Board members;

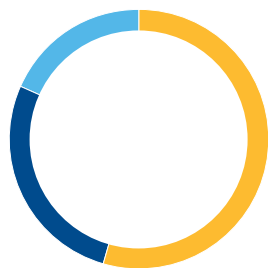
Considering Non-Executive Director appointments proposed by the Nominations Committee and appointing three new Non-Executive Directors and reviewing and refreshing the composition of Board Committees.

Board effectiveness

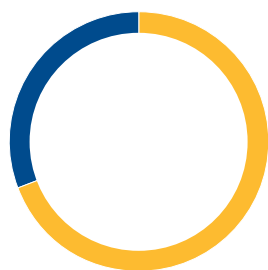
Balance of Non-Executive Directors and Executive Directors



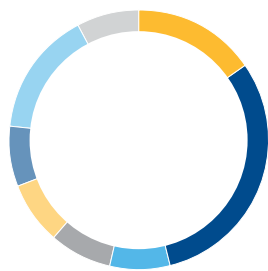
Length of tenure of Non-Executive Directors



Gender split of Directors



Nationality of Directors



Balance and diversity

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 in this section on pages 48–49. In 2015 over 30% of our Board was female.

The Board appreciates the benefit of diversity in all its forms, within its own membership and at all levels of the Group. The Board promotes diversity and encourages initiatives to improve gender diversity in senior management roles. Our Strategic Report contains details of our diversity policy, including the proportion of women in our total workforce and in senior management, on pages 18–19.

Independence and conflicts of interest

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.

Conflicts of interest

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.

Information and professional development

Board induction

On joining the Board, all Directors receive a full induction. Non-Executive Directors also receive a full programme of briefings on all areas of the Company's business from the Executive Directors, members of the Management Board, the Company Secretary and other senior executives.

Sue Farr, Pedro Malan and Dimitri Panayotopoulos received a comprehensive induction in 2015 including briefings covering the Group's Strategy, its functions (including Marketing and Next Generation Products), statutory reporting cycle, Group Treasury, IT strategy and legal and regulatory issues. They, along with the rest of the Board, also had the opportunity to visit the Group's Regional Product Centre in Brazil. A visit to a factory is planned for 2016 to complete their induction.

Conflicts of interest in 2015

Two particular issues of potential conflicts of interest were considered in 2015 in connection with the decision to bring proceedings against PwC and the resulting tender process for new auditors. The Board reconsidered whether or not it should re-authorise any situational conflict which had already arisen or which could arise for each of Kieran Poynter and Christine Morin-Postel, both of whom had previously advised of separate circumstances which could be considered to have impacted their independence. The issue arose in relation to discussions on whether or not to pursue proceedings against PwC in relation to potential claims the Group has against the French company Sequana SA, in respect of the Group's exposure to clean-up costs for pollution in the Lower Fox River, Wisconsin. Christine Morin-Postel was a non-executive director of a shareholder in Sequana SA from 15 April 2009 until 29 May 2012, a time when the issues in dispute may have taken place. In addition, Kieran Poynter was Senior Partner at PwC during the period in which it was auditing the accounts of the third party connected with the proceedings. Neither Christine Morin-Postel nor Kieran Poynter had any personal involvement in or knowledge of the matters underlying the dispute.

After careful consideration, the Board authorised both potential situational conflicts. Both Kieran Poynter and Christine Morin-Postel recused themselves from the Board discussion as to whether or not proceedings would be pursued against PwC. The Board also decided that neither Director was required to recuse him or herself from any subsequent discussions relating to the consequences of the Board's decision to bring proceedings against PwC. As a consequence, both Kieran Poynter and Christine Morin-Postel, both members of the Audit Committee, played a full role in the audit tender process which led to the appointment of KPMG LLP as the Group's Auditors.

Training and development

Non-Executive Directors are encouraged to attend meetings of the Group's regional Audit and Corporate and Social Responsibility Committees to gain a better understanding of the Group's regional and central functions and are also invited to attend a market visit alongside a Regional Director to see the Group's business on the ground. In 2015, a number of Non-Executive Directors visited Turkey where they discussed the local challenges being faced by the Group. In addition, in April 2015 a number of Non-Executive Directors attended a training session on the new approach to brand development being applied across the Group's Global Drive Brands.

The Board and its Committees receive regular briefings on legal and regulatory developments. In 2015, the Board reviewed the revised requirements for audit tenders and the appointment of auditors and the new regulatory requirements for assessing risk appetite and for developing a viability statement.

The Chairman meets each Non-Executive Director individually, in the latter part of each year, to discuss their individual training and development plans.

Shareholder engagement

The Chairman and the Executive Directors are committed to open and transparent dialogue with shareholders. In early 2015, both the Chairman and the Chairman of the Remuneration Committee met a number of key shareholders to engage further in relation to the Group's Remuneration Policy. The Board decided, following engagement, that it would not submit changes to the Remuneration Policy at the 2015 AGM. That feedback has, however, led to revised proposals and subsequent further consultation with shareholders in late 2015. Input from shareholders has been reflected in the final Policy proposals being submitted to the AGM in 2016.

The Chairman also meets significant shareholders and, during the year, held eight personal meetings with major investors. He also met with the Investment Association, to discuss the introduction of their Board Confidence index.

The Senior Independent Director and other Non-Executive Directors are also available to meet with major shareholders on request.

The AGM is an opportunity for further shareholder engagement and for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors attend, unless illness or pressing commitments prevent them. All Directors attended the AGM in 2015. Details of our 2016 AGM are set out in the other corporate disclosures section.

Annual investor relations programme

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is undertaken each year by the Head of Investor Relations, often accompanied by one or more Executive Directors. Every two years, combined investor meetings are held over two days with the Management Board also in attendance. This year's investor roadshow was held in Bucharest, Romania, and all members of the Management Board gave detailed presentations covering the current status and issues in Marketing, Regulation, Operations, and Research and Development, as well as providing regional updates.

In 2015, as part of the annual investors relations programme, meetings were also held with institutional shareholders in 17 countries, spanning five continents. In terms of percentage shareholding, the Company engaged with the owners of the majority of its shares. Regular investor presentations were also given and these together with the roadshow and results presentations are all published on www.bat.com. All results presentations are also available to shareholders by webcast.

In addition, there is a micro site on www.bat.com for debt investors, with comprehensive bondholder information on credit ratings, debt facilities, outstanding bonds and maturity profiles.

Board reporting on shareholder views

Twice a year, the Head of Investor Relations reports to the Board, identifying key issues raised by institutional shareholders as well as a commentary on share price performance. Many of the same issues have been raised by shareholders this year, including the impact of foreign exchange rates, industry volume declines, industry pricing, the rise of the value-for-money segment, and the slowing down of emerging market economies. In addition, the regulatory challenges facing the Group such as plain packaging in Australia and the UK as well as the Group's significant M&A activity have also been areas of interest.

The Board also receives reports at each meeting on any changes to the holdings of the Company's main institutional shareholders. The Chairman also comments on any meetings he has had with shareholders allowing the Board to discuss the key points they have raised.

Board evaluation

Evaluation process

The performance and effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman have again been assessed internally, using questionnaires produced with the assistance of the online governance assessment service, Thinking Board. For each question, Directors were requested to rank the Board against a number of questions. They also had the opportunity to provide specific comments.

Constructive feedback

Reports were prepared by the Company Secretary for the Board and each Board Committee on the results of the evaluation. In addition, the Chairman received reports from the Company Secretary on the performance of each of the Executive and Non-Executive Directors. A report on the Chairman's own performance was prepared for the Senior Independent Director. Individual feedback was given by the Chairman to all Board members, and by the Senior Independent Director to the Chairman.

The results of the evaluation show that the Board continues to function very well and each of its Committees continue to be efficient and effective. All Board members are considered to be making an effective contribution to the Board and Board discussions.

A summary of the key points arising from the evaluation, our progress against 2015 action points and proposed actions for 2016, is set out on pages 56–57.



For disclosures required by paragraph 7.2.6 of the Disclosure and Transparency rules and the Companies Act 2006 see the other corporate disclosures section on pages 113–119.

Board effectiveness continued

Board evaluation 2015

Leadership

"Good discussion about the Company's performance with the right degree of challenge on the performance of the business"

Findings

The Board continues to have a clear understanding of the Group's business and the environment in which it operates.

Strategy is continually reviewed with management and its focus refined as necessary. "There is an excellent balance between the long and short-term views in a very dynamic global market."

There is a good understanding of the risks to the business, including reputational risks.

The continuing importance and the value of the market visits, particularly for the Non-Executive Directors, was rated highly although as a global organisation it is recognised that not all Regions can be covered each year.

The Executive Directors and senior management are well regarded.

Action for 2016

Continue to ensure that the Board receives timely briefings on the development and progress of strategy and on the challenges and opportunities facing the sector.

Earlier involvement in strategy development could allow more input from the Board, in particular around different scenarios and alternative strategic proposals.

Progress against 2015 actions

To assist the Non-Executive Directors in understanding fully the challenges and opportunities facing the Group, the annual Strategy meeting was held in Brazil where the Board received presentations on leaf and product issues, discussed regional issues with senior management and visited a tobacco farm and the Regional Product Centre.

Additional Board training sessions were held on the Group's Brand Building activity and the Next Generation Products businesses which provided further opportunities for Board interaction with senior managers in the Marketing and Next Generation Products functions.

Oversight

NEDs demonstrate "a willingness to understand the business in depth"

Findings

The Board has effective oversight of the business and a good understanding of the business drivers.

The Group's Audit and Corporate and Social Responsibility Committee framework, and risks monitored by the Board in this context, continues to work well.

Group performance against a range of measures was reported to the Board by the Chief Executive and the Finance Director in regular Board updates.

Action for 2016

To provide further context for Board discussions, more regular 'deep dives' into the performance and published strategies of the Group's key competitors will be scheduled.

More regular reviews of shareholder and media views of the Company will be sought directly by the Board to help challenge the Board's assumptions.

Progress against 2015 actions

The Board reviewed detailed proposals on defining and setting the Group's risk appetite and considered the viability of its business model relative to its principal risks.

Market visits conducted during the year allow senior managers greater access to Non-Executive Directors and vice versa, increasing the Board's confidence that effective oversight and a detailed line of sight is prevalent throughout the organisation.

Meetings

"Well managed in terms of scope, complexity, efficiency and time management"

"Thorough documentation"

Findings

The annual Board programme continues to be comprehensive with all key issues being covered. Papers are of a high quality with very thorough documentation.

Meetings enable good discussion about the Company's results with the right degree of challenge on performance issues.

Views are presented clearly. Meeting times may be extended and discussions often continue over dinner, without management being present, to allow full and frank discussion.

Action for 2016

Committee memberships and the scheduling of Committee meetings will be reviewed during 2016, with a view to maximising the effectiveness of each Committee, and of the Board, within the overall time allocated for each meeting schedule.

Non-Executive Director-only discussions have been particularly valuable during 2015 and these will continue to be scheduled during 2016.

Progress against 2015 actions

Non-Executive Directors received regular functional briefings on the Next Generation Products business, M&A and litigation matters during 2015, and briefings on operational and regional issues during the market visit to Turkey and the Strategy meeting in Brazil.

Collective Board effectiveness

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 2015.

When required, the Non-Executive Directors, led by the Chairman, meet prior to Board meetings and 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, in order to discuss the Chairman's performance.

Support

"The administrative and secretariat support is first class and much appreciated"

Findings

The Board continues to receive good support from management and the secretariat. All Non-Executive Directors appreciate the level of training and support they receive in performing their duties.

As mentioned on page 55, the Chairman meets each Non-Executive Director individually, each year, to discuss their training and development needs.

Action for 2016

Regular, relevant training on legal duties and corporate governance will continue to be provided, for example on the new Market Abuse Regulations.

Progress against 2015 actions

All new Non-Executive Directors completed a detailed induction covering all aspects of the business where they have been able to meet all of the Management Board members and Heads of Function. The final element, a factory visit, is planned for 2016.

Training sessions for the Board have been held on brand building activity and on the development of the Next Generation Products business.

Composition

"The approach to succession planning and the oversight exercised by the Board represents very best practice"

Findings

The addition of new Non-Executive Directors with branding and marketing experience is seen as "a real plus" given the Group's operations in the FMCG sector.

The Board has broad and diverse skills, experience and talent. The Board mix meets current and future needs and benefits from the right mix of personalities and styles.

The Board also deals with transition and long-term planning well.

Action for 2016

The succession needs of specific Committees, as opposed to the Board as a whole, will be a focus area in 2016.

The appointment of Non-Executive Directors with diverse skills, nationalities and gender will continue to support the Group's diversity and strategy ambitions, particularly in light of the retirement of one female Non-Executive Director in 2016.

Succession contingency plans will be kept under regular review.

Progress against 2015 actions

The Board refreshment exercise undertaken in 2014 and early 2015 culminated in the appointment of three new Non-Executive Directors in February 2015. Each of the new appointees brings identified skills to the Board, whether consumer goods marketing experience or business and geopolitical skills.

Working together

"Working well together as a group"
"Cohesion and active participation of all"

Findings

The Chairman creates a culture of openness, respect and trust and creates opportunities for discussions with the Non-Executive Directors, individually and collectively. Difficult discussions with regards to the impact of the current Remuneration Policy on recruitment and employee relations were handled sensitively.

The Chief Executive and the Chairman have a good working relationship; in addition, the Board works within a consensus position, once established.

The change of auditor was noted as being an example of a united Board working well and being effective to achieve a desired outcome in a very tight timeframe.

The Directors scored each other highly on teamwork and relationships in the Director 360-degree review.

Action for 2016

Ensure that market visits and opportunities to engage with senior management continue as these not only give confidence to the Board that strategy implementation is aligned, it also provides context for succession planning discussions.

Progress against 2015 actions

In addition to the opportunities to meet senior managers provided by the market visit to Turkey and the Strategy meeting in Brazil, the Board budget meeting in December was also attended by all members of the Management Board.

Audit Committee



Christine Morin-Postel
Chairman of the Audit Committee

Audit Committee current members

Christine Morin-Postel (Chairman)

Ann Godbehere

Gerry Murphy

Kieran Poynter

Attendance at meetings in 2015

Name	Member since	Attendance/Eligible to attend
Ann Godbehere ¹	2012	6/6
Christine Morin-Postel ²	2014	6/6
Gerry Murphy ³	2015	3/3
Kieran Poynter ¹	2012	6/6

Notes:

1. Ann Godbehere and Kieran Poynter have recent and relevant financial experience.

2. Christine Morin-Postel became Chairman of the Committee, replacing Kieran Poynter, with effect from 5 May 2015. She re-joined the Committee on 6 January 2014 having previously served as a member of the Committee from 2007 to 2012.

3. Gerry Murphy joined the Committee with effect from 5 May 2015.

4. The Finance Director attends all meetings of the Committee but is not a member. Other Directors may attend by invitation. The Group Head of Audit and Business Risk, the Director, Legal & External Affairs, and the external auditors also attend meetings on a regular basis.

5. The Committee held six meetings in 2015. Five of these were scheduled. One ad hoc meeting was held in March regarding the tender process to appoint new Group Auditors.

6. The Committee meets alone with the external auditors and, separately, with the Group Head of Audit and Business Risk, at the end of most meetings.



For the Committee's terms of reference see
www.bat.com/governance

Role

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 issues and judgements reflected in them, before their submission to the Board;
- the consistency of the Group's accounting policies;
- the effectiveness of, and makes recommendations to the Board on, the Group's accounting, risk and internal control systems;
- the effectiveness of the Company's internal audit function; and
- the performance, independence and objectivity of the Company's external auditors, making recommendations as to their reappointment (or for a tender of audit services), and approving their terms of engagement and the level of audit fees.

Key activities in 2015

Regular work programme:

- reviewing the application of accounting standards, the Group's 2014 results, 2015 half-year results, the interim management statements and the external auditors' reports where results are audited;
- reviewing the Group's liquidity position, current facilities and financing needs through 2015;
- reviewing the steps taken to validate the Group's 'Going Concern' assessment at half-year and year-end and the discussions and agreeing of the process steps taken to determine the Group's viability statement at year-end;
- reviewing the 2016 Internal Audit Plan;
- reviewing periodic reports from the Group's regional Audit and CSR Committees and Corporate Audit Committee;
- reviewing the Group's Risk Register, including the categorisation of, and mitigating factors in respect of, Group risks;
- reviewing regular reports from the Group Head of Audit and Business Risk on international audits and the management responses and action plans being put in place to address any concerns raised;
- reviewing in-depth reviews of specific risk topics (see page 59);
- reviewing the annual assessment of goodwill impairment;
- reviewing the annual report from the Head of Group Security on security risks and frauds and losses arising during the preceding year; and
- reviewing quarterly reports on compliance with the Group's Standards of Business Conduct and biannual reports on political contributions.

Further specific matters considered by the Committee:

- receiving a report on the threat to independence arising from the proposal to bring legal proceedings against the Group's then auditors, PricewaterhouseCoopers LLP (PwC) and accepting their resignation following the Board's decision to bring proceedings;
- reviewing the audit tender process and conducting the tender for the appointment of new Group Auditors and agreeing the audit strategy and transition plan following the appointment of KPMG LLP as the Group's auditors following the resignation of PwC;
- reviewing the Group's tax position including the progress made in tax litigation cases in various jurisdictions;
- reviewing accounting issues and policies relating to M&A activity;
- reviewing and agreeing a revised Group Treasury Policy; and
- receiving an update on Base Erosion and Profit Shifting and country by country tax reporting.

Risk topics considered by the Committee:

- the continued roll-out of the Group's revised operating model and single IT operating system programme, including reviewing the programme costs, its timeframe, and the risks and mitigation plans;
- the review of projects which will leverage the capabilities of the single IT operating system and its global scale to increase standardisation, automation, scale and service orientation in the areas of HR shared services and business information capabilities; and
- the Group's position and progress made with regard to various smoking and health litigation brought in Canada.

Significant accounting judgements considered by the Committee in relation to the 2015 accounts:

- **the continuing roll-out of the Group's revised operating model and single IT operating system:** given the level of investment, complexity and strategic importance to the Group, the Committee received regular updates from management, internal audit and the external auditors on progress with the roll-out throughout the year (including programme governance, risk and compliance activities). The Committee examined the capitalisation of the IT template as an intangible asset on the Group balance sheet (see note 9 in the Notes on the Accounts), amortisation of IT assets generated as part of the programme, and adjusting items in relation to implementation costs (see note 3(e) in the Notes on the Accounts), and was satisfied that the accounting treatment and disclosure of these matters adopted previously remains appropriate;
- **the Group's significant corporate tax exposures and related provisions:** the Committee was updated periodically on corporate tax matters and considered reports from the Group Head of Tax on the current status of issues in various markets. These included significant tax disputes in Brazil, South Africa, Turkey and the Netherlands and a favourable outcome in Canada. The Committee agreed with management's proposed provisions and extended disclosures in respect of them (see note 30 in the Notes on the Accounts);

- **contingent liabilities, provisions and deposits in connection with ongoing litigation:** the Committee reassessed the provision in respect of the Fox River clean-up costs and related legal expenses subsequent to a funding agreement in relation to the sharing of the costs. As a result, there has been no release of this provision in 2015 (see note 3 in the Notes on the Accounts). However, inherent uncertainties remain (see note 30 in the Notes on the Accounts). The Committee agreed that no provision should be recognised at this point in time in respect of the Kalamazoo River claim. The Committee also agreed that the quarterly deposits in relation to security for costs in relation to the Quebec Class Action, made by the Group's subsidiary Imperial Tobacco Canada, would be treated as an asset to be recovered upon a successful appeal of the original judgment (see note 14 in the Notes on the Accounts);
- **changes in the Group:** the Committee reviewed and approved the accounting treatment in relation to the US\$4.7 billion cash investment by the Group to maintain its 42% shareholding in RAI, as part of the RAI's acquisition of Lorillard Inc., including the recognition by the Group of a deemed gain of US\$931 million (£601 million) in compliance with IAS 39 (see note 4(b) in the Notes on the Accounts). The Committee also agreed the Group's treatment in relation to the acquisition of the shares it does not already own in its subsidiary Souza Cruz; and
- **foreign exchange and restricted cash:** as the Group has operations in certain territories with severe currency restrictions, where foreign currency is not readily available, the Committee satisfied itself that the methodologies used to determine relevant exchange rates for accounting purposes remained appropriate (for restricted cash, see note 19 in the Notes on the Accounts).

Audit Committee continued

External auditors

As reported in the 2014 Annual Report, PricewaterhouseCoopers LLP (PwC) notified the Group that it would not seek reappointment as the Group's auditors at the 2015 AGM. This situation arose from potential claims against PwC, which had been assigned to the Group, in relation to the audit of the accounts of a third party. These claims do not concern the audit of any Group company (see below for further details of the tender process). KPMG LLP (KPMG) was appointed as Group Auditors on 27 March 2015 and their appointment was approved by shareholders at the AGM on 29 April 2015. The Committee considers that the relationship with the auditors is working well and is satisfied with their effectiveness.

Group auditor tender process

Process and selection criteria

The tender process was carried out in compliance with the provisions of the Competition and Markets Authority Audit Order 2014 (the CMA Order). The selection criteria adopted by the Committee also closely followed those detailed in the Audit Tender notes of best practice set out by the FRC as at July 2013 (namely, quality and clarity of approach, understanding of the business and risks, appropriate geographic breadth, appropriate team structure and experience, cultural fit and approach to independence and conflict issues). Due to the global nature of the Group's business, it was deemed not practicable to invite a mid-tier accountancy firm to tender, nor, given the short timescale, were investors views sought on the list of tender participants.

Process summary from 24 February to 27 March 2015

Request for Proposal (RFP) issued by the Chairman of the Audit Committee to RFP Vendors.

A data room was set up and introduction and engagement meetings were held between RFP Vendors and the Chairman of the Audit Committee, the Chairman, the Chief Executive, the Finance Director and the Director responsible for corporate and regulatory affairs.

Knowledge and information meetings were then held between RFP Vendors and senior management from key functions and functional teams submitted their evaluation on the selection criteria to the Head of Audit.

RFP Vendors submitted their final written tenders.

An ad hoc Audit Committee was convened to consider the tender responses. Each of the firms presented to the Audit Committee on their sector and global experience and the Committee questioned each firm in relation to its audit approach, on issues of independence and on the terms of their proposed engagement letters. A Board meeting followed on the same day. On the recommendation of the Audit Committee, and following receipt of PwC's letter of resignation, the Board appointed KPMG as the Group's new auditors.

A resolution to appoint KPMG as the Group's auditors was included in the Notice of AGM.

KPMG was confirmed by shareholders (99.76% voted in favour) as Group Auditors at the 2015 AGM.

There are no contractual obligations restricting the Company's choice of auditors. The Group's external auditors are required to rotate the audit partner responsible for the Group audit at least every five years, and those responsible for the subsidiary audits at least every seven years.

Auditor independence policy

The Committee has an established policy to safeguard and support the independence and objectivity of the Group's external auditors, which complies with the provisions of the CMA Order. The key principle of the policy is that the Group's external auditors may be engaged to provide services only in cases where those services do not impair their independence and objectivity, and provided that the total annual fees for non-audit services are below the sum of annual fees for audit and audit-related services.

The external auditors may not be engaged to provide services if the provision of such services would result in the external auditors:

- having a mutual or conflicting interest with any Group company;
- being placed in the position of auditing their own work;
- acting as a manager or employee of any Group company; or
- being placed in the position of advocate for any Group company.

Subject to the above, the external auditors may provide certain tax and other non-audit services. The Committee recognises that using the external auditors to provide such services is often of benefit where they have detailed knowledge of our business, although such services must be put to tender if expected spend exceeds specified limits, unless a waiver of this requirement is agreed by the Finance Director and notified to the Committee.

The Committee also reviews a work plan identifying the total fees for all audit-related services, tax services and other non-audit services that it is expected will 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 work plans are also submitted to the Committee at the mid-year and year-end, so that it has full visibility of the Group spend on non-audit services.

A breakdown of audit, audit-related and non-audit fees paid to KPMG firms and associates in 2015 is provided in note 3(d) in the Notes on the Accounts and is summarised as follows:

Services provided by KPMG firms and associates 2015 and by PwC and associates in 2014

	2015 (KPMG) £m	2014 (PwC) £m
Audit services	8.7	9.3
Audit-related assurance services	0.2	0.3
Total audit and audit-related services	8.9	9.6
Other assurance services	0.1	0.1
Tax advisory services	0.6	3.8
Tax compliance	0.4	0.8
Other non-audit services	2.0	0.2
Total non-audit services	3.1	4.9

Note:

In 2015 non-audit fees paid to KPMG amounted to 35% of the audit and audit-related assurance fees paid to them (2014 Auditors, PwC: 51%).

Annual assessment

In the ordinary course of business, each year, the Committee will normally separately assess the qualification, expertise and resources, and independence of the Group's external auditors and the effectiveness of the audit process. This year, given the change of auditors, KPMG's suitability was assessed by the Committee as part of the audit tender process, taking due consideration of the FRC guidance for Audit Committees on the evaluation of external auditor quality, including culture, skills, character, knowledge, quality control and judgement. The Committee were also particularly interested in understanding KPMG's proposed approach to the Group audit and questioned them carefully to ensure its effectiveness given the scope and geographic spread of the organisation and their links with, and the competence of, non UK-based component auditors.

The Finance Director, Director, Legal & External Affairs, Group Head of Internal Audit and Business Risk, Company Secretary and the Committee Chairman all meet with the external auditors throughout the year to discuss relevant issues as well as the progress of the audit. Significant issues are included on the Committee's agenda.

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 risk factors that may affect the Group's business is provided in our Strategic Report on pages 37–44. The main features of the risk management processes and system of internal control operated within the Group are described below, and have been in place throughout the year under review and remain in place to date. They do not cover the Group's associate undertakings.

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. It will review and monitor its risk appetite on an annual basis to ensure that it is appropriate and consistent with internal policies. With the support of the Audit Committee, the Board also carries out a review of the effectiveness of the Group's risk management and internal control systems annually and reports to shareholders that it has done so. This review covers all material controls including financial, operational and compliance controls and risk management systems.

Audit and CSR Committee framework

The Group's Audit and CSR Committee framework underpins the Board's Audit and CSR Committees. It provides a flexible channel for the structured flow of information through the Group, with committees covering locally listed Group entities in certain markets, and covering the Group's regions, each referring matters to the next level as appropriate. This framework ensures that significant financial, social, environmental and reputational risks faced by the Company and its subsidiaries 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 an Executive Director and attended by one or more Non-Executive Directors. In the EEMEA Region, given the size of the Region and the number of countries it includes, the regional Audit and CSR Committee is supported by an area Audit and CSR Committee. Local audit and CSR Committees also operate in a number of markets in EEMEA and in other Regions where the complexity of the business requires it.

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, is chaired by a Regional Director and is also attended by one or more of the Non-Executive Directors.

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, supports the Board in its role of ensuring a sound control environment.

Risk management

Risk registers, based on a standardised methodology, are used at Group, regional, area and individual market level to identify, assess and monitor the principal risks (both financial and non-financial) faced by the business at each level. Information on prevailing trends, for example whether a risk is considered to be increasing or decreasing over time, is provided in relation to each risk and all identified risks are assessed at three levels (high/medium/low) by reference to their impact and likelihood. Mitigation plans are required to be in place to manage the risks identified and their progress is also monitored. The risk registers and mitigation plans are reviewed on a regular basis. Regional and above-market risk registers are reviewed regularly by the relevant regional Audit and CSR Committee or the Corporate Audit Committee, as appropriate.

At Group level, specific responsibility for managing each identified risk is allocated to a member of the Management Board. The responsible Management Board member is identified in relation to each of the principal Group risk factors set out in our Strategic Report. 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 Audit Committee. The Board and the Audit Committee review changes in the status of identified risks, assessing the changes in impact and likelihood. The Audit 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.

In 2015, the Board noted that despite a number of changes to the Group Risk Register, which demonstrated its dynamic nature, the Group's risk profile remained stable.



This year the Board also considered the development of the Group Viability Statement see page 38 of the Strategic Report.



For more information on risk factors see the principal Group risk factors section in our Strategic Report on pages 37–44.

Audit Committee continued

Internal control

Group companies and other business units are required, on an annual basis, to complete a checklist, 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 checklist 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 compliance with the Standards of Business Conduct and identify any material instances of non-compliance or conflicts of interest.

The results of these reviews are reported to the relevant regional Audit and CSR Committees or to the Corporate Audit Committee and, where appropriate, to the Audit Committee to ensure that appropriate remedial action has been, or will be, taken where necessary.

Internal audit function

The Group's internal audit function provides advice and guidance to the Group's businesses on best practice in risk management and control systems. It is also responsible for carrying out audit checks on Group companies and other business units, and does so against an audit plan presented annually to the Audit Committee, which focuses in particular on higher risk areas of the Group's business. Throughout much of 2015 there has been a significant focus by internal audit on the roll-out of the Group's revised operating model and single IT system, reviewing the Group's planning process for roll-out, its testing and business readiness, as well as reviewing the success of implementation. Once the roll-out completes in 2016, the focus of internal audit during the year will revert to both global process reviews as well as entity audits on a business-as-usual basis.

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 content of the Annual Report (and in particular, to assess whether it is 'fair, balanced and understandable') in accordance with regulatory requirements. 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 in order to prepare the Group's quarterly interim management statements and 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 Chairman of the Committee attended an internal Annual Report drafting meeting and engaged separately with the Finance Director during the drafting process in 2015. The effectiveness of the Group's financial reporting controls are assessed as part of the Control Navigator exercise described above and evaluated by internal audit in the context of the annual audit plan.

Standards of Business Conduct

The Committee is responsible for monitoring compliance with the Company's Standards of Business Conduct (the 'Standards'), which underpin the Group's commitment to good corporate behaviour. The Standards require 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 live up to the Standards. Guidance on them is provided across the Group, including through training and awareness programmes. All Group companies have adopted the Standards or local equivalents.

Information on compliance with the Standards is gathered at a regional and global level and reported to the regional Audit and CSR Committees and to the Committee.

The Standards, and information on the total number of incidents reported under them in 2015 (including established breaches), is available at www.bat.com/sobc.

In the year to 31 December 2015, 94 instances of suspected improper conduct contrary to the Standards (excluding non-material employee fraud and theft against Group companies) were reported to the Committee (2014: 56). In mid-2014, a new category under the Standards was included which encompassed Respect in the Workplace. In 2015, the first full year of reporting in this category, Respect in the Workplace matters accounted for 30 of the reported instances, following training in this area.

Of the 94 instances reported, 29 were established as breaches and appropriate action taken (2014: 20). In 43 cases, an investigation found no wrongdoing (2014: 31). In 22 cases, the investigation continued at the year-end (2014: 5).

Whistleblowing

The Standards also set out the Group's whistleblowing policy, enabling staff, in confidence, to raise concerns without fear of reprisal.

The policy is supplemented by local procedures throughout the Group and at the Group's London headquarters, providing staff with further guidance and enabling them to report matters in a language with which they are comfortable. The Committee receives quarterly reports on whistleblowing incidents, often discussing them in detail. It remains satisfied that the Group's policy and procedures enable proportionate and independent investigation of matters raised and ensure appropriate follow-up action is taken.

Of the total number of business conduct incidents reported in 2015, set out on the previous page, 73 were brought to management's attention through whistleblowing reports from employees, ex-employees, third parties or unknown individuals reporting anonymously (2014: 42). The increase is also considered to be a result of reporting relating to the new Standards of Business Conduct category which encompasses Respect in the Workplace, as well as continued awareness training delivered during 2015.

Political contributions

The Committee is responsible for reviewing donations made for political purposes throughout the Group. The total amount of political donations paid in 2015 was £25,804 (2014: £3,214), as follows:

British American Tobacco Japan Limited reported contributions totalling Japanese yen ¥1,910,000, (£10,324) for the full year 2015. This expenditure is reported as a political contribution although it related specifically to the purchase of tickets to receptions or dinners hosted by Members of Parliament (MPs). Representatives from British American Tobacco Japan Limited engaged with these MPs at the receptions on local tobacco tax issues.

British American Tobacco Colombia S.A.S. reported contributions totalling Colombian peso \$65,000,000 (£15,480) for the period covering 1 July to 31 December 2015. This expenditure relates specifically to donations made to five different political parties in Colombia in order to contribute to public and democratic debates on issues affecting that company.

No other political donations were reported.

Annual review

The Financial Reporting Council's 'Guidance on Risk Management and Internal Control and Related Business Reporting' published in September 2014 (the Guidance) replaces the Turnbull Guidance on these matters and reflects the recent changes to the UK Corporate Governance Code (the 'Code') regarding the applicability of, and compliance with, the Code's Provisions with regard 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 the issue of 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 2015.

No significant failings or weaknesses were identified and the Board is satisfied that, where areas for improvement were identified, processes are in place to ensure that remedial action is taken and progress is monitored. The Board is satisfied that the system of risk and internal control management accords with the Guidance.

Corporate Social Responsibility (CSR) Committee



Karen de Segundo
Chairman of the CSR Committee

CSR Committee current members

Karen de Segundo (Chairman)	Dr Pedro Malan
Sue Farr	Dr Richard Tubb
Savio Kwan	

Attendance at meetings in 2015

Name	Member since	Attendance/Eligible to attend
Sue Farr	2015	2/2
Savio Kwan	2014	2/2
Dr Pedro Malan	2015	2/2
Karen de Segundo	2008	2/2
Dr Richard Tubb	2013	2/2

Notes:

1. The Committee held two meetings in 2015. Both were scheduled.
2. The Chairman, Chief Executive and the Director, Operations, regularly attend meetings by invitation but are not members. Senior managers responsible for Corporate Affairs and, on occasion, the Director, Legal & External Affairs, also attend the meetings but are not members.



For the Committee's terms of reference see
www.bat.com/governance

Role

The CSR Committee monitors and reviews:

- the Company's management of CSR and the conduct of business in accordance with our Statement of Business Principles, making appropriate recommendations to the Board on CSR matters;
- the effectiveness of the Group's strategy for, and management of, significant social, environmental and reputational issues;
- the Group's sustainability plans and activities; and
- the effectiveness of CSR governance including, on an exceptional basis, reports from the regional Audit and CSR Committees.

Key activities in 2015

CSR governance and compliance

- considering Group risks in the countries that are of potential concern from a human rights perspective, and reviewing the measures and controls in place to mitigate those risks;
- reviewing the Group's EHS strategy, measures, targets and performance data;
- reviewing the progress of the Group's leaf strategy, aimed at enhancing farmers' livelihoods and sustainable agriculture;
- reviewing the potential reputational impact arising from incidents of non-compliance with the Standards of Business Conduct;
- monitoring adherence to the Group's International Marketing Principles (IMP);
- reviewing the Group's Youth Smoking Prevention (YSP) activities and analysis of their global reach and impact; and
- reviewing the Group's Corporate Social Investment strategy, plans and activities.

Sustainability planning and reporting

- considering the Sustainability reporting plan for 2015 and 2016;
- reviewing the Group's Focus report for publication in early 2016; and
- assessing progress against the Group's sustainability goals and commitments.

Group Sustainability Agenda

Our Sustainability Agenda is an integral part of delivering the Group strategy. The Sustainability Agenda aims to build shared value for our consumers, our shareholders and our stakeholders. This concept of shared value underpins our whole approach.

The Group's Sustainability Agenda covers the three key areas that have the greatest significance to our business and our stakeholders. These are:

- harm reduction: we are committed to researching, developing and commercialising a range of innovative tobacco and nicotine products to enable adult consumers to have a choice of less risky alternatives to regular cigarettes;
- sustainable agriculture and farmer livelihoods: we are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefiting rural communities and the environment; and
- corporate behaviour: we are committed to operating to the highest standards of corporate conduct and transparency, benefiting government, consumers, the environment and our people.



For information on our greenhouse gas emissions see
the sustainability section of our Strategic Report on pages 20–21.

Upholding high standards and supporting human rights

A central part of being a sustainable business is operating with integrity and responsibility. Effective governance is critical to ensuring that we live up to our principles and standards and also that we deliver on our Sustainability Agenda. We have clear policies and standards in place that set the standard for the way we do business and how we behave.

The Group's Statement of Business Principles sets out the expectations for responsible management of the Group's business. It was developed in 2002 in consultation with stakeholders, supported by the Institute of Business Ethics.

The Statement comprises three principles – Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct – and 18 Core Beliefs explaining each principle in more detail.



To view our Statement of Business Principles visit www.bat.com/governance

Our Standards of Business Conduct are an integral part of the Group's governance and, together with our Business Principles, underpin our commitment to high standards of corporate responsibility. While the Statement of Business Principles sets out our beliefs and values as an organisation, the Standards of Business Conduct apply those values and principles to specific situations that may arise in day-to-day business life.

We have a long-standing commitment to human rights, and it is our core belief that fundamental human rights, as recognised by the Universal Declaration on Human Rights, should be respected. We are now strengthening our approach in line with the UN Guiding Principles on Business and Human Rights. The first step was the publication, in 2014, of a new Human Rights Policy as part of our revised Standards of Business Conduct, which covers areas such as child labour, freedom of association and forced or bonded labour.

We are also committed to promoting human rights in our supply chain and to support this we are developing an integrated and systematic management approach to human rights due diligence. This includes our recent publication of a new Supplier Code of Conduct, which defines the minimum standards we expect, including those covering human rights.

Towards the end of 2015, a number of allegations were made regarding historic misconduct in Africa. Although the Group was aware of and had looked into some of the allegations in the past, given the high standards to which we hold ourselves and the number and nature of the allegations of which the Group is now aware, the Board approved the appointment of an external law firm to conduct a full investigation and instructed that it be kept updated on the progress and findings of this investigation.



For information on our approach to human rights see the sustainability section of our Strategic Report on pages 20–21.

Sustainability reporting

The Company has produced independently assured reports since 2001 and believes this long history of reporting demonstrates a serious commitment to transparency, corporate responsibility and sustainability.

Our sustainability reporting aims to provide focused and integrated sustainability communications for our stakeholders across different formats. This includes an annual Sustainability Summary, regular Focus Reports and a dedicated online performance centre – all independently assured by Ernst & Young LLP.

The Sustainability Summary is published at the same time as the Company's Annual Report and covers our performance for the year across the key focus areas of our Sustainability Agenda. This is complemented by our online Sustainability Performance Centre covering progress against our goals, data charts and our reporting against the Global Reporting Initiative (GRI) G4 indicators.

Our Sustainability Focus Reports each cover specific topics and provide stakeholders with more in-depth information on the areas that interest them most.



To view our Sustainability Summary and Focus Reports visit www.bat.com/sustainability

External recognition

As a result of the Group's progress in embedding sustainability practices into its day-to-day business, the Group received notable external recognition in 2015. It maintained its industry leadership position in the Dow Jones Sustainability Indices (DJSI) and was included for the 14th consecutive year. The Company's overall score was 83%, consolidating our position as industry leader. We achieved industry leadership in nine of the 20 categories.

The Indices track the economic, environmental and social performance of leading sustainability-driven companies worldwide and are based on the cooperation between Dow Jones Indices and RobecoSAM, a sustainability investment specialist.

In RobecoSAM's Sustainability Yearbook we were named industry leader and placed in the highest Gold Class category. The Yearbook lists the world's most sustainable companies in each industry as determined by their score in the DJSI Assessment.

We were also listed as a component of the STOXX Global ESG Leaders indices, an innovative series of environmental, social and governance (ESG) equity indices owned by Deutsche Börse (the German Stock Exchange). This index model allows investors to understand which factors determine a company's ESG rating and why these factors are important.

In addition, the Company was rated the 12th most empathetic company in the world in a global survey and was also shortlisted for three Building Public Trust Awards, a UK-wide recognition award.

Nominations Committee



Richard Burrows

Chairman of the Nominations Committee

Nominations Committee current members

Richard Burrows (Chairman)	Dr Gerry Murphy
Sue Farr	Dimitri Panayotopoulos
Ann Godbehere	Kieran Poynter
Savio Kwan	Karen de Segundo
Dr Pedro Malan	Dr Richard Tubb
Christine Morin-Postel	

Attendance at meetings in 2015

Name	Member since	Attendance/Eligible to attend
Richard Burrows	2009	3/3
Sue Farr	2015	2/2
Ann Godbehere	2011	3/3
Savio Kwan ¹	2014	2/3
Dr Pedro Malan	2015	2/2
Christine Morin-Postel	2007	3/3
Dr Gerry Murphy	2009	3/3
Dimitri Panayotopoulos	2015	2/2
Kieran Poynter	2010	3/3
Karen de Segundo	2007	3/3
Dr Richard Tubb	2013	3/3

Notes:

1. Savio Kwan missed the January ad hoc meeting, arranged at short notice, due to a prior engagement.
2. The Committee held three meetings, one of which was convened at short notice.
3. The Chief Executive and Group Human Resources Director regularly attend meetings by invitation but are not members.

 For the Committee's terms of reference visit www.bat.com/governance

- making recommendations to the Board on suitable candidates for appointments to the Board and Management Board; and
- 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.

Key activities in 2015

- considering Non-Executive Director appointments, interviewing candidates and recommending appointments to the Board;
- considering the Group Talent Strategy and talent development priorities for 2015, including the promotion of diversity;
- reviewing succession planning for the Executive Directors and for the Management Board; and
- reviewing the progress of bespoke development plans for high potential candidates for Executive Director and Management Board roles (covering the key experience required for further progression, mentoring and education opportunities).

Terms of appointment to the Board

Details of the Directors' terms of appointment to the Board are contained in the Remuneration Policy which is set out in full in the Annual Report 2013 on www.bat.com. A new Policy is being submitted to shareholders for consideration at the AGM on 27 April 2016. Details of this revised Policy, which if approved will apply to Executive Directors with effect from 28 April 2016, are set out on pages 74–90. The Executive Directors have rolling contracts of one year. The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for one year. Their expected time commitment is 25–30 days per year. The Board takes into account the need for it to refresh its membership progressively over time. Non-Executive Directors are normally expected to serve for up to six years. They may be invited to serve for longer, but additional service beyond six years is subject to rigorous review and service beyond nine years is unlikely.

In 2015, the Board underwent a significant refreshment process. In order to provide continuity and stability throughout this period of change, it is considered prudent that Christine Morin-Postel should remain on the Board and she is considered to remain independent notwithstanding her length of service. The Committee is responsible for identifying candidates for positions on the Board. This process includes an evaluation of the skills and experience to be looked for in candidates to ensure continuing Board balance and relevant experience. The selection process involves interviews with several candidates, using the services of specialist external search firms to identify and shortlist appropriate candidates. A balanced list including both genders is a requirement of any shortlist. An explanation of the Group's diversity policy appears on page 19 of this report.

Annual General Meeting 2016

Karen de Segundo has indicated that she will be retiring from the Board at the end of this year's AGM on 27 April 2016, having served for eight years on the Board, nearly seven of which as Chairman of the Corporate and Social Responsibility Committee. Dr Richard Tubb will also retire from the Board at the conclusion of the AGM, having served as a Non-Executive Director since January 2013.

The Company will be submitting all other Directors for re-election at this year's AGM. The Chairman's letter accompanying the AGM Notice confirms that all Directors being proposed for re-election are effective and that they continue to demonstrate commitment to their roles as Non-Executive Directors.

Role

The Nominations Committee is responsible for:

- reviewing the structure, size and composition of the Board and Management Board to ensure both have an appropriate balance of skills, expertise, knowledge and (for the Board) independence;
- reviewing the succession plans for the Executive Directors and members of the Management Board;
- ensuring that the procedure for appointing Directors is rigorous, transparent, objective, merit-based and has regard for diversity;

Annual Statement



Kieran Poynter
Chairman of the Remuneration Committee

Dear Shareholder

It is essential that we attract and retain top international talent in order to deliver the high levels of performance that the Board and shareholders want and expect.

In order to do this, our remuneration structure must be competitive in that global talent market. We also need to ensure there is a strong and clear relationship between delivery on key strategic metrics with stretching performance targets and reward outcomes.

In other words, management needs to be rewarded appropriately, based on competitive opportunity for delivering long-term sustainable shareholder value.

We believe that the interests of shareholders and senior management should be strongly aligned over the long term.

Last year my predecessor highlighted the issues affecting the existing Remuneration Policy which had prompted dialogue with shareholders at the end of 2014. Given the diversity of feedback received during that consultation, the Committee decided not to proceed with any Policy changes at that time and to evaluate the proposals in the light of the investor responses. Nevertheless, his 2014 Statement also noted that the underlying issues that had prompted engagement remained unresolved.

Shareholder consultation – proposals

Consequently, in 2015, the Committee's agenda has been focused on its review of proposals to address and eliminate these persistent issues and to re-engage with shareholders. Over the last few months I have consulted with shareholders representing about 60% of our shares. During this most recent dialogue, I am pleased to say that the response has been encouraging, with shareholders recognising the degree to which our redesigned proposals reflected earlier concerns whilst at the same time addressing the underlying issues compromising the effectiveness of the existing Policy.

In summary those issues were, and remain:

- a disconnect, in the design of the current long-term incentive plan, between management's performance in delivering against its long-term strategic objectives and compensation outcomes to reward that performance. In particular, sterling's persistent strength, against the currencies in a number of countries where the Group operates, adversely impacts the financial results on translation from their local currencies into sterling. The Group's objective is to deliver high single figure growth rates for earnings per share measured at constant rates of exchange. Management has continued to deliver on that objective but our current long-term incentive plan (LTIP) vesting outcomes have not recognised and rewarded that performance.
- a lack of competitiveness in the design of our Executive Directors' compensation. We need to increase the amount of incentive opportunity to bring it more into line with the marketplace. Actual earnings will, of course, continue to be driven by the levels of performance delivered.

The proposed changes to our current Policy, as set out in the accompanying report, reflect key elements of the investor feedback we have received and which the Committee believes will address the two issues highlighted above.

First, we propose the introduction of a new LTIP, replacing our existing plan, with a re-configured set of balanced metrics. We believe this will both reward management for strong delivery against key strategic objectives and align them with the interests of our shareholders. Those metrics, their respective weights and performance ranges are set out in the table below.

Secondly, we propose increases in the maximum potential award levels of variable pay for the 2016 and future awards as follows:

- Chief Executive maximum LTIP award increases from 400% of salary to 500%;
- Finance Director maximum LTIP award increases from 300% of salary to 350%;
- Chief Executive target and maximum short-term incentive (STI) opportunity will increase from 100% and 200% of salary respectively to 125% and 250%;
- Finance Director target and maximum STI opportunity will increase from 90% and 180% to 95% and 190% respectively.

In order to instil greater alignment between the Group's management and its shareholders, the Committee has determined that the new LTIP will include an additional two-year vesting period which will follow the three-year performance period for LTIP awards made in 2016 and subsequent years. Directors will be unable to exercise any LTIP awards, following the completion of the performance period, for a further two years.

Measure	% of award	Performance range	Threshold vesting %
Growth in earnings per share (EPS) at current exchange rates	20	5%–10% compound annual growth rate (CAGR) over performance period	3
Growth in EPS at constant exchange rates	20	5%–10% CAGR over performance period	3
Total shareholder return (TSR) relative to global FMCG peers	20	Median performance vs. peer group to upper quartile	3
Growth in Net Turnover	20	3%–5% CAGR over performance period	3
Operating cash flow as a % of adjusted operating profit (AOP)	20	Cash flow is 85%–95% of AOP over performance period	3
Total	100		15

Annual Statement continued

Furthermore the minimum shareholding requirements of our Executive Directors will be increased to match the maximum annual award under the LTIP: Chief Executive to 500% of salary (previously 400%) and the Finance Director to 350% of salary (previously 250%).

We will also make the following additional changes to the current Policy:

- we will revise the performance range for the NTO metric in the new LTIP scheme from the current 2–5% to a new 3–5%. The Committee is of the view that the new range introduces an appropriate increase in the degree of stretch represented by the metric.
- several investors provided feedback that a combined level of LTIP vesting at threshold performance generating a value equivalent to the annual salary of the Chief Executive was excessive. In recognition of this, the Committee has decided to reduce the level of vesting at threshold performance from 20% to 15% of the new award levels for the Chief Executive and the Finance Director. This lower level of threshold vesting will represent 75% and 52.5% of the respective annual salaries of the Chief Executive and the Finance Director.
- the Committee has decided to introduce retrospective disclosure of threshold and maximum performance points within its short-term incentive scheme. Given the commercial sensitivity that this entails, disclosure will be on a two-year retrospective basis. In other words, in this 2015 report we will provide disclosures in respect of the 2014 short-term incentive scheme and on this basis in future years.

Shareholder consultation – principal themes

Given the importance the Committee attaches to its dialogue with shareholders, I would like to highlight some of the principal themes on which discussion centred:

- **an LTIP that does not function effectively to incentivise and reward management to drive the strategic fundamentals is not in the interests of its shareholders.** There was considerable diversity of opinion amongst our shareholders on preferred metrics – with, in particular, TSR and some form of potential ‘Returns’ measure attracting polarised opinions of like and dislike. There was, however, widespread acknowledgement that an LTIP which was not reflecting strong underlying performance needed to be addressed and that the metrics being proposed would deliver a stronger and more transparent linkage between performance on key strategic objectives and reward outcomes.
- **measured over several years, the Company’s underlying performance, when analysed on a consistent basis, has remained extremely strong.** In past years, when EPS growth in percentage terms on an actual currency basis achieved in a number of years the ‘high teens’, benefiting its shareholders, underlying EPS growth on a constant currency basis was at or near high single-digit growth. In more recent years of currency headwinds, caused by sterling’s appreciation, management has continued to deliver high single-digit EPS growth on a constant basis. In other words, management’s performance has been consistently strong, irrespective of positive or negative translational currency impacts. The Committee believes that reward outcomes should continue to reflect that strong underlying performance.

– **increasing the award potential for the Executive Directors to ensure competitiveness in the market.** The Committee is acutely conscious of shareholders’ general unease with the potential for ‘ratcheting-up’ executive compensation. However, in proposing the variable award increases, we looked at the external market – where we saw, for a company of British American Tobacco’s size and complexity when compared to its most relevant peers, a gap in potential earnings. Our proposals, which have been tempered in response to dialogue with shareholders, restores a measure of competitiveness vis-à-vis the external market for our Executive Directors.

We believe that the results of our discussions have resulted in a Policy which will reward management fairly for strong performance on key strategic deliverables.

Incentive outcomes

The 2015 outcomes for both of our incentive schemes reflects not only the Group’s strong underlying performance – especially evident in respect of the STI – but illustrates in stark terms, in respect of the LTIP outcome, the logic for introducing a new LTIP based on a re-configured set of performance metrics.

As the Chief Executive’s statement highlights, in spite of the continued challenging global economic environment, the Group has delivered a strong all-round performance on the key financial and marketing fundamentals.

In terms of the STI outcomes, Global Drive Brands and Key Strategic Brands grew by 8% during 2015 while our volume share in the Group’s Top 40 markets increased by over 40 bps over the same period, reflecting growth across the majority of the largest cigarette markets. This strong share and volume delivery, together with a 4% growth in adjusted operating profit (at constant rates) which has translated into a very satisfying ‘cash generated from operations’ performance, has combined to result in the overall achievement of a maximum award for 2015 under the IEIS. This strong all-round performance will result in IEIS awards for 2015 for the Chief Executive and the Finance Director of 200% and 180%, respectively.

Following on from a 0% vesting of the 2012 LTIP award last year, the 2013 LTIP award has vested at 8.7% with performance against its metrics materially impacted by translational currency headwinds as a result of sterling’s strength versus key operational currencies over the three-year period.

On a constant currency basis, adjusting only for translational impacts, CAGR EPS of 9.2% was achieved over the 2013 LTIP award performance period, delivering against our commitment of high single-digit EPS growth. However, as a result of translational currency headwinds and inflation adjustment of 10.5%, actual real CAGR EPS growth has registered a decline of 1.3% leading to a nil vesting for the EPS element of the 2013 LTIP award. It is, of course, much harder to isolate the impact of translational currency headwinds on the relative TSR measure, suffice it to say it will be significant and similarly negative in its impact on vesting.

This continued disconnect between management performance and reward outcomes has undermined the LTIP’s role, in its present form, as an effective incentive mechanism and has prompted us to make the changes that I have discussed at length earlier.

Remuneration Report

Index to key elements

Directors' personal performance

Under the rules of the IEIS scheme the Remuneration Committee has discretion to award an individual performance uplift for outstanding performance in any year up to the overall maximum opportunity under the STI. In 2015 the STI corporate result reached the maximum and so no individual performance adjustment could be made.

Nevertheless the Board has evaluated the individual performance of the Executive Directors and concluded they have both made a big contribution to the achievement of our short-term goals reflected in the IEIS and to the progress we have made towards the delivery of an ambitious transformational strategic long-term agenda.

Notwithstanding this strong performance, in view of the proposed increases in variable pay opportunities, we propose no increase this year in the fixed pay of our Executive Directors.

Shareholder support

In summary, the Committee believes that the changes to our existing Remuneration Policy which it proposes to make are in the interests of our shareholders as the revisions will ensure that the Company's ability to attract and retain top talent in a globally competitive marketplace continues and is therefore in the interests of our shareholders. Consequently, I hope we can count on our shareholders to support not only those changes but also our Annual Report on Remuneration at the forthcoming AGM.

Kieran Poynter

Chairman of the Remuneration Committee

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ANNUAL REPORT ON REMUNERATION

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At a glance

Our Remuneration Policy in 2015

The Remuneration Policy for the Executive Directors and the Non-Executive Directors applicable in 2015 was approved by shareholders at the 2014 AGM. It is set out in the Annual Report 2013 on www.bat.com. A summary of the key elements is set out below.

Remuneration element YE 31 Dec 2015	Nicandro Durante Chief Executive	Ben Stevens Finance Director
Base salary	Year-on-year increases will not exceed 10% per annum. Increases will generally be in the range of the increases in the base pay of other UK-based employees in the Group.	
Short-term incentives: IEIS bonus opportunity 50% cash 50% deferred shares (DSBS)	Maximum opportunity: 200% of base salary. On-target opportunity: 100% of base salary.	Maximum opportunity: 180% of base salary. On-target opportunity: 90% of base salary.
Short-term incentives: performance adjustment clawback and malus	Up to 20% uplift possible if individual performance is assessed as outstanding (up to the maximum opportunity of 200% or 180%). A 50% reduction possible if individual performance is assessed as poor. Clawback and malus provisions are in place.	
Short-term incentives: IEIS – performance measures and weightings (%)	<ul style="list-style-type: none"> – Adjusted profit from operations (40%) – Group's share of Key Markets (20%) – Global Drive Brands and Key Strategic Brands volumes (20%) – Cash generated from operations (20%) 	
Long-term incentives: LTIP awards 2015 opportunity	Maximum vesting: shares to a value of 400% of base salary at time of award. Threshold vesting: 20% of maximum (80% of base salary).	Maximum vesting shares to a value of 300% of base salary at time of award. Threshold vesting: 20% of maximum (60% of base salary).
Long-term incentives: dividend equivalent payment clawback and malus	Dividend equivalent payment on all vesting shares. Clawback and malus provisions are in place.	
Long-term incentives LTIP awards 2015 – performance measures and weightings (%)	TSR Performance versus international FMCG companies comparator group (25%). EPS Adjusted diluted EPS growth at current rates of exchange (50%). NTO CAGR of net turnover at constant rates of exchange (25%). Underpin: no NTO element payable unless the corresponding three-year constant currency CAGR of underlying profit exceeds the CAGR of the threshold performance level for underlying operating profit (as defined annually in the IEIS).	
Pension	UURBS (UK): accrual of 0.65% per annum for each year of service on a sterling salary comparable to that of a General Manager of Souza Cruz S.A.; and 2.5% per annum for each year of service on his salary in excess thereof.	(1) Pension Fund (UK): retains a scheme-specific salary cap (currently £150,000 effective 1 April 2015). Benefits in excess of the cap are accrued in the UURBS. Further to the changes to the UK regulated allowances, as his lifetime allowance has been reached, accrual in the Pension Fund has ceased and all future benefits are provided through the UURBS. (2) UURBS (UK): pension accrual in the UURBS is at the same rate as in the Pension Fund (1/40th per annum).
Shareholding requirements	400% of salary	250% of salary
Changes in policy from 2014	Short-term incentives: the introduction of a clawback provision which may be applied at the Committee's discretion: (1) within two years after the payment of a bonus cash amount and/or (2) within three years of the date of grant of an award of shares under the DSBS. Clawback is applicable from 2016 IEIS cash awards and DSBS awards for performance ended 2015. Long-term incentives: the introduction of a clawback provision which may be applied at the Committee's discretion at any time during the two-year period from the vesting date; applicable in respect of 2015 awards and those made after that date.	

Remuneration Report

At a glance

Our remuneration outcomes 2015

These key outcomes for the year-end 2015 relate to the implementation of the Remuneration Policy for the Executive Directors and the Non-Executive Directors as approved by shareholders at the 2014 AGM. It is set out in the Annual Report 2013 on www.bat.com.

KPIs performance year-ended December 2015

The performance measures (KPIs) for the management incentive schemes reflect the alignment of management's strategic focus areas with the interests of our shareholders. IEIS targets for the year-ended December 2015 remain commercially sensitive and are not disclosed below. For the year-ended 2014, the IEIS targets at Threshold and Maximum are disclosed retrospectively on page 99 of this report. The equivalent target levels for the year-ended 2015 will be disclosed in the Annual Report on Remuneration for the year-ending 2016 to be published in March 2017.

Measure	Strategic focus area	Strategic target or objective	Management incentive	Weighting %	Actual performance 2015
Group share of Key Markets	Growth	To grow market share.	IEIS	20	+40 bps
Global Drive Brands (GDB) and Key Strategic Brands (KSB) volumes	Growth	To increase GDB and KSB volumes faster than the rest of our portfolio.	IEIS	20	+8%
Adjusted profit from operations	Productivity	To grow adjusted profit from operations on average by 5-7% per year over the medium to long term.	IEIS	40	+4%
Cash generated from operations	Productivity	To generate optimal cash flow compared to budget while continuing to support business requirements.	IEIS	20	+12%
Adjusted earnings per share (EPS)	Growth	To grow EPS by high single-figure percentages per year, on average, over the medium to long term.	LTIP (2013 awards)	50	(1.3)%
Total shareholder return (TSR) – FTSE 100 Index Median performance: 9.1%	Growth	To secure median (or above) performance in shareholder value relative to peer group.	LTIP (2013 awards)	25	10.2%
Total shareholder return (TSR) – FMCG group Median performance: 12.5%	Growth	To secure median (or above) performance in shareholder value relative to peer group.	LTIP (2013 awards)	25	10.2%

Policy implementation YE 2015: Executive Directors	Nicandro Durante Chief Executive	Ben Stevens Finance Director
Base salary: from 1 April 2015	£1,190,000 (+3%)	£867,000 (+3%)
Short-term incentives: IEIS	200% on the corporate result; maximum award – no individual performance uplift	180% on the corporate result; maximum award – no individual performance uplift
Long-term incentives: LTIP – 2013 awards	8.7%	8.7%
'Single figure'	£4,523,000	£3,319,000
Shareholding requirements	598.8% of salary (400% required)	313.8% of salary (250% required)

Policy implementation YE 2015: Richard Burrows (Chairman)	Fee from 1 April 2015
	£645,000 (+2%)
Non-Executive Directors	Fees from 1 January 2015
Base fee	£92,700 (+3%)
Supplements:	Senior Independent Director £30,000 (no change)
Committee membership fees:	
Audit Committee	Chairman: £30,000 (no change) Member: £6,000 (no change)
CSR Committee	Chairman: £25,000 (no change) Member: £6,000 (no change)
Nominations Committee	Chairman: £ – (no change) Member: £6,000 (no change)
Remuneration Committee	Chairman: £30,000 (no change) Member: £6,000 (no change)

At a glance

Our proposed Remuneration Policy from 2016

A new Remuneration Policy will be the subject of a binding vote by shareholders at the AGM on 27 April 2016 and, if approved, will apply with effect from 28 April 2016. A summary of the key elements of the new Remuneration Policy showing how it will be applied in 2016 and the key changes and differences from the current Policy is set out below.

Fixed remuneration		Executive Directors							
	Nicandro Durante Chief Executive					Ben Stevens Finance Director			
Base salary from 1 April 2016	£1,190,000 (no change from 2015)				£867,000 (no change from 2015)				
Variable Remuneration		Executive Directors							
	Nicandro Durante Chief Executive					Ben Stevens Finance Director			
Short-term incentives: IEIS opportunity 50% cash; 50% deferred shares (DSBS) Percentage of base salary	Proposed Policy 2016	Current Policy 2015		Proposed Policy 2016		Current Policy 2015			
	MaximumOn-target	MaximumOn-target	MaximumOn-target	MaximumOn-target	MaximumOn-target	MaximumOn-target			
	250%125%	200%100%	190%95%	180%90%					
Short-term incentives: performance adjustment clawback and malus	Up to 20% uplift possible if individual performance is assessed as outstanding (up to the maximum opportunity of 250% or 190%). Up to 50% reduction possible if individual performance is assessed as poor. The performance adjustment factor and the clawback and malus provisions are included unchanged in the Proposed Policy for 2016.								
Short-term incentives: IEIS – performance measures and weighting (%)	The IEIS performance measures and weightings from 2016 apply equally to the Executive Directors and are unchanged in the Proposed Policy. – Adjusted profit from operations (40%) – Group’s share of Key Markets (20%) – Global Drive Brands and Key Strategic Brands volumes (20%) – Cash generated from operations (20%)								
Long-term incentives: renewal of LTIP 2016	The current long-term incentive plan (LTIP 2007) will expire in 2017. The Proposed Policy for 2016 includes a renewed LTIP (LTIP 2016), subject to approval by shareholders at the AGM on 27 April 2016.								
	Nicandro Durante Chief Executive					Ben Stevens Finance Director			
Long-term incentives: LTIP awards vesting opportunity; shares to a percentage value of base salary at time of award	Proposed Policy 2016	Current Policy 2015		Proposed Policy 2016		Current Policy 2015			
	Maximum		Maximum		Maximum		Maximum		
	500%		400%		350%		300%		
Long-term incentives: dividend equivalent payment clawback and malus	Dividend equivalent payment on all vesting shares – included unchanged in the Proposed Policy for 2016. Clawback and malus provisions are in place – included unchanged in the Proposed Policy for 2016.								
Long-term incentives: the LTIP Extended Vesting Period	Proposed Policy 2016 Introduction of an additional vesting period of two years from the third anniversary of the date of grant. LTIP awards to vest only to the extent that: (1) the performance conditions or measures are satisfied at the end of the three-year performance period; and (2) an additional vesting period of two years from the date of the third anniversary of the date of grant has been completed – the LTIP Extended Vesting Period. LTIP awards are therefore only exercisable once the total period of five years from the date of grant has been completed.				Current Policy 2015 No additional vesting period after completion of three-year performance period.				

Long-term incentives: performance measures and weightings (%); reduction in vesting at threshold performance from 20% to 15% of award	Proposed Policy 2016	Current Policy 2015
	TSR: performance versus international FMCG companies comparator group (20%). Measure unchanged from Current Policy; weighting reduced by 5 pts.	TSR: performance versus international FMCG companies comparator group (25%).
	EPS: (1) CAGR of adjusted diluted EPS at current rates of exchange (20%). Measure unchanged from Current Policy; weighting reduced by 30 pts. EPS: (2) CAGR of adjusted diluted EPS at constant rates of exchange (20%). New measure from 2016.	EPS: CAGR of adjusted diluted EPS at current rates of exchange (50%).
	NTO: CAGR of net turnover at constant rates of exchange (20%). Underpin: no NTO element payable unless the corresponding three-year constant currency CAGR of underlying profit exceeds the CAGR of the threshold performance level for underlying operating profit (as defined annually in the IEIS). Measure amended – threshold vesting now at 3% (2015: 2%); weighting reduced by 5 pts.	NTO: CAGR of net turnover at constant rates of exchange (25%). Underpin: no NTO element payable unless the corresponding three-year constant currency CAGR of underlying profit exceeds the CAGR of the threshold performance level for underlying operating profit (as defined annually in the IEIS).
	Operating cash flow conversion ratio: operating cash flow as a percentage of adjusted operating profit with currency at actual rates of exchange (20%). New measure from 2016. Threshold vesting across five measures: 15%.	Threshold vesting across three measures: 20%.

Executive Directors		
	Nicandro Durante Chief Executive	Ben Stevens Finance Director
Pension	UURBS (UK): accrual of 0.65% per annum for each year of service on a sterling salary comparable to that of a General Manager of Souza Cruz S.A.; and 2.5% per annum for each year of service on his salary in excess thereof. This element of remuneration is included unchanged in the Proposed Policy for 2016.	(1) Pension Fund (UK): retains a scheme-specific salary cap (currently £150,000 effective 1 April 2015). Benefits in excess of the cap are accrued in the UURBS. Further to the changes to the UK-regulated allowances, as his lifetime allowance has been reached, accrual in the Pension Fund has ceased and all future benefits are provided through the UURBS. (2) UURBS (UK): pension accrual in the UURBS is at the same rate as in the Pension Fund (1/40th per annum). These elements of remuneration are included unchanged in the Proposed Policy for 2016.
Shareholding requirements	500% of salary (2015: 400%) Changes 2016: (1) increased level of shareholding required; (2) shares awarded but not yet vested under the DSBS element of the IEIS; and (3) the estimated notional net number of shares held by an Executive Director in the LTIP Extended Vesting Period (see above) will each count towards the respective shareholding requirements for the Executive Directors.	350% of salary (2015: 250%)
Sharesave Scheme	The Company's current Sharesave Scheme will expire in 2017 and the Proposed Policy 2016 includes a new Sharesave Scheme, subject to separate approval by shareholders at the AGM on 27 April 2016. This will remain an all-employee share scheme in which Executive Directors are eligible to participate.	

Chairman (Richard Burrows):	Fee from 1 Apr 2016 (no change from 2015)	
	£645,000	
Non-Executive Directors:	Fees from 1 Jan 2016 (no change from 2015)	
Base fee	£92,700	
Supplements:	Senior Independent Director: £30,000	
Committee Membership Fees:		
Audit Committee	Chairman: £30,000	Member: £6,000
CSR Committee	Chairman: £25,000	Member: £6,000
Nominations Committee	Chairman: £–	Member: £6,000
Remuneration Committee	Chairman: £30,000	Member: £6,000

Policy Report

Introduction

This policy section of the Remuneration Report (the 'Policy Report') sets out a proposed new Remuneration Policy for the Executive Directors and the Non-Executive Directors – the Executive Directors principally in the Future Policy Table and the Chairman and the Non-Executive Directors in the Remuneration Table.

This new Remuneration Policy, which is intended to replace the Policy approved by shareholders at the 2014 AGM, is subject to a binding vote by shareholders at the AGM on 27 April 2016 and, if approved, will come into effect from 28 April 2016. A Remuneration Policy will be put to shareholders again no later than the 2019 AGM. The new Remuneration Policy is set out in full on the following pages with changes from the Current Policy identified for reference.

Summary of key changes

The background and explanation of the proposed key changes from the current Remuneration Policy are given in the Annual Statement from the Chairman of the Remuneration Committee starting on page 67 of this Remuneration Report. In addition a summary of these changes is set out in the 'At a glance' tables on pages 72 and 73.

Principles of remuneration

The Committee's remuneration principles are to:

- reward, as an overriding objective, the delivery of the Group's strategy in a manner which is simple, straightforward and understandable and which is aligned with shareholders' long-term interests;
- structure a remuneration package that is appropriately positioned relative to the market and comprises core fixed elements and performance-based variable elements;
- the fixed elements comprise base salary, pension and other benefits and these are designed to recognise the skills and experience of our Executive Directors and to ensure current and future market competitiveness in attracting talent;
- the variable elements are provided via two performance-based incentive schemes (a single cash and share incentive annual bonus plan (IEIS), and a single long-term incentive scheme (LTIP)) which are designed to be both transparent and stretching and to motivate and reward the delivery of the Group's strategy and of growth to shareholders on a long-term sustainable basis;
- maintain an appropriate balance between fixed pay and the opportunity to earn performance-related remuneration with immediate and deferred elements: the performance-based elements form, at maximum opportunity, between 75% and 85% of the Executive Directors' total remuneration packages; and
- conduct an annual review to ensure that the Policy is both rigorously applied and remains aligned with business needs to promote the long-term success of the Company.

Future Policy Table – Executive Directors

Base salary					
How the element supports the Company's strategic objectives		To attract and retain high calibre individuals to deliver the Company's strategic plans by offering market competitive levels of guaranteed cash to reflect an individual's skills, experience and role within the Company.			
Operation of the element		Base salary is normally paid in 12 equal monthly instalments during the year. Salaries are normally reviewed annually in February (with salary changes effective from April) or subject to an ad hoc review on a significant change of responsibilities. Salaries are reviewed against appropriate market data including general UK pay trends and a company size and complexity model based on UK companies, as well as a Pay Comparator Group, the constituents of which at the date of this report for use in 2016 are as follows:			
Revisions to Pay Comparator Group made in 2015: for 2016, non-UK based multinational and FMCG companies have been included as these are key competitors for talent.		AstraZeneca	GlaxoSmithKline	Mondelēz International	Royal Dutch Shell
		BP	Heineken	Nestlé	SABMiller
		BT	Imperial Brands	PepsiCo	Unilever
		Coca-Cola	Japan Tobacco International	Pernod Ricard	Vodafone
		Colgate-Palmolive	Johnson & Johnson	Philip Morris International	
		Danone	L'Oréal	Procter & Gamble	
		Diageo	LVMH	Reckitt Benckiser	
		The Committee will continue to exercise its judgement to vary the constituents of the Pay Comparator Group over the life of this Remuneration Policy. Base salary is pensionable. There are no contractual provisions for clawback or malus.			
Maximum potential value		Current levels stated in the Annual Report on Remuneration will be increased in line with the Policy following the 2016 salary review. Increases will generally be in the range of the increases in the base pay of other UK-based employees in the Group. The salary of a recently appointed Executive Director as he or she progresses in a role may exceed the top of the range of the salary increases for UK-based employees where the Committee considers it appropriate to reflect the accrual of experience. Year-on-year increases for Executive Directors, currently in role, will not exceed 10% per annum during the policy period. A significant change in responsibilities may be reflected in an above average increase (which may exceed 10%) of salary. Promotion leading to a complete change of role would be considered in line with the Committee's approach to recruitment.			
Performance metrics used, weighting and time period applicable		None.			

Policy Report continued

Benefits	
How the element supports the Company's strategic objectives	<p>To provide market competitive benefits consistent with role which:</p> <ul style="list-style-type: none"> – help to facilitate the attraction and retention of high calibre, senior individuals to deliver the Company's strategic plans; and – 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.
Operation of the element	<p>The Company currently offers the following contractual benefits to Executive Directors: a car or car allowance; the use of a driver; tax advice (in instances where multi-jurisdictional tax authorities are involved); tax equalisation payments (where appropriate); private medical insurance, including general practitioner 'walk-in' medical services; personal life and accident insurance; and relocation and shipment of effects and associated expenses on appointment and at the end of tenure, and housing and education allowances or similar arrangements as appropriate to family circumstances. Other benefits not identified above may be offered if, in the Committee's view, these are necessary in order to remain aligned with market practice.</p> <p>The cost of legal fees spent in reviewing a settlement agreement on departure may also be provided where appropriate.</p> <p>With the exception of the car or car allowance, in line with the UK market and the practice followed for all the Group's other UK employees, it is also practice to pay the tax that may be due on these benefits.</p> <p>In addition the partners of the Executive Directors may, from time to time, accompany the Directors to participate in a partners' programme occasionally organised in conjunction with overseas or UK-based Board meetings and otherwise at hospitality functions during the year. HM Revenue & Customs may classify this and the provision of certain other services and payments as taxable benefits. Services or payments classified in this way include: the provision of home and personal security and the reimbursement of certain travel and related expenses. It is also part of the Remuneration Policy to pay the tax that may be due on these types of benefits.</p>
Maximum potential value	<p>The maximum potential values are based on market practice for individuals of this level of seniority. Any tax due on these benefits paid by the Company is in addition to the maximum amounts specified below.</p> <p>The maximum annual value (subject to periodic inflation-related increases where applicable) that can be offered for each benefit is:</p> <ul style="list-style-type: none"> – car or car allowance: £20,000; – use of a company driver: variable maxima as the actual cost is dependent on the miles driven in any year; – variable maxima will apply to the cost of private medical insurance which is dependent on an individual's circumstances and is provided on a family basis; – GP 'walk-in' medical services located close to the Group's headquarters in London: £5,000 per annum; – personal life and accident insurance designed to pay out at a multiple of four and five times base salary respectively; – international tax advice as required, but not exceeding £30,000 per annum; and tax equalisation payments as agreed by the Committee from time to time; and – relocation and shipment expenses at the beginning and end of service as an Executive Director up to £200,000 and, in addition, housing and education allowances or other similar arrangements, as appropriate to the individual's family circumstances. <p>Relocation and shipment expenses are subject to applicable clawback provisions.</p>
Performance metrics used, weighting and time period applicable	None.

Pensions	
How the element supports the Company's strategic objectives	To provide competitive post-retirement benefit arrangements which recognise both the individual's length of tenure with the Group and the external environment in the context of attracting and retaining senior high calibre individuals to deliver the Group's strategy.
Operation of the element	<p>British American Tobacco UK Pension Fund (the 'Pension Fund') – non-contributory defined benefit section</p> <p>The early retirement rules in the Pension Fund permit a member to draw the accrued retirement pension within five years of Fund normal retirement age without actuarial reduction, subject to the employing company's agreement. Alternatively, an Executive Director (who was a member of the Pension Fund before 6 April 2006) may choose to leave and take a pension at any time on or after his or her 50th birthday without the employing company's agreement, subject to a reduction as determined by the Pension Fund trustee in conjunction with the Pension Fund actuary. Accrual rates differ according to individual circumstances but do not exceed one-fortieth of pensionable salary for each year of pensionable service.</p> <p>Although the defined benefit section is closed to new members generally, the Remuneration Committee may exercise its judgement to offer, by exception, a defined benefit pension to a new externally appointed Executive Director (on appointment) where such benefits have been enjoyed by that individual at his/her previous employer.</p> <p>The Pension Fund includes provision for spouses' and children's benefits on death in service or after retirement. In the event of death in service, a spouse's pension equal to half of the member's prospective pension at normal retirement age would be payable together with, where there are dependent eligible children, a pension equal to half of the member's prospective pension at normal retirement age, shared equally between any eligible children. A spouse's pension payable in the event of death after retirement is equal to half of the member's pension, irrespective of any previous decision to exchange part of the benefit for a lump sum at retirement. Eligible children share equally a pension equal to half of the member's full pension.</p> <p>British American Tobacco UK Pension Fund – defined contribution section</p> <p>A defined contribution pension arrangement has been in place since April 2005 where an annual contribution of up to the equivalent of 35% of base salary would be made. The actual level of contribution paid to the Pension Fund is restricted to take into account the annual allowance and lifetime allowance with any balance payable as a gross cash allowance or accumulated in the UURBS – see below.</p> <p>Unfunded unapproved retirement benefit scheme (UURBS)</p> <p>The Pension Fund retains a scheme-specific salary cap, currently £150,000 effective 1 April 2015, which is adjusted in April each year in line with the Retail Prices Index as at September of the previous year. Where an individual is entitled to benefits calculated on a base salary that exceeds the scheme-specific cap, these are accrued in the Company's UURBS. Pension accrual in the UURBS will not exceed the accrual rate applicable to the individual in respect of their Pension Fund entitlement (maximum one-fortieth per annum).</p> <p>Under UK regulations, there are annual allowance and lifetime allowance limits on pension accrual in the defined benefit section of the Pension Fund and on contributions to the defined contribution section of the Pension Fund. In order to ensure that these limits are not breached, benefits and contributions respectively are adjusted. In the defined contribution section, the individual may elect to accumulate the balance of the contributions in the UURBS or receive the balance as a gross cash allowance. From April 2016, the Pension Fund will have an automatic limit of £10,000 on the value of any member's defined benefit accrual or defined contributions.</p> <p>Upon retirement, Executive Directors who have accrued defined benefits in the UURBS will have the opportunity to receive this element of their overall entitlement either in the form of a single lump sum or as an ongoing pension payment. Lump sums in lieu of a pension entitlement in the UURBS are subject to a decrement of between 19% and 21%, depending on age. In addition, a further reduction that recognises the Company's liability to employer's national insurance will also be made. For Executive Directors with defined contribution benefits in the UURBS, a lump sum payment will be made on leaving the Group with a credit adjustment based on the Company's average weighted cost of debt in respect of each year that benefit has accrued.</p> <p>Pensionable pay covers base salary only.</p>
Maximum potential value	<p>The pension accrual rate in the Pension Fund and the UURBS will not exceed the maximum one-fortieth of salary per annum.</p> <p>Internal appointees as Executive Directors may have existing defined benefit or defined contribution pension entitlements with the Group which may differ marginally from those outlined in the Policy and these will ordinarily remain unchanged. Pension benefits and entitlements will continue to be calculated with reference to an individual's base salary.</p> <p>Pension entitlements for external appointees as Executive Directors will be subject to negotiation taking into account the relevant annual and lifetime allowances. In most cases the pension arrangements will fall within the scope of the Policy as outlined in this section.</p>
Performance metrics used, weighting and time period applicable	<p>There are no performance metrics.</p> <p>Pensions in payment are paid monthly or quarterly in accordance with the rules of the relevant section of the Pension Fund.</p>

Policy Report continued

Short-term incentives: International Executive Incentive Scheme (IEIS)

How the element supports the Company's strategic objectives	<p>To incentivise the attainment of corporate targets aligned to the strategic objectives of the Company on an annual basis.</p> <p>Performance-based award in the form of cash and deferred shares, so that the latter element ensures alignment with shareholders' long-term interests.</p> <p>Strong alignment and linkage between individual and corporate annual objectives via the application of an individual performance adjustment factor to the corporate result.</p> <p>To ensure, overall, a market competitive package to attract and retain high calibre individuals to deliver the Group's strategy.</p>
Operation of the element: key points	<p>IEIS comprises an annual award referenced to base salary, which is normally paid approximately three months after the end of the financial year to which it relates: 50% is paid immediately in cash and 50% of the total bonus amount is awarded in shares through the Deferred Share Bonus Scheme (DSBS).</p> <p>The free deferred shares 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.</p> <p>Deferred shares attract a cash payment equivalent to the dividend on the after-tax position on all of a participant's unvested ordinary shares held in the DSBS at each dividend record date.</p>
Operation of the element: the process cycle	<p>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.</p> <p>The Committee then reviews performance for the prior year in February each year and the Group's external auditors perform certain specified procedures to assist the Committee's assessment of the calculations used to determine the IEIS corporate bonus outcomes and future targets.</p> <p>The total payout of the corporate result is determined by the Company's performance under each measure relative to that measure's performance target. The Committee may use its discretion to adjust the payout in circumstances where, it considers, the overall performance of the Company warrants a different outcome, whether higher or lower, than that determined by the application of the bonus formula.</p> <p>An individual performance element for outstanding performance may be awarded (being an adjustment factor of up to 20% of the annual corporate result) up to the overall maximum and is paid in cash. In cases of identified poor individual performance, the corporate result will be reduced by 50%.</p>
Operation of the element: other aspects	<p>Malus (for 2014 DSBS share awards onwards): provisions apply so that the number of shares subject to an unvested DSBS share award may be reduced where the Committee determines that there has been a material misrepresentation or misstatement of the performance of the Company and/or the participant on the basis of which that or any prior DSBS share award was granted.</p> <p>Clawback (from 2016 IEIS cash awards and DSBS awards for performance ended 2015): provisions operate under which all or a part of the value of an award may be recovered if the Committee determines that there has been: (1) a material misrepresentation or misstatement in relation to the performance of the Company and/or the participant; or (2) an erroneous calculation in the assessment of the extent to which the award was made, and in either case which caused the award to be granted with a greater value than would otherwise have been the case. This provision may be applied in respect of an IEIS cash award within the two-year period from payment and in respect of a DSBS share award within the three-year period from grant. Clawback may also be applied at any time where the Committee determines that a participant committed, at any time prior to the payment/vesting, an act or omission which justified dismissal for misconduct.</p> <p>Where the Committee determines that these provisions are to be applied, the number of shares subject to an unvested DSBS share award may be reduced or the participant can be required to repay the excess value received (and this repayment may be effected by reducing other cash or share-based awards held by the participant).</p> <p>For IEIS participants determined by the Committee as 'good leavers': (1) a cash bonus is subject to a clawback period of two years from the payment date; and (2) a DSBS share award will vest or transfer to a participant upon termination of their contract, subject to a clawback period of up to three years referenced to the original award date.</p> <p>The details of the policy on payment for loss of office which includes the scope for determination of 'good leaver' status applied by the Committee is set out on page 89 of this Policy Report.</p> <p>Awards under the annual incentive scheme are not pensionable and no element of the bonus is guaranteed.</p>

Short-term incentives: International Executive Incentive Scheme (IEIS)

Maximum potential value

2016 Policy – change proposed:
to increase the maximum bonus opportunity for Executive Directors.
See 'At a glance' on page 72.

The **maximum annual bonus** opportunity for the Chief Executive (including any individual performance element) is 250% of base salary. The equivalent bonus opportunity for other Executive Directors (including any individual performance element) is 190% of base salary. No bonus is paid for threshold performance of any metric, which must be exceeded for that element of the bonus to be paid.

The annual '**on-target**' bonus opportunity for the Chief Executive is 125% of base salary (increasing up to 150% if the Committee assesses individual performance as outstanding and applies the individual performance element at 20% to an 'on-target' corporate result). For the other Executive Directors, the 'on-target' bonus opportunity is 95% (increasing up to 114% if the individual performance element is awarded at a 20% level, based on an 'on-target' corporate result).

Performance metrics used, weighting and time period applicable

KPIs: see summary on page 1 of the Strategic Report.

The IEIS contains four corporate performance measures (KPIs) and weightings measured over the financial year. These KPIs are the same as those KPIs used to measure the Company's performance against its strategy as outlined and explained from page 13 of the Strategic Report.

- (1) **Adjusted profit from operations (40%)** – this is the profit from operations of the Group's subsidiaries at constant rates of exchange adjusted for the items shown as memorandum information in the Group Income Statement. It is the Group's medium- to long-term aim to grow adjusted profit from operations on average by 5-7% annually.
- (2) **Group's share of key markets (20%)** – this is the Group's retail market share in its key markets, which accounts for around 80% of the volumes of the Group's subsidiaries. The aim is to increase the Group's share year-on-year. The information used in this calculation is based on information (available on subscription) on retail audit share. The process is subject to rebasing as and when the Group's Key Markets change. When rebasing occurs to reflect changes in the sample or estimated market size, the Company will also restate history and provide fresh comparative data on the markets.
- (3) **Global Drive Brands (GDBs) and Key Strategic Brands (KSBs) volumes (20%)** – this comprises: (1) the cigarette volumes of the following GDBs sold by the Group's subsidiaries: Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans, including volumes of the Fine Cut variants of the above brands sold in Western Europe; and (2) the cigarette volumes of State Express 555 and Shuang Xi, being KSBs associated with the CNTC joint venture.
The aim is to improve the quality of the Group's portfolio by increasing the volume of GDBs and KSBs faster than the rest of the brands in the Group's portfolio.
- (4) **Cash generated from operations (20%)** – is defined as the free cash flow excluding restructuring costs, dividends and other appropriations from associate undertakings measured at constant rates of exchange. The aim is to generate the optimal level cash flow while continuing to invest to support the short-medium and long-term requirements of the business. A specific target is set each year.

Two levels of award attainment relative to the measures are defined under the IEIS:

- (1) **Threshold** (which must be exceeded to attract any bonus pay-out in respect of that measure); and
- (2) **Maximum** (a level of performance exceeding budget and at which the bonus pay-out for that measure is capped).

An **individual performance element** may also be awarded by the Remuneration Committee based on its assessment of an outstanding level of Executive Director performance against key strategic and commercial objectives set at the beginning of the year. This element is applied to the corporate result but is subject to the maximum award limit as explained above.

Policy Report continued

Long-term incentives: Long-Term Incentive Plan (LTIP 2016)

How the element supports the Company's strategic objectives

2016 Policy – change proposed:

the Company's current Long-Term Incentive Plan expires in 2017. The proposed LTIP 2016 will be subject to approval by shareholders at the 2016 AGM. See 'At a glance' on pages 72 and 73.

To incentivise long-term sustainable growth in **total shareholder return (TSR)**, **adjusted diluted earnings per share (EPS)** and **net turnover (NTO)**, together with the achievement of a consistently high measure of **operating cash flow to operating profit conversion ratio** over a three-year period; to facilitate the appointment of high calibre, senior individuals required to deliver the Company's strategic plans; and to promote the long-term success of the Company.

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 providing alignment between Executive Directors and shareholders. In setting performance criteria and thresholds/targets, the Committee takes account of the Group's long-term plans and market expectations.

Operation of the element for awards – from 2016

2016 Policy – changes proposed:

- (1) a new performance measure (EPS at constant rates of exchange);
- (2) a new performance measure (cash flow conversion);
- (3) an increased maximum award level;
- (4) value of vesting award for threshold performance reduced from 20% to 15% of the award; and
- (5) the introduction of an additional period of two years after the three-year performance period so that vesting may take place no earlier than five years from the date of grant of an award.

See 'At a glance' on page 73.

Discretionary annual awards of shares with vesting levels based on the achievement of defined and appropriately stretching targets that are relative TSR, EPS growth and NTO growth, together with a consistently high measure of operating cash flow to operating profit conversion ratio, aligned to Group's strategic objectives over a three-year performance period with a five-year vesting period.

TSR – performance is measured against a **peer group of international FMCG companies** using the return index calculated by Datastream and reviewed by the Company's remuneration consultants. The current constituents of the FMCG peer group as at the date of this report are as follows:

Anheuser-Busch InBev	Diageo	Kimberly Clark	Philip Morris International
Campbell Soup	Heineken	LVMH	Procter & Gamble
Carlsberg	Imperial Brands	Mondelēz International	Reckitt Benckiser
Coca-Cola	Japan Tobacco	Nestlé	SABMiller
Colgate-Palmolive	Johnson & Johnson	PepsiCo	Unilever
Danone	Kellogg	Pernod Ricard	

TSR is measured on the basis that all companies' dividends are reinvested in the shares of those companies. The return is the percentage increase in each company's index over the three-year performance period. The opening and closing indices for this calculation are respectively: (1) the average of the index numbers for the last quarter of the year prior to the start of the performance period; and (2) the average of the last quarter of the final year of that performance period – this methodology is employed to reflect movements of the indices over that time as accurately as possible.

A local currency basis is used for the purposes of TSR measurement. This approach is considered to have the benefits of simplicity and directness of comparison with the performance of the comparator companies.

EPS – growth in adjusted diluted EPS for these purposes incorporates an increase in adjusted diluted EPS between the base year and the final year of the performance period, expressed as a compound annual growth rate over the period. The EPS measure is split into two separate and equal components: 50% is measured using current rates of exchange and 50% is measured on constant rates of exchange adjusted for the impact of translational foreign exchange only.

NTO – growth in gross turnover less excise, duties and rebates. No vesting will occur for NTO unless the corresponding three-year constant currency compound annual growth rate (CAGR) of underlying operating profit exceeds the CAGR of the threshold performance level for underlying operating profit as approved by the Board, as defined annually in the IEIS.

Operating cash flow conversion ratio – operating cash flow measured at actual rates expressed as a percentage of adjusted operating profit (as defined for the purposes of the IEIS, except as for actual rates of exchange) over a three-year period.

LTIP awards vest only to the extent that:

- (1) the performance conditions are satisfied at the end of the **three-year performance period**; and
- (2) **an additional vesting period of two years** from the date of the third anniversary of the date of grant has been completed – **the LTIP Extended Vesting Period**.

LTIP awards are therefore only exercisable once the total period of five years from the date of grant has elapsed.

Long-term incentives: Long-Term Incentive Plan (LTIP 2016)

Operation of the element for awards – from 2016 continued

The Remuneration Committee may apply its discretion to vary the outcome (either positively or negatively) of the formulaic performance to ensure a fair result for both the Executive Directors and shareholders. The Remuneration Committee is able to vary the exact measures and the weighting of them from year to year, but will generally only seek to make amendments to them following consultation with shareholders.

Participants may receive a dividend equivalent payment to the value of the actual dividends that they would have received on the gross number of shares as shareholders on their vesting awards at the end of the LTIP Extended Vesting Period as no actual dividends will be paid during the LTIP Extended Vesting Period. Any proportion of an award that lapses does not attract the payment of the LTIP dividend equivalent payment.

Clawback and malus (for 2016 awards onwards): provisions operate under which all or a part of the value of an award may be recovered if, at any time within a period of five years from the date of grant, the Committee determines that: (1) there has been a material misrepresentation in relation to the performance of any Group Company, relevant business unit and/or the participant; or (2) an erroneous calculation was made in assessing the extent to which an award is capable of vesting or vested, which in either case resulted in the number of shares in respect of which an award vested or became capable of vesting being more than it should have been. The material misrepresentation may include (but is not limited to); (1) a misstatement of the financial results and/or health of any Group Company; or (2) an erroneous calculation in relation to any Group Company's results or other performance benchmark.

Clawback may also be applied at any time where the Committee determines that a participant committed, at any time prior to the vesting of an award at the end of the LTIP Extended Vesting Period (including prior to grant), an act or omission which justified dismissal for misconduct.

Where the Committee determines that these provisions are to be applied, the participant may be required to repay the excess value which vested and this repayment may be effected so that the number of shares subject to the award may be reduced and/or by reducing other cash held by or share-based awards granted to the participant.

For LTIP participants determined by the Committee as 'good leavers', the number of shares vesting is dependent on the performance at the end of the three-year performance period (pro-rated for the period employed) and shares vesting are subject to clawback at any time prior to the vesting of an award at the end of the LTIP Extended Vesting Period. The detailed policy on payment for loss of office which includes the scope for determination of 'good leaver' status applied by the Committee is set out on page 89 of this Policy Report.

Clawback (for 2015 awards) and malus (for 2013, 2014 and 2015 awards): the equivalent provisions for the 2016 awards apply save for the absence of the LTIP Extended Vesting Period which did not apply to those awards.

Maximum potential value and payment at threshold

2016 Policy – change proposed:

an increase in the maximum LTIP award level with a reduction in the value of threshold vesting from 20% to 15% of the award.

See 'At a glance' on pages 72 and 73.

Maximum award of shares permitted is 500% of salary for the Chief Executive and 350% for other Executive Directors. Proportion of vesting is determined by reference to achievement of defined measures over a three-year period as set out in the performance metrics section below:

A **maximum vesting** of 100% will result in the vesting of shares to a value equivalent to 500% of the Chief Executive's salary as at the time of award, plus the appropriate dividend equivalent payment. For other Executive Directors, a maximum vesting of 100% will result in the vesting of shares to a value to 350% of salary as at the time of award, plus the applicable dividend equivalent payment.

If the **threshold performance** level is attained in respect of all five measures, 15% of the original award level will vest: (1) for the Chief Executive with shares to the value equivalent of 75% of salary at the time of the award; and (2) for the other Executive Directors with shares to the value equivalent of 52.5% of salary at the time of the award. The appropriate dividend equivalent payment will attach to the shares vesting in each case.

Between threshold and maximum, the balance of an award vests on a straight-line basis.

Executive Directors departing as 'good leavers' will receive vesting shares only at the end of the LTIP Extended Vesting Period based on the vesting percentage applicable on the satisfaction of the performance conditions at the end of the three-year performance period and pro-rated for the period of employment during that performance period.

Policy Report continued

Long-term incentives: Long-Term Incentive Plan (LTIP 2016)

Performance metrics used, weighting and time period applicable

2016 Policy – changes proposed:

- (1) two additional performance measures (EPS at constant rates of exchange and an operating cash flow to operating profit conversion ratio) and re-weighting of measures;
- (2) an amendment to the NTO threshold vesting; and
- (3) value of vesting award for threshold performance reduced from 20% to 15% of the award.

See 'At a glance' on page 73.

Performance will be measured over a three-year period and compared with the target range for each of five conditions. In each case no award will vest for performance below the threshold of the range and the maximum award will vest for performance at or above the top of the range. The performance conditions which each account for 20% of any award and the relevant ranges are as follows:

- (1) **20% of an award based on the Company's relative TSR compared with a peer group of international FMCG companies:** the threshold of the range is the median and the top of the range is at upper quartile versus the peer group. In the event of a top quartile performance by the Company relative to this comparator group, this element of the award vests in full; 3% will vest for median performance. The TSR portion of an LTIP award will not vest for below median performance.
- (2) **20% of an award is based on the percentage growth in adjusted diluted EPS measured in sterling at current rates:** the range is 5% to 10% CAGR. If the Company achieves a CAGR of 10%, this element of the award will vest in full. If 5% CAGR is achieved, then 3% of the award will vest. If CAGR over the period is less than 5%, none of this EPS portion of an award will vest.
- (3) **20% of an award is based on the percentage growth in adjusted diluted EPS measured at constant rates:** the range is 5% to 10% CAGR. If the Company achieves a CAGR of 10%, this element of the award will vest in full. If 5% CAGR is achieved, then 3% of the award will vest. If CAGR over the period is less than 5%, none of this EPS portion of an award will vest.
- (4) **20% of an award is based on the percentage organic growth in net turnover (NTO) measured at constant rates:** the range is 3% to 5% CAGR. If the Company achieves a growth rate of 5% this element of the award relating to NTO will vest in full. If the Company achieves a CAGR over the three-year period of 3%, then 3% of the award will vest. The NTO portion of the award will not vest for CAGR below 3%.
There is an underpin to the NTO measure: no vesting will occur for NTO unless the corresponding three-year constant CAGR of underlying operating profit exceeds the CAGR of the threshold performance level for underlying operating profit as approved by the Board, as defined annually in the IEIS.
- (5) **20% of an award is based on operating cash flow, measured at actual rates, expressed as a percentage of adjusted operating profit (as defined for the purposes of the IEIS, except as for actual rates of exchange):** the performance range is 85% to 95%. If the Company achieves a ratio of operating cash flow to adjusted operating profit of 95% or more on average over a three-year period, this element of the award will vest in full. If the Company achieves a ratio of operating cash flow to adjusted operating profit of 85% on average over a three-year period, 3% of the award will vest. This measure will not vest if the ratio is below 85%.

The Remuneration Committee will also assess the performance of the **current outstanding LTIP awards** against the performance conditions applicable to those awards as follows:

Measures applying for March 2013 LTIP awards (vesting 22 March 2016)

EPS: adjusted diluted compound annual growth rate (CAGR) of 3% (measured at current rates of exchange) in excess of UK inflation triggers threshold performance. CAGR of 8% in excess of inflation would trigger maximum vesting under this measure. For performance between these two points, a pro-rated award will vest. None of the EPS portion of the award will vest if CAGR for the period is less than 3%.

Component weighting: 50%.

TSR: relative to and measured against two groups of companies:

- (1) a group of international FMCG companies (weighting 25%); and
- (2) the constituents of the London Stock Exchange's FTSE 100 Index (weighting 25%).

Upper quartile performance by the Company relative to both the TSR comparator groups triggers 50% of the total award to vest in full; 6% of the total award vests for median performance. For performance between these two points, a pro-rated award will vest. The TSR portions of the LTIP award do not vest for below median performance.

The actual performance against these measures is set out on page 102. Application of an early vesting percentage can apply. Three-year performance period; no application of a two-year post-performance extended period to vesting.

Long-term incentives: Long-Term Incentive Plan (LTIP 2016)

Performance metrics used, weighting and time period applicable continued

Measures applying for March 2014 LTIP awards (vesting 28 March 2017) and March 2015 LTIP awards (vesting 27 March 2018)

EPS: adjusted diluted compound annual growth rate (CAGR) of 5% (measured at current rates of exchange) triggers threshold performance and 8% of the award will vest. CAGR of 10% would trigger maximum vesting under this measure. For performance between these two points, a pro-rated award will vest. None of the EPS portion of the award will vest if CAGR for the period is less than 5%.

Component weighting: 50%.

TSR: relative to and measured against a group of international FMCG companies. Upper quartile performance by the Company relative to the TSR comparator group triggers 25% of the total award to vest in full; 6% of the total award vests for median performance. For performance between these two points, a pro-rated award will vest. The TSR portion of the LTIP award does not vest for below median performance.

Component weighting: 25%.

NTO: compound annual growth measured at constant rates of exchange. If the Company achieves a compound annual growth rate (CAGR) of 5%, this element of the award relating to NTO will vest in full. If the Company achieves a CAGR over the three-year period of 2%, then 6% of the award will vest. There is a pro-rata vesting between these points. The NTO portion of the LTIP award will not vest for a CAGR below 2%.

Component weighting: 25%.

There is an **underpin to the NTO measure** whereby the corresponding three-year constant currency CAGR of underlying operating profit must exceed the CAGR of the threshold performance level for underlying operating profit (as defined annually in the IEIS and approved by the Board) in order for an LTIP vesting payment in respect of the NTO measure to become payable.

No application of an early vesting percentage.

Three-year performance period; no application of a two-year post-performance extended period to vesting.

All-employee share schemes

How the element supports the Company's strategic objectives

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.

Operation of the element and performance metrics used

Proposed new Sharesave Scheme 2016:

the Company's current Sharesave Scheme for all employees expires in 2017. The proposed new Sharesave Scheme 2016 is in all material respects unchanged from the current scheme and will be subject to approval by shareholders at the 2016 AGM.

Sharesave Scheme – an HM Revenue & Customs (HMRC) approved scheme where eligible employees are granted savings-related share options to subscribe for ordinary shares in the Company. Options are granted to be exercisable in conjunction with either a three-year or five-year savings contract with a monthly savings limit of currently £500. Options are normally granted at a discount of 20% to market price at the time of invitation.

Share Incentive Plan (SIP) – an HMRC-approved plan incorporating:

- (1) **Partnership Scheme** – eligible employees can allocate part of their pre-tax salary to purchase shares in the Company. Shares purchased are held in a UK-based trust, normally capable of transfer to participants tax-free after a five-year holding period. The annual value of partnership shares that can be purchased is currently £1,800.
- (2) **Share Reward Scheme** – eligible employees receive an award of shares in April of each year in which the Scheme operates which may be based on performance in the previous financial year. The performance conditions are aligned to those set for the IEIS in respect of the same performance period. The plan shares are held in a UK-based trust for three years and during that time the trust will exercise its voting rights as directed by the plan's participants. For awards made from 2016 onwards, the maximum individual award is currently £3,600 (previously £3,000).

Maximum potential value

Sharesave Scheme: the market value of the shares under option at the date of maturity of the Sharesave savings contract, less the grant price of the option at the contract start date.

SIP – Partnership Scheme: the value of the shares purchased out of the potential maximum annual purchase value of currently £1,800 at the end of the five-year holding period.

SIP – Share Reward Scheme: the value of the shares awarded out of the potential maximum annual award value of currently £3,600 at the end of the three-year holding period in the employee trust.

Policy Report continued

Shareholding guidelines	
How the element supports the Company's strategic objectives	To strengthen the alignment between the interests of the Executive Directors and those of the shareholders by requiring Executive Directors to build up a high level of personal shareholding in the Company.
Operation of the element and performance metrics used	Executive Directors are required to hold shares in the Company equal to the value of a multiple of salary. Those Executive Directors who do not, at any point, meet the requirements of the shareholding guidelines, 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 the shareholding guidelines has been met. Shares awarded but not yet vested and for which performance conditions have already been met under the DSBS element of the IEIS are included in the calculation of the threshold for the shareholding guidelines for the Executive Directors. Further, the estimated notional net number of shares held by an Executive Director in the LTIP Extended Vesting Period (see page 80) will also count towards the respective shareholding requirements.
2016 Policy – changes proposed: <ol style="list-style-type: none"> (1) increase to the minimum shareholding requirement; and (2) DSBS shares and shares in the LTIP Extended Vesting Period count towards the shareholding requirements. 	A waiver of compliance with the shareholding guidelines is permitted at the discretion of the Remuneration Committee in circumstances where a restriction on a requested share sale could cause undue hardship.
Shareholding requirements	Chief Executive: 500% of salary. Other Executive Directors: 350% of salary.

External Board appointments	
How the element supports the Company's strategic objectives	The Company recognises the opportunities and benefits that accrue to both the Company and its Executive Directors who serve as Non-Executive Directors on the Boards of comparable companies.
Operation of the element and performance metrics used	Each Executive Director is limited to one external appointment, with the permission of the Board. There are no performance metrics.
Maximum potential value	Any fees from such appointments are retained by the individual in recognition of the increased level of personal commitment required. Executive Directors may also serve as nominated directors on the Boards of the Company's associate undertakings. In such instances, the fees will be paid to the Group and are not for the individual's account.

Additional notes to the Future Policy Table

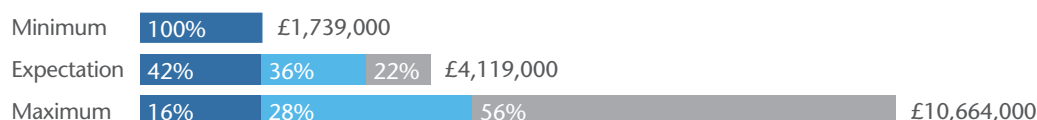
1. The Remuneration Committee reserves the right to make any remuneration payments where the terms were agreed prior to an individual being appointed an Executive Director of the Company or prior to the approval and implementation of the Remuneration Policy (including, for the avoidance of doubt, pursuant to the previous Remuneration Policy). This includes the achievement of the applicable performance conditions, for Executive Directors who are eligible to receive payment from any award made prior to the approval and implementation of the Remuneration Policy.
- 2(a) This policy applies in a similar form, with appropriate eligibility criteria and gradations of salary, benefits and incentive awards to the members of the Management Board and senior management. Award levels vary with seniority up to the appropriate maxima expressed within the relevant scheme rules.
- 2(b) For other UK employees of the Group, remuneration will cover annual base salary, retirement plus other benefits and participation in the Company's annual short-term incentive scheme, including eligibility to participate in all-employee share plans.
- 2(c) For employees employed outside of the UK, remuneration policy is set in accordance with conditions in the local marketplace. Local policy is established with reference to Group guidelines concerning: annual base salary relative to the local market, the provision of retirement and other benefits (where locally relevant) and participation in short-term incentive plans where the incentive opportunity is established with reference to the local market conditions and locally relevant targets.

Illustrations of the application of the Remuneration Policy

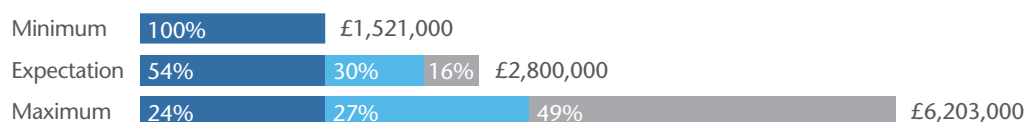
The levels of remuneration received by Nicandro Durante and Ben Stevens as Executive Directors for the first complete year in which the Policy applies are shown as the hypothetical values of their remuneration packages under different performance scenarios in the charts below. No share price growth has been assumed and benefits from all-employee share schemes (Sharesave Scheme and Share Incentive Plan) have been excluded.

Remuneration outcomes for varying levels of performance

Chief Executive



Finance Director



■ Fixed remuneration ■ IEIS ■ LTIP

The following assumptions have been applied in the table above.

Maximum award opportunities (% of salary)		Chief Executive	Finance Director
IEIS		250%	190%
LTIP		500%	350%
Minimum	Fixed pay only:	No bonus payout; no vesting under LTIP	
Expectation	Fixed pay plus:	50% of the maximum IEIS award; threshold vesting under the LTIP	
Maximum	Fixed pay plus:	100% payout of the IEIS; 100% vesting under the LTIP	

	Salary effective 1 April 2016 £'000	Benefits value for 2015 £'000	Pension value for 2015 £'000	Total fixed pay £'000
Chief Executive (Nicandro Durante)	1,190	157	392	1,739
Finance Director (Ben Stevens)	867	110	544	1,521

Note:
Benefits value for 2015: (1) excludes any expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events; and (2) includes 'Other emoluments' – life insurance.

Policy Report continued

Other policy provisions in relation to Directors' pay

Flexibility, judgement and discretion

As the Company's Remuneration Policy needs to be capable of operating over a three-year period, the Committee has built in a degree of flexibility to enable the practical implementation of the policy over that prospective lifetime. This is outlined in the table below under the categories of flexibility, judgement and discretion.

Flexibility Areas of the Policy which include a degree of flexibility.	<ul style="list-style-type: none"> – pay, benefits and pension arrangements allowing the Committee to set these either on appointment or following an annual salary review, and to review and change the pay comparator groups to ensure they remain appropriate. The degree of flexibility to operate is constrained by the policy maximum. – the IEIS bonus plan, for example, allowing the Committee to design performance measures, agree their relative weighting and set annual targets to incentivise business outcomes aligned to the Group's short-term strategic objectives. This is to ensure that these remain relevant and aligned to the Group Strategy. – the LTIP, allowing the Committee to make revisions to the performance measures, their respective weightings, threshold and target levels as permitted under the LTIP scheme rules.
Judgement The Committee will be required to exercise its judgement over the life of the Policy. For example when:	<ul style="list-style-type: none"> – considering an individual's remuneration award or the specific benefits or pension arrangements applying to an appointment. – varying the measures and their weightings, as well as setting specific targets, for example, in the IEIS in any year to ensure that all elements continue to remain aligned to Group Strategy and drive the right behaviours. – determining the percentage of salary which can be earned as a bonus in excess of threshold, target and up to the maximum, or the percentage salary level in respect of an LTIP award in each case up to the relevant maximum set out in the Policy Table. – assessing the performance of each individual Executive Director in delivering against his or her personal performance objectives.
Discretion The Committee has reserved discretion which may be exercised either upwards or downwards (to ensure fair outcomes for both Directors and shareholders) notwithstanding the application of the Policy in certain instances. For example:	<p>Short-term incentives (IEIS)</p> <ul style="list-style-type: none"> – to assess whether an individual performance element should be applied to an Executive Director's bonus outcome and at what level (+ up to 20% for outstanding personal performance or -50% for poor personal performance), subject to the overall cap as provided in the Policy. – to assess and override a payout in circumstances where the overall performance of the Company justifies a different outcome whether higher or lower than that determined by the bonus formula. – in relation to leavers (other than automatic 'good leavers' under the DSBS) as to whether deferred shares will be released and whether any bonus (in whole or in part) is payable during the year of departure. – whether circumstances have arisen that should result in the application of the clawback and/or malus provisions to deferred shares held by an Executive Director. <p>Long-term incentives (LTIP)</p> <ul style="list-style-type: none"> – to assess and override the formulaic outcomes of the LTIP performance outcome (either positively or negatively) to ensure that the resulting LTIP payout reflects fairly the underlying performance of the business and serves the interest of shareholders. – in relation to leavers (other than automatic 'good leavers' under the LTIP) as to whether shares will vest, the terms on which such shares will vest and the percentage level of the award which vests as well as whether any LTIP (in whole or in part) is payable during the year of departure. – whether circumstances have arisen which should result in the application of the clawback and/or malus provisions to unvested LTIP awards. <p>Other</p> <ul style="list-style-type: none"> – on appointment of a new Executive Director, to agree a contract, for an initial period only, longer than the normal one-year rolling contract. – where the shareholding requirements are not yet met and where a waiver of compliance with the guidelines is agreed by the Committee. <p>In each case above, wherever the Committee exercises its discretion in relation to an Executive Director, it will disclose the rationale for doing so in its Annual Report on Remuneration the following year.</p>

Approach to remuneration of Directors on recruitment

<p>Principles</p> <p>In making an Executive Director appointment (whether an internal or external appointee) the Remuneration Committee will follow these principles.</p>	<ul style="list-style-type: none"> – British American Tobacco seeks to appoint senior, high calibre managers and many of its competitors for talent are based outside the UK. – to offer a package (both fixed salary, pension and performance-related remuneration) which is sufficiently competitive (but not excessively so) so that senior, high calibre candidates can be appointed which are designed to promote the long-term success of the Company. The Remuneration Committee will consider the market, including the Pay Comparator Group, and by reference to other companies of equivalent size and complexity to ensure that it does not overpay. – consideration will be given to relevant factors, such as the candidate's skills, knowledge and experience and his or her current package and current location in determining the overall package. – internal pay relativities and the terms and conditions of employment of the new and existing Executive Directors will be considered to ensure fairness between Executive Directors.
<p>External appointment to role of Executive Director – additional considerations</p> <p>Individual has variable remuneration arrangements with his or her previous employer that will be lost on joining British American Tobacco.</p>	<ul style="list-style-type: none"> – the Committee will consider matching up to the maximum of the expected value of the lost awards in order to facilitate the recruitment of that individual. – this may take the form of a one-off long-term incentive award with performance conditions and vesting period similar to the awards given up. – in addition, a sign-on award may be made on a like-for-like basis to compensate for any short-term incentives which may be forgone. – any cash-based awards will normally only be used to replace a bonus for which the remaining performance period is less than three months and where the outcome is reasonably foreseeable. – where appropriate, such awards will also be made subject to clawback and malus provisions.
<p>Relocation – to the UK from overseas and return on retirement or departure from the Group</p> <p>British American Tobacco may provide appropriate relocation support.</p>	<p>Includes:</p> <ul style="list-style-type: none"> – the shipment of personal goods to/from the Director's home to his/her permanent office location. – the provision of temporary accommodation. – the provision of relocation support to find accommodation. – the provision of tax support services to be provided by the Company's advisers. – the payment by the Company of the cost of spouse or partner career counselling. – the provision of housing and schooling support for up to four years as appropriate for the individual's family circumstances.

Policy Report continued

Service contracts – Executive Directors

Current Executive Directors

Employed on a one-year rolling contract, executed at the time of the original appointment.

- contracts are governed by English law.
- may be varied from time to time to take account of changes in terms and conditions as well as to incorporate best practice.
- includes a provision for a termination or compensation payment in lieu of notice.

The Remuneration Committee may exercise its discretion to award two- or three-year contracts in the event that an Executive Director is recruited externally or from overseas; contracts with an initial period of longer than one year will then reduce to a one-year rolling contract after the expiry of the initial period.

Under the current contracts British American Tobacco has agreed to the described obligations, any of which could give rise to, or impact upon, the remuneration or payments for loss of office.

It is not currently intended that future service contracts for Executive Directors would contain terms differing materially from this summary and in the Policy.

- to provide pay, contributions to applicable pension arrangements and benefits (whether in cash or in kind) as specified in the contract, and to reimburse expenses incurred by the Executive Director in performing their duties.
- to give the Executive Director eligibility to participate in: (1) short-term (IEIS) and long-term (LTIP) incentive plans; and (2) all-employee share plans, subject to the rules of those schemes.
- to provide for the use of: (1) a company car for private and business use, subject to the terms of the Company's car policy or to provide a monthly car allowance; and (2) the personal use of a car and driver.
- to provide 25 working days' (plus public holidays) paid holiday per annum and to provide pay in lieu of any accrued but untaken holiday.
- to provide sick pay as specified in the contract.
- to give the Executive Director eligibility to participate in the following benefit schemes: private medical expenses scheme; personal accident scheme; and life assurance scheme, subject to the terms and conditions of such schemes from time to time in force.
- subject to the termination, garden leave and suspension provisions of the service contract, to provide continued employment in the role to which the Executive Director has been appointed.
- to terminate the contract only on the expiry of twelve months' written notice or to make a payment in lieu of notice equal to the value of: (1) twelve months' salary at his or her then current base pay; and (2) a cash payment in respect of benefits under the contract, such as medical insurance, or the Company may, at its option, continue those benefits for a twelve month period – see below for the treatment of short-term and long-term incentive awards on termination.
- in addition to the contractual rights to a payment on loss of office, Executive Directors will have statutory and/or common law rights to certain additional payments (for example, in a redundancy situation covering the review of settlement agreements and the provision of legal fees relating thereto), available to all employees.

Inspection of service contracts

Copies may be inspected at the Company's registered office; these contracts are amended annually following the salary review.

The dates of the latest service contracts are shown below:

Executive Directors	Execution date of current service contract
Nicandro Durante	10 December 2010
Ben Stevens ¹	26 March 2008

Note 1: Contract as amended by a side letter dated 23 July 2010.

Policy on payment for loss of office

Principles

The principles on which the Remuneration Committee will approach the determination for payments on termination.

The service contracts of the current Executive Directors are terminable on the expiry of twelve months' notice from either the Director or the Company – which means that, where an internal successor has not been identified, the Company would have sufficient time to replace the Executive Director through an orderly external recruitment process and ideally have a period of handover.

- compensation for loss of office in service contracts is limited to no more than twelve months' salary and benefits excluding pension. This amount would be payable where the requisite twelve months' notice is not given to the Executive Director or when the Executive Director terminates by giving twelve months' notice and the Company does not wish the Executive Director to serve notice.
- if an Executive Director is required to serve a period of notice, the compensation payment is reduced pro rata. In the event that the contract is terminated for cause (such as gross misconduct), the Company may terminate the contract with immediate effect and no compensation would be payable.
- in cases of underperformance, termination payments will not exceed twelve months' salary and benefits.

Policy on payment for loss of office continued

Treatment of awards under the share incentive schemes: International Executive Incentive Scheme (IEIS)/ Deferred Share Bonus Scheme (DSBS) Long-Term Incentive Plan (LTIP) All-employee scheme: Share Reward Scheme (SRS)	Plan	'Good leaver'	'Other' leaver scenarios
	IEIS	In accordance with the IEIS rules, 'good leavers' are eligible for a bonus pro-rated to the period of service during the year; payments are cash only. Awards made under the DSBS component of the IEIS will vest or transfer to an individual upon termination of their contract in accordance with the specific circumstances set out in the rules of the scheme.	No entitlement to a bonus but the Committee has the discretion to treat other leavers in the same manner as 'good leavers'; this discretion is not exercisable in the case of summary dismissal.
	LTIP	For awards made in 2014 and 2015, 'good leavers' vesting on the normal vesting date is dependent on performance over the full performance period and pro-rated for the part of the performance period employed. For awards made from 2016, vesting occurs at the end of, and is subject to malus/clawback reductions during, the LTIP Extended Vesting Period. For the awards made in 2013, 'good leavers' vesting is dependent on performance to date of leaving and pro-rated for the part of the performance period employed.	In all other circumstances, the awards will lapse immediately including any awards made from 2016 onwards and which are still subject to the LTIP Extended Vesting Period unless the Committee, in its absolute discretion, decides otherwise.
	SRS	The award is not forfeited. If an individual ceases to be employed within three years of the allocation date, the shares and the dividend shares will be withdrawn from trust and transferred to the individual.	
<p>The Remuneration Committee retains discretion in deciding 'good leaver' status other than in cases of automatic 'good leavers' as set out in the applicable provisions of the DSBS and LTIP rules. The discretionary powers are intended to provide flexibility as Executive Directors may leave employment for a broad variety of reasons which may not necessarily fall within the prescribed category of 'good leaver'. The Committee exercises its discretion by reference to guidelines which set out its agreed relevant factors to assist in the determination of a leaver's status.</p>	Guidelines		
	Individual event		Indicative status
	Resignation intending to cease work altogether.		'Good leaver' and discretion to release awards.
	Resignation intending to take up a different occupation, such as a portfolio career.		'Good leaver' and discretion to release awards.
	Delays resignation from the Company to accommodate the Company's plans or the demands of their current workload.		'Good leaver' and discretion to release awards.
	Departure at the request of and/or with the agreement of the Company.		'Good leaver' and discretion to release awards.
	Resignation from the Company to work for a competitor or to undertake a role or otherwise acting in conflict with the interests of the Company.		Discretion not to release awards.
	Resignation from the Company notwithstanding the Company's plans and role demands.		Discretion not to release awards.
	Dismissal for any reason such as misconduct or poor performance.		Discretion not to release awards.
	In exercising its discretion, the Committee will also take into account the individual's overall performance as well as their contribution to the Company during their total period of employment.		
Other discretionary powers The Remuneration Committee retains discretion to settle any other amounts reasonably due to an individual Executive Director as set out here.	<ul style="list-style-type: none"> – payment of legal fees incurred by an individual in connection with reviewing a settlement agreement on termination of employment where the Company wishes to enter into a settlement agreement and the individual must obtain independent legal advice. – reimbursement of reasonable relocation costs where an Executive Director had originally relocated to take up the appointment; these will relate to returning the individual (and where relevant their family) to their country of origin, the shipment of personal goods and winding up their affairs in the UK and the incidental costs incurred in doing so. 		
	In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors, potentially including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements; these arrangements would only be entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.		

Policy Report continued

Statement of consideration of employment conditions elsewhere in the Company

Process	<ul style="list-style-type: none"> – the Committee considers the budgeted salary increases for the UK-based employee population, the guidance given to managers on the range of salary increases and other remuneration arrangements and employment conditions for all UK-based employees, when determining the remuneration policy for Executive Directors. – it is expected that future salary increases for Executive Directors will be in line with the range set out in the salary review guidelines for the general UK employee population, except in exceptional circumstances, such as where a recently appointed Executive Director's salary is increased to reflect his or her growth in the role over time or where significant additional responsibilities are added to the role. – annual bonus metrics and related targets for Executive Directors are aligned with those of senior management and are cascaded to lower tier bonus plans adjusted in some cases for local market context, in order to maintain alignment and line of sight.
Employee opinion survey/consultation	<ul style="list-style-type: none"> – an employee opinion survey is conducted every two years and the Company includes general questions on its pay arrangements in the survey, the outcomes of which are reviewed by the Board.

Remuneration Table – Chairman and Non-Executive Directors

Chairman and Non-Executive Directors	
Fees – Chairman	The Remuneration Committee considers annually the fee payable to the Chairman. Given that the role of a chairman can vary considerably between companies and sectors, this process (using data from the FTSE 30 companies) takes into account the breadth of that role coupled with its associated levels of personal commitment and expertise in the overall context of international reach and the ‘ambassadorial’ aspect of the role. The Chairman is currently expected to make an annual time commitment of about 100 days to cover the responsibilities of the role. The Chairman does not participate in any discussions on his level of remuneration.
Fees – Non-Executive Directors	<p>The quantum and structure of Non-Executive Directors’ remuneration will primarily be assessed against the same pay comparator group of companies used for setting the remuneration of Executive Directors. The Board may also make reference to and take account of relevant research and analysis on Non-Executive Directors’ fees in FTSE 100 companies published by remuneration consultants from time to time. The fees for the Non-Executive Directors are reviewed annually, although the review does not always result in an increase in the Board fees or Committee fees.</p> <p>The Board as a whole considers the policy and structure for the Non-Executive Directors’ fees on the recommendation of the Chairman and the Chief Executive. The Non-Executive Directors do not participate in discussions on their specific levels of remuneration.</p>
General	It is anticipated that any future aggregate increase to any of the fees for the Chairman and Non-Executive Directors will be within the salary range which governs the Company’s annual salary reviews for UK-based staff and will not exceed the equivalent of 10% per annum in aggregate ¹ .
Benefits, travel and related expenses – Chairman	<p>Richard Burrows is reimbursed for the cost of travel and related expenses incurred by him in respect of attendance at Board, Committee and General meetings including the cost of return airline tickets to London from his home in Ireland in connection with his duties as Chairman. He is also entitled to the use of a Company driver; private medical insurance and personal accident insurance benefits; the provision of home and personal security; and general practitioner ‘walk-in’ medical services based a short distance from the Company’s Group headquarters in London.</p> <p>In addition, Richard Burrows’ spouse may, from time to time, accompany him to participate in a partners’ programme occasionally organised in conjunction with overseas or UK-based Board meetings and otherwise at hospitality functions during the year.</p> <p>In appointing a new Chairman, the Committee will offer the components set out in respect of the current Chairman, as appropriate, and may also offer housing allowances for a limited period and other relocation benefits.</p>
Travel and related expenses – Non-Executive Directors	Non-Executive Directors are generally reimbursed for the cost of travel and related expenses incurred by them in respect of attendance at Board, Committee and General meetings. In addition, it is the policy of the Board that the partners of the Non-Executive Directors may, from time to time, accompany the Directors to participate in a partners’ programme occasionally organised in conjunction with overseas or UK-based Board meetings and otherwise at hospitality functions during the year. Non-Executive Directors are also eligible for general practitioner ‘walk-in’ medical services based a short distance from the Company’s Group headquarters in London. Non-Executive Directors receive no other benefits.
General	In instances where any reimbursements or expenses are classified by HMRC as a benefit to the Director, it is also the practice of the Company to pay any tax due on any such benefits.
Shareholding requirements	The remuneration of the Chairman and the Non-Executive Directors is paid in cash. There are no formal requirements or guidelines to hold shares in the Company. Neither the Chairman nor the Non-Executive Directors participate in the British American Tobacco share schemes, bonus schemes or incentive plans and they are not members of any Group pension plan.

Note:

1. **Aggregate fees limit:** the total annual fees of the Chairman and the Non-Executive Directors are limited to the overall aggregate annual limit of £2,500,000 authorised by shareholders with reference to the Company’s Articles of Association.

Annual Report on Remuneration



Remuneration Committee current members

Kieran Poynter (Chairman)^{2(d)}

Ann Godbehere

Christine Morin-Postel

Dimitri Panayotopoulos^{2(b)}

Attendance at meetings in 2015

Name	Member since	Attendance/Eligible to attend
Kieran Poynter	2011	5/5
Ann Godbehere	2011	5/5
Christine Morin-Postel	2007	5/5
Gerry Murphy ^{2(c)}	2009	1/1
Dimitri Panayotopoulos	2015	5/5

Notes:

- Number of meetings 2015:** four scheduled meetings were held; an additional further meeting was held in early October 2015 to review, in outline, executive compensation proposals for 2016.
- Membership:** (a) all of the members of the Remuneration Committee are independent Non-Executive Directors of the Company; (b) **Dimitri Panayotopoulos** was appointed a member on 2 February 2015; (c) **Gerry Murphy** stood down as Chairman and ceased to be a member on 5 May 2015; and (d) **Kieran Poynter** became Chairman on 5 May 2015.
- Other attendees:** the Chairman, the Chief Executive, the Group Human Resources Director, the Group Head of Reward and other senior management, including the Company Secretary, may be consulted and provide advice, guidance and assistance to the Committee. They may also attend Committee meetings (or parts thereof) by invitation; neither the Chairman nor any Executive Director plays any part in determining his own remuneration.
- Deloitte LLP:** as the Committee's remuneration consultants, they may attend meetings of the Committee. 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.
- Secretary to the Remuneration Committee:** this is the Company Secretary.



For the Committee's terms of reference see
www.bat.com/governance

This section sets out the remuneration of the Directors for the financial year ended 31 December 2015.

Role

The Remuneration Committee is responsible for:

- agreeing and proposing the Remuneration Policy for Directors (covering salary, benefits, performance-based variable rewards and pensions) for shareholder approval;
- determining, within the terms of the agreed Policy, the specific remuneration packages for the Chairman and the Executive Directors, both on appointment and 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 Policy; and
- monitoring and advising the Board on any major changes to the policy on employee benefit structures for the British American Tobacco Group.

Remuneration Committee – advisers 2015

Independent external advisers	Services provided to the Committee	Fees	Other services provided to the Company
Deloitte LLP	General advice on remuneration matters including: market trends and comparator group analysis; policy review and shareholder engagement perspectives; and independent measurement of TSR performance conditions.	2015: £178,750 2014: £285,650	Tax, corporate finance and consulting services to Group companies worldwide.
Herbert Smith Freehills LLP	Advice in respect of share plan regulations is provided to the Company and is available to the Committee.	Fees relate to advice given to Company	General corporate legal and tax advice principally in the UK.
Ernst & Young LLP	Provision of personal tax advice regarding Executive Directors' international pension planning.	Fees relate to advice given to Company	Tax, corporate finance and consulting services to Group companies worldwide.
PricewaterhouseCoopers LLP	Specified procedures to assist in the assessment of the calculations of the IEIS bonus outcomes and future targets. This service is provided by KPMG LLP from February 2016 onwards.	2015: £10,870 2014: £10,870	External auditor to 23 March 2015; audit and tax services and other non-audit services.

Note:

The Remuneration Committee has not expressly considered the objectivity and independence of the advice received from these professional firms, although it regularly reflects upon the quality of advice received. The Committee is confident that none of the cross-relationships generate an unmanageable conflict of interest and that the fees paid in respect of each service do not compromise the objectivity and impartiality of the provision of the other services.

Remuneration Committee – activities in 2015

Regular work programme

- reviewed and set salaries for the Executive Directors from 1 April 2015 taking into account both the pay comparator group positioning and the pay and employment conditions elsewhere in the Group, particularly in the UK;
- reviewed and set the Chairman's fee from 1 April 2015;
- assessed the achievement against the targets for the 2014 IEIS award and set the IEIS targets for 2015;
- assessed and agreed the application of an individual performance element for the Executive Directors;
- assessed the achievement against the performance conditions for the vesting of the LTIP 2012 award, determined the level of LTIP awards for March 2015 and confirmed the associated performance conditions;
- assessed the achievement against the targets for the 2014 Share Reward Scheme and set the targets for the 2015 award;
- monitored the continued application of the Company's shareholding guidelines for the Executive Directors;
- reviewed the Annual Statement, the summary Policy Report and the Annual Report on Remuneration for the year ended 31 December 2014 prior to its approval by the Board and subsequent shareholder submission to the AGM on 29 April 2015;
- analysed the AGM results on remuneration voting and reviewed market trends in the context of the AGM season;
- reviewed the salary and incentives market data and current trends for Executive Directors;
- reviewed the achievement against the performance measures for the six months to 30 June 2015 for the IEIS 2015 and the outstanding LTIP awards;
- previewed the positioning of the salaries for Executive Directors for 2016; and
- reviewed the report on the effectiveness of the Remuneration Committee.

Annual Report on Remuneration continued

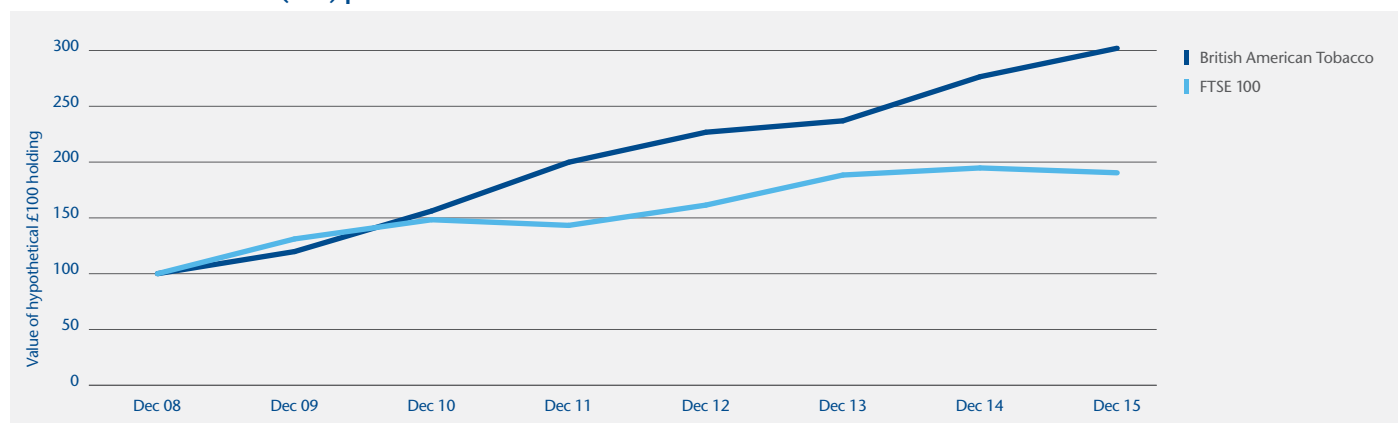
Remuneration policy matters

- introduced a clawback facility in respect of both the short-term incentive (IEIS and DSBS) and long-term incentive (LTIP) variable pay plans which enable post-vesting clawback of share or cash bonus awards in accordance with the provisions of the UK Corporate Governance Code;
- initiated a review of all aspects of the current remuneration offer in the context of the impact on employee retention and recruitment and the consequent need for remedial action of the Group's current incentive schemes;
- considered and reviewed an outline of executive compensation proposals for 2016 including: (1) a new LTIP ahead of the expiry of the current LTIP in April 2017 linking to a review of remuneration policy; and (2) an increase in the maximum LTIP award level to 500% of salary and an increase in the maximum IEIS award level to 250% of salary;
- reviewed the outcomes of the review of the Remuneration Policy and agreed that shareholders be consulted with regard to a new Policy to be put to the AGM in April 2016;
- considered and agreed a revised approach to the disclosure of IEIS bonus outcomes, balancing shareholder concerns with considerations of commercial sensitivity;
- discussed the preliminary results of the consultation with shareholders on a Revised Remuneration Policy; and
- approved an amendment to the shareholding guidelines to enable a dispensation for Executive Directors and members of the Management Board from the obligation to build up or maintain a shareholding to the required threshold in circumstances where such a restriction on a potential share sale could cause undue hardship; any application for a waiver by an Executive Director must be considered by the Remuneration Committee and, if agreed, such an application would be included in the relevant Annual Report on Remuneration.

Other incentive matters

- excluded the contribution of the South Korea market from the IEIS volume share metrics for 2015 and 2016 in order to remove the distorting effect of a significant increase in that market share earlier in 2015, in anticipation of an announced significant excise increase planned in that market; and
- excluded funds received from HMRC from the calculation of cash flow performance measure for the purposes of the 2015 outcomes for the IEIS.

Total shareholder return (TSR) performance – 2008 to 2015



Notes:

- Performance and pay chart:** this shows the performance of a hypothetical investment of £100 in the Company's shares (as measured by the TSR for the Company) against a broad equity market index (the FTSE 100 Index) over a period of seven financial years starting from 1 January 2009 through to 31 December 2015 based on 30 trading day average values.
- TSR:** this is measured according to the return index calculated by Datastream and has been reviewed by the Committee's remuneration consultants. It is measured on the basis that all the Company's dividends are reinvested in the Company's shares. The return is the percentage increase in the Company's index over the seven-year period. 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.

Chief Executive's (CEO) pay – comparative figures 2009 to 2015

Year	2009	2010	2011	2012	2013	2014	2015
CEO 'single figure' of total remuneration (£'000)							
Paul Adams ¹ (to 28 February 2011)	7,713	8,858	5,961	n/a	n/a	n/a	n/a
Nicandro Durante ² (from 1 March 2011)	n/a	n/a	5,589	6,340	6,674	3,617	4,523
Annual bonus (IEIS) paid against maximum opportunity (%)							
Paul Adams ¹ (to 28 February 2011)	67.7	87.0	100	n/a	n/a	n/a	n/a
Nicandro Durante ² (from 1 March 2011)	n/a	n/a	100	85.0	81.3	73.2	100
Long-term incentive (LTIP) paid against maximum opportunity (%)							
Paul Adams ¹ (to 28 February 2011)	100	100	100	n/a	n/a	n/a	n/a
Nicandro Durante ² (from 1 March 2011)	n/a	n/a	100	87.1	49.2	00.0	8.7

Notes:

- Paul Adams:** (a) historic data is taken from the Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the Regulations; (b) he retired as Chief Executive on 28 February 2011 which affected his short-term (annual bonus – IEIS) and long-term incentives (LTIP) as follows in accordance with the rules of those schemes: (i) his performance-related bonus (IEIS) for the year ended 31 December 2010 was paid as a 100% cash bonus instead of 50% in cash and 50% in deferred shares; (ii) the outstanding LTIP awards of shares vested immediately on his retirement either in full (2008 Award) or on a time-apportioned basis (2009 Award and 2010 Award); and (iii) the LTIP dividend equivalent payments for the LTIP awards which vested at his retirement were also paid in full and/or on a pro-rated time and performance basis.
- Nicandro Durante:** (a) historic data is taken from the Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the Regulations; (b) he became Chief Executive on 1 March 2011 and his 'single figure' remuneration for the year ended 31 December 2011 has accordingly been time-apportioned.

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	2015 £m	2014 £m	% change
Remuneration of Group employees ¹	2,039	2,194	(7)
Remuneration of Executive Directors	8	7	14
Remuneration of Chairman and Non-Executive Directors	2	2	–
Dividends paid in the year	2,770	2,712	2
Share buy-back programme ²	–	795	(100)
Adjusted profit from operations ³	5,620	5,403	4

Notes:

- Total remuneration of Group employees:** this has changed in the year mainly as a result of the impact of exchange rate movements, local remuneration agreements, varying employment costs and a reduction in headcount across end markets and regions.
- Share buy-back programme:** this was suspended with effect from 30 July 2014.
- Adjusted profit from operations:** this is the adjusted profit from operations of the Group's subsidiaries at constant rates of exchange for the items shown as memorandum information in the Group Income Statement. It has been chosen as a benchmark for this disclosure given its linkage to the short-term incentive element of remuneration as one of the four performance measures under the IEIS.

Directors' remuneration for the year ended 31 December 2015

'Single figure' table for Executive Directors' remuneration: aggregate – audited

The following table shows a single figure of remuneration for the Executive Directors in respect of qualifying services for the year ended 31 December 2015 together with comparative figures for 2014. The aggregate Directors' emoluments are shown on page 106. Details of the fees for the Chairman and the Non-Executive Directors are set out in separate tables later in this report.

Single figure for Executive Directors	Salary £'000		Taxable benefits £'000		Short-term incentives £'000		Long-term incentives ¹ £'000		Pension £'000		Other emoluments £'000		Total £'000	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Nicandro Durante	1,181	1,141	155	132	2,380	1,690	394	293	392	323	21	38	4,523	3,617
Ben Stevens	861	835	104	99	1,560	1,108	220	158	544	521	30	28	3,319	2,749
John Daly (retired 6 April 2014)	n/a	191	n/a	59	n/a	171	n/a	143	n/a	109	n/a	2	n/a	675
Total remuneration	2,042	2,167	259	290	3,940	2,969	614	594²	936	953	51	68	7,842	7,041

Notes:

- Long-term incentives:** these include cash dividend equivalent payments made under the LTIP.
- Other emoluments:** include (1) life insurance; and (2) the value of shares received under the Share Reward Scheme during the year.

Annual Report on Remuneration continued

Analysis by individual Director – audited

Nicandro Durante

	2015 £'000	2014 £'000
Salary¹	1,181	1,141
Taxable benefits		
Cash		
– car allowance	16	16
Non-cash		
– health insurance/provision of 'walk-in' health services	8	8
– tax advice	20	22
– the use of a company driver	59	62
– home and personal security in the UK and Brazil	35	17
– other expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events	17	7
Total taxable benefits²	155	132
Short-term incentives		
IEIS: annual performance related bonus – cash receivable March 2016 (YE 2015); cash received March 2015 (YE 2014)	1,190	704
DSBS: annual performance-related bonus – award of deferred shares at full market value March 2016 (YE 2015) and March 2015 (YE 2014) ³	1,190	704
IEIS: individual performance uplift of 20% of total annual performance-related bonus – no cash receivable March 2016 (YE 2015) as no award of individual performance uplift; cash received March 2015 (YE 2014)	–	282
Total short-term incentives	2,380	1,690
Long-term incentives		
LTIP: award 22 March 2013 of 119,828 shares; performance period 2013/2015; award will vest 22 March 2016 at 8.7% resulting in 10,425 shares; estimated value shown for the purposes of this disclosure based on the average share price for the last three months for the year ended 31 December 2015 of 3,782.11p	394	
LTIP: award 28 March 2012 of 124,688 shares; performance period 2012/2014; award vested on 28 March 2015; none of the performance conditions were met which resulted in the lapse of the full award		–
LTIP: cash dividend equivalent – a cash sum equivalent to the aggregated dividends that an LTIP participant would have received as a shareholder over the three-year period on the actual number of shares that vest under an LTIP award; 2015: (LTIP award 28 March 2012; vested at 00.0% on 28 March 2015); 2014: (LTIP award 13 May 2011; vested at 49.2% on 13 May 2014)	–	293
Total long-term incentives	394	293
Pension-related benefits		
Unfunded unapproved retirement benefit scheme (UURBS – UK) ⁴	392	323
Total pension-related benefits	392	323
Other emoluments		
Life insurance	19	17
Share Reward Scheme: value of shares received during the year	2	2
Sharesave Scheme: grant of options on 26 August 2014 over 543 shares at an option price of 2,787.0p per share; options were awarded at a discount of 20% of the market value (3,483.0p per share) in accordance with the rules of the Sharesave Scheme	–	19
Total other emoluments	21	38
Total remuneration	4,523	3,617

Notes:

- Salary:** base salary from 1 April 2015: £1,190,000 (+3%) (from 1 April 2014: £1,155,000); UK-based employees received salary increases averaging around 3% and within a range of 0% to 8% with effect from 1 April 2015.
- Benefits:** the figures shown are gross amounts as in line with the UK market; it is the normal practice of the Company to pay the tax which may be due on any benefits, with the exception of the car or car allowance.
- DSBS:** an award of deferred shares attracts a payment of a cash sum equivalent to the dividend on the after-tax position on all unvested ordinary shares comprised in the share award held by the participant at each dividend record date and paid on or after the relevant dividend payment date.
- UURBS pension-related benefits:** these represent the net accrual for the period, being the differential between the individual's total pension entitlements as at 31 December 2014 (adjusted for inflation) and as at 31 December 2015, multiplied by 20 in accordance with the Regulations.
- External directorship:** Nicandro Durante is a non-executive director of Reckitt Benckiser Group. He retains the fees for this appointment, 2015: £102,500 (2014: £91,250).

Analysis by individual Director – audited

Ben Stevens

	2015 £'000	2014 £'000
Salary¹	861	835
Taxable benefits²		
Cash		
– car allowance	14	14
Non-cash		
– health insurance/provision of 'walk-in' health services	8	4
– the use of a company driver	76	73
– home and personal security in the UK	3	3
– other expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events	3	5
Total taxable benefits	104	99
Short-term incentives		
IEIS: annual performance related bonus – cash receivable March 2016 (YE 2015); cash received March 2015 (YE 2014)	780	462
DSBS: annual performance-related bonus – award of deferred shares at full market value March 2016 (YE 2015) and March 2015 (YE 2014) ³	780	462
IEIS: individual performance uplift of 20% of total annual performance-related bonus – no cash receivable March 2016 (YE 2015) as no award of individual performance uplift; cash received March 2015 (YE 2014)	–	184
Total short-term incentives	1,560	1,108
Long-term incentives		
LTIP: award 22 March 2013 of 66,932 shares; performance period 2013/2015; award will vest 22 March 2016 at 8.7% resulting in 5,823 shares; estimated value shown for the purposes of this disclosure based on the average share price for the last three months for the year ended 31 December 2015 of 3,782.11p	220	
LTIP: award 28 March 2012 of 70,137 shares; performance period 2012/2014; award vested on 28 March 2015; none of the performance conditions were met which resulted in the lapse of the full award		–
LTIP: cash dividend equivalent – a cash sum equivalent to the aggregated dividends that an LTIP participant would have received as a shareholder over the three-year period on the actual number of shares that vest under an LTIP award; 2015: (LTIP award 28 March 2012; vested at 0.00% on 28 March 2015); 2014: (LTIP award 13 May 2011; vested at 49.2% on 13 May 2014)	–	158
Total long-term incentives	220	158
Pension-related benefits⁴		
British American Tobacco UK Pension Fund	9	6
Unfunded unapproved retirement benefit scheme (UURBS – UK)	535	515
Total pension-related benefits	544	521
Other emoluments		
Life insurance	9	7
Share Reward Scheme: value of shares received during the year	2	2
Sharesave Scheme: grant of options on 23 March 2015 over 495 shares at an option price of 3,026.0p per share; grant of options on 26 August 2014 over 543 shares at an option price of 2,787.0p per share; options were awarded at a discount of 20% of the market value (2015:3,782.0p per share; 2014:3,483.0p per share) in accordance with the rules of the Sharesave Scheme	19	19
Total other emoluments	30	28
Total remuneration	3,319	2,749

Notes:

1. **Salary:** base salary from 1 April 2015: £867,000 (+3%) (from 1 April 2014: £841,500); UK-based employees received salary increases averaging around 3% and within a range of 0% to 8% with effect from 1 April 2015.
2. **Benefits:** the figures shown are gross amounts as in line with the UK market; it is the normal practice of the Company to pay the tax which may be due on any benefits, with the exception of the car or car allowance.
3. **DSBS:** an award of deferred shares attracts a payment of a cash sum equivalent to the dividend on the after-tax position on all unvested ordinary shares comprised in the share award held by the participant at each dividend record date and paid on or after the relevant dividend payment date.
4. **Pension-related benefits:** these represent the net accrual for the period, being the differential between the individual's total pension entitlements as at 31 December 2014 (adjusted for inflation) and as at 31 December 2015, multiplied by 20 in accordance with the Regulations.

Annual Report on Remuneration continued

Base salary

The Executive Directors' salary review in February 2015 agreed the following changes effective from 1 April 2015. UK-based employees received salary increases averaging around 3% and within a range of 0% to 8%, depending on time in grade, performance and position relative to the market with effect from 1 April 2015.

	Base salary from 1 Apr 2015 £	Percentage change %	Base salary from 1 Apr 2014 £
Executive Directors – salaries			
Nicandro Durante	1,190,000	3	1,155,000
Ben Stevens	867,000	3	841,500

Additional requirements in respect of the single total figure table

This section sets out supporting information and details for the single total figure for remuneration for the Executive Directors with particular reference to: the annual IEIS short-term incentive payments; the extent to which performance conditions have been satisfied for the LTIP; and further details on pension entitlements.

Short-term incentives: International Executive Incentive Scheme (IEIS) – audited

IEIS performance review – basics, measurement and process

IEIS awards	Year ended 2015
Performance period	Financial year ended 31 December 2015.
Payment	March 2016; no element of the bonus award is guaranteed.
Type	Variable performance-related.
Delivery	50% in cash; 50% in shares – deferred shares through the Deferred Share Bonus Scheme (DSBS). DSBS element: comprises free ordinary shares in the Company normally held in trust for three years and no further performance conditions apply in that period. Forfeiture may apply if a participant resigns before the end of the three-year period. Malus provisions: DSBS share awards made for 2014 onwards. Clawback provisions: from 2016 cash awards and share awards for performance ended 2015 onwards.
Review	By Remuneration Committee in February 2016 on basis of an internal report augmented by an assessment by the Group's external auditors of the relevant calculations.
Payout	Determined by actual performance for each measure, relative to that measure's performance points.
Discretion	The Remuneration Committee is able to override a proposed pay-out in circumstances where, in its judgement, the overall performance of the Company justifies a different outcome, whether higher or lower than that determined by the bonus formula.
Individual performance element	Awarded for 'Outstanding' performance, by adjusting upwards by up to 20% of the annual corporate IEIS result subject to the applicable maximum award limit; paid in cash. Individual performance rated as 'Requires Improvement' results in the corporate IEIS result being reduced by 50%. The Committee also reviews the personal performance of each Executive Director against his or her operational and strategic measures; which are agreed at the start of the year and which depend on the priorities for each Director's area of responsibility, in the context of the delivery of the Group strategy.

IEIS performance review – presentation of outcomes

Bonus targets and results 2014 and 2015

The Remuneration Committee considers annually the question of commercial confidentiality and the sensitivity of bonus targets and results. Specific performance measures, their weightings and actual performance/results achieved in 2015 are disclosed.

The specific performance targets for each measure are considered to be commercially sensitive and will only be disclosed retrospectively, at the earliest, in the Annual Report on Remuneration which relates to the period of twelve months after the end of the relevant IEIS performance period. The Committee has therefore agreed to disclose the specific Threshold and Maximum targets for the IEIS performance period ended 31 December 2014. These are shown in the table below.

It is expected that the specific Threshold and Maximum targets for the IEIS performance period ended 31 December 2015 will be published in March 2017 in the Annual Report for 2016.

IEIS: performance measures and targets year ended 31 December 2014

IEIS: performance measure	Description of measure and target 2014				
Adjusted profit from operations (growth over prior year) Weighting: 40%	Adjusted profit from operations of the Group's subsidiaries is at constant rates of exchange adjusted for the items shown as memorandum information in the Group Income Statement. IEIS target 2014 <table> <tr> <td>Threshold</td><td>4.0% growth over 2013</td></tr> <tr> <td>Maximum</td><td>6.0% growth over 2013</td></tr> </table>	Threshold	4.0% growth over 2013	Maximum	6.0% growth over 2013
Threshold	4.0% growth over 2013				
Maximum	6.0% growth over 2013				
Group's share of Key Markets (growth over prior year) Weighting: 20%	The Group's retail market 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 rebased as and when the Group's Key Markets change. When rebasing does occur, the Company will also restate history and provide fresh comparative data on the markets. IEIS target 2014 <table> <tr> <td>Threshold</td><td>0.0 ppt growth over 2013</td></tr> <tr> <td>Maximum</td><td>0.2 ppt growth over 2013</td></tr> </table>	Threshold	0.0 ppt growth over 2013	Maximum	0.2 ppt growth over 2013
Threshold	0.0 ppt growth over 2013				
Maximum	0.2 ppt growth over 2013				
Global Drive Brands (GDB) and Key Strategic Brands (KSB) volumes (growth over prior year) Weighting: 20%	GDB volumes comprise the cigarette volumes of Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans and include volumes of the Fine Cut variants of those brands sold in Western Europe. KSB volumes comprise the cigarette volumes of State Express 555 and Shuang Xi associated with the joint venture with CNTC in China. IEIS target 2014 <table> <tr> <td>Threshold</td><td>2.0% growth over 2013</td></tr> <tr> <td>Maximum</td><td>4.0% growth over 2013</td></tr> </table>	Threshold	2.0% growth over 2013	Maximum	4.0% growth over 2013
Threshold	2.0% growth over 2013				
Maximum	4.0% growth over 2013				
Cash generated from operations (as against budget) Weighting: 20%	Cash generated from operations is defined as the free cash flow excluding restructuring costs, dividends and other appropriations from associate undertakings measured at constant rates of exchange. IEIS target 2014 <table> <tr> <td>Threshold</td><td>5% less than 2014 budget</td></tr> <tr> <td>Maximum</td><td>5% above 2014 budget</td></tr> </table>	Threshold	5% less than 2014 budget	Maximum	5% above 2014 budget
Threshold	5% less than 2014 budget				
Maximum	5% above 2014 budget				

Annual Report on Remuneration continued

IEIS: performance measures, weightings and results year ended 31 December 2015

IEIS: performance measure	Description of measure 2015	Actual performance 2015
Adjusted profit from operations (growth over prior year) Weighting: 40%	Adjusted profit from operations of the Group's subsidiaries is at constant rates of exchange adjusted for the items shown as memorandum information in the Group Income Statement.	Growth over the prior year of 4%. Strategic Report: Delivering our strategy – Productivity
Strategic target or objective The medium- to long-term target is to grow adjusted profit from operations on average by 5-7% per year.		
Group's share of Key Markets (growth over prior year) Weighting: 20%	The Group's retail market 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 rebased as and when the Group's Key Markets change. When rebasing does occur, the Company will also restate history and provide fresh comparative data on the markets.	Global market share in key markets grew by over 40 bps. Strategic Report: Delivering our strategy – Growth
Strategic target or objective To continue to grow market share.		
Global Drive Brands (GDB) and Key Strategic Brands (KSB) volumes (growth over prior year) Weighting: 20%	GDB volumes comprise the cigarette volumes of Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans and include volumes of the Fine Cut variants of those brands sold in Western Europe. KSB volumes comprise the cigarette volumes of State Express 555 and Shuang Xi associated with the joint venture with CNTC in China.	GDB and KSB volumes grew by 8% Strategic Report: Delivering our strategy – Growth
Strategic target or objective To increase our GDB and KSB volumes faster than the rest of the portfolio.		
Cash generated from operations (as against budget) Weighting: 20%	Cash generated from operations is defined as the free cash flow excluding restructuring costs, dividends and other appropriations from associate undertakings measured at constant rates of exchange.	The improvement in cash generated from operations was 12%. Strategic Report: Delivering our strategy – Productivity
Strategic target or objective A specific target is set at each year for this measure with the aim to generate the optimal level cash flow while continuing to invest to support the short-, medium- and long-term requirements of the business.		

Nicandro Durante – IEIS outcomes 2015

	% of base salary	2015 £'000	% of base salary	2014 £'000
Corporate result 50% in cash; 50% in deferred shares (DSBS)	200.0	2,380	121.9	1,408
Individual performance element up to 20% performance uplift on the corporate result (cash)	00.0	–	20.0	282
2015 assessment: no individual performance uplift.				
Total IEIS result	200.0	2,380	146.3	1,690
Maximum opportunity	200.0		200.0	

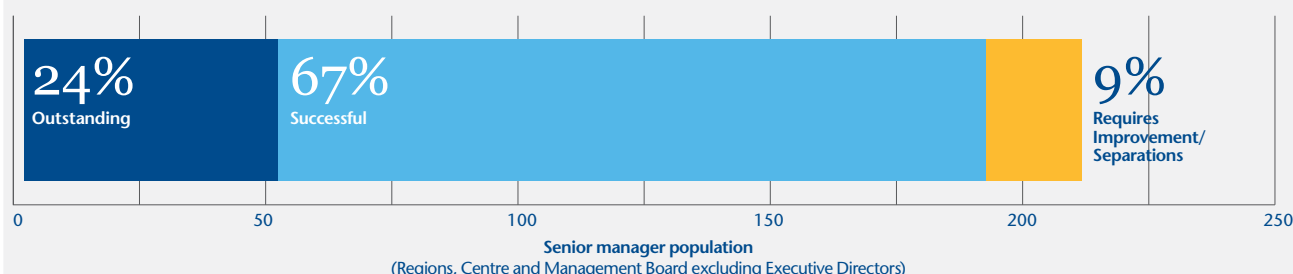
Ben Stevens – IEIS outcomes 2015

	% of base salary	2015 £'000	% of base salary	2014 £'000
Corporate result 50% in cash; 50% in deferred shares (DSBS)	180.0	1,560	109.7	924
Individual performance element up to 20% performance uplift on the corporate result (cash)	00.0	–	20.0	184
2015 assessment: no individual performance uplift.				
Total IEIS result	180.0	1,560	131.6	1,108
Maximum opportunity	180.0		180.0	

Notes:

1. **IEIS payouts:** these are expressed as a percentage of salary with the actual payouts shown in the individual analysis tables on pages 96 and 97.
2. **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. Malus-only provisions apply for DSBS share awards made for 2014 and 2015 and clawback provisions operate from 2016 IEIS cash awards and DSBS share awards for performance ended 2015.
3. **Senior managers:** a performance-related uplift is available for all senior managers whose performance is rated as 'Outstanding'. The outcomes of the performance assessment for these senior managers in 2015 is set out below.

Senior managers: individual performance ratings 2015



Annual Report on Remuneration continued

Long-term incentives: Long-Term Incentive Plan (LTIP) – audited

Vesting of the 2013 LTIP awards in 2016: outcomes against performance measures

2013 LTIP awards	Performance measures		
Award date: 22 March 2013	Total shareholder return (TSR)	Total shareholder return (TSR)	Earnings per share (EPS)
Vesting date: 22 March 2016	FTSE 100 Index	FMCG companies	Compound annual growth relative to UK inflation measured at current rates of exchange
	25% of award	25% of award	50% of award
Performance period: 1 January 2013 – 31 December 2015	Ranked 45/96	Ranked 16/24	(1.3)%
	At median: 6% vests	At median: 6% vests	From 3% EPS to 8% EPS:
	At upper quartile: 25% vests	At upper quartile: 25% vests	8–50% vests pro rata between these two points
<p>In the event of upper quartile performance by the Company relative to both the TSR comparator groups, 25% of each element of this measure of the total award vests in full; 6% of the total award vests for median performance. There is a pro rata vesting between these two points. The TSR portions of an LTIP award do not vest for below median performance.</p> <p>None of the EPS portion of an award vests if EPS growth is less than 3% per annum in excess of UK inflation.</p>			
Percentage maximum achieved at end of performance period 31 December 2015: total vesting of 8.7%	8.7%	00.0%	00.0%
<p>Additional information describing the key elements supporting the performance measures and the management of LTIP awards are set out on the Policy Report section of this Remuneration Report.</p>			

Vesting of 2013 LTIP awards held by Executive Directors	Number of shares awarded	Number of shares vesting/ % vesting	Number of shares lapsing/ % lapsing	Value of shares vesting £'000
Nicandro Durante	119,828	10,425 8.7%	109,403 91.3%	394
Ben Stevens	66,932	5,823 8.7%	61,109 91.3%	220

Notes:

1. **2013 LTIP awards:** these had not vested at the date of this report. The average share price for the last three months of the financial year has been used to determine the value of the 2013 LTIP awards for the purposes of the single total figure.
2. The average share price for the last three months for the year ended 31 December 2015 was 3,782.11p.

Current position on outstanding LTIP awards

The table below shows the current position against the performance targets for the outstanding LTIP awards for 2014 and 2015 for Executive Directors as at 31 December 2015. The key elements supporting the performance measures and the management of LTIP awards are set out on the Policy Report section of this Remuneration Report.

2014 and 2015 LTIP awards: performance measures	Threshold	Maximum	Actual to 31 Dec 2015 2014 Award	% achieved at 31 Dec 2015 2014 Award	Actual to 31 Dec 2015 2015 Award	% achieved at 31 Dec 2015 2015 Award
Total shareholder return (TSR) ranking – a peer group of international FMCG companies at the beginning of the three-year performance period: 25% of award. 2014 Award: (1 January 2014 to 31 December 2016) 2015 Award: (1 January 2015 to 31 December 2017)	At median (6% of award vests)	At upper quartile (25% of award vests)				
TSR outcome: the comparison is based on three months' average values. The Company achieved – 2014 Award: a below-median annualised TSR of 11.9%; and 2015 Award: a below-median annualised TSR of 11.1%. No company in the comparator group has delisted during the performance period to date, 31 December 2015.			Ranked 13/24	00.0%	Ranked 16/24	00.0%
Earnings per share (EPS) – compound annual growth relative to UK inflation measured at current rates of exchange: 50% of award.	At 5% EPS (8% of award vests)	At 10% EPS (50% of award vests)				
EPS outcome: this element of the award will vest in full if EPS growth over the three-year performance period is an average of at least 10% per annum. 8% of the award will vest if the EPS growth over the performance period is 5%. An award will vest on a pro rata UK basis between these two points. None of the EPS portion of an award vests if EPS growth is less than 5% per annum.			(0.7)%	00.0%	2.9%	00.0%
Net turnover (NTO) – compound annual growth measured at constant rates of exchange: 25% of award.	At 2% (6% of award vests)	At 5% (25% of award vests)				
NTO outcome: there is an underpin to this measure; vesting will only be triggered if (on the assumption that threshold or above is achieved in respect of the measure) the corresponding three-year constant compound annual growth rate (CAGR) of underlying operating profit exceeds the CAGR of the threshold performance level for underlying operating profit, as defined annually in the IEIS and is approved by the Board.			4.3%	20.9%	4.8%	23.5%
Total				20.9%		23.5%

Annual Report on Remuneration continued

Vesting of past LTIP awards for the years ended 2011 to 2015

The following table shows the historical vesting of awards over the five-year period for the years ended 31 December 2011 to 31 December 2015, inclusive.

LTIP award date	22 Mar 2013	28 Mar 2012	13 May 2011	25 Mar 2010	27 Mar 2009
Year ended	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
Performance period	2013/2015	2012/2014	2011/2013	2010/2012	2009/2011
Vesting date	22 Mar 2016	28 Mar 2015	13 May 2014	25 Mar 2013	27 Mar 2012
TSR – FTSE 100 group of companies:					
Ranking	45/96	53/96	34/97	15/97	21/96
Percentage of vesting award	8.7	00.0	17.9	25	25
TSR – FMCG peer group:					
Ranking	16/24	19/24	10/24	5/25	5/25
Percentage of award vesting	00.0	00.0	14.2	25	25
Earnings per share growth:					
Percentage per annum above inflation	(1.3)	0.2	4.1	6.5	10.8
Percentage of vesting award	00.0	00.0	17.1	37.1	50
Total vesting percentage	8.7	00.0	49.2	87.1	100

All-employee share schemes

The Company operates the following all-employee share schemes in which the Executive Directors participate, as shown as at 31 December 2015.

Executive Directors	Nicandro Durante	Ben Stevens
All-employee share schemes:		
Sharesave Scheme	✓	✓
Share Incentive Plan (Partnership Scheme)	✓	✓
Share Incentive Plan (Share Reward Scheme)	✓	✓

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 (2015: 1,972 individuals; 2014: 1,979 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 as well as presenting a less relevant comparator given the significant variations in employee pay across the Group and the differing economic conditions and wide variations in GDP per capita.

	Base salary			Taxable benefits			Short-term incentives		
	2015 £'000	2014 £'000	Change %	2015 £'000	2014 £'000	Change %	2015 £'000	2014 £'000	Change %
Nicandro Durante (Chief Executive)	1,181	1,141	3.5	155	132	17.4	2,380	1,690	40.8
UK-based employees	71	67	6.0	4	4	0.0	24	22	9.1

Notes:

UK-based employees:

- The data for this comparator group is made up as follows as at 31 December 2015: (a) the weighted average base salaries; (b) the average taxable benefits per grade; and (c) an estimated weighted average bonus based on that population as at that date.
- UK-based employees were awarded performance-based pay increases in the range 0% to 8% with an average of around 3%.

'Single figure' table for Non-Executive Directors' remuneration: aggregate – audited

The following table shows a single figure of remuneration for the Non-Executive Directors in respect of qualifying services for the year ended 31 December 2015 together with comparative figures for 2014. The aggregate Directors' emoluments are shown on page 106.

Non-Executive Directors ¹	Base fee £'000		Chair/Committee membership fees £'000		Taxable benefits ² £'000		Total remuneration £'000	
	2015	2014	2015	2014	2015	2014	2015	2014
Karen de Segundo CSR: Chair; Nominations: Member	93	90	31	31	–	–	124	121
Sue Farr (from 2 February 2015) CSR and Nominations: Member	85	–	11	–	2	–	98	–
Ann Godbehere Audit, Remuneration and Nominations: Member	93	90	18	18	2	1	113	109
Savio Kwan (from 6 January 2014) CSR and Nominations: Member	93	89	12	12	42	39	147	140
Pedro Malan (from 2 February 2015) CSR and Nominations: Member	85	–	11	–	42	–	138	–
Christine Morin-Postel SID; Audit: Chair; Remuneration and Nominations: Member	93	90	64	48	16	8	173	146
Gerry Murphy Audit and Nominations: Member	93	90	20	36	1	1	114	127
Dimitri Panayotopoulos (from 2 February 2015) Remuneration and Nominations: Member	85	–	11	–	13	–	109	–
Kieran Poynter Remuneration: Chair; Audit and Nominations: Member	93	90	42	42	–	–	135	132
Richard Tubb CSR and Nominations: Member	93	90	12	12	35	36	140	138
Retired Non-Executive Director Anthony Ruys (to 30 April 2014)	n/a	30	n/a	4	n/a	5	n/a	39
Total	906	659	232	203	153	90	1,291	952

Notes:

1. **2015 fee structure:** Base fee: £92,700; Senior Independent Director: £30,000; Audit – Chair: £30,000; Member: £6,000; CSR – Chair: £25,000; Member: £6,000; Nominations – Chair: £–; Member: £6,000; Remuneration – Chair: £30,000; Member: £6,000.

2. Benefits:

- (a) In line with the Policy, the figures shown are gross amounts (as appropriate) as in line with the UK market, as it is the normal practice of the Company to pay the tax that may be due on any benefits.
 (b) Taxable benefits comprise travel expenses and 'walk-in' medical services.
 (c) 'Walk-in' medical services: the Non-Executive Directors received this benefit in 2015 to the value of £255 each (2014: £255).

Annual Report on Remuneration continued

'Single figure' table for the Chairman's remuneration: aggregate – audited

The following table shows a single figure of remuneration for the Chairman in respect of qualifying services for the year ended 31 December 2015 together with comparative figures for 2014. The aggregate Directors' emoluments are shown below.

	2015 £'000	2014 £'000
Chairman – Richard Burrows		
Fees		
£645,000 (from 1 April 2015)	642	629
Taxable benefits		
– health insurance and 'walk-in' medical services ²	13	14
– use of a company driver	55	59
– home and personal security in the UK and Ireland	4	7
– hotel accommodation and related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events	4	16
– commuting flights to London ³	9	5
Total remuneration	727	730

Notes:

1. **Benefits:** in line with the Policy, the figures shown for taxable benefits are gross amounts (as appropriate) as it is the normal practice of the Company to pay any tax due on such benefits.
2. **'Walk-in' medical services:** Richard Burrows received this benefit in 2015 to the value of £255 (2014: £255).
3. **Commuting flights to London:** treated as a taxable benefit from 6 April 2015.

Aggregate Directors' emoluments – audited

The following table shows the aggregate emoluments of the Directors of the Company.

	Executive Directors			Chairman	Non-Executive Directors		Total	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Salary; fees; benefits; incentives								
Salary	2,042	2,167					2,042	2,167
Fees			642	629	1,138	862	1,780	1,491
Taxable benefits	259	290	85	96	153	90	497	476
Short-term incentives	3,940	2,969					3,940	2,969
Long-term incentives	614	594					614	594
Sub-total	6,855	6,020	727	725	1,291	952	8,873	7,697
Pension; other emoluments								
Pension	936	953					936	953
Other emoluments	51	68		5			51	73
Sub-total	987	1,021		5			987	1,026
Total emoluments	7,842	7,041	727	730	1,291	952	9,860	8,723

Total pension entitlements

Executive Directors' pension entitlements – audited

Pension values	Accrued pension at year end 31 Dec 2015 £'000	Additional value of pension on early retirement
Nicandro Durante (normal retirement age: 60)		
UURBS (UK)	102	–
Total	102	–

Nicandro Durante's **UURBS** pension entitlements are derived as follows:

- (1) 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 (the UK Accrual Rate) 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 months' average and will be provided through the UURBS.
- (2) 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 in (1) above. At retirement the pension is based on a 12 months' average and will be provided through UURBS.

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 Directors' remuneration represent Nicandro Durante's net accrual for the period, being the differential between his total pension entitlements as at 31 December 2014 (adjusted for inflation) and as at 31 December 2015, multiplied by 20 in accordance with the Regulations.

Nicandro Durante receives a pension in payment from the **Fundação Albino Souza Cruz (FASC)** from Souza Cruz S.A., a Brazilian registered entity in which the Group had a 75% interest. During 2015, the Group undertook the acquisition and delisting of the Souza Cruz shares that it did not own. This process was completed on 5 February 2016 when Souza Cruz became a wholly-owned subsidiary. This pension benefit has been in payment since April 2012 and currently amounts to approximately £305,000 per annum (after adjusting for currency exchange) reflecting his 31 years' service at Souza Cruz.

Pension values	Accrued pension at year end 31 Dec 2015 £'000	Additional value of pension on early retirement
Ben Stevens (normal retirement age: 60)		
British American Tobacco UK Pension Fund	99	–
UURBS (UK)	255	–
Total	354	–

Ben Stevens joined the **UK Pension Fund** after 1989 and 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 (notionally £150,000 for the tax year 2015/16). 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 membership of an unfunded unapproved retirement benefit scheme (**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 Pension Fund with all future benefits being provided through membership of the UURBS. During the year, there has been no change to the overall pension entitlement of Ben Stevens.

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 Directors' remuneration represent Ben Stevens' net accrual for the period, being the differential between his total pension entitlements as at 31 December 2014 (adjusted for inflation) and as at 31 December 2015, multiplied by 20 in accordance with the Regulations.

These commitments are included in note 12 on the Accounts. UK 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) up to 6% per annum.

Note:

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.

Annual Report on Remuneration continued

Directors' shareholdings and scheme interests

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 shares in the Company equal to the value of a percentage of salary as set out in the table below.

	Shareholding requirements (% of base salary 31 Dec 2015)	No. of eligible ¹ ordinary shares held at 31 Dec 2015	Value of eligible ordinary shares held at 31 Dec 2015 ² £m	Actual percentage (%) of base salary at 31 Dec 2015
Nicandro Durante	400	188,959	7.1	598.8
Ben Stevens	250	72,136	2.7	313.8

Notes:

- Eligibility of shares:** shares earned but not yet vested under the Company's short-term (DSBS) and long-term (LTIP) incentive plans as well as those held in trust under the all-employee share ownership plan (SIP) are not eligible and do not count towards the shareholding requirement.
- Closing mid-market price:** at 31 December 2015 was 3,771.0p.
- 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 shares vesting (after tax) under the Company share plans until the threshold required under the shareholding guidelines has been met.
- 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 2015.
- Non-Executive Directors:** are not subject to any formal shareholding requirements although they are encouraged to build a small interest in shares during the term of their appointment.

Executive Directors' share interests – audited

The interests of the Executive Directors who served during the year ended 31 December 2015 in the ordinary shares of the Company (beneficial, family and any connected persons) are as follows:

	At 1 Jan 2015	Awarded on 27 Mar 2015	Released 30 Mar 2015 ²	At 31 Dec 2015	Changes from 31 Dec 2015
Nicandro Durante					
Shares held ¹	171,297			188,959	
SIP shares ³ – held in employee benefit trust	1,556			1,724	8 ⁵
DSBS: deferred shares – unvested, subject to continued employment	84,116	19,419	(31,172)	72,363	
Total share interests	256,969			263,046	
Ben Stevens					
Shares held ¹	59,349			72,136	
SIP shares ³ – held in employee benefit trust	532			535	8 ⁵
DSBS: deferred shares – unvested, subject to continued employment	56,476	12,732	(21,041)	48,167	
Total share interests	116,357			120,838	

Notes:

- Shares held** – owned outright: these have not been pledged as security against loans.
- DSBS** – deferred shares: the closing mid-market price on the date of release (30 March 2015) was 3,594.5p.
- SIP shares:** these comprise vested and unvested shares in the Share Incentive Plan (Partnership Share Scheme and Share Reward Scheme).
- Share Reward Scheme:** based on the performance for the year ended 31 December 2015, the Executive Directors will each be awarded a number of ordinary shares to the value of £3,600 on 1 April 2016.
- Changes from 31 December 2015:** these relate to purchases by Nicandro Durante and Ben Stevens of a total of eight ordinary shares each under the Partnership Share Scheme on 6 January 2016 and 3 February 2016.
- BATGET:** on 31 December 2015, the Group's employee share ownership trust, referred later in this Remuneration Report, held a total of 5,356,084 ordinary shares in the Company. All participating employees, including the Executive Directors, are deemed to have a beneficial interest in these shares.

Chairman and Non-Executive Directors' share interests – audited

The interests of the Chairman and Non-Executive Directors who served during the year ended 31 December 2015 in the ordinary shares of the Company (beneficial, family and any connected persons) are as follows:

	At 1 Jan 2015	At 31 Dec 2015
Chairman		
Shares held¹		
Richard Burrows	15,000	15,000
Non-Executive Directors		
Shares held¹		
Karen de Segundo	2,000	2,000
Sue Farr (from 2 February 2015)	n/a	–
Ann Godbehere ²	3,100	3,100
Savio Kwan	–	3,040
Pedro Malan (from 2 February 2015)	n/a	–
Christine Morin-Postel	3,000	3,000
Gerry Murphy	5,000	5,000
Dimitri Panayotopoulos (from 2 February 2015)	n/a	3,300
Kieran Poynter	5,000	5,000
Richard Tubb	–	–

Notes:

1. **Shares held** – owned outright: these have not been pledged as security against loans.
2. **Ann Godbehere:** these share interests consist of 1,550 American Depositary Receipts (ADRs), each of which represents two ordinary shares in the Company.
3. **Changes from 31 December 2015:** there were no changes in the share interests of the Chairman and the Non-Executive Directors.

Scheme interests – share incentive awards – audited

The scheme interests of the Executive Directors who served during the year ended 31 December 2015 in the shares of the Company under the Long-Term Incentive Plan (LTIP) and who received LTIP awards during the year ended 31 December 2015 are as follows:

LTIP awards	Nicandro Durante	Ben Stevens
Balance 1 January 2015 comprising:	379,568	212,299
28 March 2012		
Performance period: 1 January 2012 – 31 December 2014		
Exercisable: 28 March 2015 – 27 March 2022	124,688	70,137
22 March 2013		
Performance period: 1 January 2013 – 31 December 2015		
Exercisable: 22 March 2016 – 21 March 2023	119,828	66,932
28 March 2014		
Performance period: 1 January 2014 – 31 December 2016		
Exercisable: 28 March 2017 – 27 March 2024	135,052	75,230
Awarded: 27 March 2015		
Performance period: 1 January 2015 – 31 December 2017		
Exercisable: 27 March 2018 – 26 March 2025	127,448 ³	69,641 ⁴
Award 28 March 2012: vested at 0.00% and lapsed on 30 March 2015	(124,688)	(70,137)
Balance 31 December 2015	382,328	211,803

Notes:

1. **LTIP interests:** (a) awards of shares made under the LTIP are for nil consideration; (b) the changes to the performance conditions for the LTIP awards made from 2014 onwards are described above; there have been no subsequent variations in the terms and conditions of the LTIP interests during 2015.
2. **Aggregate gains of LTIP shares exercised in the year:** no LTIP shares were exercised during the year following the lapse of the 2012 LTIP awards on 30 March 2015 when none of the performance conditions were met.
3. **Nicandro Durante – award of 127,448 shares on 27 March 2015:** (a) the basis of the award was 400% multiple of base salary; (b) the face value of the award was £4,619,990 calculated by reference to the closing mid-market price of the Company's ordinary shares of 3,625.0p, being an average over three dealing days preceding the date of grant of the award; and (c) the percentage of the award vesting at threshold performance is 20%.
4. **Ben Stevens – award of 69,641 shares on 27 March 2015:** (a) the basis of the award was 300% multiple of base salary; (b) the face value of the award was £2,524,486 calculated by reference to the closing mid-market price of the Company's ordinary shares of 3,625.0p, being an average over three dealing days preceding the date of grant of the award; and (c) the percentage of the award vesting at threshold performance is 20%.

Annual Report on Remuneration continued

Scheme interests – share options – audited

The scheme interests of the Executive Directors who served during the year ended 31 December 2015 in the shares of the Company under the Sharesave Scheme are as follows:

Sharesave options	Nicandro Durante	Ben Stevens
Balance 1 January 2015 comprising:	1,134	1,543
Grant: 25 November 2009 Grant price: 1,555.0p Exercisable: January 2015 – June 2015		1,000
Grant: 28 March 2012 Grant price: 2,536.0p Exercisable: May 2017 – October 2017	591	
Grant: 26 August 2014 Grant price: 2,787.0p Exercisable: October 2019 – March 2020	543	543
Grant: 25 November 2009 Exercised in full on 28 January 2015 Aggregate gain of £22,235 on a closing mid-market price of 3,778.5p; the shares were retained		(1,000)
Grant: 23 March 2015 Grant price: 3,026.0p Exercisable: May 2020 – October 2020		495
Balance 31 December 2015	1,134	1,038

Note:

1. **Sharesave:** (a) there were no variations in the terms and conditions of these interests in share options during the year; (b) the total aggregate gains on the exercise of share options was £22,235 (2014: £nil); (c) options granted under the Sharesave Scheme are exercisable in conjunction with a three-year or five-year savings contract up to a monthly limit of £500; (d) options are normally granted at a discount of 20% to the market price at the time of invitation, as permitted by the rules of the Sharesave Scheme (2009: 1,943.0p; 2012: 3,170.0p; 2014: 3,483.0p; and 2015: 3,782.0p).

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 2015
<ul style="list-style-type: none"> – by the issue of new shares; or – shares issued from treasury only up to a maximum of 10% of the Company's issued share capital in a rolling 10-year period; – within this 10% limit, the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans; and – the rules of the Company's Deferred Share Bonus Scheme (DSBS) do not allow for the satisfaction of awards by the issue of new shares. 	<ul style="list-style-type: none"> – 173,695 ordinary shares issued by the Company in relation to the Sharesave Scheme; – a total of 840,099 Sharesave Scheme options over ordinary shares in the Company were outstanding at 31 December 2015, representing 0.05% of the Company's issued share capital (excluding shares held in treasury) – options outstanding under the Sharesave Scheme are exercisable until end October 2020 at option prices ranging from 1,974.0p to 3,026.0p.

The British American Tobacco Group Employee Trust (BATGET)

BATGET		
Function	<ul style="list-style-type: none"> – used to satisfy the vesting and exercise of awards of ordinary shares under the DSBS and LTIP; and – a committee of senior management reporting to the Board's Share Schemes Committee monitors the number of shares held in BATGET to satisfy outstanding awards. 	
Funding	<ul style="list-style-type: none"> – funded by interest-free loan facilities from the Company totalling £1 billion; – this enables BATGET to facilitate the purchase of ordinary shares to satisfy the future vesting or exercise of options and awards; – loan to BATGET: £313 million at 31 December 2015 (2014: £272 million); – 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 awards, the Company will subsequently waive the loan provided over the life of the awards; and – if any options lapse, ordinary shares may be sold by BATGET to cover the loan repayment. 	
Shares held in BATGET		
	1 Jan 2015	31 Dec 2015
Number of ordinary shares	6,357,513	5,356,084
Market value of ordinary shares ²	£222.5m	£202.0m
% of issued share capital of Company	0.31	0.26
Dividends	<ul style="list-style-type: none"> – BATGET currently waives dividends on the ordinary shares held by it; – final dividend 2014: £6.1 million in May 2015; and – interim dividend 2015: £2.7 million in September 2015. 	
Voting rights	<ul style="list-style-type: none"> – the trustee does not exercise any voting rights while shares are held in BATGET; and – share scheme participants may exercise the voting rights attaching to those shares once the shares have been transferred out of BATGET. 	

Note:

1. Company share-based payment arrangements: details of the material equity share-based and cash-settled share-based arrangements are set out in note 27 on the accounts.
2. Closing mid-market price at 31 December 2015 was 3,771.0p (31 December 2014: 3,500.0p).

Other required disclosures

Payments to former Directors and payments for loss of office – audited

The Company did not make: (1) any payment of money or other assets to former Directors; or (2) any payments to Directors for loss of office during the year ended 31 December 2015.

Voting on the Remuneration Report at the 2015 AGM and engagement with shareholders

At the AGM on 29 April 2015, the shareholders considered and voted on the Directors' Remuneration Report as set out on the table below. No other resolutions in respect of Directors' remuneration and incentives were considered at the AGM.

	Approval of Directors' Remuneration Policy ¹		Approval of Directors' Remuneration Report ²	
	2015	2014	2015	2014
Percentage for	n/a	90.54	93.39	95.30
Votes for (including discretionary)	n/a	1,251,092,549	1,257,729,382	1,316,656,333
Percentage against	n/a	9.46	6.61	4.70
Votes against	n/a	130,764,082	89,047,657	64,934,172
Total votes cast excluding votes withheld	n/a	1,381,856,631	1,346,777,039	1,381,590,505
Votes withheld ³	n/a	4,014,169	35,469,417	4,280,179
Total votes cast including votes withheld	n/a	1,385,870,800	1,382,246,456	1,385,870,684

Notes:

1. **Directors' Remuneration Policy:** was approved by shareholders at the AGM on 30 April 2014 and is set out in full in the Annual Report 2013. There was no requirement for the Directors' Remuneration Policy to be put to the vote at the 2015 AGM.
2. **Directors' Remuneration Report:** does not include the part containing the Remuneration Policy (2014 AGM) or a summary of the key elements of that policy (2015 AGM).
3. **Votes withheld:** these are not included in the final proxy figures as they are not recognised as a vote in law.

Annual Report on Remuneration continued

During 2014, the Remuneration Committee identified a number of factors which prompted a new round of engagement with major shareholders on possible revisions to the Remuneration Policy. The impact of the relatively severe movements in sterling exchange rates was seen as de-linking long-term rewards for management from the underlying strong performance of the business and the impact of those exchange rate movements on actual LTIP outcomes highlighted the emergence of a gap between the Company and its relevant peers in the terms of the Chief Executive's earnings potential. The Company undertook a further short programme of engagement with over thirty of its largest shareholders in late 2014 and early 2015 in order to gauge their opinions on proposed revisions to the Policy. A diversity of views and feedback was received and in order to reflect the views of investors in the Remuneration Committee decisions, the Company decided not to propose any policy changes at that time other than the introduction of clawback provisions for both the IEIS and LTIP. It was with this background that the Committee noted the Company's AGM results of voting as part of its annual analysis of AGM remuneration voting outcomes and trends.

As described elsewhere in this report, the Company subsequently engaged with shareholders representing about 60% of our shares before putting forward the proposals to be considered for approval by shareholders at the 2016 AGM.

Directors' remuneration in the year ending 31 December 2016

Proposed implementation of Remuneration Policy in 2016

The proposed Remuneration Policy for the Executive Directors and the Non-Executive Directors is set out in full as the Policy Report – the Executive Directors principally in the Future Policy Table and the Chairman and the Non-Executive Directors in the Remuneration Table. This new Remuneration Policy, which is intended to replace the Policy approved by shareholders at the 2014 AGM, is subject to a binding vote by shareholders at the AGM on 27 April 2016 and, if approved, will come into effect from 28 April 2016. In accordance with the regulations, a Remuneration Policy will be put to shareholders again no later than the 2019 AGM.

A summary of the key changes from the current Remuneration Policy, together with the basic elements of the proposed Remuneration Policy from 2016, are set out in the 'At a glance' tables on pages 72 and 73 at the beginning of this Remuneration Report.

On behalf of the Board

Kieran Poynter

Chairman, Remuneration Committee

24 February 2016

Other corporate disclosures

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
Certain risk information about the use of financial instruments	Financial Review
An indication of likely future developments in the business of the Group	Delivering our strategy
An indication of the activities of the Group in the field of research and development	Delivering our strategy: Sustainability
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, share scheme participation and the achievement of a common awareness of the financial and economic factors affecting the performance of the Group	Delivering our strategy: Winning organisation
Disclosures concerning greenhouse gas emissions	Delivering our strategy: Sustainability

Listing Rules (LRs) disclosures

For the purpose of LR 9.8.4 R, the applicable information required to be disclosed in accordance with LR 9.8.4 R can be found in the sections set out below.

Applicable information required by LR 9.8.4 R	Section in this Annual Report
Section (12) – Shareholder waivers of dividends	Remuneration Report, page 111 and other corporate disclosures, page 114
Section (13) – Shareholder waivers of future dividends	Remuneration Report, page 111 and other corporate disclosures, page 114

Dividends

Final dividend – recommendation

The Board recommends to shareholders for approval at the Annual General Meeting on 27 April 2016, a final dividend of 104.6p per ordinary share of 25p for the year ended 31 December 2015.

Final dividend – key dates and South Africa branch register

In compliance with the requirements of the London Stock Exchange (LSE) and Strate, the electronic settlement and custody system used by the JSE Limited (JSE), the following are the salient dates for the payment of the final dividend:

Event	Date 2016
Last day to trade (LDT) cum-dividend (JSE)	11 March
Shares commence trading ex-dividend (JSE)	14 March
Shares commence trading ex-dividend (LSE)	17 March
Record date (JSE and LSE)	18 March
Payment date	5 May

As the Group reports in sterling, dividends are declared and payable in sterling except for shareholders on the branch register in South Africa whose dividends are payable in rand. A rate of exchange of £:R = 21.32780 as at 23 February 2016 (the closing rate for that date as quoted on Bloomberg), results in an equivalent final dividend of 2,230.88788 SA cents per ordinary share. From the commencement of trading on 25 February 2016 (the date of the preliminary announcement) until the close of business on 18 March 2016, no removal requests between the UK main register and the South Africa branch register (in either direction) are permitted. Further, from the close of business on 11 March 2016 until the close of business on 18 March 2016, no transfers between the UK main register and the South Africa branch register are permitted and no shares may be dematerialised or rematerialised between 14 March and 18 March 2016, both days inclusive.

South Africa branch register: Dividends Tax information

South Africa Dividends Tax of 334.63318 SA cents per ordinary share will be withheld from the gross final dividend paid to shareholders on the South Africa branch register at the rate of 15% unless a shareholder qualifies for an exemption. After Dividends Tax has been withheld, the net dividend will be 1,896.25470 SA cents per ordinary share. The final dividend is regarded as a 'foreign dividend' for the purposes of the South Africa Dividends Tax.

British American Tobacco p.l.c. is registered with the South African Revenue Service (SARS) with tax reference number 9378193172.

Dividends Tax and the information provided above is only of direct application to shareholders on the South Africa branch register. Shareholders on the South Africa branch register should refer to 'Shareholder and contact information' for the contact details of Computershare Investor Services Proprietary Limited, the Company's registrar for the branch register.

Dividend information

Further details of the total amounts of dividends paid in 2015 (with 2014 comparatives) are given in note 8 on the accounts.

Annual General Meeting (AGM)

The AGM will be held at Milton Court Concert Hall, Silk Street, London EC2Y 9BH at 11.30am on 27 April 2016. Details of the business to be proposed at the meeting are contained in the Notice of AGM, which is made available to all shareholders and published on www.bat.com.

The Company provides for the vote on each resolution to be by poll rather than by 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 are announced on the same day through the Regulatory News Service (RNS) and on www.bat.com.

Other corporate disclosures continued

Share capital

As at 31 December 2015, the Company had an allotted and fully paid share capital of 2,026,866,724 ordinary shares of 25p each with an aggregate nominal value of £506.7 million (including treasury shares and shares owned by the employee share trusts).

At the close of business on 23 February 2016 (the latest practicable date prior to the recommendation of the final dividend for the year ended 31 December 2015), the Company had a total of 1,864,228,895 ordinary shares in issue (excluding treasury shares). The Company held 162,645,590 ordinary shares in treasury giving a total issued share capital of 2,026,874,485 ordinary shares.

Significant shareholders

At 31 December 2015, 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 Rules and Transparency Rules. As at 24 February 2016, the Company had not received notification either of any change in the interests below or that any other person holds 3% or more of its ordinary shares.

Name	Number of ordinary shares	% of issued share capital
BlackRock, Inc.	132,891,526	7.13
Reinet Investments S.C.A.	76,518,264	4.10
The Capital Group Companies, Inc.	75,240,878	4.04

Note:

The percentage of issued share capital excludes treasury shares.

Stock market listings

Premium listing

The ordinary shares of the Company (as British American Tobacco p.l.c.) have been listed on the Official List and traded on the main market of the London Stock Exchange for listed securities since 8 September 1998 (Share Code: BATS and ISIN: GB0002875804). This is classified as a premium listing. The share registrar is Computershare Investor Services plc.

Secondary listing

The Company's ordinary shares have a secondary listing on the JSE Limited in South Africa (JSE), under the abbreviated name BATS and the trading code BTI. As at 31 December 2015, 290,914,691 ordinary shares of the Company (being 15.61% of the Company's issued ordinary share capital – excluding treasury shares) were on its South Africa branch register for which Computershare Investor Services Proprietary Limited are share registrars.

American Depositary Receipts

The Company's ordinary shares are also traded on NYSE MKT in the form of American Depositary Receipts (ADRs) under the symbol BTI with a CUSIP number 110448107. Each ADR represents two of the Company's ordinary shares and at 31 December 2015, 37,785,964 ADRs were outstanding, representing 75,571,928 ordinary shares. Citibank, N.A. continues to act as depositary for the ADR programme.

The Company has unlisted trading privileges for the ADR programme and none of its securities are listed on any United States securities exchange or registered pursuant to the securities laws of the United States. As a result, the Company is subject to neither the NYSE MKT listing standards nor the corporate governance rules under the Sarbanes-Oxley Act of 2002. Nevertheless, the Board has chosen, in the interests of good governance, to make a voluntary statement explaining the principal differences and common areas between the Company's corporate governance practices and those that would be required if the Company were subject to those rules. The statement is available at www.bat.com/governance.

Renewal of authority to purchase shares

The Company's share buy-back programme was suspended with effect from 30 July 2014 and the present authority for the Company to purchase its own shares (granted at the 2015 AGM) will expire at the 2016 AGM. The Directors are seeking a fresh authority for the Company to purchase its ordinary shares in order that the appropriate mechanisms are in place to enable the share buy-back programme to be reinstated at any time 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.

Under the proposed authority, the minimum price that may be paid for such shares is 25p and the maximum price is 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 London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased. In accordance with the Company's policy, any repurchased shares are expected to be held as treasury shares and as at 31 December 2015 the number of treasury shares was 162,645,590 (2014: 162,645,590). While treasury shares are held, no dividends are paid on them and they have no voting rights. Treasury shares may be resold at a later date.

Further details are contained in the Notice of Annual General Meeting which is made available to all shareholders and is also published on www.bat.com.

Significant agreements – change of control

The following significant agreement contains certain termination and other rights for our counterparties upon a change of control of the Company.

On 29 May 2014, the Company, B.A.T. International Finance p.l.c., British American Tobacco Holdings (The Netherlands) B.V. and B.A.T. Netherlands Finance B.V. (as borrowers and, in the case of the Company, as a borrower and guarantor) entered into a revolving credit facility agreement with HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers £3 billion for general corporate purposes (the 'Facility'). Pursuant to the Facility, 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. 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.

LTIP – change of control

The rules of the LTIP provide that 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. In addition, the LTIP allows (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.

The rules of the proposed LTIP 2016 contain equivalent provisions in respect of the vesting of awards and the exercise of options in the event of a change of control as a result of a corporate action.

Directors' interests and indemnities

Further details of Directors' contracts and letters of appointment, remuneration and emoluments, and their interests in the Company's shares (including share options and deferred shares) as at 31 December 2015 are given in the Remuneration Report. 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.

The Company has arranged appropriate insurance to provide cover in the event of legal action against its Directors and also provides indemnities to its Directors in accordance with the Company's Articles of Association and to the maximum extent permitted by law. 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.

Information and advice

The Board and its Committees receive papers for review in good time ahead of each meeting. The Company Secretary ensures good information flow within the Board and its Committees, and between the Non-Executive Directors and senior management. She also advises the Board on all governance matters.

All Directors have access to the advice and services of the Company Secretary, and a procedure is in place for them to take independent professional advice at the Company's expense if required. Each of the four 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.

Articles of Association

The following description summarises certain provisions of the Company's current Articles of Association (as adopted by special resolution at the AGM on 28 April 2010), applicable English law and the Companies Act 2006 (the 'Companies Act'). This summary is qualified in its entirety by reference to the Companies Act and the Company's Articles of Association, available on www.bat.com.

Share capital

All of the Company's ordinary shares are fully paid and, accordingly, no further contribution of capital may be required by the Company from the holders of such shares.

Objects and purposes

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, the Company's objects are unrestricted.

Directors: appointment and retirement

The Company's Articles of Association provide for a Board of Directors, consisting (unless otherwise determined by ordinary resolution of the shareholders) of not fewer than five Directors, and not subject to any maximum.

The Directors and the Company (by ordinary resolution) may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director. A Director appointed by the Directors shall retire at the next AGM and will put himself/herself forward to be reappointed by the shareholders. Such a Director shall not be taken into account in determining the number or identity of the Directors to retire by rotation at that next AGM.

At each AGM, all Directors shall retire from office by rotation who: (1) held office at the time of each of the two preceding AGMs and who did not retire at either of them; and (2) if the number of Directors retiring in (1) above is less than one-third of the Directors who are subject to retirement by rotation (or, if their number is not three or a multiple of three, is less than the number which is nearest to but does not exceed one-third of the Directors), such additional number of Directors as shall, together with the Directors retiring under (1) above, equal one-third of the Directors (or, if their number is not three or a multiple of three, the number which is nearest to but does not exceed one-third of the Directors).

Subject to the provisions of the Companies Act and the Articles of Association, the Directors to retire at an AGM under (2) above will be those who have been in office the longest since their appointment or last reappointment.

Notwithstanding these provisions contained in the Articles of Association, the Company is not restricted to the number of Directors who may retire and seek re-election each year. The Articles of Association merely set a minimum number of Directors who must be subject to retirement by rotation each year. As a result, since the introduction of the provision in the UK Corporate Governance Code in 2011 that all Directors of FTSE 350 companies should be subject to annual re-election by shareholders, all of the Directors of the Company will be subject to re-election at the forthcoming AGM to be held on 27 April 2016.

A Director who retires at an AGM and is not reappointed shall retain office until the meeting elects someone in his place or, if it does not do so, until the conclusion of the meeting. In addition to any power of removal under the Companies Act, the Company may, by special resolution, remove a Director before the expiration of his period of office and, subject to the Articles of Association, may by ordinary resolution, appoint another person who is willing to act as a Director, and is permitted by law to do so, to be a Director instead of him. A person so appointed shall be subject to retirement as if he had become a Director on the day on which the Director in whose place he is appointed was last appointed or reappointed a Director.

Fees for Non-Executive Directors and the Chairman shall be determined by the Directors but shall not 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.

Other corporate disclosures continued

Directors: meetings and voting

The quorum for meetings of Directors is two Directors. The Directors may delegate any of their powers that are conferred upon them under the Articles of Association to such person or committee as they consider appropriate.

The Articles of Association place a general prohibition on a Director voting at a meeting of the Directors on any resolution concerning a matter in which he has an interest other than by virtue of his interest in shares in the Company. However, in the absence of some other interest not indicated below, a Director is entitled to vote and to be counted in a quorum for the purpose of any vote relating to a resolution concerning the following matters:

1. the giving to him of a guarantee, security or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the Company or any of its subsidiaries;
2. the giving to a third party of a guarantee, security or indemnity in respect of an obligation of the Company or any of its subsidiaries for which the Director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
3. the giving to him of any other indemnity which is on substantially the same terms as indemnities given, or to be given, to all of the other Directors and/or to the funding by the Company of his expenditure on defending proceedings of the doing by the Company of anything to enable him to avoid incurring such expenditure where all other Directors have been given, or are to be given, substantially the same arrangements;
4. any proposal concerning the purchase of Directors' and officers' liability insurance;
5. any proposal concerning his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any such shares, debentures or other securities for subscription, purchase or exchange;
6. any arrangements which relate in any way to a retirement benefits scheme or any arrangement for the benefit of the employees of the Company or any of its subsidiaries including but without being limited to an employees' share scheme, which does not accord to any Director any privilege or advantage not generally accorded to the employees and/or former employees to whom the arrangement relates; and
7. any transaction or arrangement with any other company, being a company in which the Director is interested only as an officer, creditor or shareholder, provided that he is not the holder of or beneficially interested in 1% or more of the equity share capital of that company (or of any other company through which his interest is derived) and not entitled to exercise 1% or more of the voting rights available to members of the relevant company (disregarding, for the purposes of this proviso: (i) any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest; (ii) any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder; and (iii) any shares of that class held as treasury shares).

The Company may by ordinary resolution suspend or relax to any extent, either generally or in respect of any particular matter, any provision of the Articles prohibiting a Director from voting at a meeting of the Directors or of a committee of the Directors.

Directors: borrowing powers

Without prejudice to their general 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 or any part thereof, and (subject to the provisions of the Articles of Association) to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or a third party.

Directors: interests

Provided that the Director has disclosed to the other Directors the nature and extent of any material interest of his, a Director, notwithstanding his office:

1. may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested;
2. may be a Director or other officer of, or employed by or may be a party to, or otherwise interested in, any transaction or arrangement with anybody corporate promoted by the Company or in which the Company is otherwise interested;
3. shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate;
4. shall not infringe his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company as a result of any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate;
5. shall not be required to disclose to the Company, or use in performing his duties as a Director of the Company, any confidential information relating to such office or employment if to make such a disclosure or use would result in a breach of duty or obligation of confidence owed by him in relation to or in connection with that office or employment;
6. may absent himself from discussions and exclude himself from information, which will or may relate to that office, employment, transaction, arrangement or interest; and
7. no such transaction or arrangement will be liable to be avoided because of any such interest or benefit.

For the purposes of the Articles, a general notice given to the Directors that he is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person or class of persons is interested is deemed to be a disclosure that the Director has an interest in any such transaction of the nature and extent so specified.

An interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge is not treated as an interest; an interest which consists of a Director being a Director or other officer of, or employed by any subsidiary of the Company is not deemed to be a material interest; a Director need not disclose an interest if it cannot be reasonably regarded as likely to give rise to a conflict of interest; and a Director need not disclose an interest if, or to the extent that, the other Directors are already aware of it.

A Director will no longer be regarded as having an interest in a transaction by virtue of a person connected to the Director having a relevant interest. However, the Director and the Company must still take a view each time a matter is being considered as to whether the interests of the Director's connected persons mean that a Director should be treated as interested in a transaction.

The Directors may (subject to such terms and conditions, if any, as they may think fit to impose from time to time, and subject always to their right to vary or terminate such authorisation) authorise, to the fullest extent permitted by law:

1. any matter which would otherwise result in a Director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interest (including a conflict of interest and duty or conflict of duties); and
2. a Director to accept or continue in any office, employment or position in addition to his office as a Director of the Company and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises, provided that the authorisation is only effective if: (a) any requirement as to the quorum at the meeting at which the matter is considered is met without counting the Director in question or any other interested Director; and (b) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

If a matter, or office, employment or position, has been authorised by the Directors then (subject to such terms and conditions, if any, as the Directors think fit to impose, and subject to their right to vary or terminate such authorisation or the permissions set out below):

1. the Director shall not be required to disclose any confidential information relating to such matter, or such office, employment or position, to the Company if to make such a disclosure would result in a breach of a duty or obligation of confidence owed by him in relation to or in connection with that matter, or that office, employment or position;
2. the Director may absent himself from discussions, whether in meetings of the Directors or otherwise, and exclude himself from information which will or may relate to that matter, or that office, employment or position; and
3. a Director shall not, by reason of his office as a Director of the Company, be accountable to the Company for any benefit which he derives from such matter, office, employment or position.

Dividend rights

Holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the Directors. The Directors may also pay interim dividends if it appears that such dividends are justified by the profits available for distribution. No dividend shall be paid otherwise than out of profits available as specified under the provisions of the Companies Act.

The Directors may, with the sanction of an ordinary resolution of the shareholders, offer any holders of ordinary shares the right to elect to receive ordinary shares credited as fully paid instead of cash in respect of the whole or part of all such dividends as may be specified by the resolution. Any general meeting declaring a dividend may, upon the recommendation of the Directors, direct payment or satisfaction of such dividend to be wholly or partly by the distribution of specific assets. Where difficulty arises in regard to distribution, the Directors may ignore fractions or issue fractional certificates, fix the value for distribution of any assets and may determine that cash shall be paid to any shareholder in order to adjust the rights of such members.

Any dividend which has been unclaimed for 12 years from the date it became due for payment shall, if the Directors so resolve, be forfeited and cease to be owed by the Company. The Company can cease sending dividend warrants and cheques by post or otherwise if these have been returned undelivered to, or left uncashed by, the shareholder on at least two consecutive occasions, or, if following one such occasion, reasonable enquiries have failed to establish the member's new address. No dividend shall bear interest against the Company, unless provided by the rights attached to the share.

The Directors may elect to pay dividends to shareholders by bank or electronic transfer only. Amounts due to shareholders who provide no, or invalid, account details may be held in an account in the Company's name until such shareholders nominate a valid account. The Company shall not be a trustee of any such monies, shall be deemed to have discharged its payment obligations by paying the relevant monies into such account and interest will not accrue for shareholders on any such monies pending payment to such persons.

Voting rights

Voting at any general meeting of shareholders is by a show of hands unless a poll is demanded. 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

Other corporate disclosures continued

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 are transacted at general meetings of the Company by the proposing and passing of two kinds of resolutions:

1. ordinary resolutions, which 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; and
2. special resolutions, which can include resolutions amending the Company's Articles of Association and resolutions relating to certain matters concerning a winding-up of the Company.

An ordinary resolution requires the affirmative vote of a simple majority of the votes cast at a meeting at which there is a quorum in order to be passed. Special resolutions require the affirmative vote of not less than three-quarters of the votes cast at a meeting at which there is a quorum in order to be passed. The necessary 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.

When 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.

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, subject to the provisions of the Companies Act, divide among the shareholders the whole or any part of the assets of the Company, and may, for that purpose, value any assets and determine how the division is to take place as between the shareholders or different classes of shareholders. Alternatively, with the same sanction, the liquidator may vest the whole or any part of the assets in trustees upon trusts for the benefit of the shareholders, but no shareholder will be compelled to accept any asset upon which there is a liability.

Transfer of shares

Shares may be transferred by an instrument of transfer in any usual form or in any other form which the Directors may approve and shall be executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. The 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. No fees may be charged for registering a transfer.

Pre-emptive rights and new issues of shares

While holders of ordinary shares have no pre-emptive rights under the Articles of Association, 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.

Alteration of share capital

The Company may, from time to time, by ordinary resolution:

1. consolidate and divide all or any of its shares into shares of a larger amount than its existing shares;
2. sub-divide any of its shares into shares of smaller amount than its existing shares; and
3. 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.

Subject to the provisions of the Companies Act:

1. the Company may reduce its share capital, its capital redemption reserve and any share premium account in any way; and
2. the Company may purchase its own shares, including redeemable shares, and may hold such shares as treasury shares or cancel them.

Disclosure of interests in the Company's shares

There are no provisions in the Articles of Association whereby persons acquiring, holding or disposing of a certain percentage of the Company's shares are required to make disclosure of their ownership percentage, although there are such requirements under statute and regulation. The basic disclosure requirement under Part 6 of the Financial Services and Markets Act 2000 and Rule 5 of the Disclosure Rules and the Transparency Rules made by the Financial Conduct Authority imposes a statutory obligation on a person to notify the Company and the Financial Conduct Authority of the percentage of the voting rights in the Company he directly or indirectly holds or controls, or has rights over, through his direct or indirect holding of certain financial instruments, if the percentage of those voting rights:

1. reaches, exceeds or falls below 3% and/or any subsequent whole percentage figure as a result of an acquisition or disposal of shares or financial instruments; or
2. reaches, exceeds or falls below any such threshold as a result of any change in the number of voting rights attached to shares in the Company.

The Disclosure Rules and the Transparency Rules set out in detail the circumstances in which an obligation of disclosure will arise, as well as certain exemptions from those obligations for specified persons.

Under Section 793 of the Companies Act, the Company may, by notice in writing, require a person that the Company knows or has reasonable cause to believe is or was during the three years preceding the date of notice interested in the Company's shares, to indicate whether or not that is the case and, if that person does or did hold an interest in the Company's shares, to provide certain information as set out in that Act. The Disclosure Rules and the Transparency Rules further deal with the disclosure by persons of interests in shares or debentures of the companies of which they are Directors and certain associated companies.

The City Code on Takeovers and Mergers also imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also on their respective associates during the course of an offer period.

General meetings and notices

An AGM and all other general meetings of the Company must be called by at least 21 clear days' written notice. However, the Companies Act allows for this period of notice for meetings other than AGMs to be reduced to 14 clear days' notice provided that two conditions are met: (1) a company must allow shareholders to make proxy appointments via a website (such as that hosted by its share registrars); and (2) shareholders must pass a special resolution at the AGM every year approving that shortening of the notice period to 14 days. A special resolution enabling the Company to hold general meetings (other than AGMs) on 14 days' notice will be proposed at the AGM to be held on 27 April 2016.

Subject to the resolution being passed, the approval of the shortening of the notice period will be effective until the Company's next AGM, when it is intended that the approval be renewed. The shorter notice period would not be used as a matter of routine. Rather the Directors will consider on a case-by-case basis whether the use of the flexibility offered by the shorter notice period is merited, taking into account the circumstances, including whether the business of the meeting is time sensitive, and is thought to be to the advantage of shareholders as a whole. Further, the shorter notice period would not be used unless both of the conditions as stated above are met.

Variation of rights

If the capital of the Company is divided into different classes of shares, the rights attached to any class of shares may only be varied, either in such a manner as provided by those rights or in the absence of any provision, with the consent in writing of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of holders of such shares. At any separate meeting, the necessary quorum is two persons together holding or representing by proxy at least one-third in nominal amount of the issued shares of the class (but at an adjourned meeting shall be any one person holding shares of the class or his proxy). Unless otherwise expressly provided by the rights attached to any shares, those rights shall be deemed to be varied by the reduction of the capital paid up on those shares and by the creation or issue of further shares ranking in priority for payment of a dividend or in respect of capital or which confer on the holders voting rights more favourable than those conferred by the first-mentioned shares, but shall not otherwise be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them or subsequent to them.

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. There is no longer a requirement for public companies to have specific authorisations in their articles of association to undertake these actions.

The Strategic Report and the Directors' Report comprised in this Annual Report have been approved and are signed by order of the Board by:

Nicola Snook

Secretary

24 February 2016

Responsibility of Directors

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and both the Group and the 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 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.

Under company law the Directors must prepare financial statements that give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for the financial year. In preparing the Group and the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that their financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and in that context, having proper regard to the establishment of appropriate systems of internal control, 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 complies 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

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

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 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 was approved by the Board of Directors on 24 February 2016 and signed on its behalf by:

Richard Burrows
Chairman

Ben Stevens
Finance Director

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