GOVERNANCE

Directors' Report

Chairman's introduction

Dear Shareholder

In 2014, the Group continued to perform well and to follow the strategy set out in the previous year. Reported results bear the effects of currency values changing as the pound sterling strengthened substantially against the currencies of many of our important markets.

This movement in currency values was the reason we decided to review our long-term remuneration policy, a task the Remuneration Committee undertook in the autumn. Details of this and our discussions with shareholders are set out fully in the Remuneration Report.

Following on from our Board effectiveness reviews, and the identification of ways of strengthening our Board, the Nominations Committee engaged in the identification and recruitment of three new Non-Executive Directors who joined the Board on 2 February 2015. These three newcomers, Sue Farr, Pedro Malan and Dimitri Panayotopoulos, add significant consumer goods marketing experience, and business and geopolitical skills to our Board, as well as strengthening the Board's diverse composition.

An important function of the Board is to approve major policy. This year we approved changes to our Standards of Business Conduct Policy by introducing new provisions in relation to human rights and mutual respect in the workplace. Our Group Employment Principles already contained these provisions but they are now given greater weight by being included in our global policy. They underline the principles of workplace human rights which are equality, diversity and mutual respect, and supply chain human rights, particularly with regard to the elimination of child labour.

Risk management forms an important part of the Board agenda as well as the agendas for our Audit Committee and CSR Committee. Your Board has confidence that the Group's processes strike a good balance between encouraging entrepreneurship in management and safeguarding the Company's assets and its shareholders' investment. Risk appetite for the Group will continue to be addressed by the Audit Committee and the Board and our required 'viability statement' will also be formally addressed by them in the year ahead.

As usual, the key Group risk factors are reported upon in detail in our Strategic Report on pages 30–36, and the Audit Committee reports in this Governance section, on page 59, on the significant issues it considered in relation to the Annual Report.

We carried out our Board effectiveness review as an internal exercise this year. This self-assessment found that the Board is continuing to function well and that its members, individually and collectively, are effective in discharging their duties and responsibilities. Detailed comments on this review are set out in this section of the Annual Report, on pages 56 and 57, with comment on further action points.

Board policy is to reflect the diversity of the geographic and consumer profile of our business at the Board. Full details of this are also set out in this section on page 54.

I have had useful engagement with shareholders over the course of the year. Meetings with shareholders took place in the period before our last AGM and also more recently when I accompanied the Chairman of the Remuneration Committee on his consultation with shareholders in connection with the remuneration policy.

I value these meetings which are, of course, only a small part of our annual investor relations programme. It is important to us as a Board that we are fully aware of the views of our shareholders on the business and on governance issues and can reflect these in our decision making. As reported in the Remuneration Report, such feedback from investors in relation to our remuneration proposals has now resulted in these being withdrawn.

Finally, at the end of this section, your Directors state their belief that this Annual Report presents a fair, balanced and understandable assessment of the Company and its prospects. In making this statement we reconsidered and confirmed our confidence in the long-established processes that underpin its production. The Audit Committee also fulfils a role in considering its accuracy, key messages and tone.

Richard Burrows
Chairman

Compliance statement

Throughout the year ended 31 December 2014 and to the date of this document, we applied the Main Principles of the UK Corporate Governance Code adopted in June 2012 (the Code). The Company was compliant with all provisions except C.3.7, as the Group had not, during 2014, submitted its audit to a tender process within the last 10 years. See page 60.

An updated version of the Code was issued in September 2014, which will apply to accounting periods beginning on or after 1 October 2014. With regard to the changes relevant to risk management and internal control, the Audit Committee's workplan for 2015 will include reviewing its objectives against the revised Code. The Remuneration Committee will also focus on its future obligations under the revised Code during 2015.

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 for the Group's vision and strategic direction, its values and its governance. The Board is accountable to shareholders for the performance of the business and the Group's long-term success. It provides the leadership necessary for the Group to meet its performance objectives within a framework of internal controls.

Board responsibilities:

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

Board Committees

The Board has established four principal Board Committees listed below, to which it has delegated certain responsibilities. The roles, membership and activities of these Committees are described in detail in their individual reports in this section. Each Committee has its own terms of reference, available at www.bat.com/governance, which are updated regularly, most recently in December 2013.

Audit Committee – page 58
CSR Committee – page 64
Nominations Committee – page 66
Remuneration Committee – page 67

Board programme

Our annual Board programme is designed to enable the Board to monitor and review the delivery of strategy across all the elements of the Group's business model, which is set out in our Strategic Report on pages 14 and 15. The key activities of the Board in 2014, grouped under the Group's four strategy pillars: Growth, Productivity, Sustainability and Winning Organisation, are set out in the accompanying table on pages 52 and 53. The Board's strategic priorities for 2015 are identified within the key performance indicators set out in our Strategic Report on page 18.

The Board devotes considerable attention to corporate governance matters relating to the Group's internal controls and compliance activities. It receives verbal updates from the chairmen of the Audit, Remuneration and CSR Committees following each Committee meeting. Copies of the minutes of the Audit and CSR Committees are circulated to all members of the Board.

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 successful day-to-day operation of the Group's operating subsidiaries. Alongside the Finance Director, its other members, at the date of this Report, comprise 12 senior Group executives whose biographies appear on pages 50 and 51.

Principal Management Board role:

- Developing Group strategy for approval by the Board.
- Monitoring Group operating performance.
- Developing guidelines for the Group's regions and functions.
- Ensuring regional and functional strategies are effective and aligned and managing the central functions.
- Reviewing regional and functional budgets.
- Overseeing the management and development of talent.

Next-Generation Products (NGP) Board

The NGP Board, chaired by the Chief Executive, focuses exclusively on the Group's non-combustible tobacco and nicotine-based businesses. Its other members are the Finance Director and Managing Director, NGP. It also included Des Naughton, previously Managing Director of Nicoventures, who was a member of the Management Board until his departure from the Group on 28 February 2015.

Principal NGP Board role:

- Developing strategy on non-combustible tobacco and nicotine-based products for approval by the Board.
- Monitoring the overall performance of the NGP businesses.
- Making recommendations to the Board on NGP matters.
- Overseeing the NGP businesses' portfolio of programmes and projects.
- Overseeing the management and development of talent within the NGP businesses.

Leadership roles and responsibilities

Leadership

Chairman

- Leadership of the Board.
- Ensure Board effectiveness.
- Facilitate contribution of Directors.
- Set Board agenda.
- Interface with shareholders.
- Ensure effective shareholder engagement.

Chief Executive

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

Oversight

Non-Executive Directors (NEDs)

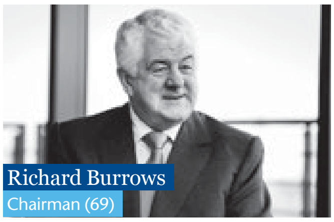
- Help develop strategy.
- Review management proposals.
- Scrutinise performance of management.
- Bring an external perspective to the Board.
- Monitor performance.

Senior Independent Director (SID)

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

GOVERNANCE

Board of Directors



Richard Burrows
Chairman (69)

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; a Supervisory Board member, member of the Audit Committee and Chairman of the Remuneration Committee at Carlsberg A/S.

Skills and experience: Chief Executive of Irish Distillers; Co-Chief Executive of Pernod Ricard; Governor of the Bank of Ireland; Fellow of the Institute of Chartered Accountants of Ireland.

Christine Morin-Postel
Senior Independent Director (68)

Nationality: French

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

Key appointments: NED and member of the Nominations and Remuneration Committee of Groupe Bruxelles Lambert S.A.

Skills and experience: 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.; studied political sciences and graduated from the Institut de Contrôle Gestion.

Nicandro Durante
Chief Executive (58)

Nationality: Brazilian/Italian

Position: Chief Executive since 2011.

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

Skills and experience: COO from 2008; Regional Director for Africa and Middle East and member of the Management Board from 2006; senior general management roles in Brazil (including President of Souza Cruz) and in the UK and Hong Kong; has wide experience in senior international finance and management roles within the Group. Holds a degree in finance, economics and business administration.

Ben Stevens
Finance Director (55)

Nationality: British

Position: Finance Director since 2008.

Key appointments: No external appointments.

Skills and experience: Senior Group finance and general management roles; Head of Merger Integration following the merger with Rothmans; Chairman and Managing Director of the Pakistan Tobacco Company and British American Tobacco Russia; appointed to the Management Board in 2001 as Development Director becoming Director, Europe in 2004. Holds a BA (Hons) in Economics from Manchester University and an MBA from Manchester Business School.

Sue Farr
Non-Executive Director (58)

Nationality: British

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

Key appointments: Director, Strategic and Business Development, Chime plc since 2003; NED of Dairy Crest Group, member of the Remuneration and Corporate Social Responsibility Committees; NED of Millennium & Copthorne Hotels, member of the Remuneration and Nominations Committees; NED of Accsys Technologies and member of the Nominations, Remuneration and Audit Committees.

Skills and experience: Former Chairwoman of both the Marketing Society and the Marketing Group of Great Britain; considerable expertise in marketing, branding and consumer issues developed during her career including roles with the BBC and Vauxhall Motors.

Ann Godbehere
Non-Executive Director (59)

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 HR and Compensation Committee of UBS Group AG and UBS AG; NED, member of the Nominations and Risk Committees and Chair of the Audit Committee of Prudential plc.

Skills and experience: Chief Financial Officer of Swiss Re Group; Chief Financial Officer of Northern Rock during the initial phase of its public ownership; Fellow of the Certified General Accountants of Canada and Fellow of the Chartered Professional Accountants.

Savio Kwan
Non-Executive Director (66)

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.

Skills and experience: Extensive business leadership experience in Greater China and Asia, gained at 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. Holds an MSc from Loughborough University and an MBA from London Business School.

Dr Pedro Malan
Non-Executive Director (72)

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 Servicos de Engenharia SA; Trustee of the Thomson Reuters Principles and member, Temasek International Panel.

Skills and experience: Former Chairman of Unibanco bank. Previously NED, Companhia Souza Cruz SA (2010-2015) and Minister of Finance for Brazil (from 1995 to 2002), President of the Central Bank of Brazil from 1993 to 1994, Chief External Debt Negotiator for Brazil from mid-1991 to 1993.

Dr Gerard Murphy
Non-Executive Director (59)

Nationality: Irish

Position: Non-Executive Director since 2009; Chairman of the Remuneration Committee; member of the Nominations Committee.

Key appointments: Member and Chairman of the Executive Committee of The Blackstone Group International Partners LLP; NED of Merlin Entertainments plc; Board member of Jack Wolfskin and Intertrust Group.

Skills and experience: Chief Executive Officer of Kingfisher plc, Carlton Communications plc, Exel plc, Greencore Group plc; senior operating roles at Grand Metropolitan plc (now Diageo plc). Holds a BSc and PhD in food technology from University College Cork and a MBS in Marketing from University College Dublin.

Dimitri Panayotopoulos
Non-Executive Director (63)

Nationality: Greek/Tanzanian

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

Key appointments: Senior Advisor, Boston Consulting Group since April 2014; Board member, Logitech.

Skills and experience: Former Vice Chairman and Advisor to the Chairman and CEO of Procter & Gamble. Significant international sales and brand building expertise in Switzerland, Germany, Egypt and China. Led on significant breakthrough innovations and continued to focus on this, speed to market and scale across all of Procter & Gamble's businesses while Vice Chairman of all the Global Business Units. Retired from Procter & Gamble in January 2014.

Attendance at Board meetings in 2014

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[1]	2015	N/A
Ann Godbehere	2011	9/9
Savio Kwan[2]	2014	8/9
Dr Pedro Malan[1]	2015	N/A
Dr Gerry Murphy	2009	9/9
Dimitri Panayotopoulos[1]	2015	N/A
Kieran Poynter[3]	2010	8/9
Karen de Segundo	2007	9/9
Dr Richard Tubb	2013	9/9
John Daly[4]	2010–2014	1/1
Anthony Ruys[5]	2006–2014	2/3

Notes:

1. Sue Farr, Pedro Malan and Dimitri Panayotopoulos were appointed to the Board on 2 February 2015 so did not attend any meetings during 2014.
2. Savio Kwan missed one ad hoc Board meeting, arranged at short notice, due to a prior engagement.
3. Kieran Poynter missed one ad hoc Board meeting, arranged at short notice, due to a prior engagement.
4. John Daly retired as an Executive Director on 6 April 2014.
5. Anthony Ruys missed one Board meeting as it coincided with a previously arranged Board meeting of the Supervisory Board of NV Luchthaven Schiphol, of which he was Chairman at the time. Anthony retired as a Non-Executive Director at the conclusion of the AGM on 30 April 2014.
6. The Board held nine meetings in 2014. Six of these were scheduled. Two meetings were held off-site, one over two days and devoted to strategy and the second was held in Hong Kong to review the Group's Asia-Pacific regional businesses. Six Board meetings are scheduled for 2015.
7. The Board of Directors is shown as at the date of this Annual Report.

Kieran Poynter
Non-Executive Director (64)

Nationality: British

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

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

Skills and experience: Chartered Accountant; Chairman and Senior Partner of PricewaterhouseCoopers until 2008; 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.

Karen de Segundo
Non-Executive Director (68)

Nationality: Dutch

Position: Non-Executive Director since 2007; Chair of the Corporate Social Responsibility Committee; member of the Nominations Committee.

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

Skills and experience: Former NED of Lonmin Plc until 29 January 2015. Senior executive roles before retiring as CEO Shell International Renewables and President Shell Hydrogen in 2005. Holds a Masters degree in Law from Leiden University, an MBA from Michigan State University and is a Council Member of the Anglo Netherlands Society.

Dr Richard Tubb
Non-Executive Director (55)

Nationality: US

Position: Non-Executive Director since January 2013; member of the Corporate Social Responsibility and Nominations Committees.

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

Skills and experience: White House Physician from 1995 to 2009, including Physician to the President of the United States from 2002 until retirement in 2009; Clinical Assistant Professor at the Uniformed Services University (retired); Brigadier General (retired), US Air Force and various medical positions in the US Air Force. Awarded his Doctor of Medicine in 1985; Specialty Certification 1988.

GOVERNANCE

Management Board

Jerome Abelman
Group Corporate and Regulatory Affairs Director (51)

Nationality: US

Jerry joined the Management Board as Group Corporate & Regulatory Affairs Director in January 2015. He has been with the British American Tobacco Group for 12 years and has held a number of roles in the Legal function. Jerry was most recently Regional General Counsel, Asia-Pacific from 2010 to 2014, before becoming Assistant General Counsel – Corporate & Commercial. With effect from 1 May 2015, Jerry will replace Neil Withington and will be appointed to the combined role of Group General Counsel and Legal and Corporate Affairs Director.

Jack Bowles
Regional Director, Asia-Pacific (51)

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 (51)

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 (49)

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 (50)

Nationality: Brazilian/British

Andrew was appointed Marketing Director in September 2014. 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. 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.

Tadeu Marroco
Director, Business Development (48)

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 new operating model and global IT solution. Tadeu joined British American Tobacco in Brazil 22 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 (48)

Nationality: British

David was appointed Group Scientific Director in January 2012. He is currently Head of Group Research & Development (GR&D), has been with British American Tobacco for over 20 years and has held various positions in GR&D. 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 (51)

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.

Naresh Sethi
Regional Director, Western Europe (48)

Nationality: Australian/Indian

Naresh was appointed Regional Director for Western Europe in January 2013. He has over two decades 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 (47)

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 Global Brand Director for Kent.

Kingsley Wheaton
Managing Director, Next-Generation Products (42)

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 Kent and Vogue 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. Kingsley is also a member of the Next-Generation Products Board.

Neil Withington
Director, Legal and General Counsel (58)

Nationality: British

Neil was appointed to the Management Board as Legal Director and General Counsel of British American Tobacco in 2000, having previously been the Group's Deputy General Counsel. He joined the Group in 1993 after a career at the Bar and in the chemical and pharmaceutical industries with ICI. He was a Director of Reynolds American Inc. from July 2004 to December 2014. Neil will retire from the Management Board and leave the Group on 30 April 2015.

GOVERNANCE

Board activities in 2014

Growth

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

Activities in 2014

Consideration of industry trends, competitor environment, the outlook for tobacco products and next-generation products (NGPs) and the innovation pipeline for combustible products;

Reviewing the implementation of the Group strategy and satisfying itself that its delivery was being accelerated given the current regulatory environment and industry trends;

Receiving updates on the strategic and tactical opportunities for inorganic growth and the M&A strategy objectives;

Receiving updates on the Group's NGP business, the strategy for tobacco heating products and the innovation pipeline in this area. Discussing challenges faced in the development of nicotine delivery solutions and reaffirming the objective to develop products that satisfy the consumer in performance and taste;

Reviewing the impact of foreign exchange rates on the Group's financial performance;

Considering the trade marketing and distribution strategy and how this will contribute to growth;

Receiving updates on the Group's joint venture with the China National Tobacco Corporation (China Tobacco), which began operations in 2013, and market initiatives in Myanmar, the Philippines, Morocco and Bangladesh;

Discussing the Group's Risk Register, improving the Board's understanding of Group-wide and regional risks, and determining the Group's risk appetite in the context of specific growth opportunities; and

Reviewing the quarterly financial performance of the Group's associate companies, Reynolds American Inc. and ITC Ltd.

Productivity

The Board pays close attention to the Group's operational efficiency and our programmes aimed at delivering a globally integrated enterprise with cost and capital effectiveness, including access to financial markets.

Activities in 2014

Consideration of a review of the Group's centre and regional organisational structures, which identified opportunities for standardisation of processes, elimination of duplication and simplification of structures;

Closely monitoring the continued roll-out of the Group's new Operating Model and Global IT solution, which will contribute to the growth and productivity agendas;

Receiving reports on the significant improvements that have been made in delivering speed and scale of product distribution, reducing out of stocks and ensuring better product quality at the point of sale;

Benchmarking the Group's trade marketing and distribution resources against best practice to identify cost savings and to ensure that the Group achieves a good return on its investments with retailers as well as in relation to its distribution infrastructures;

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; and

Continually keeping the Group's annual share buy-back under review and then suspending it upon the announcement of the Reynolds American deal.

Board strategy days

Delivering growth

In September 2014, the Board held a two-day off-site meeting in the UK to discuss Group strategy.

It addressed the need to accelerate delivery across our strategic pillars given the current industry and regulation trends.

The Director, Marketing presented significant consumer trends, new tools and methodologies to gain consumer insights and opportunities for future growth.

The Board considered the related benefits and likely timeframe with regard to the acquisition of Lorillard by the Group's associate company, Reynolds American Inc.

The Board also received updates on how nicotine-based products are being further developed for commercialisation, after the launch of the Group's Vype product.

Board meeting in Hong Kong

This meeting, held in October, gave the Board the opportunity to review the businesses in the Asia-Pacific Region. The Board received presentations from each of the Region's key markets and had the opportunity to visit a number of outlets in central Hong Kong where the Group's brands are sold.

For more information on our Group Strategy
see pages 14 and 15 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 2014

Approving changes to our Standards of Business Conduct Policy to introduce provisions in relation to human rights and respect in the workplace, including diversity, giving our existing commitments in these areas the status of a global policy. Our code of conduct now underlines that workplace human rights (equality, diversity and mutual respect) and supply chain human rights (particularly child labour) are part of our internal risk and compliance frameworks;

Approving a revised Sustainability Agenda with a focus on: harm reduction; sustainable agriculture and farmer livelihoods; and corporate behaviour;

Reviewing progress on the Group's activities to improve its relationships with its contracted farmers in key markets;

Reviewing the progress made by the Group in securing regulatory approvals for its pipeline of nicotine products;

Reviewing planned investor relations activities for the year ahead, including initiatives to improve engagement with the Group's principal shareholders;

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; and

Receiving updates on complex legacy litigation in relation to pollution in the US and a case involving asbestos claims.

Winning organisation

Setting the 'tone from the top' is an important part of the Board's role, helping to foster a culture centred around our Guiding Principles and which harnesses diversity.

Activities in 2014

Receiving updates on the progress being made in developing leaders in the Group, in particular the drive for a high performance culture and progress being made with the Executive Development Programme;

Receiving updates on the successful building of the Group's talent brand, particularly on social media sites;

Reviewing the application of the Group's Remuneration Policy during 2014;

Reviewing the progress being made on meeting the Group's diversity ambitions through the specific action plans and enablers put in place to promote diversity within the Group both in relation to women and focus nationalities. Diversity has now been built into all leadership and development programmes and unconscious bias training has been developed and rolled out across the Group;

Reviewing the talent pipeline to the Management Board and confirming proposed appointments, in consultation with the Nominations Committee;

Discussing the role of international assignments in career development plans for senior management; and

Reviewing detailed succession planning at Board level and the need for additional skills and experiences in the next round of Board refreshment, resulting in the appointments of Sue Farr, Pedro Malan and Dimitri Panayotopoulos.

Sustainability

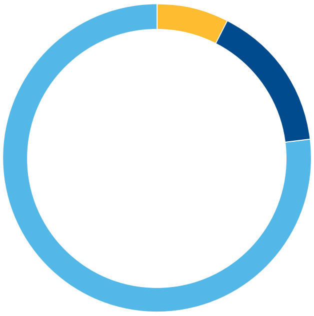
During the strategy meeting in September, the Board reviewed the emerging regulations for the e-cigarette category around the world. An external speaker, an expert in the world of harm reduction, presented his views to the Board and highlighted the strategic opportunities for the Group to help shape the future regulatory environment in this area.

The Board re-emphasised its focus areas, centring around our efforts to deliver safer products, improve consumer information, support evidence-based regulation, maintain transparent business practices and build stakeholder relationships.

GOVERNANCE

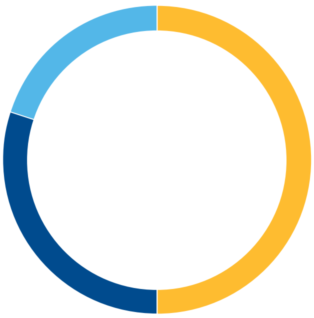
Board effectiveness

Balance of Non-Executive Directors and Executive Directors



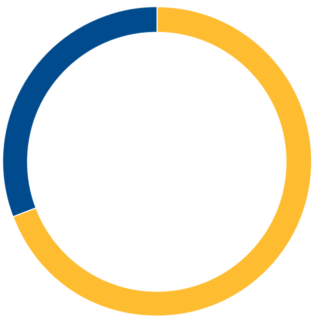
Chairman	1
Executive Directors	2
Independent Non-Executive Directors	10

Length of tenure of Non-Executive Directors



0–3 years	5
3–6 years	3
6–9 years	2

Gender split of Directors



Male	9
Female	4

Note:
The above graphics reflect the composition of the Board as at the date of this report.

Balance and diversity

A balanced Board

Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Women constitute over 30% of our Board. Short biographies of the Directors, including details of relevant skills and experience, and nationalities, are set out in the Board of Directors pages in this section (pages 48 and 49).

Promoting diversity

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 is encouraging initiatives to improve gender diversity in senior management roles. You can read our diversity policy, including the proportion of women in our total workforce and in senior management, in the winning organisation section of our Strategic Report on pages 24 and 25.

Independence and conflicts of interest

Independence

The Board considers all Non-Executive Directors to be independent, as they have not previously been employed in Group management roles and 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 in accordance with the Companies Act 2006 and may authorise situational conflicts under the Company's Articles of Association. Directors are required to give advance notice of any conflict issues to the Company Secretary, and 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 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. No material conflicts were reported by Directors in 2014.

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. The expected time commitment from Non-Executive Directors for their induction is formalised in our standard letter of appointment and visits to an overseas factory location and the Group's R&D facilities in Southampton are required elements.

Following his appointment in 2014, Savio Kwan received a comprehensive induction including a visit to the Group's R&D facilities in the UK and participation in a market visit to Mexico at the end of March 2014. Induction programmes will also be put in place for Sue Farr, Pedro Malan and Dimitri Panayotopoulos, who were appointed to the Board in February 2015. These will include briefings covering the Group's strategy, organisational structure, business functions (including next-generation products), statutory reporting cycle, financing principles, IT strategy and legal and regulatory issues. They will also attend sessions on corporate governance, internal control and risk management.

Training and development

Non-Executive Directors are encouraged to attend meetings of the Group's regional Audit and CSR committees, so that they have a good sense of the Group's regional operations as well as the Group's Corporate Audit Committee to gain a better understanding of the Group's central functions such as IT, Finance and Corporate and Regulatory Affairs. The Non-Executive Directors are also each invited to attend a scheduled market visit alongside a Regional Director, so that they gain exposure to the Group's business on the ground. In 2014, Non-Executive Directors visited Romania and Mexico. In addition, a Board meeting was held in Hong Kong.

The Board and its Committees receive regular briefings on legal and regulatory developments. The Board was also briefed on changes to the UK Corporate Governance Code which will impact the reporting cycle for 2015 and the transitional timetable and steps required in identifying and managing a change in external auditors introduced by EU regulation.

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

For the Board's access to information and advice see 'Information and advice' in the Other Corporate Disclosures section on page 110

Shareholder engagement

Commitment to dialogue

The Board is committed to high-quality dialogue with shareholders. The Executive Directors lead in this respect, facilitated by the Head of Investor Relations. The Chairman also contacts major shareholders periodically, and in advance of the AGM each year, so he can hear their views and ensure that they are communicated to the Board. The Senior Independent Director and other Non-Executive Directors are available to meet with major shareholders on request. In 2014, Richard Tubb met with an institutional investor following one such request. In early 2015, both the Remuneration Committee Chairman and the Chairman met a number of key shareholders to engage further in relation to the Group's Remuneration Policy. Details of the rationale for proposing changes before the third anniversary of the Policy agreed last year are set out in the Remuneration Report. Following careful consideration of shareholders' responses in relation to these proposals, however, no policy changes are being put forward this year.

Annual 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. On occasions he is accompanied by one or more Executive Directors and Management Board members. Every two years, combined investor meetings are held over two days with the Management Board in attendance. The next such meeting will be in 2015.

In 2014, as part of the annual programme, 495 meetings were held with over 310 of the Company's institutional shareholders in 20 countries, spanning five continents. In terms of percentage shareholding, the Company engaged with the owners of the majority of its shares. The Chairman had 11 personal meetings with major shareholders in the year. Regular investor presentations were also given, and these together with the results presentations are all published on www.bat.com. All results presentations are 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.

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 2014, with the exception of Karen de Segundo who was attending the AGM of another company of which she is a Non-Executive Director. Details of our 2015 AGM are set out in the Other Corporate Disclosures section.

Twice a year, the Head of Investor Relations reports to the Board on investor relations activities, identifying key issues raised by institutional shareholders as well as a commentary on share price performance. The Board receives a report at each meeting on any changes to the holdings of the Company's main institutional shareholders.

Topics of discussion

This year, shareholders were keen to hear more about the Group's NGP strategy and the development of the e-cigarette sector. Developments in industry regulation, including the impact of plain packaging in Australia and the potential impact of more plain packaging regulation in other countries was also of interest, as was the continued roll-out of the Group's new Operating Model and Global IT solution. Macro economic issues, specifically with regard to developments in the Eurozone continue to be key issues for institutional investors. At a market level, continued concerns were expressed about pricing and excise and the impact on the Group, especially with regard to illicit trade.

Board evaluation

Evaluation process

In 2014, the Board conducted an internal review of its effectiveness and that of its Committees, the Executive and Non-Executive Directors, and the Chairman. This followed an external review that had been undertaken in 2013. The evaluation was conducted through questionnaires and in-depth interviews with each Board member by the Company Secretary.

A report was prepared for the Board on the results of this exercise, and the principal Committees also considered reports on their own effectiveness, drawn from questionnaires relating specifically to those Committees as well as from comments made in the Board Report.

While the Board and each of its Committees are considered to be fully effective, fresh action points were identified. A summary of the findings is set out in the accompanying table. Our progress against 2014 action points is also included in the summary.

Constructive feedback

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. All Board members continued to perform well, and each was considered to be making an effective contribution to the Board.

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 108–114

GOVERNANCE

Board effectiveness continued

Board evaluation 2014

Leadership

Findings

The Board is considered to have a clear understanding of the Group's business and the environment within which it operates;

Market visits are particularly appreciated as a useful tool, allowing Non-Executive Directors to see the Group's strategy in action;

The Board understands the regulatory environment within which it operates and receives excellent briefings in this area; and

On strategy, the focus on the long term, particularly on next-generation products, strategic M&A and evolving markets was applauded.

Action for 2015

The more recently appointed Non-Executive Directors need to become more familiar with the Company and the industry. Detailed induction plans, as well as market visits, will ensure that all Non-Executive Directors are made aware of the principal challenges and opportunities facing the Group.

Progress in 2014

In 2014, the format of market visits was changed to allow the Directors to gain greater insight into a specific aspect of the business. The Chairman, Savio Kwan, Gerry Murphy and Richard Tubb visited Mexico, a commercial and manufacturing hub for the local market and for export to Canada. Christine Morin-Postel, Ann Godbehere and Kieran Poynter accompanied the Chairman on a visit to Romania and reviewed its direct sales delivery operation as well as the support services function for finance.

Oversight

Findings

The Board as a whole is effective in tracking delivery of strategy and in providing the necessary oversight;

The Board has a good view of the Group's activities through participation in the Audit/CSR Committee framework, and risk is monitored by the Board in this context; and

The formal risk management process highlights the key risks to the business. The Non-Executive Directors appreciate that there are also other opportunities for them to consider risks, including at the regional Audit and CSR committees, Corporate Audit Committee and at the in-depth strategy days.

Action for 2015

How the Group sets its appetite for risk will be reviewed in the context of the Financial Reporting Council's revised Guidance on Risk Management which was issued in September 2014; and

Time with individual members of the Management Board will further develop the Board's confidence in effective oversight, as well as helping with succession planning.

Progress in 2014

Improved risk mapping, including an annual review of stakeholder maps by the CSR Committee, is a good example of how the overall risk profile is being tracked; and

The format change to the market visits has also helped to improve oversight, providing effective deep dives into specific areas of the business, including a focus on relevant CSR and sustainability issues.

Meetings

Findings

The annual Board programme is considered to be comprehensive, agendas to be properly prioritised and papers are of a high quality; and

Issues are debated openly and fully with searching and robust questions posed to management, when necessary.

Action for 2015

Regional/functional reviews that deal with specific areas of the Group's business will be included in the Board programme.

Progress in 2014

Non-Executive Director feedback on end market visits has become a regular agenda item at Board meetings and generates and informs debates relating to business activities; and

Stakeholder mapping is now incorporated as an annual item on the agenda of the CSR Committee.

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 issue that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2014.

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

Findings

The Non-Executive Directors expressed their satisfaction with the induction process and were comfortable with the ongoing level of training and support they receive in performing their duties;

The Non-Executive Directors receive sufficient, relevant and up-to-date information about the Group's business on a regular basis; and

Directors are briefed regularly on their legal duties, the relevant areas of corporate governance and opportunities are given for further training. As mentioned on page 55, the Chairman meets each Non-Executive Director individually, each year, to discuss their training and development plans.

Action for 2015

Responsiveness and effectiveness to be maintained; and

Using feedback from Sue Farr, Pedro Malan and Dimitri Panayotopoulos following their induction, the induction process will be refined and improved further.

Progress in 2014

Guidance and support has been provided throughout the year, as required, in the operation of the Board software system and settings have been amended to allow a library of Board papers to be generated.

Composition

Findings

All Directors are aware of the current Board refreshment exercise and the need for additional Non-Executive Directors with specific skills and experience; and

At Board level the Group has a relatively good gender balance. However, the Board is concerned to see improved diversity at Executive and senior management level.

Action for 2015

Planning will commence for the next Board refreshment, which is likely to be required in 2016.

Progress in 2014

Recognising the strength of the Board's culture and dynamics, the composition matrix considered by the Nominations Committee factored in the balance of individual approaches and styles in addition to specific experience. Recent Board appointments have taken this into account;

The Board throughout 2014 continued to scrutinise plans to promote gender diversity in senior management roles and diversity in its broadest sense across the business; and

Significant progress was made reviewing potential candidates during 2014 leading to the appointment in February 2015 of: Pedro Malan (expertise in finance and extensive experience in Brazil and Latin America); Sue Farr (brand marketing and communications experience); and Dimitri Panayotopoulos (FMCG experience at senior executive level).

Working together

Findings

There is an even contribution by all Directors across the variety of topics discussed at Board meetings;

Differences of opinion have been discussed candidly at Board level and a better understanding of different perspectives obtained;

Feedback on the views of institutional investors is accurate and all stakeholder views are taken into account in the Board's decision making; and

Shareholder views have been particularly influential over the Board's consideration of remuneration proposals.

Action for 2015

The Non-Executive Directors are committed to building good relationships with all members of the Management Board, including those recently appointed, as this will help them with succession planning; and

Market visits and continued attendance by Non-Executive Directors at regional Audit and CSR committees and the Corporate Audit Committee will continue to improve their understanding of the business.

Progress in 2014

The Chairman held a number of meetings with the Non-Executive Directors without the Executive Directors present throughout the year. These helped to facilitate better working relationships between members of the Board.

GOVERNANCE

Audit and accountability

Audit Committee current members

Kieran Poynter (Chairman)
Ann Godbehere
Christine Morin-Postel

Attendance at meetings in 2014

Name	Member since	Attendance/Eligible to attend
Ann Godbehere[1]	2012	5/5
Christine Morin-Postel[2]	2014	5/5
Kieran Poynter[1]	2012	5/5
Anthony Ruys[3]	2006–2014	2/2

Notes:
1. Kieran Poynter and Ann Godbehere have recent and relevant financial experience.
2. Christine Morin-Postel joined the Committee on 6 January 2014. She also served as a member of the Committee from 2007 to 2012.
3. Anthony Ruys ceased to be a member upon his retirement as a Non-Executive Director at the AGM on 30 April 2014.
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 and the external auditors also attend meetings on a regular basis.
5. The Committee meets alone with the external auditors and, separately, with the Group Head of Audit and Business Risk, at the end of most meetings.
6. The Committee held five meetings in 2014. All of these were scheduled.

For the Committee's terms of reference visit
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 2014

Regular work programme:

- the Group's 2013 results, 2014 half-year results, the external auditors' reports for these, and interim management statements;
- the 2015 Internal Audit Plan;
- periodic reports from the Group's regional Audit and CSR committees and Corporate Audit Committee;
- the Group's Risk Register;
- changes in and application of accounting standards;
- periodic 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;
- in-depth reviews of specific risk topics (see further below);
- a report from the Head of Group Security on security risks and frauds and losses arising during the preceding year;
- quarterly reports on compliance with the Group's Standards of Business Conduct;
- the steps taken to validate the 'Going Concern' assessment at half-year and year-end (see 'Going Concern' in the Financial Review);
- the results of the annual goodwill impairment assessment;
- an annual review of the external auditors' independence; and
- reporting on the processes implemented in 2014 following a review in 2013 with regard to the information flows and drafting and approval processes for the preparation of the Annual Report, facilitating the Committee's advice to the Board that the 2014 Annual Report is fair, balanced and understandable.

Further specific matters considered by the Committee:

- the Group's position and the progress made in tax litigation cases in various jurisdictions;
- the results of the external quality assessment of internal audit, conducted by Ernst & Young LLP at the end of 2013. The function had been reviewed against the global Institute of Internal Auditors standards, as well as a peer benchmarking exercise. Overall, the Group's internal audit function was found to be broadly in line with peer organisations and is leading in some areas, for example, in the use of data analytics to drive a risk-focused and efficient audit process;
- the impact of the Russia/Ukraine conflict on the Group's business with particular regard to the likely disruption to and changes required for continuation of supply;
- the risk of fraud to the Group, undertaken at the Committee's request by Group Security and Internal Audit. Robust controls are in place to prevent and identify fraud and, where evidence of it exists, action is taken against the individuals concerned, including dismissal and the involvement of the relevant authorities. Improvements to existing processes have been identified;
- the regulatory position with regard to the mandatory rotation of external auditors. The Committee agreed the timetable for the rotation of both tax advisers and external auditors. In the ordinary course of business, these are required by 2017 and 2023 respectively;
- the impact on the accounts of the proposal to settle a long-running dispute over dividend payments and asbestos claims with Flintkote, a former Group US company that sold products containing asbestos. Flintkote sued the Group's Canadian subsidiary in 2006 over issues stemming from its acquisition of Genstar Corp., Flintkote's parent company. The terms of the settlement included a payment of US$575 million (£374 million) and the Group also sought to obtain protection from current and potential future Flintkote-related asbestos-liability claims in the US; and
- claims against Sequana and others in relation to the Fox River matter following the assignment of these claims to BTI 2014 LLC, a Group subsidiary and the possible impact of these claims on auditor independence (see page 60).

Risk topics considered by the Committee:

- **deployment of the Group's revised operating model and single IT operating system** and the realisation of associated benefits, which led to the significant accounting judgement as detailed below;
- **delivery of the Group's pricing strategy** relating to the risk that annual manufacturers' price increases do not materialise;
- **market size and changes to consumer preferences** in an economically challenging climate with steep excise-led price increases;
- **cyber security** and management's approach to the threat of such attacks; and
- **principal causes of risk and the status of risk management activities** including changes to the Group's principal risks over the last year, and reviewing the emerging risk dashboard prepared by an external advisory agency to assess the areas from which new risks to the Group might arise.

Significant accounting judgements considered by the Committee in relation to the 2014 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 was appropriate;
- **the Group's significant corporate tax exposures and related provisions:** the Committee was updated periodically on corporate tax issues throughout the year. The Committee considered a report from the Group Head of Tax on the current status of issues in various markets, including significant tax disputes in Brazil, South Africa, Turkey and the Netherlands and a favourable outcome in Canada, and agreed with management's proposed provisions and extended disclosures in respect of them (see note 30 in the Notes on the Accounts);
- **contingent liabilities 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, £27 million of this provision has been released (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 settlement in the Flintkote claim of £374 million should be recognised as an adjusting item (see note 3 in the Notes on the Accounts);
- **Reynolds American Inc. (RAI) treatment:** during the year the Committee reviewed the accounting treatment of RAI, the Group's US associate company, in which it holds a 42% shareholding. The Group's accounting treatment of RAI as an associate was confirmed. The Group has enhanced disclosures of the key judgements in respect of this matter for 2014 (see note 11 in the Notes on the Accounts); 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 appropriate exchange rates for accounting purposes remained appropriate (for restricted cash, see the footnote to note 19 in the Notes on the Accounts).

GOVERNANCE

Audit and accountability continued

External auditors

PricewaterhouseCoopers LLP (PwC) has been the Company's auditors since it listed on the London Stock Exchange in September 1998. The Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness.

The Group's implementation of its revised Operating Model and single IT operating system (the TaO Project) is the largest change management project to be conducted for some considerable time. The accelerated roll-out plan spans five years and will, in due course, impact the ways of working for every company within the BAT Group. Consistency of audit approach was therefore the overriding consideration of the Committee in its initial decision not to put the Group's external audit out to tender during 2014 or 2015, the two years covering the biggest deployment groups in the TaO Project. Under the transitional provisions of the Competition and Markets Authority Order on mandatory tendering and audit committee responsibilities, the Group is not required to complete its mandatory tender until mid-2023, a time frame which would allow completion of the TaO Project and the new ways of working to become fully embedded within the Group. However, circumstances arose which prompted the Group to reconsider this position and an audit tender process will now be completed during the first quarter of 2015 (see below). There are no contractual obligations restricting the Company's choice of auditors.

The 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 aimed at safeguarding and supporting the independence and objectivity of the Group's external auditors. 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 due to their 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, typically prior to the year-end, 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 PricewaterhouseCoopers firms and associates in 2014 is provided in note 3(d) in the Notes on the Accounts and is summarised as follows:

Services provided by PricewaterhouseCoopers and associates

	2014 £m	2013 £m
Audit services	9.3	9.4
Audit-related assurance services	0.3	0.3
Total audit and audit-related services	**9.6**	9.7
Other assurance services	0.1	0.1
Tax advisory services	3.8	2.9
Tax compliance	0.8	1.0
Other non-audit services	0.2	0.6
Total non-audit services	**4.9**	4.6

Note:
In 2014 non-audit fees paid to PricewaterhouseCoopers amounted to 51% of the audit and audit-related assurance fees paid to them (2013: 47%).

Annual assessment

In the ordinary course of business, each year, the Committee assesses the qualification, expertise and resources, and independence of the Group's external auditors and the effectiveness of the audit process. The Committee's assessment is informed by an external audit satisfaction survey completed by members of senior management, which it reviews in detail. Ninety surveys were completed this year. Issues were raised with regard to the planning and organisation of the audit of the UK subsidiaries. Following feedback in this area the external audit team have made a number of changes to improve performance.

The Finance Director, General Counsel, 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.

The question of PwC's independence was considered at the December 2014 meeting of the Audit Committee, due to proposed litigation by a Group subsidiary company against the audit firm.

This had been prompted by proceedings, which had, at that time, been issued but not served, by a Group company on PwC. The potential claims against PwC, which have been assigned to the Group, arose from the work carried out by PwC in relation to the audit of the accounts of a third party. This third party is a defendant in other proceedings being brought by the Group. The claim had been issued against PwC, prior to any decision to actively pursue the proceedings, in order to meet the statute of limitations deadline.

PwC and the Group were satisfied that in accordance with the Auditing Practices Board's Ethical Standards, it has been in the interests of shareholders for PwC to complete the 2014 audit. However, it is now likely that legal proceedings against PwC will be pursued. PwC has notified the Group that, in these circumstances, it would not seek re-appointment as the Group's auditors at the AGM on 29 April 2015.

The Audit Committee agreed to conduct an audit tender and for the new appointment to be submitted to shareholders at the AGM in the normal way. The Committee has therefore commenced an audit tender process and it is expected that the successful audit firm will be selected prior to the issue of the Notice of Meeting for the AGM on 27 March 2015.

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 key risk factors that may affect the Group's business is provided in our Strategic Report on pages 30–36.

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

The Board is responsible for determining the nature and extent of the significant risks that the Group is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. With the support of the Audit Committee, it 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. As part of its review in 2014, 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. As mentioned by the Chairman in this section of the Annual Report, the required 'viability statement' will be formally addressed in the year ahead by the Audit Committee and the Board.

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 (which are all chaired by an Executive Director and attended by one or more Non-Executive Directors) are in turn supported by area and/or local audit and CSR committees. The Corporate Audit Committee focuses on the Group's risks and control environment that falls 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 have private audiences with members of the committees after every meeting. 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 key 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. 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 Key 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 spends time focusing on selected key risks in detail.

For more information on risk factors see the Key Group risk factors section in our Strategic Report on pages 30–36

GOVERNANCE

Audit and accountability continued

Internal control

Group companies and other business units are required annually 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. An external quality assessment of the function was carried out at the end of 2013 and reviewed during 2014, as described at page 59.

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. 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 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.

The integrity of the Group's public financial reporting is further supported by a number of additional processes and steps introduced in early 2014, for the 2013 Annual Report, and continued this year, to provide assurance of the completeness and accuracy of the content of the Report and Accounts, and in particular, to assess whether it is "fair, balanced and understandable" in accordance with the regulatory requirements. This resulted in the Chairman of the Committee attending at least one of the internal drafting meetings and engaging with the Finance Director during the drafting process.

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 high standards 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.

As reported in the CSR Committee's report on page 64, this year changes to the Group Standards of Business Conduct Policy were made, introducing new provisions in relation to human rights and respect in the workplace, which also embraces diversity.

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 2014 (including established breaches), is available at www.bat.com/governance. The number of incidents is reviewed by Ernst & Young LLP as part of its process for providing assurance of our annual Sustainability Report. Its full assurance statement is available at www.bat.com/assurance.

In the year to 31 December 2014, 56 instances of suspected improper conduct contrary to the Standards (excluding non-material employee fraud and theft against Group companies) were reported to the Committee (2013: 22). The increase is considered to be attributable to an awareness campaign launched following the adoption of the revised Standards in 2014.

Twenty were established as breaches and appropriate action taken (2013: 9). In 31 cases, an investigation found no wrongdoing (2013: 10). In five cases, the investigation continued at the year-end (2013: 3). No instances involved sums or matters considered material to the Group.

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. 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 2014, set out above, 42 were brought to management's attention through whistleblowing reports from employees, ex-employees, third parties or unknown individuals reporting anonymously (2013: 18). The increase is also considered to be a result of the increased awareness training offered during 2014.

Political contributions

The Committee is responsible for reviewing donations made for political purposes throughout the Group. British American Tobacco Japan Limited reported contributions totalling Japanese yen 560,000, (approx. £3,214) for the full year 2014 (2013: nil). This expenditure is reported as a political contribution although it related specifically to the purchase of tickets to receptions 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. No other political donations were reported.

Annual review

The Turnbull Guidance (the Guidance) sets out best practice on internal control for UK-listed companies to assist them in assessing the application of the Code's Principles and compliance with the Code's Provisions with regard to risk management and internal control. The processes described above, and the reports that they give rise to, enable the Board and the Committee to monitor the risk management and internal control framework 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 the system of risk management and internal control for 2014.

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 management and internal control accords with the Guidance.

GOVERNANCE

Corporate social responsibility

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 2014

Name	Member since	Attendance/Eligible to attend
Sue Farr[1]	2015	n/a
Savio Kwan[2]	2014	2/2
Dr Pedro Malan[1]	2015	n/a
Christine Morin-Postel[3]	2012	n/a
Karen de Segundo	2008	2/2
Dr Richard Tubb	2013	2/2

Notes:
1. Sue Farr and Pedro Malan became members of the Committee on 2 February 2015 following their appointments as Non-Executive Directors.
2. Savio Kwan became a member of the Committee on 6 January 2014 following his appointment as a Non-Executive Director on that date.
3. Christine Morin-Postel ceased to be a member of the Committee on 6 January 2014.
4. The Chairman, Chief Executive and the Management Board members responsible for Corporate and Regulatory Affairs and Global Operations regularly attend meetings by invitation but are not members.
5. The Committee held two meetings in 2014. Both were scheduled.

For the Committee's terms of reference visit
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 2014

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;
- considering feedback from the regional Audit and CSR committees and considering CSR-related internal audit reports and recommendations, including in relation to the Group's approach to environmental, health and safety (EHS) issues;
- 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

- approving a revised Group Sustainability Agenda developed through a detailed materiality process;
- reviewing an update of the Group's stakeholder mapping and classification process and in line with the 2013 Board evaluation action points, reviewed the results of the Group 2014 stakeholder map;
- reviewing the 2013 Sustainability Summary and the two Sustainability Focus Reports on harm reduction and supporting farmers' livelihoods published on 3 and 17 November 2014 respectively;
- assessing progress against the Group's sustainability goals and commitments; and
- considering the Group's 2015 sustainability reporting plans.

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.

Through a detailed materiality process, including stakeholder dialogue and research, the Group's sustainability agenda was sharpened in 2014. The new 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 promoting 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 26 and 27

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.

When the UN published its 'Guiding Principles on Business and Human Rights' in 2011, it placed an expectation on governments and global enterprise to address the role business plays in the promotion and protection of human rights. In 2014, the Standards were updated to reflect a new policy area of workplace and human rights. Although our Group Employment Principles already reflected the business-relevant human rights components they lacked the status of a global policy. As a result our enhanced human rights provisions are now bound into our internal compliance framework by way of Standards of Business Conduct governance. They underline the principles of workplace human rights – equality, diversity and mutual respect – and supply chain human rights, particularly with regard to our commitments to support the elimination of child labour, exploitation of labour and respect for freedom of association.

For information on our approach to human rights see
the sustainability section of our Strategic Report on pages 26 and 27

The Company also recognises the role of business as a corporate citizen and Group companies have long supported local community and charitable projects. The Group's approach to corporate social investment (CSI) is to regard it as a means of maintaining good relationships with local communities, rather than as a means of promotion. Over the last five years, the Group has invested more than £60 million in CSI activities worldwide.

Sustainability reporting

We are a major international business in a controversial sector, so it is particularly important that we demonstrate openness and build trust.

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, British American Tobacco has received notable external recognition in 2014. This includes maintaining its industry leadership position in the Dow Jones Sustainability Indices (DJSI) and inclusion for the 13th consecutive year. The Company's overall score was 89%, its highest ever score. 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, we received top 10 global rankings in a number of sustainability reporting awards.

GOVERNANCE

Appointments to the Board

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 2014

Name	Member since	Attendance/Eligible to attend
Richard Burrows	2009	5/5
Christine Morin-Postel	2007	5/5
Sue Farr[1]	2015	n/a
Ann Godbehere	2011	5/5
Savio Kwan	2014	5/5
Dr Pedro Malan[1]	2015	n/a
Dr Gerry Murphy	2009	5/5
Dimitri Panayotopoulos[1]	2015	n/a
Kieran Poynter	2010	5/5
Karen de Segundo	2007	5/5
Dr Richard Tubb	2013	5/5
Anthony Ruys[2]	2006	1/1

Notes:
1. Sue Farr, Pedro Malan and Dimitri Panayotopoulos became members of the Committee on 2 February 2015 following their appointment as Non-Executive Directors.
2. Anthony Ruys ceased to be a member upon his retirement as a Non-Executive Director at the AGM on 30 April 2014.
3. The Chief Executive and Group Human Resources Director regularly attend meetings by invitation but are not members.
4. The Committee held five meetings, two of which were convened at short notice to consider Management Board succession plans as well as Board appointments.

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

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;
- 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 2014

- reviewing succession planning for the Executive Directors and for the Management Board;
- considering appointments to the Management Board, as proposed by the Chief Executive, and recommended to the Board;
- reviewing the creation 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);
- agreeing the skills and experience profile for candidates including general management experience in an international FMCG company, consumer marketing experience and a background in emerging markets;
- agreeing on the appointment of external search agencies;
- discussing the impact of the remuneration policy on the succession plans for the Chief Executive; and
- the recruitment of the new Non-Executive Directors.

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. 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.

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 will generally involve 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. This process was followed for the recruitment of the new Non-Executive Directors. They were shortlisted and/or benchmarked by independent external consultancies, Odgers Berndtson and the Inzito Partnership, and interviewed by the Chairman, the Executive Directors and members of the Committee, which then recommended their appointment to the Board.

An explanation of the Group's diversity policy appears on page 24 of this report.

Annual General Meeting 2015

At this year's AGM on 29 April 2015, the Company will be submitting all eligible Directors for re-election and, in the case of Pedro Malan, Sue Farr and Dimitri Panayotopoulos, election for the first time. 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. Biographical details are also provided.

REMUNERATION REPORT

Annual Statement

Dr Gerry Murphy
Chairman of the Remuneration Committee

Dear Shareholder

Throughout 2014 the Remuneration Committee has continued in its efforts to ensure that our Remuneration Policy represents an appropriate framework for executive remuneration at British American Tobacco, remaining true to a number of key principles:

- alignment of policy with long-term shareholder interests and delivery of the Company's strategy;
- incentive plans that are simple and transparent, i.e. a framework of a single long-term and a single short-term incentive scheme; and
- ensuring that British American Tobacco remains competitive in recruiting and retaining top talent internationally, as befitting the global nature of its business, while remaining aligned to the UK market.

Adherence to these principles prompted us to make a number of changes to our policy last year, following extensive consultation with a number of major shareholders. By way of summary, those changes and their rationale were as follows:

i) improving the alignment of our LTIP performance metrics to business strategy via the introduction of a net turnover (NTO) growth parameter;

ii) increasing alignment of interests between management and shareholders through higher minimum shareholding requirements (400% for the Chief Executive; and 250% for the Finance Director); and

iii) strengthening the link between individual performance and reward outcomes by means of a bonus adjustment factor in the short-term incentive scheme.

Engagement with shareholders

Notwithstanding these changes, several factors arose in 2014 which have prompted further scrutiny and analysis by the Board and the Remuneration Committee, resulting in a further round of engagement with major shareholders on possible revisions to our policy.

The key factors were, first, the impact of the relatively dramatic movements in sterling exchange rates over the last 12 months which have substantially de-linked long-term rewards for management from the underlying strong performance of the business as manifested by consistently high single digit EPS growth when measured on a constant currency basis, and market-share growth at the expense of competitors. The principal problem has been the effect of translating the results of the Company's global operations into its reporting currency, sterling, at a time of the dramatic depreciation of a number of British American Tobacco's key trading currencies including those of Brazil, South Africa, Australia, Russia, Canada and Japan.

Secondly, the impact of these exchange rate movements on actual LTIP outcomes has highlighted the emergence of a clear gap between British American Tobacco and its relevant peers in terms of Chief Executive's earnings potential. As noted above, a key principle of the Company's remuneration framework is to recruit and retain top talent in a highly competitive global market while remaining aligned to UK market practice. While our Chief Executive's base salary, benefits and short-term bonus opportunity are broadly competitive, the reward opportunity from long-term incentives is not.

Accordingly, I wrote to major shareholders in late 2014 and, in early 2015, Richard Burrows and I engaged with over 30 of our largest shareholders to gauge their opinions on, inter alia, changing the measurement of EPS growth to a constant currency basis to eliminate the effect of translation anomalies and to increasing the Chief Executive's reward potential under the LTIP. Given the diversity of viewpoints and the feedback received from those consulted, and the importance attached by the Committee and the Board to reflect the views of investors in our decisions, we decided not to propose policy changes in these areas at this time.

Consequently, the only forward-looking changes will be the implementation of clawback clauses in each of our principal incentive schemes, in line with the requirements of the 2014 UK Corporate Governance Code and which are elaborated upon in the body of this Report.

Performance in 2014

As the Chief Executive's overview highlights, the Group's performance in 2014, in a challenging market environment significantly impacted by currency movements, demonstrates that the Group is making excellent progress to increase its share of the global cigarette market and growing Global Drive Brands. In addition, pricing supported by strong brands and innovation, significant reductions in cost base and improving productivity have continued to drive improvements in operating margin. In the face of a challenging global economic environment, the robustness of the Group's performance against the four measures of its annual IEIS incentive scheme – profit, cash and the key strategic measures of market share and Global Drive Brands' growth – is evident in awards achieved for the Chief Executive and the Finance Director of 121.9% and 109.7% respectively. I set out below how, this year, the evaluation of each Director's individual performance has impacted upon this award by application of the performance adjustment factor approved by shareholders last year.

As noted earlier, the vesting level of the 2012 LTIP award at 0% is significantly impacted by foreign exchange movements, most obviously in respect of the EPS growth metric: in spite of achieving a compound annual growth rate (CAGR) of 7.3% (adjusting for UK inflation) when measured on a constant currency basis over a three-year period, currency headwinds result in an EPS CAGR of only 0.2% (above UK inflation) when measured on a current exchange basis over the same three-year period. The anomaly of a strong underlying performance of the Group and its non-recognition in the form of LTIP vesting prompted the Committee to discuss changing the basis of the EPS metric, as referred to above. While we have decided not to proceed with this change, the underlying issue – the potential anomalies caused by sterling's fluctuations on reward outcomes – remains unresolved.

REMUNERATION REPORT

Annual Statement continued

Individual performance adjustment factor and annual salary increases

The Committee considered this year, for the first time, the operation of the performance adjustment factor to the short-term incentive (IEIS) scheme outcome based on individual performance. The Remuneration Committee has concluded that both the Chief Executive and the Finance Director have each delivered an exceptionally strong level of personal performance, against their objectives. In our judgement, their individual contributions have been pivotal in enabling the Company to deliver a strong performance versus key strategic metrics amid a backdrop of intense economic volatility globally and political instability in important markets and in particular to outperform its principal competitors against the key operating metrics. Of particular weight in the Committee's consideration has been this strong delivery versus operational metrics while maintaining an unrelenting focus on driving the Group's long-term strategic agenda, including:

- making significant investments to nurture the growing next-generation products portfolio;
- progressing a significant global investment in an integrated Group information system; and
- making important progress with its China JV with international launches of Shaung Xi.

Moreover, both Executive Directors have strengthened discernibly the senior talent and succession pipelines in the Group, a key performance area from the Board's perspective.

Consequently, in the Committee's judgement, these outstanding personal performances merited the application of the highest performance adjustment factor i.e. an uplift of 20% on their IEIS award as derived from the Group performance formula. The impact of the performance adjustment factors are as follows:

- for the Chief Executive, an award of 121.9% of salary based upon corporate performance is adjusted upwards by a further 20%, based on our assessment of his individual performance, to 146.3% of base salary; and
- for the Finance Director, an award of 109.7% of salary based on corporate performance is adjusted upwards by a further 20%, based on our assessment of his individual performance to 131.6% of base salary.

We do not take lightly the application of this upwards adjustment factor, particularly so in the first year of its operation. However, the Board was unanimous in its judgement that both Nicandro Durante and Ben Stevens had delivered exceptional personal performances versus their previously agreed objectives. Finally, we committed last year to showing the distribution of outcomes for the senior management population to whom the performance adjustment factor has been applied. In line with this undertaking, the distribution is shown graphically in the Remuneration Report, indicating that some 23% of this managerial group of over 230 employees was evaluated as 'Outstanding', the majority delivering 'Successful' individual performances while some 12% were considered to fall below this level.

As noted in last year's Remuneration Report, annual salary increases for Executive Directors will be generally in line with those for other UK-based employees. The introduction of the individual performance adjustment factor now represents the principal manner in which outstanding individual performance can be recognised (and conversely, via a decrement, poor individual performance can be penalised). In line with this commitment, the Committee has awarded annual salary increases to both the Executive Directors that are consistent with the general increase applied to other UK employees of the Company.

Overall, in arriving at its conclusions, the Committee has tried to strike an appropriate balance between the long-term interests of the business and its shareholders such that British American Tobacco can continue to attract and retain top talent in a globally competitive marketplace. I hope we can count on our shareholders to support our approach generally, and specifically to support our Annual Report on Remuneration at the forthcoming AGM.

Dr Gerry Murphy
Chairman of the Remuneration Committee

The following Policy Report and Annual Report on Remuneration have been prepared in accordance with the relevant provisions of the Companies Act 2006 and as prescribed in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). Where required, data has been audited by PricewaterhouseCoopers LLP and this is indicated appropriately.

REMUNERATION REPORT

At a glance

Our policy in 2014

Remuneration element YE 31 December 2014	Chief Executive (Nicandro Durante)	Finance Director (Ben Stevens)
Base salary from 1 April 2014	– £1,155,000 (+5%)	– £841,500 (+3%)
Short-term incentives: **IEIS opportunity** **50% cash** **50% deferred shares (DSBS)**	Maximum bonus opportunity: **200%** of base salary. On-target opportunity: **100%**.	Maximum bonus opportunity: **180%** of base salary. On-target opportunity: **90%**.
Short-term incentives: **Performance adjustment 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** is possible if individual performance is assessed as poor. Malus facility in place.	
Short-term incentives: **IEIS – performance measures and weightings (%)**	– Adjusted profit from operations **(40%)** – Increase in the Group's share of key markets **(20%)** – Global Drive Brand and Key Strategic Brands volumes **(20%)** – Cash flow from operations **(20%)**	
Long-term incentives: **LTIP Awards 2014 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 and malus**	Dividend equivalent payment on all vesting shares. Malus facility in place.	
Long-term incentives: **LTIP Awards 2014 – 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 2.5% per annum for each year of service on a basic salary in excess of £788,328 per annum from 1 April 2014.	(1) **Pension Fund (UK):** retains a scheme-specific salary cap (currently £146,400 effective 1 April 2014). Benefits in excess of the cap are accrued in the UURBS. Where accrual exceeds the UK regulated allowances, benefits are adjusted to remain within these limits and the balance is provided through the UURBS. (2) **UURBS (UK):** pension accrual in the UURBS is at the same rate as in the Pension Fund (1/40 per annum).
Shareholding requirements	**400%** of salary	**250%** of salary
Changes in policy from 2013	**IEIS:** Introduction of up to 20% IEIS uplift (within maximum opportunity) for outstanding personal performance. Global Drive Brands and Key Strategic Brands volume metric amended to include Rothmans as a GDB and the brands State Express 555 and Shuang Xi as Key Strategic Brands. Malus facility introduced into the deferred share (DSBS) element. **LTIP:** TSR measure against FTSE 100 companies replaced with NTO multi-year growth with underlying profit underpin. EPS measure changed to absolute growth range of 5–10% based on current rates of foreign exchange. **Shareholding requirements:** Increased to 400% (from 300%) for Chief Executive and 250% (from 200%) for Finance Director.	

REMUNERATION REPORT

At a glance

Our Remuneration outcomes 2014

KPIs and business measures performance year-end 2014

The performance measures (KPIs) for the management incentive schemes reflect the alignment of management's strategic focus areas with the interests of our shareholders.

Measure	Strategic focus area	Strategic target or objective	Management incentive	Weighting %	Indicative outcome 2014[1]	Actual performance 2014
Group share of key markets	Growth	To continue to grow market share	IEIS	20	Target	+0.1%
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	Maximum	+6.5%
Adjusted profit from operations	Productivity	To grow adjusted profit from operations on average by 6% per year over the medium to long term	IEIS	40	Target	+4%
Cash flow from operations	Productivity	To generate optimal cash flow while continuing to support business requirements. The target for 2014 was exceeded	IEIS	20	Maximum	+8%
Note 1:		Specific IEIS bonus targets are considered to be commercially sensitive and are not disclosed.				
Adjusted earnings per share (EPS)	Growth	To grow EPS by high single figures per year, on average, over the medium to long term	LTIP (2012 Awards)	50	Below median	0.2%
Total shareholder return (TSR) – FTSE 100 Index	Growth	To grow shareholder value relative to peers	LTIP (2012 Awards)	25	Below median (12.4%)	11.4%
Total shareholder return (TSR) – FMCG group	Growth	To grow shareholder value relative to peers	LTIP (2012 Awards)	25	Below median (14.6%)	11.4%

Year-end 2014 Outcomes: Executive Directors	Chief Executive (Nicandro Durante)	Finance Director (Ben Stevens)
Short-term incentives IEIS	**121.9%** on the corporate result plus performance uplift of 20% on the corporate result: total **146.3%**	**109.7%** on the corporate result plus performance uplift of 20% on the corporate result: total **131.6%**
Long-term incentives LTIP – 2012 awards	**00.0%**	**00.0%**

Policy implementation 2014: Non-Executive Directors	Chairman (Richard Burrows) – fees from 1 April 2014	
	£632,400 (+2%)	
	Non-Executive Directors – fees from 1 January 2014	
Base fee	£90,000 (no change)	
Supplements:		
Senior Independent Director	£30,000 (no change)	
Audit Committee	Chairman: £30,000 (no change)	Member: £6,000 (reduced from £6,250)
CSR Committee	Chairman: £25,000 (no change)	Member: £6,000 (reduced from £6,250)
Nominations Committee	Chairman: £– (no change)	Member: £6,000 (new fee introduced)
Remuneration Committee	Chairman : £30,000 (no change)	Member: £6,000 (reduced from £6,250)

REMUNERATION REPORT

Policy Report

Introduction

The Remuneration Policy for the Executive Directors and the Non-Executive Directors, approved by shareholders at the AGM on 30 April 2014, is set out in full in the Annual Report 2013 on www.bat.com. A summary of its key elements is set out in this policy section of the Remuneration Report in the form of the Future Policy Table (Executive Directors) and the Remuneration Table (Non-Executive Directors and the Chairman).

Principles of remuneration

The Committee's remuneration principles are to:

- 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;
- reward, as an overriding objective, the delivery of the Group's strategy in a manner that is simple, straightforward and understandable;
- structure a remuneration package that is appropriately positioned relative to the market and comprises core fixed elements (base salary, pension and other benefits) designed to recognise the skills and experience of our Executive Directors and to ensure current and future market competitiveness in attracting talent;
- provide a remuneration package based on two performance-based variable elements (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 growth to shareholders on a long-term sustainable basis; and
- maintain an appropriate balance between both fixed and performance-related remuneration (and immediate and deferred remuneration): the performance-based elements form an approximate range of 70%–80% of the total remuneration package.

For Annual Reports visit www.bat.com/annualreport

Strengthening alignment to strategy and shareholders' interests

During the year, the Company has implemented the changes approved by shareholders as part of our Remuneration Policy at the AGM in April 2014. The key changes were: (1) to improve the alignment of the Company's LTIP performance metrics to its business strategy through the introduction of the net turnover (NTO) growth parameter; (2) the alignment of interests between management and shareholders through higher minimum shareholding requirements for the Chief Executive (now 400%) and the Finance Director (now 250%); and (3) to strengthen the link between individual performance and reward outcomes for the short-term incentives by means of a bonus adjustment factor in the International Executive Incentive Scheme (IEIS).

The outcomes of these policy changes are reported in detail in the Annual Report on Remuneration.

As highlighted in the Annual Statement of the Remuneration Committee Chairman, the Committee's annual review of the remuneration framework during 2014 focused on two areas of emerging concern to the Committee as well as developments in best practice. In particular, the Committee examined:

(1) the growing and continuing impact of the appreciation of sterling on the measurement of the Company's performance; and

(2) the identification of a clear and unsustainable competitive gap between the Company and its relevant peers in terms of the earnings potential for the Chief Executive.

Proposals to address these concerns were shared with the Group's key institutional investors as part of a consultation process in early 2015. Given the mixed feedback that was received, however, the Committee has decided not to propose any changes to the Remuneration Policy for this year.

In September 2014, the UK Corporate Governance Code was revised requiring companies to put in place arrangements enabling them to recover or withhold variable pay when appropriate to do so (Provision D.1.1). The Company is therefore introducing clawback elements to awards which may be made under both the short-term and long-term incentives. These changes are identified in the Future Policy Table (Executive Directors). The introduction of clawback is not deemed to be a change requiring approval by shareholders. There are therefore no proposed changes to the approved policy which require a shareholders' vote for 2015.

REMUNERATION REPORT

Policy Report continued

Future Policy Table – Executive Directors

This table sets out the remuneration elements of the policy as approved by shareholders at the AGM on 30 April 2014. It identifies and includes the introduction of provisions under the rules of the schemes to enable the clawback of awards in certain circumstances under the short-term (IEIS) and long-term incentives (LTIP). The complete approved policy continues to be displayed in full on the Company's website.

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 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 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 are as follows: AstraZeneca; GlaxoSmithKline; Reckitt Benckiser; Tesco BP; Imperial Tobacco Group; Reed Elsevier; Unilever BT Group; Pearson; Royal Dutch Shell; Vodafone Diageo; Philip Morris International; SABMiller; WPP Group Further reference is also made for discussion purposes only to published salary data of internationally listed companies of a similar size and complexity. The Committee will 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 in place for this element.
Maximum potential value	Current levels stated in the Annual Report on Remuneration will be increased following the 2015 salary review. Increases will generally be in line with 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 average salary increase to reflect the accrual of experience. A change in responsibilities may also be reflected in an above average increase in salary. Promotion leading to a complete change of role would be considered in line with the Committee's approach to recruitment. Year-on-year increases for Executive Directors, currently in role, will not exceed 10% per annum during the policy period.
Performance metrics used, weighting and time period applicable	None.

Benefits	
How the element supports the Company's strategic objectives	To provide market competitive benefits consistent with role which: – allow the attraction and retention of high-calibre 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	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, where the individual is not a long-term resident of the UK, **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, other benefits are necessary in order to remain aligned with market practice. The cost of legal fees spent in reviewing a settlement agreement on departure may also be provided where appropriate. With the exception of the car or car allowance, it is also practice to pay the tax that may be due on these and any similar benefits. Further, HM Revenue & Customs may classify the provision of certain services and payments as taxable benefits. These include: the installation and maintenance of home security systems; the reimbursement of travel and related expenses; and other expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events. It is also the Company's practice to pay the tax that may be due on these types of benefits.
Maximum potential value	The maximum potential values are based on market practice for individuals of this level of seniority and considerations of a cost that is affordable to the business together with a range of benefits consistent with market practice. Any tax due on these benefits paid by the Company is in addition to the maximum amounts specified below. The maximum annual benefit that can be offered for each element is: – **car or car allowance:** £20,000 (subject to periodic inflation-related increases); – **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** for non-UK citizens at the beginning and end of service as an Executive Director (if appropriate) up to £200,000 together with **housing and education allowances** or other similar arrangements appropriate to the individual's family circumstances. There are no contractual provisions for clawback or malus.
Performance metrics used, weighting and time period applicable	None.

REMUNERATION REPORT

Policy Report continued

Pensions	
How the element supports the Company's strategic objectives	To provide competitive post-retirement benefit arrangements recognising both the individual's length of tenure with the Group and the external environment in the context of attracting and retaining high-calibre individuals to deliver the Group's strategy.
Operation of the element	**British American Tobacco UK Pension Fund (the 'Pension Fund') – non-contributory defined benefit section** 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 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. The defined benefit section closed to new members with effect from 1 April 2005. 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. **British American Tobacco UK Pension Fund – defined contribution section** Individuals joining the organisation since April 2005 participate in a defined contribution arrangement. On the appointment of a new Executive Director 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. **Unfunded unapproved retirement benefit scheme (UURBS)** The Pension Fund retains a scheme-specific salary cap, currently £146,400 effective 1 April 2014, 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). In addition, where pension accrual in the Pension Fund exceeds the UK regulated annual and lifetime allowances, subject to the individual's consent, benefits are adjusted to remain within these limits with any excess being provided through the UURBS. Upon retirement, Executive Directors who have accrued 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. Pensionable pay covers base salary only and therefore bonus awards and the value of benefits in kind are not pensionable.
Maximum potential value	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. Pension entitlements for external appointees as Executive Directors will be subject to negotiation taking into account the relevant annual and lifetime allowances; and in most circumstances these will be defined contribution in nature and will not exceed 35% of base salary in value.
Performance metrics used, weighting and time period applicable	There are no performance metrics. Pensions in payment are paid monthly or quarterly in accordance with the rules of the relevant section of the Pension Fund.

<table>
<tr><th colspan="2">Short-term incentives: International Executive Incentive Scheme (IEIS)</th></tr>
<tr><td>How the element supports the Company's strategic objectives</td><td>To incentivise the attainment of corporate targets aligned to the strategic objectives of the Company on an annual basis.

Performance-based award in the form of cash and deferred shares, so that the latter element ensures alignment with shareholders' long-term interests.

Strong alignment and linkage between individual and corporate annual objectives via the application of an individual performance adjustment factor to the corporate result.

To ensure, overall, a market competitive package to attract and retain high-calibre individuals to deliver the Group's strategy.</td></tr>
<tr><td>Operation of the element

Change to short-term incentives 2015:
The introduction of a clawback facility 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 – see below for details.</td><td>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.

The free deferred shares are normally held in trust for 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.

Deferred shares attract a cash payment equivalent to the dividend on the after-tax position of all of a participant's unvested ordinary shares held in the DSBS at the dividend record date.

The corporate result under the IEIS for the prior year is based on achievement against targets set and is reviewed by the Remuneration Committee in February each year. 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.

The total payout 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.

An individual performance element for outstanding performance may be awarded (being an adjustment factor of either 10% or 20% of the annual corporate result) and is paid in cash. In cases of identified poor individual performance, the corporate result will be reduced by 50%.

The Remuneration Committee sets the performance targets each year and is able to vary the exact measures and the weighting of them from year to year.

Clawback (from 2016 IEIS cash awards and DSBS awards for performance ending 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.

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).

The introduction of clawback for awards from 2016 onwards means that for IEIS participants determined by the Committee as 'good leavers': (1) a cash bonus is pro-rated to the period of service during the year 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. 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 in the Policy Report in the Annual Report 2013 on www.bat.com.

Malus (for 2014 and 2015 DSBS share awards): malus 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.

Awards under the annual incentive scheme are not pensionable and no element of the bonus is guaranteed.</td></tr>
</table>

REMUNERATION REPORT

Policy Report continued

Short-term incentives: International Executive Incentive Scheme (IEIS)	
Maximum potential value	The **maximum annual bonus** opportunity for the Chief Executive (including any performance element) is 200% of base salary. The equivalent bonus opportunity for other Executive Directors (including any performance element) is 180% of base salary. No bonus is paid at the threshold level of performance, which must be exceeded for any element of the bonus to be paid. The annual **'on-target' bonus opportunity** for the Chief Executive is 100% of base salary (increasing up to 120% 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 90% (increasing up to 108% 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	For 2015, the IEIS contains four corporate performance measures and weightings measured over the financial year: (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 6% annually. (2) **Increase in the 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 and Key Strategic Brands 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 Key Strategic Brands associated with the CNTC joint venture. The aim is to improve the quality of the Group's portfolio by increasing the volume of GDBs faster than the rest of the brands in the Group's portfolio. (4) **Cash flow from operations (20%)** – this 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. Three 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); (2) **Target** (which amounts to the budgeted performance); and (3) **Maximum** (the level of performance exceeding budget and at which the bonus pay-out for that measure is capped). An award is pro-rated in respect of attainment between the measures set out above. The specific performance targets for each measure are considered to be commercially sensitive and are not disclosed. Indicative performance against them will be disclosed in the Annual Report on Remuneration in the following year. An individual performance element may also be awarded by the Remuneration Committee based on its assessment of the Executive Director's performance against specific individual KPIs 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.

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

How the element supports the Company's strategic objectives

To incentivise long-term sustainable growth in **total shareholder return (TSR), adjusted diluted earnings per share (EPS) and net turnover (NTO)**, over a three-year period; to attract and retain high-calibre 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 made in 2015

Change to long-term incentives for 2015 awards:

LTIP – clawback

To introduce a clawback facility which may be applied at the Committee's discretion at any time during the two-year period from the vesting date – see below for details.

Discretionary annual awards of shares with vesting levels based on the achievement of defined and appropriately stretching targets that for 2015 are relative TSR, EPS growth and NTO growth aligned to Group's strategic objectives over a three-year performance and 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	Imperial Tobacco Group	PepsiCo
Campbell Soup	Japan Tobacco	Pernod Richard
Carlsberg	Johnson & Johnson	Philip Morris International
Coca-Cola	Kellogg	Procter & Gamble
Colgate-Palmolive	Kimberly-Clark	Reckitt Benckiser
Danone	LVMH	SABMiller
Diageo	Mondeléz International	Unilever
Heineken	Nestlé	

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 the average of the index numbers for 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 an annual growth rate over the period.

NTO – is defined for these purposes as 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 defined annually in the IEIS, as approved by the Board.

LTIP awards vest only to the extent that the performance conditions are satisfied at the end of the **three-year performance period**. The Remuneration Committee may apply its discretion to vary the outcome of the formulaic performance to ensure a fair result for both the Executive Directors and the shareholders.

Participants may receive a **dividend equivalent payment** to the value of the dividends that they would have received as shareholders on their vesting awards. Any proportion of an award that lapses does not attract the payment of the LTIP dividend equivalent payment.

Clawback and malus (from 2015 awards): provisions operate under which all or a part of the value of an award may be recovered if, within the two-year period from vesting, 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 vested, in either case which caused the award to vest in respect of a greater number of shares than would otherwise have been the case. Clawback may also be applied at any time where the Committee determines that a participant committed, at any time prior to vesting, 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 by reducing other cash or share-based awards held by the participant.

REMUNERATION REPORT

Policy Report continued

Long-term incentives: Long-Term Incentive Plan (LTIP)	
Operation of the element for awards made in 2015 continued	For LTIP participants determined by the Committee as 'good leavers', the number of shares vesting is dependent on the final performance at the end of the performance period (pro-rated for the period employed) and, for awards from 2015, shares vesting will be subject to the clawback period of two years from the end of the performance 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 in the Policy Report in the Annual Report 2013 on www.bat.com. **Malus (for 2011-2014 awards)**: malus provisions apply so that the number of shares subject to an unvested 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 which influenced the extent to which any prior award vested. 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.
Maximum potential value and payment at threshold	**Maximum award of shares** permitted is 400% of salary for the Chief Executive and 300% for other Executive Directors. Proportion of vesting is determined by reference to achievement of defined targets over a three-year performance period in respect of three measures: – earnings per share (50%); – total shareholder return (25%); and – net turnover (25%). A **maximum vesting** of 100% will result in the vesting of shares to a value equivalent to 400% 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 100% will result in the vesting of shares to a value of 300% of salary as at the time of award, plus the applicable dividend equivalent payment. If the **threshold performance** level were to be attained in respect of all three measures, 20% of the original award level in respect of the Chief Executive – shares with a value equivalent to 80% of salary – would vest, plus the appropriate dividend equivalent attaching to the shares vesting. A threshold performance outcome for the other Executive Directors would result in 20% of the original award level vesting. This amounts to shares with a value equivalent to 60% of salary, plus the appropriate dividend equivalent payment. In respect of **LTIP awards made from 2014**, departing Executive Directors will receive vesting shares, conditional upon plan performance, based upon the **final vesting percentage measured over the full three-year period of the award**. There will be no application of an early vesting percentage in respect of LTIP awards made in or after 2014.

<table>
<tr><th colspan="2">Long-term incentives: Long-Term Incentive Plan (LTIP)</th></tr>
<tr><td>Performance metrics used, weighting and time period applicable</td><td>
Performance conditions in relation to awards made from 2014 onwards must be met over a three-year period in respect of three measures:
(1) 25% of an LTIP award based on the Company's TSR performance against a peer group of international FMCG companies. In the event of a top quartile performance by the Company relative to this comparator group, this element of the award vests in full; 6% vests for median performance and there is a pro-rata vesting between these two points. The TSR portion of an LTIP award will not vest for below median performance;
(2) 50% of an LTIP award is based on adjusted diluted EPS growth measured at current rates of exchange. If the Company achieves a compound annual growth rate of 10%, this element of the award will vest in full. If 5% growth is achieved, then 8% of the award will vest. For performance between these two points, a pro-rated award will vest. If EPS growth over the period is less than 5%, none of the EPS portion of an award will vest; and
(3) 25% of an LTIP award is based on the compound annual growth rate of NTO measured at constant rates of exchange. 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 compound annual growth rate over the three-year period of 2%, then 6% of the award will vest in full. There is a pro rata vesting between these points. The NTO portion of the LTIP award will not vest for growth below 2%.
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.
The Remuneration Committee will also assess the performance of the current outstanding LTIP awards against the performance conditions applicable to those awards as follows:
<table>
<tr><th>Measures applying for March 2012 LTIP awards (vesting 28 March 2015) and March 2013 LTIP awards (vesting 22 March 2016)</th></tr>
<tr><td>EPS: compound annual growth of 3% (measured at current rates of exchange) in excess of UK inflation triggers threshold performance. Growth of 8% in excess of inflation would trigger maximum vesting under this measure. Component weighting: 50%.</td></tr>
<tr><td>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%).</td></tr>
<tr><td>Application of an early vesting percentage can apply.</td></tr>
</table>
</td></tr>
</table>

REMUNERATION REPORT

Policy Report continued

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	**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 £500. Options are normally granted at a discount of 20% to market price at the time of invitation. Following changes in legislation, the monthly savings limit for the Sharesave Scheme was increased from £250 to £500 for invitations made from 2014 onwards. **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. Following changes in legislation, the annual value of partnership shares that can be purchased was increased from £1,500 to £1,800 during 2014. (2) **Share Reward Scheme** – eligible employees receive an award of shares in April of each year in which the Scheme operates in respect of 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 a minimum period of three years and during that time the trust will exercise its voting rights as directed by the plan's participants. The maximum individual award under the Share Reward Scheme is £3,000. Further to recent changes in legislation, the annual value of 'free shares' that can be awarded to employees will increase to £3,600; the Company intends to apply this new limit during the lifetime of this policy from awards made in 2016 onwards.
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 £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 £3,600 at the end of the three-year holding period.

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. Arrangements apply to those Executive Directors who do not, at any point, meet the requirements of the shareholding guidelines. Individuals may 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 earned but not yet vested under the Company's share incentive plans are not taken into account when assessing compliance. There are no performance metrics.
Maximum potential value	Chief Executive: 400% of salary. Other Executive Directors: 250% 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. 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) 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. The senior management population (below Management Board) operates within a job grading structure and its most senior members may participate in both the LTIP and IEIS incentive arrangements. Award levels vary with seniority up to the appropriate maxima expressed within the relevant scheme rules. Performance measures in both LTIP and IEIS are aligned across the Group and for the IEIS locally relevant targets are set as appropriate.

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.

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.

Other approved policy provisions in relation to Directors' pay

The Remuneration Committee's powers of flexibility, judgement and discretion, reflected in the Remuneration Policy approved by shareholders at the AGM on 30 April 2014, are amended below to reflect the introduction of a clawback facility for both the IEIS and the LTIP awards.

Flexibility, judgement and discretion

The Company's remuneration policy needs to be capable of operating over a three-year period. As such, the Committee has taken care to prepare and explain how the policy will operate and has built in a degree of flexibility to enable the practical implementation of the policy over that prospective lifetime.

(1) Flexibility

Areas of the policy which include a degree of flexibility are around:

- pay and benefits, allowing the Committee to set pay 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; and
- the LTIP, allowing the Committee to make revisions to the performance measures, their respective weightings, threshold and target levels as permitted under the scheme rules.

(2) Judgement

The Committee will be required to exercise its judgement in many ways throughout the year, specifically in those areas of the policy where there is some flexibility. This may occur, for example, when considering an individual's remuneration award or the specific benefits applying to an appointment, or in 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. Judgement is also applied in determining the percentage of salary (up to the maximum set out in the Policy Table) which can be earned as a bonus in excess of threshold, target and up to the maximum, or the percentage salary level (again up to the maximum in the Policy Table) in respect of an LTIP award. Judgement is also required in assessing the performance of each individual Executive Director in delivering against his or her personal performance objectives.

(3) Discretion

The Committee may also exercise its discretion either upwards or downwards to ensure fair outcomes for both Directors and shareholders notwithstanding the application of the policy.

The Committee has reserved its ability to exercise its discretion as follows:

Short-term incentives (IEIS):

- to assess whether an individual performance element should be applied to an Executive Director's bonus outcome and at what level (+10% or +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 as to whether deferred shares will be released and whether any bonus (in whole or in part) is payable during the year of departure; and
- 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.

Long-term incentives (LTIP):

- to assess and override the formulaic outcomes of the LTIP performance outcome to ensure that the resulting LTIP pay-out reflects fairly the underlying performance of the business and serves the interest of shareholders;
- in relation to leavers 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; and
- whether circumstances have arisen which should result in the application of the clawback and/or malus provisions to unvested LTIP awards.

REMUNERATION REPORT

Policy Report continued

Other:

- on appointment of a new Executive Director, to agree a contract, for an initial period only, longer than the normal one-year rolling contract; and
- where the shareholding requirements are not yet met to determine and vary the terms that apply to ensure compliance and/or the retention of deferred shares or vesting LTIP shares to meet the requirement.

In each case, 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.

Remuneration Table – Non-Executive Directors and Chairman

The following table sets out the key elements of the remuneration for the Non-Executive Directors and the Chairman as approved by the shareholders at the AGM on 30 April 2014. The complete approved policy continues to be displayed in full in the Annual Report 2013 on www.bat.com.

Non-Executive Directors	
Fees – process	As a UK-listed entity, the quantum and structure of Non-Executive Directors' remuneration will primarily be assessed against the same remuneration 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. 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.
Current fees for the year ending 31 December 2015	It is anticipated that any future aggregate increase to any of the fees will be within the salary guidelines which govern the Company's annual salary reviews for UK-based staff and will not exceed the equivalent of 10% per annum in aggregate. **Non-Executive Directors – fee structure** **Fees from 1 Jan 2015 to 31 Dec 2015** **Base fee £92,700** **Supplements:** – Senior Independent Director **£30,000** – Audit Committee Chairman **£30,000** – CSR Committee Chairman **£25,000** – Nominations Committee Chairman **£–** – Remuneration Committee Chairman **£30,000** **Committee Memberships Fees (not Chairman):** – Audit Committee **£6,000** – CSR Committee **£6,000** – Nominations Committee **£6,000** – Remuneration Committee **£6,000**
Travel and related expenses	Non-Executive Directors are generally reimbursed for the cost of travel and related expenses incurred by them as Directors of the Company in respect of attendance at Board, Committee and General meetings. In addition, it is the policy of the Board that the partners of the Executive Directors and Non-Executive Directors may, from time to time, accompany the Directors to overseas or UK-based Board meetings and otherwise at hospitality functions during the year. In the instances where such expenses are classified by HMRC as a benefit to the Director, it is also the practice of the Company to pay the tax which may be due on any such benefits. 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. They receive no other pay or benefits.
Shareholding requirements	The remuneration of Non-Executive Directors is paid in cash. There are no formal requirements or guidelines for the Non-Executive Directors to hold shares in the Company. However, Non-Executive Directors are encouraged to acquire a small interest during the initial years after their date of appointment. The Non-Executive Directors do not participate in the British American Tobacco share schemes, bonus schemes or incentive plans and are not members of any Group pension plan.

Chairman	
Fees – process	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.
Current fees for the year ending 31 December 2015	It is anticipated that any future aggregate increase to the Chairman's fee below will be within the salary guidelines that govern the Company's annual salary reviews for UK-based staff and will not exceed the equivalent of 10% per annum in aggregate. **Fees from 1 April 2015** Richard Burrows (Chairman) £645,000
Benefits, travel and related expenses	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; and general practitioner 'walk-in' medical services based a short distance from the Company's Group headquarters in London. In addition, Richard Burrows' spouse may, from time to time, accompany him to overseas or UK-based Board meetings and otherwise at hospitality functions during the year. Where any such reimbursements are classified by HMRC as a benefit to the Director, it is also the practice of the Company to pay any tax due. 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.

REMUNERATION REPORT

Annual Report on Remuneration

Gerry Murphy
Chairman of the Remuneration Committee

Remuneration Committee current members
Dr Gerry Murphy (Chairman)
Ann Godbehere
Christine Morin-Postel
Dimitri Panayotopoulos
Kieran Poynter

Attendance at meetings in 2014

Name	Member since	Attendance/Eligible to attend
Gerry Murphy (Chairman)	2009 (Chairman from 2012)	6/6
Ann Godbehere	2011	6/6
Christine Morin-Postel	2007	6/6
Dimitri Panayotopoulos[1]	2015	n/a
Kieran Poynter	2011	6/6

Notes:
1. **Membership:** all of the members of the Remuneration Committee are independent Non-Executive Directors of the Company; Dimitri Panayotopoulos became a member of the Committee on 2 February 2015.
2. **Other attendees:** the Chairman, the Chief Executive, the Group Human Resources Director, Group Head of Reward and other senior management may also attend by invitation; neither the Chairman nor any Executive Director plays any part in determining his own remuneration.
3. **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.
4. **Secretary to the Remuneration Committee:** this is the Company Secretary.
5. **Number of meetings 2014:** six meetings were held, of which four were scheduled with two further meetings convened at short notice to discuss proposals to amend the Remuneration Policy for 2015.

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

This section sets out the remuneration of the Directors for the financial year ended 31 December 2014.

Role

The Remuneration Committee is responsible for:

- agreeing and proposing the Remuneration Policy (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 schemes 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

During the year the Remuneration Committee was independently advised by the following external advisers:

Adviser	Services provided to the Committee	Fees paid	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; independent measurement of TSR performance conditions.	2014: £285,650 (2013: £214,846)	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.	2014: £10,870 (2013: £10,560)	External auditor; audit and tax services and other non-audit services

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 the 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.

During the year ended 31 December 2014, both the Chief Executive and Chairman were consulted and invited to attend meetings of the Committee and the Group Human Resources Director and Group Head of Reward, supported by the Company Secretary, also provided advice, guidance and assistance to the Committee.

Remuneration Committee – activities in 2014

Regular work programme

February

- reviewed and set salaries for the Executive Directors from 1 April 2014 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 2014;
- assessed the achievement against the targets for the 2013 IEIS award and set the IEIS targets for 2014;
- assessed the achievement against the performance conditions for the vesting of the LTIP 2011 award, determined the level of LTIP awards for March 2014 and confirmed the associated performance conditions;
- assessed the achievement against the targets for the 2013 Share Reward Scheme and set the targets for the 2014 award;
- monitored the continued application of the Company's shareholding guidelines for the Executive Directors; and
- reviewed the Annual Statement, the Policy Report, and the Annual Report on Remuneration for the year ended 2013 prior to its approval by the Board and subsequent shareholder approval at the AGM on 30 April 2014.

July

- analysed the AGM results on remuneration and reviewed market trends in the context of the AGM season;
- previewed the salary and incentives market data and current trends for Executive Directors; and
- reviewed achievement against the performance measures for the six months to 30 June 2014 for the IEIS 2014 and the outstanding LTIP awards.

December

- reviewed the report on the effectiveness of the Remuneration Committee.

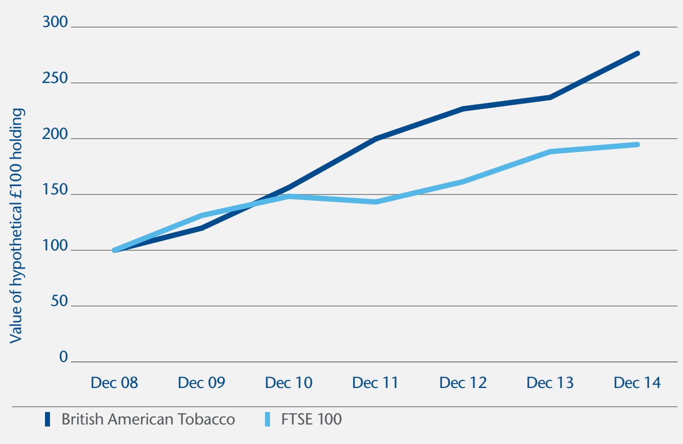
REMUNERATION REPORT

Annual Report on Remuneration continued

Remuneration policy matters	
February	– introduced a malus provision into the DSBS shares element of the IEIS for awards made on or after 1 March 2014;[1] – introduced (for LTIP awards from 2014 onwards) delayed vesting of LTIP shares for departing Executive Directors; all LTIP shares vesting now conditional on plan performance measured over the full period of the award i.e. no application of an early vesting percentage in respect of LTIP awards made from 2014;[1] and – increased limits in the all-employee share schemes (Share Reward Scheme; Partnership Scheme; and Sharesave Scheme) in accordance with changes in HMRC policy.[1] Note: 1. Included in the Remuneration Policy approved by shareholders on 30 April 2014.
October, November and December	– considered the impact of exchange rates on incentive schemes and the design of the schemes for the Executive Directors relative to underlying performance; – reviewed the background to the competitive gap between British American Tobacco and its relevant peers in terms of the earnings potential of the Chief Executive in respect of the long-term incentive opportunity; and – considered changes to the Remuneration Policy including the early adoption of a new LTIP ahead of the expiry of the current LTIP in April 2017.

Other incentive matters	
February	– approved the final retirement arrangements for the Chief Operating Officer who retired in April 2014.
December	– reviewed reporting and disclosure best practice for the Annual Report on Remuneration including detailed consideration of retrospective disclosure of bonus targets; and – approved the introduction of an unfunded unapproved retirement benefit scheme (UURBS) for members of the Management Board who participate in the defined contribution section of the UK Pension Fund and who are impacted by the UK annual allowance or lifetime allowance.

Performance and pay – 2009 to 2014



This chart shows the performance of a hypothetical investment of £100 in the Company's shares (as measured by the total shareholder return (TSR) for the Company) against a broad equity market index (the FTSE 100 Index) over a period of six financial years starting from 1 January 2009 through to 31 December 2014 based on 30 trading day average values.

TSR measurement

TSR 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 six-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 pay

The pay for the Chief Executive (CEO) for each of the financial years ended 2009 to 2014 is set out below for comparative purposes:

Year	2009	2010	2011	2012	2013	2014
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**
Nicandro Durante[2] (from 1 March 2011)	n/a	n/a	5,589	6,340	6,674†	**3,617**
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**
Nicandro Durante[2] (from 1 March 2011)	n/a	n/a	100	85.0	81.3	**73.2**
Long-term incentive (LTIP) paid against maximum opportunity (%)						
Paul Adams[1] (to 28 February 2011)	100	100	100	n/a	n/a	**n/a**
Nicandro Durante[2] (from 1 March 2011)	n/a	n/a	100	87.1	49.2	**00.0**

Notes:

1. **Paul Adams:** (a) historic data is taken from the Remuneration Reports for the relevant years, but 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 pro-rated 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.
2. **Nicandro Durante:** (a) historic data is taken from the Remuneration Reports for the relevant years, but recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the Regulations; and (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	2014 £m	2013 £m	% change
Remuneration of Group employees[1]	**2,194**	2,384	**(8)**
– Remuneration of Executive Directors	**7**	15†	**(53)**
– Remuneration of Chairman and Non-Executive Directors	**2**	2	–
Dividends paid in the year	**2,712**	2,611	**4**
Share buy-back programme[2]	**795**	1,500	**(47)**
Adjusted profit from operations[3]	**6,075**	5,820	**4**

Notes:

1. **Total remuneration of Group employees:** this has changed in the year mainly as a result of local remuneration agreements, varying employment costs across end markets and regions; and the impact of exchange rate movements.
2. **Share buy-back programme:** this was suspended with effect from 30 July 2014.
3. **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 2014

'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 2014 together with comparative figures for 2013. The aggregate Directors' emoluments are shown on page 100. Details of the fees for the Chairman and the Non-Executive Directors are set out in separate tables below.

Single figure for Executive Directors	Salary £'000		Taxable benefits £'000		Short-term incentives £'000		Long-term incentives[2] £'000		Pension £'000		Other emoluments[3] £'000		Total remuneration £'000	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013†	**2014**	2013	**2014**	2013	**2014**	2013†
Nicandro Durante	**1,141**	1,088	**132**	626[1]	**1,690**	1,790	**293**	2,790	**323**	307	**38**	73	**3,617**	6,674
Ben Stevens	**835**	808	**99**	100	**1,108**	1,196	**158**	1,578	**521**	607	**28**	56	**2,749**	4,345
John Daly (retired 6 April 2014)	**191**	713	**59**	104	**171**	1,056	**143**	1,358	**109**	480	**2**	46	**675**	3,757
Total	**2,167**	2,609	**290**	830	**2,969**	4,042	**594**	5,726	**953**	1,394	**68**	175	**7,041**	14,776

Notes:

1. **Nicandro Durante taxable benefits 2013:** includes a single one-off gross payment of £440,000 by the Company as a tax equalisation payment in respect of the tax charge arising from the FASC (Brazil) pension accrual in excess of the UK-regulated annual allowance.
2. **Long-term incentives:** these include cash dividend equivalent payments made under the LTIP which were previously categorised for the year ended 31 December 2013 as 'other emoluments'.
3. **Other emoluments:** include: (1) life insurance; (2) cash dividend equivalent payments made under the DSBS in 2013; and (3) the value of shares received under the Share Reward Scheme during the year.

† **Long-term incentives:** in accordance with the Regulations, estimates for the values of the vesting 2011 LTIP awards were given in the Annual Report on Remuneration 2013; these amounts have been re-presented to show the actual market values on the dates of exercise in 2014.

REMUNERATION REPORT

Annual Report on Remuneration continued

Analysis by individual Director – audited

Nicandro Durante

	2014 £'000	2013 £'000
Salary	**1,141**	1,088
Taxable benefits[1]		
Cash:		
– car allowance	**16**	16
Non-cash:		
– health insurance/provision of 'walk-in' health care services	**8**	7
– tax advice	**22**	36
– tax equalisation payment re tax charge for FASC pension accrual[2]	**–**	440
– the use of a company driver	**62**	64
– employee welfare and medical payments in Brazil[3]	**–**	37
– maintenance of home security systems in the UK and Brazil	**17**	19
– other expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events	**7**	7
Total taxable benefits	**132**	626
Short-term incentives		
IEIS: annual performance-related bonus – cash receivable March 2015 (YE 2014); cash received March 2014 (YE 2013)	**704**	895
DSBS: annual performance-related bonus – award of deferred shares at this full market value March 2015 (YE 2014) and March 2014 (YE 2013)[4]	**704**	895
IEIS: individual performance uplift of 20% of total annual performance-related bonus – cash receivable March 2015 (YE 2014)	**282**	
Total short-term incentives	**1,690**	1,790
Long-term incentives		
LTIP: award 28 March 2012 of 124,688 shares; performance period 2012/2014 with a vesting date of 28 March 2015; none of the performance conditions have been met which will result in the lapse of the full award	**–**	
LTIP: award 13 May 2011 of 147,329 shares; performance period 2011/2013; award vested on 13 May 2014 at 49.2% resulting in a vesting of 72,485 shares; the award was exercised on 30 July 2014 at an execution price of 3,535.0p per share[5]		2,562
Cash dividend equivalent (LTIP): 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; 2014: (LTIP award 13 May 2011; vested 13 May 2014); 2013: (LTIP award 25 March 2010; vested 25 March 2013)[6]	**293**	228
Total long-term incentives	**293**	2,790
Pension-related benefits		
Unfunded unapproved retirement benefit scheme (UURBS – UK)[7]	**323**	307
Total pension-related benefits	**323**	307
Other emoluments		
Life insurance	**17**	15
Cash dividend equivalent (DSBS)		55
Share Reward Scheme: value of shares received during the year	**2**	3
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	**38**	73

Notes:
1. **Benefits:** the figures shown are gross amounts as 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.
2. **Tax equalisation payment:** this is in respect of the tax charge arising from the FASC pension accrual in excess of the UK-regulated annual allowance and was met by a single one-off gross payment by the Company.
3. **Employee welfare medical payments in Brazil:** Nicandro Durante retained certain termination or compensation rights in respect of his former employment with Souza Cruz SA until 2 April 2012; outstanding welfare payments were made in 2013.
4. **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.
5. **Long-term incentives:** LTIP award 13 May 2011; an estimated value of £2,380,000 was disclosed in the Annual Report on Remuneration for the year ended 31 December 2013.
6. **Long-term incentives:** cash dividend equivalent (LTIP); these payments were previously categorised for the year ended 31 December 2013 as 'other emoluments'; the 2013 comparative figures have been restated accordingly.
7. **UURBS pension-related benefits:** 2014: pension-related benefits represent the net accrual for the period, being the differential between the individual's total pension entitlements as at 31 December 2013 (adjusted for inflation) and as at 31 December 2014, multiplied by 20 in accordance with the Regulations (2013 calculation basis: a gross pension accrual for the period (adjusted for inflation), multiplied by 20, was applied).
8. **External directorship:** Nicandro Durante is a non-executive director of Reckitt Benckiser Group plc (appointed 1 December 2013). He retains the fees for this appointment 2014: £91,250 (2013: £7,083).

Ben Stevens

	2014 £'000	2013 £'000
Salary	**835**	808
Taxable benefits[1]		
Cash: – car allowance	**14**	14
Non-cash: – health insurance/provision of 'walk-in' health care services	**4**	4
– the use of a company driver	**73**	74
– maintenance of home security systems in the UK	**3**	3
– other expenses incurred in connection with individual and/or spouse accompanied attendance at certain business functions and/or corporate events	**5**	5
Total taxable benefits	**99**	100
Short-term incentives		
IEIS: annual performance-related bonus – cash receivable March 2015 (YE 2014); cash received March 2014 (YE 2013)	**462**	598
DSBS: annual performance-related bonus – award of deferred shares at this full market value March 2015 (YE 2014) and March 2014 (YE 2013)[2]	**462**	598
IEIS: individual performance uplift of 20% of total annual performance-related bonus – cash receivable March 2015 (YE 2014)	**184**	
Total short-term incentives	**1,108**	1,196
Long-term incentives		
LTIP: award 28 March 2012 of 70,137 shares; performance period 2012/2014 with a vesting date of 28 March 2015; none of the performance conditions have been met which will result in the lapse of the full award	**–**	
LTIP: award 13 May 2011 of 79,558 shares; performance period 2011/2013; award vested on 13 May 2014 at 49.2% resulting in a vesting of 39,142 shares; the award was exercised on 31 July 2014 at an execution price of 3,486.0p per share[3]		1,364
Cash dividend equivalent (LTIP): 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; 2014: (LTIP award 13 May 2011; vested 13 May 2014); 2013: (LTIP award 25 March 2010; vested 25 March 2013)[4]	**158**	214
Total long-term incentives	**158**	1,578
Pension-related benefits[5]		
British American Tobacco UK Pension Fund	**6**	28
Unfunded unapproved retirement benefit scheme (UURBS – UK)	**515**	579
Total pension-related benefits	**521**	607
Other emoluments		
Life insurance	**7**	7
Cash dividend equivalent (DSBS)		46
Share Reward Scheme: value of shares received during the year	**2**	3
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	**28**	56

Notes:
1. **Benefits:** the figures shown for benefits are gross amounts as 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.
2. **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.
3. **Long-term incentives:** LTIP award 13 May 2011; an estimated value of £1,285,000 was disclosed in the Annual Report on Remuneration for the year ended 31 December 2013.
4. **Long-term incentives:** cash dividend equivalent (LTIP); these payments were previously categorised for the year ended 31 December 2013 as 'other emoluments'; the 2013 comparative figures have been restated accordingly.
5. **Pension-related benefits:** 2014: pension-related benefits represent the net accrual for the period, being the differential between the individual's total pension entitlements as at 31 December 2013 (adjusted for inflation) and as at 31 December 2014, multiplied by 20 in accordance with the Regulations (2013 calculation basis: a gross pension accrual for the period (adjusted for inflation), multiplied by 20, was applied).

REMUNERATION REPORT

Annual Report on Remuneration continued

John Daly – retired 6 April 2014

	2014 £'000	2013 £'000
Salary	**191**	713
Taxable benefits[1]		
Cash:		
– car allowance	**4**	14
– outstanding holiday entitlement	**19**	–
Non-cash:		
– health insurance/provision of 'walk-in' health care services	**1**	5
– the use of a company driver	**17**	75
– maintenance of home security systems in the UK	**5**	8
– retirement gift	**13**	–
– other expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events	–	2
Total taxable benefits	**59**	104
Short-term incentives		
IEIS: annual performance-related bonus – cash received April 2014 (YE 2014)[2]; cash received March 2014 (YE 2013)	**171**	528
DSBS: annual performance-related bonus – award of deferred shares at this full market value March 2014 (YE 2013)[3]		528
Total short-term incentives	**171**	1,056
Long-term incentives		
LTIP: award 22 March 2013 of 59,058 shares; performance period 2013/2015; award vested at date of retirement (6 April 2014) as determined by performance outcomes at the quarter end (31 March 2014) prior to departure in accordance with the LTIP rules; none of the performance conditions were met which resulted in the lapse of the full award[4a]	–	
LTIP: award 28 March 2012 of 60,785 shares; performance period 2012/2014; award vested at date of retirement (6 April 2014) as determined by performance outcomes at the quarter end (31 March 2014) prior to departure in accordance with the LTIP rules; none of the performance conditions were met which resulted in the lapse of the full award[4a]	–	
LTIP: award 13 May 2011 of 71,823 shares; performance period 2011/2013; award vested on 13 May 2014[4a] at 49.2% resulting in a vesting of 35,336 shares; the award was exercised on 29 September 2014 at an execution price of 3,496.0p per share[4b]		1,235
Cash dividend equivalent (LTIP): 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; 2014: (LTIP award 13 May 2011; vested 13 May 2014); 2013: (LTIP award 25 March 2010; vested 25 March 2013)[5]	**143**	123
Total long-term incentives	**143**	1,358
Pension-related benefits[6]		
British American Tobacco UK Pension Fund	**13**	86
Unfunded unapproved retirement benefit scheme (UURBS – UK)	**96**	394
Total pension-related benefits	**109**	480
Other emoluments		
Life insurance	–	8
Cash dividend equivalent (DSBS)		35
Share Reward Scheme: value of shares received during the year	**2**	3
Total other emoluments	**2**	46

Notes:
1. **Benefits:** the figures shown for benefits are gross amounts as 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.
2. **Short-term incentives:** the Remuneration Committee determined John Daly as a 'good leaver' on 26 February 2014 with reference to the IEIS rules and made a cash-only award pro-rated for the period from 1 January 2014 to 6 April 2014 made on the basis of 'on-target' performance in accordance with the rules of the IEIS.
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. **Long-term incentives:** (a) the Remuneration Committee determined John Daly as a 'good leaver' on 26 February 2014 with reference to the LTIP rules; and (b) LTIP award 13 May 2011; an estimated value of £1,160,000 was disclosed in the Annual Report on Remuneration for the year ended 31 December 2013.
5. **Long-term incentives:** cash dividend equivalent (LTIP); these payments were previously categorised for the year ended 31 December 2013 as 'other emoluments'; the 2013 comparative figures have been restated accordingly.
6. **Pension-related benefits:** 2014: pension-related benefits represent the net accrual for the period, being the differential between the individual's total pension entitlements as at 31 December 2013 (adjusted for inflation) and as at 6 April 2014, multiplied by 20 in accordance with the Regulations (2013 calculation basis: a gross pension accrual for the period (adjusted for inflation), multiplied by 20, was applied). John Daly ceased accrual in the PJ Carroll Directors' Plan with effect from 31 August 2004.
7. **Reynolds American Inc. (RAI):** John Daly has been a BAT-nominated director of RAI, an associate undertaking of the Company, since 1 December 2010. In accordance with the arrangements applicable up to the date of his retirement as a Director of the Company on 6 April 2014, the Group received a fee of US$81,665 from RAI (2013: US$277,284) in respect of John Daly's service in that role for the period from 1 January to 6 April 2014. Following his retirement from the Company, John Daly remained a BAT Designee from that date and receives an annual fee direct from RAI for these services in lieu of the fee previously paid to the Group.

Base salary

The Executive Directors' salary review in February 2014 agreed the following changes effective from 1 April 2014. UK-based employees received salary increases averaging around 3.4% and within a range of 0.5% to 6.0% with effect from 1 April 2014.

Executive Directors – salaries	**Base salary from 1 Apr 2014 £**	Percentage change %	Base salary from 1 Apr 2013 £
Nicandro Durante	**1,155,000**	5.00	1,100,000
Ben Stevens	**841,500**	3.00	817,000
John Daly (retired 6 April 2014)	**721,000**	–	721,000

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 more details on pension entitlements.

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

IEIS performance review – process

These are earned by reference to the financial year and are paid in March following the end of the financial year. These variable performance-related awards are delivered 50% in cash and 50% in shares (deferred shares through the Deferred Share Bonus Scheme – DSBS). No element of the bonus is guaranteed.

Performance is reviewed in February each year on the basis of an internal report as well as an assessment by the Group's external auditors of the relevant calculations. The total payout is determined by the actual performance for each measure, relative to that measure's performance points. The Committee retains discretion to override that payout 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.

IEIS performance review – presentation of outcomes

In presenting the outcomes for the year ended 2014, the Remuneration Committee has again considered carefully the question of commercial confidentiality and the sensitivity of bonus targets and results. It remains of the view that no specific targets, including retrospective targets, should be disclosed this year. The Group operates in a highly consolidated industry and is the second largest tobacco company in the world outside China. Its two key competitors (the largest and third largest global tobacco companies) are not subject to the same regulatory disclosures. The Committee considers that these competitors would gain significant commercial insights into the Group's specific objectives and key priorities for its brands and markets if actual targets were disclosed year on year, even if such disclosure was on a retrospective basis. The Committee considers that any such disclosure would be prejudicial to the interests of the Company and its shareholders. The specific performance measures, their weightings and actual performance achieved will continue to be disclosed and an indication is also given as to whether actual performance was at threshold target or maximum. The Committee will continue to review the commercial confidentiality of specific targets on an annual basis.

The ranges of indicative performance for the year ended 31 December 2014 are set out below.

IEIS: performance measure

Adjusted profit from operations (growth over prior year)

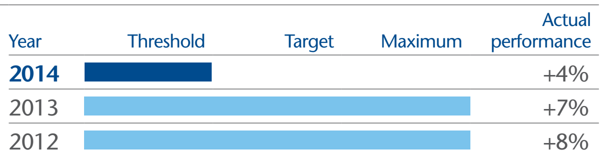
Weighting: 40%

Assessment 2014

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.

The growth in 2014 was underpinned by market share gains, pricing and a continued focus on cost management which has been partially offset by volume decline due to overall market contraction. Profit was also impacted by significant transactional adverse foreign exchange rates.

Indicative outcome



Strategic target or objective
The medium- to long-term target is to grow adjusted profit from operations on average by 6% per year.

REMUNERATION REPORT

Annual Report on Remuneration continued

IEIS: performance measure	Assessment 2014	Indicative outcome
Increase in the 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 10 basis points, driven by the success of the GDBs which were up by 90 basis points.	See chart below
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 (as defined above) grew by 6.5% in 2014, driven by the contributions of Rothmans, Pall Mall and Dunhill and our China JV brands.	See chart below
Cash flow from operations (as against budget) **Weighting: 20%**	Cash flow 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 flow from operations reflected the continuing programme to optimise working capital coupled with the growth of underlying operating performance and was despite a substantial increase in net capital expenditure as the Group invests in TaO and its operations (growth markets and innovations).	See chart below

Indicative outcome – Increase in the Group's share of key markets

Year	Threshold	Target	Maximum	Actual performance
2014				+0.1%
2013				+0.2%
2012				+0.1%

Strategic target or objective
To continue to grow market share.

Indicative outcome – GDB and KSB volumes

Year	Threshold	Target	Maximum	Actual performance
2014				+6.5%
2013				+2.1%
2012				+3.0%

Strategic target or objective
To increase our GDB and KSB volumes faster than the rest of the portfolio.

Indicative outcome – Cash flow from operations

Year	Threshold	Target	Maximum	Actual performance
2014				+8%
2013				+10%
2012				+14%

Strategic target or objective
To generate optimal cash flow while continuing to support business requirements.

IEIS payouts – Executive Directors

In addition to the Company-based IEIS corporate performance measures, the Remuneration Committee has also reviewed each Executive Director's personal performance against a weighted set of operational and strategic measures. These were agreed as their specific individual objectives at the beginning of the year and depend on the priorities for each Director's area of responsibility in the context of the delivery of Group strategy. Personal performance rated as 'Outstanding' can result in an uplift of either 10% or 20% to the corporate IEIS result but is subject to the applicable maximum award limit. Personal performance rated as 'Requires Improvement' results in any corporate IEIS result being reduced by 50%.

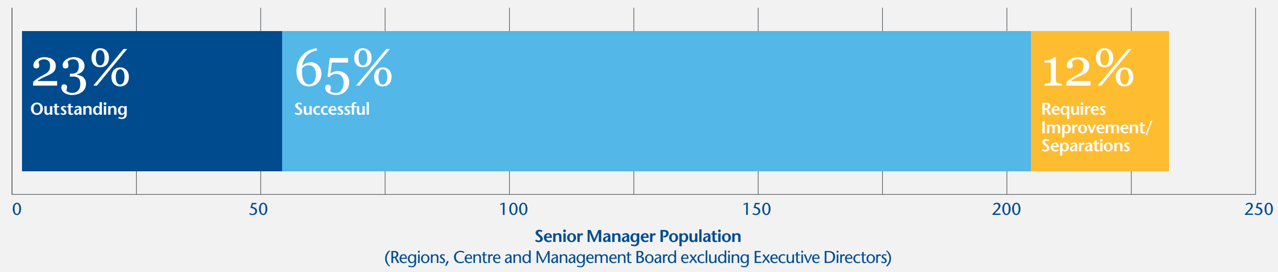
The Remuneration Committee exercised its discretion to rate the Executive Directors as follows: Nicandro Durante 'Outstanding' and Ben Stevens 'Outstanding'. These ratings resulted in the IEIS outcomes for both Executive Directors being increased by 20% to give a total short-term incentive result of 146.3% and 131.6% respectively.

The Committee concluded that Nicandro Durante has shown exceptional leadership and sound judgement in pursuing the long-term sustainability of the business while delivering results in keeping with the expectations of shareholders. This has been against a background of intense competition on price and the impact of significant foreign exchange volatility. More particularly, the Group has outperformed the sector and his personal objectives, which were all achieved or exceeded, included progressing the Group's M&A agenda, stimulating our NGP programme and developing management throughout the organisation.

In respect of Ben Stevens' personal performance, the Committee confirmed that his financial stewardship of the Group during a particularly challenging year to be worthy of special recognition. His personal objectives for the year, which were also all achieved or exceeded, included mitigating the impact of foreign exchange volatility and overseeing the implementation of the TaO programme in delivering transformational change with a global integrated management system. This, together with a focus on cost reduction, has led to a further improvement in the Group's operating margin.

A similar 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 2014 were as follows:

Senior Managers: individual performance ratings 2014



The total payouts for the Executive Directors (expressed as a percentage of base salary) are shown below with the actual payments shown in the individual analysis tables on pages 88–90.

The awards made under the DSBS are in the form of free ordinary shares in the Company that are normally held in trust for 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 ending 2015.

IEIS payout: 50% in cash, 50% in deferred shares (DSBS), up to 20% performance uplift on the corporate result (cash)	**Corporate result 2014 %**	**Performance uplift result 2014 %**	**Total IEIS result 2014 %**	**Maximum opportunity %**	Corporate result 2013 %	Performance uplift result 2013 %	Total IEIS result 2013 %	Maximum opportunity %
Nicandro Durante	**121.9**	**20**	**146.3**	**200**	162.7	n/a	162.7	200
Ben Stevens	**109.7**	**20**	**131.6**	**180**	146.4	n/a	146.4	180
John Daly (retired 6 April 2014)	**85**	**n/a**	**85**	**180**	146.4	n/a	146.4	180

Note:
1. **John Daly:** determined by the Remuneration Committee on 26 February 2014 as a 'good leaver'; the IEIS award for the year ended 31 December 2014 was a cash-only award receivable for the period from 1 January 2014 to 6 April 2014 made on the basis of an 'on-target' performance in accordance with the rules of the IEIS.

REMUNERATION REPORT

Annual Report on Remuneration continued

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

Vesting of the 2012 LTIP awards in 2015: outcomes against performance measures

2012 LTIP awards Performance measure	Threshold	Maximum	Actual	% maximum achieved
Total shareholder return (TSR) ranking – the constituents of the London Stock Exchange **FTSE 100 Index** at the beginning of the three-year performance period (1 January 2012 to 31 December 2014): **25% of award**.				
The comparison is based on three months' average values and the Company achieved a below-median annualised TSR of 11.4%. Four companies in the comparator group delisted during the performance period.	Median (6% of award vests)	Upper quartile (25% of award vests)	Ranked 53/96	**00.0**
Total shareholder return (TSR) ranking – a peer group of international **FMCG companies** at the beginning of the three-year performance period (1 January 2012 to 31 December 2014): **25% of award**.				
The comparison is based on three months' average values and the Company achieved a below median annualised TSR of 11.4%. Two companies in the comparator group delisted during the performance period.	Median (6% of award vests)	Upper quartile (25% of award vests)	Ranked 19/24	**00.0**
In the event of upper-quartile performance by the Company relative to both the comparator groups, 50% of the total award vests in full; 6% of the total award vest 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.				
Earnings per share (EPS) – compound annual growth relative to UK inflation measured at current rates of exchange: **50% of award**.				
This element of the award will vest in full if EPS growth over the three-year performance period is an average of at least 8% per annum in excess of UK inflation. 8% of the award will vest if the EPS growth over the performance period is 3% in excess of inflation. 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 3% per annum in excess of UK inflation.	3%	8%	0.2%	**00.0**
Total				**00.0**
None of the performance conditions for the 2012 LTIP awards were met and none of the awards will vest on 28 March 2015. A nil value has been used for the purposes of the 'single figure' table. The awards held by the Executive Directors at the anniversary of the date of the award were as below.				

2012 LTIP awards Performance period: 1 Jan 2011 – 31 Dec 2014 Award date: 28 March 2012 Vesting date: 28 March 2015	Number of shares awarded	Number of shares vesting % vesting	Number of shares lapsing % lapsing	Value of shares vesting £'000
		0	124,688	
Nicandro Durante	124,688	00.0	100	**0**
		0	70,137	
Ben Stevens	70,137	00.0	100	**0**

John Daly: determined by the Remuneration Committee on 26 February 2014 as a 'good leaver' in accordance with the rules of the LTIP; the actual vesting percentage in respect of his 2012 LTIP award was determined by the outcomes of the performance measures at the quarter end of 31 March 2014 prior to his date of retirement of 6 April which was also nil%.

Current position on outstanding LTIP awards

The tables below show: (1) the current position against the performance targets for the outstanding LTIP awards for 2013 and 2014 for Executive Directors as at 31 December 2014; and (2) a description of the key elements supporting the performance measures for those awards and for the vesting 2012 award referred to above.

2013 LTIP awards Performance measure	Threshold	Maximum	Actual to 31 Dec 2014	% achieved at 31 Dec 2014
Total shareholder return (TSR) ranking – the constituents of the London Stock Exchange **FTSE 100 Index** at the beginning of the performance period (1 January 2013 to 31 December 2015): **25% of award**.				
The comparison is based on three months' average values and the Company achieved a below-median annualised TSR of 9.8% for the interim testing period. Three companies in the comparator group have delisted during the performance period to date, 31 December 2014.	Median (6% of award vests)	Upper quartile (25% of award vests)	Ranked 51/97	**00.0**
Total shareholder return (TSR) ranking – a peer group of international **FMCG companies** at the beginning of the performance period (1 January 2013 to 31 December 2015): **25% of award**.	Median (6% of award vests)	Upper quartile (25% of award vests)	Ranked 17/24	**00.0**
The comparison is based on three months' average values and the Company achieved a below-median annualised TSR of 9.8% for the interim testing period. One company in the comparator group has delisted during the performance period to date, 31 December 2014.				
In the event of upper quartile performance by the Company relative to both the comparator groups, 50% of the total award vests in full; 6% of the total award vest 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.				
Earnings per share (EPS) – compound annual growth relative to UK inflation measured at current rates of exchange: **50% of award**.				
This element of the award will vest in full if EPS growth over the three-year performance period is an average of at least 8% per annum in excess of UK inflation. 8% of the award will vest if the EPS growth over the performance period is 3% in excess of inflation. 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 3% per annum in excess of UK inflation.	3%	8%	0.2%	**00.0**
Total				**00.0**

REMUNERATION REPORT

Annual Report on Remuneration continued

2014 LTIP awards Performance measure	Threshold	Maximum	Actual to 31 Dec 2014	% achieved at 31 Dec 2014
Total shareholder return (TSR) ranking – a peer group of international **FMCG companies** at the beginning of the performance period (1 January 2014 to 31 December 2016): **25% of award**.				
The comparison is based on three months' average values and the Company achieved a below-median annualised TSR of 12.8% for the interim testing period. No company in the comparator group has delisted during the performance period to date, 31 December 2014.	Median (6% of award vests)	Upper quartile (25% of award vests)	Ranked 8/24	20.8
Earnings per share (EPS) – compound annual growth measured at current rates of exchange: **50% of award**.				
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. 10% 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.	5%	10%	3.0%	00.0
Net turnover (NTO) – compound annual growth measured at constant rates of exchange: **25% of award.**				
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.	2%	5%	3.2%	13.6
Total				**34.4**

TSR: comparator group and measurement

The comparator group of FMCG companies, which is regularly reviewed to ensure that it remains both relevant and representative, is chosen to reflect the Company's financial and business trading environments. The constituents of the comparator group as at 31 December 2014 are as follows:

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

TSR is measured according to the return index calculated by Datastream and reviewed by the Committee's remuneration consultants. 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 the average of the index numbers for 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, used historically by the Remuneration Committee for the purposes of TSR measurement, is considered to have the benefits of simplicity and directness of comparison with the performance of the comparator companies.

EPS: calculation

Growth in EPS for these purposes is calculated on an adjusted diluted EPS basis using a formula which incorporates: (1) an increase in adjusted diluted EPS between the base year and the final year of the performance period, expressed as an annual growth rate over the period; and (2) the annualised retail price (RPI) growth between the last month of the year immediately preceding the performance period and the last month of the final financial year of the performance period. This method is considered to be a fair and reasonable measure of performance.

LTIP – clawback and malus provisions

Clawback (from 2015 awards): provisions operate under which a part or a whole of an LTIP award can be recovered at any time during the two-year period from the end of the performance period or vesting date against the gross number of shares comprised in an LTIP award. The Committee may determine to apply clawback where: (1) there has been a material misrepresentation or misstatement by an LTIP participant in relation to the performance of the Company and/or the participant which has influenced the extent to which any prior award vested; or (2) where an LTIP participant leaves employment on the grounds of misconduct in relation to an act or omission committed at any time prior to and/or after the vesting date. LTIP awards may be reduced or lapsed accordingly and the value of past exercised awards may be subject to recovery by the Company.

Malus (from 2014 awards): provisions operate under which a part or a whole of an LTIP award can be recovered at any time during the three-year vesting period against the gross number of shares comprised in an LTIP award. The Committee may determine to apply clawback where: (1) there has been a material misrepresentation or misstatement by an LTIP participant in relation to the performance of the Company and/or the participant which has influenced the extent to which any prior award vested; or (2) where an LTIP participant leaves employment on the grounds of misconduct in relation to an act or omission committed at any time prior to and/or after the vesting date. LTIP awards may be reduced or lapsed accordingly and the value of past exercised awards may be subject to recovery by the Company.

Vesting of past LTIP awards for the years ended 2010 to 2014

The following table shows the historical vesting of awards over the five-year period for the years ended 31 December 2010 to 31 December 2014, inclusive.

LTIP award date	28 Mar 2012	13 May 2011	25 Mar 2010	27 Mar 2009	15 May 2008
Year ended	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010
Performance period	2012/2014	2011/2013	2010/2012	2009/2011	2008/2010
Vesting date	28 Mar 2015	13 May 2014	25 Mar 2013	27 Mar 2012	15 May 2011
TSR – FTSE 100 group of companies:					
Ranking	53	34	15	21	12
Percentage of vesting award	00.0	17.9	25	25	25
TSR – FMCG peer group:					
Ranking	19	10	5	5	2
Percentage of award vesting	00.0	14.2	25	25	25
Earnings per share growth:					
Percentage per annum above inflation	0.2	4.1	6.5	10.8	15.9
Percentage of vesting award	00.0	17.1	37.1	50	50
Total vesting percentage	00.0	49.2	87.1	100	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 2014.

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

In the 2013 Annual Report on Remuneration, we reported the percentage change in salary, taxable benefits and short-term incentive of the Chief Executive between 2012 and 2013 and compared it with the average change, over that period, for UK Senior Management. This group was considered relevant in terms of succession planning and management reporting, being the top 80 employees who operate immediately below and principally report to members of the Management Board. These individuals, like the Executive Directors, are generally on UK contracts and are eligible to participate in the short-term incentive arrangements.

However, the Committee recognises that this small comparator group, while compliant with the Regulations, does not match with developing best practice. The Committee also noted the practical difficulties, given the global nature of the business, of making a worthwhile comparison between the Chief Executive and a comparator group including all Group employees. A presence in almost every country in the world generates wide variations in employee pay not least as a result of differing economic conditions and wide variations in GDP per capita. Nevertheless, the Committee agreed that a revised comparator group for the year ended 31 December 2014 will be used. This now comprises 1,979 employees, being the UK employee population on UK employment contracts (2013: 2,051 employees). In 2014, UK employees were awarded performance-based pay increases in the range 0.5% to 6.0% with an average of 3.4%.

The Remuneration Committee considers this broader based group will provide a more realistic comparison when considering the percentage change in the Chief Executive's remuneration.

REMUNERATION REPORT

Annual Report on Remuneration continued

	Base salary £'000			Taxable benefits £'000			Short-term incentives £'000		
	2014	2013	Increase %	2014	2013	Increase/ (Decrease) %	2014	2013	Increase/ (Decrease) %
Nicandro Durante (Chief Executive)	**1,141**	1,088	**4.9**	**132**	186[2]	**(29.0)**	**1,690**	1,790	**(5.6)**
UK-based employees[1]	**67**	65	**3.1**	**4**	4	**–**	**22**	33	**(33.3)**

Notes:
1. **UK-based Employees:** the data for this comparator group comprises: (1) the weighted average base salaries as at 31 December 2014 for all employees on a UK contract based in the UK; (2) the average taxable benefits per grade as at 31 December 2014; and (3) an estimated weighted average bonus based on that population as at 31 December 2014.
2. **Taxable benefits:** in order to provide a relevant comparative figure, the one-off tax equalisation payment of £440,000 for Nicandro Durante made in 2013 was excluded.

'Single figure' table for Non-Executives 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 2014 together with comparative figures for 2013. The aggregate Directors' emoluments are shown on page 100.

Non-Executive Directors[1]	Base fee £'000		Other fees £'000		Taxable benefits[2] £'000		Total remuneration £'000	
	2014	2013	2014	2013	2014	2013	2014	2013
Karen de Segundo Chair of CSR Committee, Member of Nominations Committee	**90**	90	**31**	26	**–**	1	**121**	117
Ann Godbehere Member of Audit, Remuneration and Nominations Committees	**90**	90	**18**	13	**1**	1	**109**	104
Savio Kwan (from 6 January 2014) Member of CSR and Nominations Committees	**89**	n/a	**12**	n/a	**39**	n/a	**140**	n/a
Christine Morin-Postel Senior Independent Director, Member of Audit, Remuneration and Nominations Committees	**90**	90	**48**	33	**8**	9	**146**	132
Dr Gerry Murphy Chairman: Remuneration Committee, Member of Nominations Committee	**90**	90	**36**	30	**1**	1	**127**	121
Kieran Poynter Chairman: Audit Committee, Member of Remuneration and Nominations Committees	**90**	90	**42**	29	**–**	–	**132**	119
Richard Tubb (from 28 January 2013) Member of CSR and Nominations Committees	**90**	84	**12**	6	**36**	54	**138**	144
Retired Non-Executive Directors								
Robert Lerwill (to 25 April 2013) Chairman: Audit Committee	**n/a**	29	**n/a**	11	**n/a**	3	**n/a**	43
Anthony Ruys (to 30 April 2014) Member of Audit and Nominations Committees	**30**	90	**4**	7	**5**	14	**39**	111
Sir Nicholas Scheele (to 25 April 2013) Senior Independent Director and Member of CSR Committee	**n/a**	29	**n/a**	13	**n/a**	81	**n/a**	123
Total	**659**	682	**203**	168	**90**	164	**952**	1,014

Notes:
1. **Board Committee memberships and positions:** shown as at 31 December 2014.
2. **Benefits:** the figures shown are gross amounts, as appropriate, and it is the normal practice of the Company to pay the tax that may be due on any benefits.

Analysis of Non-Executive Directors' taxable benefits – audited

Non-Executive Directors: taxable benefits	Taxable benefits: accompanied attendance at business functions £'000		Taxable benefits: travel expenses and 'walk-in' medical services £'000		Total taxable benefits £'000	
	2014	2013	**2014**	2013	**2014**	2013
Karen de Segundo	**–**	–	**–**	1	**–**	1
Ann Godbehere	**–**	–	**1**	1	**1**	1
Savio Kwan (from 6 January 2014)	**–**	n/a	**39**	n/a	**39**	n/a
Christine Morin-Postel	**–**	–	**8**	9	**8**	9
Gerry Murphy	**–**	–	**1**	1	**1**	1
Kieran Poynter	**–**	–	**–**	–	**–**	–
Richard Tubb (from 28 January 2013)	**–**	7	**36**	47	**36**	54
Retired Non-Executive Directors						
Robert Lerwill (to 25 April 2013)	**n/a**	–	**n/a**	3	**n/a**	3
Anthony Ruys (to 30 April 2014)	**–**	1	**5**	13	**5**	14
Sir Nicholas Scheele (to 25 April 2013)	**n/a**	12	**n/a**	69	**n/a**	81
Total	**–**	20	**90**	144	**90**	164

Note:
1. **Benefits:** the figures shown for benefits are gross amounts, as appropriate, and it is the normal practice of the Company to pay the tax which may be due on any benefits.

Fees

The basis for the fees is set out in the Policy Table above. The fees' structure for 2014 is set out below.

Non-Executive Directors – fee structure	Jan–Dec 2014 £	Jan–Dec 2014 £
Base fee	**90,000**	
Supplements:		**Committee membership fee**
– Senior Independent Director	**30,000**	**–**
– Audit Committee	**Chairman: 30,000**	**6,000**
– CSR Committee	**Chairman: 25,000**	**6,000**
– Nominations Committee	**Chairman: –**	**6,000**
– Remuneration Committee	**Chairman: 30,000**	**6,000**

Travel and other expenses

Non-Executive Directors are reimbursed for the cost of travel and related expenses in respect of their attendance at Board, Committee and General meetings. Where such reimbursement is classified as a benefit to the Director, it is also the practice of the Company to pay any tax due on that benefit. The Non-Executive Directors also have the benefit of GP 'walk-in' medical services located close to the Group's headquarters in London. They receive no other pay or benefits. Spouses of Non-Executive Directors may, from time to time, accompany the Directors to overseas or UK-based Board meetings and otherwise at hospitality functions during the year.

Non-Executive Director – Anthony Ruys: ITC Ltd – audited

ITC Ltd (ITC) is an associate undertaking of the Company and is listed on stock exchanges in India. Anthony Ruys was a Non-Executive Director of the Company until his retirement on 30 April 2014 and was also a non-executive director of ITC until 24 July 2014. During the year ended 31 December 2014 from 1 January 2014 to 30 April 2014, Anthony Ruys received INR 520,000 (£5,106) in fees from ITC (2013: INR 780,000 (£7,614)). This amount was the subject of an annual supplement from a Group company so that he received a total annual fee for this appointment in 2014 of £25,000 (2013: £75,000). Anthony Ruys also had an interest in options over shares in ITC granted under the ITC Employee Stock Option Scheme 2006 which provided for the grant of options (ITC options) to its non-executive directors as permitted by the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999. No ITC options were granted to Anthony Ruys in the period from 1 January 2014 to 30 April 2014.

REMUNERATION REPORT

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 2014 together with comparative figures for 2013. The aggregate Directors' emoluments are shown below.

	2014 £'000	2013 £'000
Chairman – Richard Burrows		
Fees	**629**	615
Taxable benefits[1]		
– health insurance	**14**	13
– use of a company driver	**59**	59
– installation and maintenance of home security systems in the UK and Ireland	**7**	13
– hotel accommodation and related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events	**16**	14
Other emoluments		
– commuting flights to London	**5**	6
Total remuneration	**730**	720

Note:
1. **Benefits:** the figures shown for taxable benefits are gross amounts as it is the normal practice of the Company to pay any tax due on such benefits.

The Remuneration Committee is responsible for determining the terms of engagement and fees payable to the Chairman. The current terms of Richard Burrows' appointment provide for: (1) an annual fee of £632,400; (2) the use of a driver; (3) private medical insurance and personal accident insurance benefits; and (4) the reimbursement by the Company of the cost of return airline tickets to London from his home in Ireland in connection with his duties as Chairman. Richard Burrows also has the benefit of GP 'walk-in' medical services located close to Head Office. In common with the Non-Executive Directors, he does not participate in the British American Tobacco share schemes, bonus schemes or incentive plans and is not a member of any Group pension plan.

Aggregate Directors' emoluments – audited

The aggregate emoluments of the Directors of the Company were as follows:

	Executive Directors		Chairman		Non-Executive Directors		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Salary	**2,167**	2,609					**2,167**	2,609
Fees			**629**	615	**862**	850	**1,491**	1,465
Taxable benefits	**290**	830	**96**	99	**90**	164	**476**	1,093
Short-term incentives	**2,969**	4,042					**2,969**	4,042
Long-term incentives[1]	**594**	5,726[2]					**594**	5,726
Sub-total: fees; benefits; incentives	**6,020**	13,207	**725**	714	**952**	1,014	**7,697**	14,935
Pension	**953**	1,394					**953**	1,394
Other emoluments[1]	**68**	175	**5**	6			**73**	181
Sub-total: pension; other emoluments	**1,021**	1,569	**5**	6			**1,026**	1,575
Total emoluments	**7,041**	14,776	**730**	720	**952**	1,014	**8,723**	16,510

Note:
1. **Long-term incentives:** these include cash dividend equivalent payments made under the LTIP which were previously categorised for the year ended 31 December 2013 as 'other emoluments'; the 2013 comparative figures have been restated accordingly.
2. **Long-term incentives 2013:** in accordance with the Regulations, estimated values for the vesting of LTIP awards in the year were disclosed; these amounts have been re-presented to show the actual market values on the dates of exercise in 2014.

Total pension entitlements

Executive Directors' pension entitlements – audited

Pension values	Normal retirement age	Accrued pension at year end 31 Dec 2014 £'000	Additional value of pension on early retirement £'000
Nicandro Durante			
UURBS (UK)	60	**81**	–
Total		**81**	
Ben Stevens			
Pension Fund (UK)	60	**97**	–
UURBS (UK)	60	**226**	–
Total		**323**	
John Daly (retired 6 April 2014)			
Pension Fund (UK)	60	**26**	–
UURBS (UK)	60	**139**	–
Total		**165**	

Notes:
1. **Total accrued pension:** this is the amount of pension that would be paid annually on retirement based on service to the end of the year, excluding any increase granted under the statute before retirement. The pension-related benefits disclosed for each Director in the single total figures for Directors' remuneration represent the individual's net accrual for the period, being the differential between the individual's total pension entitlements as at 31 December 2013 (adjusted for inflation) and as at 31 December 2014 (John Daly: 6 April 2014), multiplied by 20 in accordance with the Regulations.
2. **UK Pension Fund:** this is non-contributory. Voluntary contributions paid by Executive Directors and resulting benefits are not shown. No excess retirement benefits have been paid to or are receivable by any Executive Director or past Executive Director.
3. **John Daly:** the amounts shown reflect the pensions in payment as at 31 December 2014 following his retirement and exclude the cash lump sum of £171,663 which he elected to take as commutation of part of his pension at retirement in accordance with the rules of the UK Pension Fund.

Nicandro Durante – UURBS

Nicandro Durante's pension entitlements derived through the UURBS are 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 SA; £788,328 per annum with effect from 1 April 2014. 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 the UURBS.

Nicandro Durante receives a pension in payment from the Fundação Albino Souza Cruz (FASC) from Souza Cruz SA, a Brazilian registered company in which the Group has a 75% interest. This pension benefit has been in payment since April 2012 and currently amounts to approximately £361,382 per annum (after adjusting for currency exchange) reflecting Nicandro Durante's 31 years' service at Souza Cruz.

Ben Stevens and John Daly – British American Tobacco UK Pension Fund and UURBS

Ben Stevens and John Daly each joined the British American Tobacco UK Pension Fund (the '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, these individuals were subject to the HMRC cap on pensionable earnings (notionally £146,400 for the tax year 2014/15). In addition, each 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 Pension Fund. This is provided through membership of an unfunded unapproved retirement benefit scheme (UURBS). Further to the changes to the applicable tax regulations, the pension accrual in the Pension Fund for John Daly was restricted to the statutory annual allowance of £40,000 with the balance being provided through the UURBS. Ben Stevens has reached his lifetime allowance of £1.8 million and has therefore 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 either Director. John Daly retired as an Executive Director on 6 April 2014. The amounts shown reflect the pensions in payment as at 31 December 2014 following his retirement and exclude the cash lump sum of £171,663 which he elected to take as commutation of part of his pension at retirement in accordance with the rules of the UK Pension Fund.

These commitments are included in Note 12 on the Accounts. Members of the Pension Fund 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.

John Daly – P J Carroll Directors' Plan

John Daly was formerly a member of the P J Carroll Directors' Plan in Ireland. Under the Plan he is entitled to a deferred benefit of €110,776 per annum, as at 31 December 2013, payable from the age of 60. John Daly stepped down as Chief Operating Officer on 31 December 2013 and he transferred the value of this deferred benefit out of the P J Carroll Directors' Plan to a private arrangement in January 2014. He ceased to be an Executive Director on 6 April 2014.

REMUNERATION REPORT

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 2014	No. of eligible[1] ordinary shares held at 31 Dec 2014	Value of eligible ordinary shares held at 31 Dec 2014[2] £m	Actual percentage (%) of base salary at 31 Dec 2014	No. of eligible[1] ordinary shares held at 24 Feb 2015	Value of eligible ordinary shares held at 24 Feb 2015[2] £m	Actual percentage (%) of base salary at 24 Feb 2015
Executive Directors							
Nicandro Durante	400	171,297	6.0	519.1	171,297	6.4	554.2
Ben Stevens	250	59,349	2.1	246.8	60,349	2.3	268.0

	Share ownership requirements (% of base salary) 6 Apr 2014	No. of eligible ordinary shares held at 6 Apr 2014	Value of eligible ordinary shares held at 6 Apr 2014[2] £m	Actual percentage (%) of base salary at 6 Apr 2014
Former Executive Director				
John Daly (retired 6 April 2014)	250	59,820	2.0	277.7

Notes:

1. **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.
2. **Closing mid-market prices:** the following prices are applicable to the shareholding guideline tables above.

Date	Closing mid-market price (pence)
4 April 2014 (the nearest business day to 6 April 2014)	3,346.5
31 December 2014	3,500.0
24 February 2015 (the latest practicable date prior to the approval of the Annual Report)	3,737.0

Where 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. There are no formal shareholding requirements for the Non-Executive Directors although they are encouraged to build a small interest in shares during the term of their appointment.

Share interests – audited

The interests of the Directors who served during the year ended 31 December 2014 in the ordinary shares of the Company (beneficial, family and any connected persons) are as follows:

	At 1 Jan 2014	Awarded on 28 Mar 2014	Released on 25 Mar 2014[1]	At 31 Dec 2014	Changes from 31 Dec 2014
Executive Directors					
Nicandro Durante					
Shares held – owned outright	159,040			**171,297**	
SIP shares[2] – held in employee benefit trust	1,374			**1,556**	**8**[4]
DSBS: deferred shares – unvested subject to continued employment	78,706	27,466	22,056	**84,116**	
Total share interests	239,120			**256,969**	
Ben Stevens					
Shares held – owned outright	58,360			**59,349**	**1,000**[4]
SIP shares[2] – held in employee benefit trust	1,018			**532**	
DSBS: deferred shares – unvested subject to continued employment	61,822	18,356	23,702	**56,476**	
Total share interests	121,200			**116,357**	

	At 1 Jan 2014	Awarded on 28 Mar 2014	Released on 25 Mar 2014[1]	At 6 April 2014
Former Executive Director				
John Daly (retired 6 April 2014)[6]				
Shares held – owned outright	44,792			**59,820**
SIP shares[2] – held in employee benefit trust	280			**353**[6]
DSBS: deferred shares – unvested subject to continued employment	51,137	16,199	17,833	**49,503**[6]
Total share interests	96,209			**109,676**

Notes:
1. **DSBS – deferred shares:** the closing mid-market price on the date of release (25 March 2014) was 3,250.5p.
2. **SIP shares:** these comprise vested and unvested shares in the Share Incentive Plan (Partnership Share Scheme and Share Reward Scheme/International Share Reward Scheme).
3. **Share Reward Scheme:** based on the performance for 2014, the Executive Directors will each be awarded a number of ordinary shares to the value of £1,828 on 1 April 2015.
4. **Changes from 31 December 2014:** these relate to: (1) the purchase by **Nicandro Durante** of a total of eight ordinary shares under the Partnership Share Scheme on 7 January and 4 February 2015; and (2) the exercise by **Ben Stevens** of 1,000 options held under the Sharesave Scheme on 28 January 2015.
5. **BATGET:** on 31 December 2014, the Group's employee share ownership trust, referred to later in this Remuneration Report, held a total of 6,357,513 ordinary shares in the Company. All participating employees, including the Executive Directors, are deemed to have a beneficial interest in these shares.
6. **John Daly: SIP shares** – released in accordance with the terms of relevant plan on 14 April 2014; **DSBS shares** – the Remuneration Committee determined on 26 February 2014 that he was a 'good leaver' and he received full and immediate vesting of the 49,503 shares which were sold at a price of 3,404.0p per share on 10 April 2014.

	At 1 Jan 2014	At 31 Dec 2014
Chairman Shares held – owned outright		
Richard Burrows	10,000	**15,000**
Non-Executive Directors Shares held – owned outright		
Karen de Segundo	2,000	**2,000**
Ann Godbehere[1]	2,907	**3,100**
Savio Kwan	–	**–**
Christine Morin-Postel	3,000	**3,000**
Gerry Murphy	3,000	**5,000**
Kieran Poynter	5,000	**5,000**
Richard Tubb	–	**–**

Notes:
1. **Ann Godbehere**: these share interests consist of 1,550 American Depositary Receipts, each of which represents two ordinary shares in the Company.
2. **Changes from 31 December 2014**: there were no changes in the share interests of the Chairman and the Non-Executive Directors.

REMUNERATION REPORT

Annual Report on Remuneration continued

	At 1 Jan 2014	At 30 Apr 2014
Former Non-Executive Director		
Shares held – owned outright		
Anthony Ruys (to 30 April 2014)	3,000	**3,000**

Scheme interests – share incentive awards – audited

The scheme interests of the Executive Directors who served during the year ended 31 December 2014 in the shares of the Company under the Long-Term Incentive Plan (LTIP) are as follows:

	LTIP shares balance 1 Jan 2014	LTIP shares awarded in 2014	Award date	LTIP shares vested at 49.2% in 2014 (13 May)	LTIP shares lapsed in 2014	LTIP shares exercised in 2014	**LTIP shares balance 31 Dec 2014**	Performance period
Executive Director								
Nicandro Durante	147,329		13 May 2011	72,485	74,844	72,485	–	2011/2013
	124,688		28 Mar 2012				**124,688**	2012/2014
	119,828		22 Mar 2013				**119,828**	2013/2015
		135,052	28 Mar 2014				**135,052**	2014/2016
Total	**391,845**	**135,052**		**72,485**	**74,844**	**72,485**	**379,568**	
Ben Stevens	79,558		13 May 2011	39,142	40,416	39,142	–	2011/2013
	70,137		28 Mar 2012				**70,137**	2012/2014
	66,932		22 Mar 2013				**66,932**	2013/2015
		75,230	28 Mar 2014				**75,230**	2014/2016
Total	**216,627**	**75,230**		**39,142**	**40,416**	**39,142**	**212,299**	

	LTIP shares balance 1 Jan 2014	Award date	LTIP shares vested in 2014 (13 May)	LTIP shares lapsed in 2014	LTIP shares exercised in 2014	LTIP shares balance 31 Dec 2014	Performance period	Vesting notes
Former Executive Director								
John Daly[4] (retired 6 April 2014)	71,823	13 May 2011	35,336	36,487	35,336	–	2011/2013	Award vested at 49.2%.
	60,785	28 Mar 2012	0	60,785		–	2012/2014	Award vested at date of retirement as determined by performance outcomes at the quarter end (31 March 2014) prior to departure in accordance with the LTIP rules; the award vested at nil% resulting in the lapse of the full award.
	59,058	22 Mar 2013	0	59,058		–	2013/2015	Award vested at date of retirement as determined by performance outcomes at the quarter end (31 March 2014) prior to departure in accordance with the LTIP rules; the award vested at nil% resulting in the lapse of the full award.
Total	**191,666**		**35,336**	**156,330**	**35,336**	**–**		

Notes:

1. **Non-Executive Directors:** they do not participate in the LTIP.
2. **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 other variations in the terms and conditions of the LTIP interests during the year.
3. **Aggregate gains of LTIP shares exercised in year (£'000):** (a) **Nicandro Durante** £2,562 at 3,535.0p on 30 July 2014; (b) **Ben Stevens** £1,364 at 3,486.0p on 31 July 2014; and (c) **John Daly** £1,235 at 3,496.0p on 29 September 2014.
4. **John Daly:** no awards were made in 2014; the Remuneration Committee determined John Daly as a 'good leaver' on 26 February 2014 with reference to the LTIP rules.

Scheme interests – share options – audited

The scheme interests of the Executive Directors who served during the year ended 31 December 2014 in the shares of the Company under the Sharesave Scheme are as follows:

	At 1 Jan 2014 Number of shares	Grant date	Grant price pence	Granted in 2014	Exercised in 2014	Lapsed in 2014	**At 31 Dec 2014 Number of shares**	Date from which exercisable	Latest expiry date
Nicandro Durante	591	28 Mar 2012	2,536.0				**591**	May 2017	Oct 2017
		26 Aug 2014	2,787.0	543			**543**	Oct 2019	Mar 2020
Total	591			543			**1,134**		
Ben Stevens	1,000	25 Nov 2009	1,555.0				**1,000**[2]	Jan 2015	Jun 2015
		26 Aug 2014	2,787.0	543			**543**	Oct 2019	Mar 2020
Total	1,000			543			**1,543**		
John Daly (retired 6 April 2014)	457	25 Mar 2011	1,974.0			457	–	May 2014	Oct 2014
Total	457					457[3]	–		

Notes:
1. **Sharesave:** there have been no variations in the terms and conditions of these interests in share options during the year; the aggregate gain on the exercise of Sharesave options was £nil (2013: £nil); 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 £250; (d) options are normally granted at a discount of 20% to the market price at the time of the invitation, as permitted under the rules of the Sharesave Scheme (2009: 1,943.0p; 2011: 2,466.5p; 2012: 3,170.0p; and 2014: 3,483.0p).
2. **Ben Stevens:** exercised 1,000 options on 28 January 2015 giving an aggregate gain of £22,235 on the basis of a closing mid-market price of 3,778.5p; he retained the shares.
3. **John Daly:** the options were exercisable upon his departure in accordance with the rules of Sharesave Scheme; the options lapsed on 7 October 2014.
4. **Non-Executive Directors:** they do not participate in the Sharesave Scheme.

Scheme interests awarded during the year ended 31 December 2014 – audited

	Scheme	Date of award	Basis of award – multiple of base salary %	Face value £'000	Percentage vesting at threshold performance	Number of shares	Performance period end date	Awards exercisable
Executive Directors[3]								
Nicandro Durante	LTIP	28 Mar 2014	400	4,399	20	135,052	31 Dec 2016	28 Mar 2017–27 Mar 2024
Ben Stevens	LTIP	28 Mar 2014	300	2,450	20	75,230	31 Dec 2016	28 Mar 2017–27 Mar 2024

Notes:
1. **Face value of awards 2014:** is calculated by reference to the closing mid-market price of the Company's ordinary shares being an average over three dealing days preceding the date of grant of the award: 3,258.0p.
2. **John Daly:** no LTIP awards were made during the year ended 31 December 2014.
3. **Threshold performance:** the percentage vesting is broken down as follows:

TSR – FMCG peer group	
Ranking – median	
Percentage of vesting award	6
Earnings per share growth	
Compound annual growth measured at current rates of exchange	
Percentage of vesting award	8
Net turnover	
Compound annual growth at constant rates of exchange	
Percentage of vesting award	6
Total	**20**

Shareholder dilution – options and awards outstanding

In accordance with The Investment Association's Principles of Remuneration, the Company can satisfy awards under all its share plans with new issue shares or shares issued from treasury only up to a maximum of 10% of its 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. The Company's former executive share option plan (the 'Share Option Scheme') closed to further grants in March 2004 and the remaining outstanding options lapsed during the year ended 31 December 2014. 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.

During the year, new ordinary shares were issued by the Company in relation to the Sharesave Scheme. Under the Sharesave Scheme, a total of 911,260 options over ordinary shares in the Company were outstanding at 31 December 2014, representing 0.05% of the Company's issued share capital (excluding shares held in treasury). The options outstanding under the Sharesave Scheme are exercisable until end March 2019 at option prices ranging from 1,555.0p to 2,807.0p.

REMUNERATION REPORT

Annual Report on Remuneration continued

The British American Tobacco Group Employee Trust (BATGET)

BATGET is used to satisfy the vesting and exercise of awards of ordinary shares made under the DSBS and the LTIP and was used to satisfy the exercise of options under the closed Share Option Scheme before it expired. The number of shares held in BATGET to satisfy outstanding awards is consistently monitored by a committee of senior management that reports to the Board's Employee Share Schemes Committee.

Funding of the BATGET

BATGET is funded by interest-free loan facilities from the Company totalling £1 billion, enabling the trust to facilitate the purchase of ordinary shares to satisfy the future vesting or exercise of options and awards. The loan to BATGET amounted to £272 million at 31 December 2014 (2013: £603 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 of awards, the Company will subsequently waive the loan provided over the life of the awards. If the options lapse, ordinary shares may be sold by BATGET to cover the loan repayment.

Ordinary shares held in the BATGET

Details of the ordinary shares in the Company held by BATGET are set out below:

	1 January 2014	31 December 2014
Number of ordinary shares	8,929,075	**6,357,513**
Market value of ordinary shares	£289.1m	**£222.5m**
Percentage of the issued share capital of the Company %	0.44	**0.31**

BATGET currently waives dividends on the ordinary shares held by it. BATGET waived payment of the final dividend for 2013 of £8.4 million in May 2014 and the interim dividend for 2014 of £3.3 million in September 2014. The trustee does not exercise any voting rights while shares are held by BATGET. As soon as shares held in BATGET are transferred out to share scheme participants, the participants may exercise the voting rights attaching to those shares. Details of the Company's material share-based payment arrangements, reflecting both equity share-based and cash-settled share-based arrangements, are set out in note 27 on the accounts.

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 2014 other than in respect of certain elements of remuneration referenced in the following table:

Director	Date of retirement	Disclosure
John Daly (Executive Director)	6 April 2014	John Daly did not receive any payment for loss of office or any other payments in relation to the cessation of his employment with the Company. Certain elements of John Daly's remuneration, which were consequent upon his retirement and which were paid at or following the date of his retirement, are disclosed in this Report.
Anthony Ruys (Non-Executive Director)	30 April 2014	Anthony Ruys did not receive any payment for loss of office or any other payments in relation to the cessation of his term of appointment with the Company. He received pro-rated Board fees and Audit Committee fees to the date of his retirement and these are disclosed in this Report.

Voting on the Remuneration Report at the 2014 AGM

At the AGM on 30 April 2014, 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		Approval of Directors' Remuneration Report (other than the part containing the Remuneration Policy) – advisory vote only	
	AGM 2014	AGM 2013	**AGM 2014**	AGM 2013
Percentage for	**90.54**	n/a	**95.30**	91.36
Votes for including discretionary votes	**1,251,092,549**	n/a	**1,316,656,333**	1,257,995,534
Percentage against	**9.46**	n/a	**4.70**	5.72
Votes against	**130,764,082**	n/a	**64,934,172**	78,807,245
Total votes cast excluding votes withheld	**1,381,856,631**	n/a	**1,381,590,505**	1,336,802,779
Votes withheld[1]	**4,014,169**	n/a	**4,280,179**	40,209,042
Total votes cast including votes withheld	**1,385,870,800**	n/a	**1,385,870,684**	1,377,011,821

Note:

1. **Votes withheld:** these are not included in the final proxy figures as they are not recognised as a vote in law.

In early 2014 the Company continued its discussions with shareholders on the Remuneration Policy that had started in the autumn of 2013. In addition, the Chairman undertook his regular programme of engagement in the run-up to the 2014 AGM. The Committee considered the broad range of views and opinions in relation to the proposed changes to the policy: (1) the introduction of the individual performance element in IEIS; (2) the introduction of NTO as a metric in the LTIP; (3) the reduction of the TSR component in the LTIP; and (4) an adjustment to the EPS metric also in the LTIP. These changes were considered to be largely positive.

Directors' remuneration in the year ending 31 December 2015

Proposed implementation of Remuneration Policy in 2015

The Remuneration Policy for the Executive Directors and the Non-Executive Directors, which was approved by shareholders at the AGM on 30 April 2014, is set out in full as the Policy Report in the Annual Report 2013 which is available on the Company's website in the Investor Relations section. A summary of this approved policy, which is binding on the Company and is expected to apply for three years, is set out from page 72 in the form of the Future Policy Table (Executive Directors) and the Remuneration Table (Non-Executive Directors and the Chairman).

The basic elements to note for 2015 are set out below:

Remuneration element YE 31 December 2015	Chief Executive (Nicandro Durante)	Finance Director (Ben Stevens)
Base salary from 1 April 2015	£1,190,000 (+3%)	£867,000 (+3%)
Short-term incentives: **IEIS opportunity** **50% cash** **50% deferred shares (DSBS)**	Maximum bonus opportunity: **200%** of base salary On-target opportunity: **100%**	Maximum bonus opportunity: **180%** of base salary On-target opportunity: **90%**
	Up to **20% uplift** possible if individual performance is assessed as outstanding (up to the maximum opportunity of 200% or 180%). Up to **50% reduction** possible if individual performance is assessed as poor.	
Short-term incentives **IEIS – performance measures and weightings (%)**	– Adjusted profit from operations **(40%)** – Increase in the Group's share of key markets **(20%)** – Global Drive Brands and Key Strategic Brands volumes **(20%)** – Cash flow from operations **(20%)** Specific IEIS bonus targets are considered to be commercially sensitive and are not disclosed.	
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 **LTIP awards 2015 – performance measures and weightings (%)**	**TSR** Performance versus international FMCG companies comparator group **(25%)**; **EPS** Adjusted diluted EPS growth at constant rates of exchange **(50%)**; and **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).	

Remuneration element YE 31 December 2015	Chairman (Richard Burrows) – 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)	£6,000 (no change)
CSR Committee	Chairman: £25,000 (no change)	£6,000 (no change)
Nominations Committee	Chairman: £– (no change)	£6,000 (no change)
Remuneration Committee	Chairman: £30,000 (no change)	£6,000 (no change)

On behalf of the Board

Gerry Murphy
Chairman of the Remuneration Committee
25 February 2015

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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 9.8.4C 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 106 and Other Corporate Disclosures, page 109
Section (13) – Shareholder waivers of future dividends	Remuneration Report, page 106 and Other Corporate Disclosures, page 109

Dividends

Final dividend – recommendation

The Board recommends to shareholders for approval at the Annual General Meeting on 29 April 2015, a final dividend of 100.6p per ordinary share of 25p for the year ended 31 December 2014.

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 2015
Last day to trade (LDT) cum-dividend (JSE)	13 March
Shares commence trading ex-dividend (JSE)	16 March
Shares commence trading ex-dividend (LSE)	19 March
Record date (JSE and LSE)	20 March
Payment date	7 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 = 17.76480 as at 24 February 2015 (the closing rate for that date as quoted on Bloomberg), results in an equivalent final dividend of 1,787.13888 SA cents per ordinary share. From the commencement of trading on 26 February 2015 (the date of the preliminary announcement) until the close of business on 20 March 2015, 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 13 March 2015 until the close of business on 20 March 2015, no transfers between the UK main register and the South Africa branch register are permitted and no shares may be dematerialised or rematerialised between 16 and 20 March 2015, both days inclusive.

South Africa branch register: Dividends Tax information

South Africa Dividends Tax of 268.07083 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 1,519.06805 SA cents per ordinary share.

The Company, as a South Africa non-resident, was not subject to the secondary tax on companies (STC) regime which used to operate before the introduction of Dividends Tax. No STC credits are available for set-off against the Dividends Tax liability on the final dividend which 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 2014 (with 2013 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 29 April 2015. Details of the business to be proposed at the meeting are contained in the Notice of AGM, which is sent 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 and on www.bat.com

Share capital

As at 31 December 2014, the Company had an allotted and fully paid share capital of 2,026,693,029 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 24 February 2015 (the latest practicable date prior to the recommendation of the final dividend for the year ended 31 December 2014), the Company had a total of 1,864,117,591 ordinary shares in issue (excluding treasury shares). The Company held 162,645,590 ordinary shares in treasury giving a total issued share capital of 2,026,763,181 ordinary shares.

Significant shareholders

At 31 December 2014, 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 25 February 2015, 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.	67,664,399	3.63

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 2014, 313,088,347 ordinary shares of the Company (being 16.80% 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 2014, 39,375,710 ADRs were outstanding, represented by 78,751,420 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.

Purchase of own shares

Share buy-back programme 2014

The Board reinstated its on-market share buy-back programme on 28 February 2014 following the Company's Preliminary Announcement on 27 February 2014 and under the authority granted by shareholders in 2013. At the 2014 AGM, the Company was given authority to purchase up to 188,400,000 of its ordinary shares. 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.

During the year ended 31 December 2014, the Company made on-market repurchases totalling 23,129,245 of its own ordinary shares, representing 1.24% of the issued share capital (excluding treasury shares) as at 31 December 2014 and at a value of £795.2 million, excluding transaction costs. These share repurchases were made on the basis of effectively managing the Company's capital base thereby generating an increase in the Company's earnings per share and being in the interest of its shareholders generally. In accordance with the Company's policy, all of these repurchased shares are held as treasury shares and as at 31 December 2014 the number of treasury shares was 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.

The share buy-back programme was suspended with effect from 30 July 2014 following the Company's announcement on 15 July 2014 that the Group planned to invest US$4.7 billion as part of Reynolds American's proposed acquisition of Lorillard.

Renewal of authority to purchase shares

The present authority for the Company to purchase its own shares will expire at the 2015 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. Further details are contained in the Notice of Annual General Meeting which is sent 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

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Other corporate disclosures continued

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.

On 12 September 2014, the Company (as guarantor) and B.A.T. International Finance p.l.c. (as borrower) entered into a term loan 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 borrower US$4.7 billion for the Company's planned investment in Reynolds American in connection with that company's proposed acquisition of Lorillard (the 'Facility'). Pursuant to the Facility, should the borrower cease to be a direct or indirect subsidiary of the Company, the 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 2007 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 2007 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.

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 2014 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 either election (i.e. those Directors appointed by the Board of Directors during the year) or re-election at the forthcoming AGM to be held on 29 April 2015.

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.

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.

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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
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.

GOVERNANCE

Other corporate disclosures continued

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 29 April 2015.

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
25 February 2015

British American Tobacco p.l.c.
Registered in England and Wales No. 3407696

GOVERNANCE

Responsibility of Directors

Statement of the Directors in relation to the Annual Report and financial statements

The Board confirms that it considers that this Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.

When making this assessment, the Board was supported by a recommendation from the Audit Committee, who oversaw well established and effective processes in relation to its preparation.

Directors' responsibilities in relation to the financial statements

The following statement sets out the responsibilities of the Directors in relation to the financial statements of both the Group and the Company. The reports of the independent auditors for the Group and the Company set out their responsibilities in relation to those financial statements.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group and the Company for the financial year. In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The applicable accounting standards referred to above are: (a) United Kingdom Generally Accepted Accounting Principles (UK GAAP) for the Company; and (b) International Financial Reporting Standards (IFRS) as adopted by the European Union and implemented in the UK for the Group.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation, and that the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and, in that context, having proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors are required to prepare financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors are responsible for the maintenance and integrity of the Annual Report on www.bat.com in accordance with the UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

Directors' declaration in relation to relevant audit information

Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors 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.

Directors' responsibility statement

The Directors confirm to the best of their knowledge and belief that:

- the financial statements, prepared in accordance with the applicable accounting standards identified above, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
- the Directors' Report and the Strategic Report include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

The names of the Directors are listed in this Directors' Report and their details appear on the Board of Directors page.

Neither the Company nor the Directors accept any liability to any person in relation to this Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

The responsibility statement was approved by the Board of Directors on 25 February 2015 and signed on its behalf by:

Richard Burrows
Chairman

Ben Stevens
Finance Director