Welcome to our Annual Report for 2014. Your Company continued to perform extremely well last year despite difficult conditions in many of its markets.

Reported adjusted diluted earnings were 208.1p per share, a decline of 3.9% on 2013 that was driven entirely by significant currency fluctuations which also impacted our other reported results.

On a constant currency basis, the Group delivered adjusted diluted earnings growth of 7.9% to 233.7p per share and grew overall market share, driven by an excellent performance by the Global Drive Brands.

The Group’s strong underlying growth is consistent with our performance in recent years and was achieved while we continued to invest in sustaining the future profitability of the business. In areas such as next-generation products, operational efficiencies, marketing support for our brands and in recruiting and developing high-quality managers.

So your Company continues to perform strongly and because we remain confident about our strategy and future performance – while recognising the uncertainty and transactional costs caused by currency movements – we are proposing a 3.3% increase in the final dividend to 100.6p per share. This takes the total dividend for 2014 to 148.1p, an increase of 4.0% on 2013.

If approved at our Annual General Meeting, the final dividend will be paid on 7 May 2015 to shareholders on the register on 20 March 2015.

Investing in Reynolds American

In July 2014, we announced an investment of US$4.7 billion in Reynolds American Inc. subject to the completion of its proposed acquisition of Lorillard. This will maintain our 42% equity position in a larger, more competitive Reynolds American. We also agreed, in principle, to extend our existing cooperation with Reynolds American to encompass collaboration on next-generation products.
To support this investment, the Group suspended its planned £1.5 billion share buy-back programme for 2014 on 30 July last year, by which point 23 million shares had been repurchased at a value of £795 million, excluding transaction costs.

**New Board members**

I am delighted to welcome three new Non-Executive Directors who joined our Board in February 2015.

Sue Farr has had a distinguished career in communications and marketing with organisations such as the BBC and Vauxhall Motors; Pedro Malan is a former Finance Minister of Brazil and an expert in macro-economic policy; and Dimitri Panayotopoulos brings considerable consumer sector experience from his successful career at Procter & Gamble.

They will further strengthen the Board and our Group with their extensive marketing, business and geopolitical skills, while also enhancing the diversity of the people and experience on our Board.

My thanks are due to everyone at British American Tobacco, especially my Board colleagues, our Chief Executive and all the members of his management team, for their dedication and efforts to deliver these excellent results in a testing and difficult year.

**Confidence in the future**

Sustainability is one of the key pillars of our strategy. Our commitment to delivering long-term value to our shareholders and ensuring a sustainable future for the Group underpins many of our business activities. These include developing less risky tobacco and nicotine products like e-cigarettes and tobacco heating products, supporting farmers’ livelihoods and tackling illicit trade.

My confidence in the future of this Company is strong. We are investing significant sums to secure the long-term future of the business while continuing to deliver good results today.

**Richard Burrows**

Chairman
**OVERVIEW**

We are a global business with a proud history

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**Our heritage**

Founded in 1902, the Group was first listed in 1912 and today we are one of the top 10 companies on the London Stock Exchange. We also have a secondary listing on the Johannesburg Stock Exchange. We are a global company with more than 200 brands sold in over 200 markets. We make the cigarettes chosen by around one in eight of the world’s one billion adult smokers and we are market leaders in more than 60 countries.

Few companies with our long history are still going from strength to strength. We continue to deliver value to shareholders today while investing in our markets, our brands, our new product categories and our people to ensure a sustainable future for our business.

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**Our products**

**Traditional tobacco range**

We continue to deliver good growth across our core tobacco product range. This includes cigarettes, Fine Cut (roll-your-own and make-your-own tobacco) and cigars. Using our understanding of consumers, we develop high-quality products and market-leading innovations to differentiate our brands.

**Next-generation products**

We are investing in building a portfolio of innovative new tobacco and nicotine-based products alongside our traditional tobacco business. These next-generation products include e-cigarettes, medicinal nicotine products and tobacco heating products. We aim to provide adult consumers with a choice of less risky alternatives to regular cigarettes as part of our commitment to tobacco harm reduction.

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<table>
<thead>
<tr>
<th>Brand</th>
<th>Number of markets where it is sold</th>
</tr>
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<tbody>
<tr>
<td>Dunhill</td>
<td>110+</td>
</tr>
<tr>
<td>Kent</td>
<td>80+</td>
</tr>
<tr>
<td>Lucky Strike</td>
<td>70+</td>
</tr>
<tr>
<td>Pall Mall</td>
<td>100+</td>
</tr>
<tr>
<td>Rothmans</td>
<td>60+</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Brand</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Dunhill</td>
<td>Dunhill’s roots date back to 1907 when Dunhill Tobacco of London Limited was established on Gentlemen’s Row. More than a century later, Dunhill is our premium international brand, embodying perfect taste, always.</td>
</tr>
<tr>
<td>Kent</td>
<td>Kent symbolises progress through technology in the cigarette category and stands out as the most innovative and forward-looking brand in the industry. It’s a pioneering brand, which has led the way since 1952.</td>
</tr>
<tr>
<td>Lucky Strike</td>
<td>Based on its rich legacy dating back to 1871 when the brand was created by its founder RA Patterson, Lucky Strike stands for the true and original American cigarette.</td>
</tr>
<tr>
<td>Pall Mall</td>
<td>Pall Mall is the third biggest cigarette brand in the world. For more than 115 years its core proposition has been centred on offering adult smokers around the world a combination of value and high quality.</td>
</tr>
<tr>
<td>Rothmans</td>
<td>Rothmans is an iconic brand established in London in 1890. A timeless classic with high-quality standards, Rothmans is finding increasing appeal among adult smokers worldwide thanks to a contemporary proposition.</td>
</tr>
</tbody>
</table>
Our people
We employ more than 57,000 people worldwide. They work in a huge range of environments, from city offices to factories, from remote farms to research laboratories.

We have more than 20,000 people in our trade marketing and distribution teams who work with retailers to help them sell our products profitably and responsibly.

Our products are made all over the world and in 2014 we employed more than 17,000 people in our manufacturing operations.

The international nature of our business is reflected in the diverse range of nationalities of our people – in 2014, for example, 71 nationalities were represented at our London head office.

Although we don’t employ them directly, we also work closely with over 100,000 independent tobacco farmers worldwide.

Our geographic diversity
We have strong market positions in each of our four regions. Our key markets, shown here, account for around 80% of both our total volume and Group profit.

We also have two principal associate companies – Reynolds American Inc. in the US and ITC Ltd in India – and we have a joint operation, CTBAT, with subsidiaries of China National Tobacco Corporation.

60+ countries where we are market leader

44 factories in 41 countries producing cigarettes and Other Tobacco Products

Our sustainable approach
Sustainability is a key pillar of our strategy. It is about creating shared value for both our shareholders and our stakeholders in wider society.

We work with farmers and suppliers to manage our supply chain and the environment responsibly. Our companies adhere to the high standards of our voluntary marketing principles. As part of our commitment to harm reduction, we are developing a range of innovative tobacco and nicotine products with the aim of offering adult consumers a choice of less risky alternatives to regular cigarettes.

We play a significant role in countries around the world.

In many countries we are a top employer and a company of choice for retailers, suppliers, farmers, distributors and other partners.

In 2014, our subsidiaries enabled governments worldwide to collect approximately £30 billion in duty, excise and other taxes on our products, which is eight times the Group’s profit after tax.
I am delighted with the excellent progress we have made in the four years since I became Chief Executive, during which we have enhanced our strategy with a sharpened focus on the consumer.

We have increased our share of the global cigarette market in this period by 70 basis points and grown our Global Drive Brands (GDBs) and share of key segments at an even faster rate, improving the underlying quality of our portfolio.

We are meeting consumer needs with differentiated products, including innovations which now make up nearly 50% of GDB volume.

Our focus on resource allocation is driving major investments in high-growth markets, particularly in EEMEA and Asia-Pacific regions, resulting in share growth in these markets.

By supporting pricing with strong brands and innovations, substantially reducing costs and improving productivity, we have increased our operating margin by more than 520 basis points over four years.

We are also making excellent progress towards our goal to lead across the various next-generation product categories.

This performance shows that we have the right strategy for our business – it has served us well in a changing and challenging market environment and it continued to deliver for our shareholders in 2014.

We delivered another strong performance in 2014

Although currency movements significantly impacted our reported results for last year, at constant rates we continued to grow revenue (+2.8%), adjusted profit from operations (+4.4%) and adjusted diluted earnings per share (+7.9%). Excluding the transactional effect of foreign exchange, adjusted profit from operations would have increased by an estimated further £90 million or 1.5%.

Exchange rates continue to be volatile and in the current year, if rates were to stay where they are today, we would face a substantially larger transactional exchange headwind. This would impact our constant currency performance and would be in addition to any translational impact on reported numbers.

In 2014 we again increased our market share in our key markets driven by our GDBs’ excellent performance. As a result, our cigarette volume decline of 1.4% was less than the overall industry decline, estimated at 2.5%.

These results were achieved despite a challenging external environment, with continued pressure on consumers’ disposable income, fragile economic conditions in Europe and adverse exchange rates.

We maintained good pricing, despite an increase in competitive pricing activity in some key markets. We also achieved another good improvement in operating margin (over 50 basis points) – an excellent result given that we absorbed significant transactional costs caused by currency movements.
This also demonstrates that we are becoming a more efficient and effective business as we address our cost base and drive productivity savings.

We are investing in a sustainable future

We delivered value for our shareholders and our other stakeholders in 2014 while continuing to invest significantly in the future of our business.

The Group invested in growth opportunities in key markets and in building a pipeline of next-generation products. We developed our e-cigarette brand, Vype, in the UK with new product launches. We also made significant progress towards launching Voke, a nicotine inhalation product licensed as a medicine in the UK.

We plan to begin consumer trials of a tobacco heating product by the end of 2015 and have our first product in a test market in 2016.

As well as representing new commercial opportunities for the Group, these developments demonstrate our long-standing commitment to tobacco harm reduction by offering consumers a choice of high-quality, less risky products.

Within our business, we are making good progress in implementing standardised global systems. These will support consistent ways of operating that will make us a more efficient, effective and agile business.

We also continue to invest in attracting, retaining and developing people who will lead the successful delivery of our strategy today and in the future.

We support balanced, evidence-based regulation

Tobacco regulation remains an ongoing challenge for our industry. We support effective, evidence-based regulation that meets public health objectives, does not impede our ability to compete and respects our legal rights.

That is why we oppose plain packaging. We believe the UK Government’s decision to introduce this policy is a serious error of judgement due to the legal implications and given the evidence from Australia that plain packaging does not appear to be achieving its public health objectives.

Plain packaging and other measures such as excessive excise increases can create ideal conditions for illicit trade. In Australia, for example, the black market in tobacco products has increased since plain packaging was introduced.

We will continue to lead the industry in proactively and openly engaging with regulators and wider society on regulatory issues and seek to collaborate with governments and other organisations to combat illicit trade.

We continue to deliver value to shareholders

Despite tough market conditions, the strengths of our business and our people ensured we achieved another competitive set of results and again delivered high single-figure earnings growth at constant exchange rates.

The Group recently announced that it is evaluating a possible public tender offer to acquire the remaining 24.7% of Souza Cruz shares that it does not currently own. This investment would further strengthen our presence in Brazil, a key strategic market where we are already market leader. It would also provide opportunities to leverage Souza Cruz’s capabilities in areas such as leaf and for closer cooperation in research and development, while further integrating the business into our Americas region.

We expect the trading environment to remain difficult in 2015 and that foreign exchange headwinds will continue to have a significant impact on both a transactional and translational level.

However, I am confident that with our proven strategy, strong global presence, powerful brands, talented people and continued focus on efficiency we will deliver value to our shareholders in the short and long term.

Nicandro Durante
Chief Executive

We delivered value for our shareholders and our other stakeholders in 2014 while continuing to invest significantly in the future of our business.