Other Information

Information on the Group

Overview
BAT is the parent holding company of the Group, a leading, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world. According to the Group's internal estimates, the BAT Group is a market leader in more than 55 countries by volume, producing the cigarette chosen by one in eight of the world's one billion smokers. The Group in 2017, excluding the Group's associated undertakings, was organised into five regions: Asia-Pacific, Americas, Eastern Europe Middle East and Africa (EEMEA) and Western Europe, and the US – Reynolds American Inc. The Group has a devolved structure, with each local company having responsibility for its operations.

Effective 1 January 2018, the Group is organised into four regions, being the United States, Asia-Pacific and Middle East (APME), Europe and North Africa (ENA) and Americas and Sub-Saharan Africa (AmSSA).

The Group's range of combustible products covers all segments, from value-for-money to premium with a portfolio of international, regional and local tobacco brands to meet a broad array of adult tobacco consumer preferences wherever the Group operates. The Group is investing in building a portfolio of potentially less harmful tobacco and nicotine products alongside its traditional tobacco business – including vapour and tobacco heating products (THPs) in the Next Generation Products (NGP) category, and, in the oral tobacco and nicotine products category, products such as snus, tobacco-free nicotine pouches and moist snuff. Collectively, the Group refers to these products as its potentially reduced-risk products.

The Group manages a globally integrated supply chain and its products are distributed to retail outlets worldwide.

History and development of BAT
The Group has had a significant global presence in the tobacco industry for over 100 years. BAT Ltd. was incorporated in 1902, when the Imperial Tobacco Company and the American Tobacco Company agreed to form a joint venture company. BAT Ltd. inherited companies and quickly expanded into major markets, including India and Ceylon, Egypt, Malaya, Northern Europe and East Africa. In 1927, BAT Ltd. expanded into the US market through its acquisition of B&W.

During the 1960s, 1970s and 1980s, the Group diversified its business under the umbrella of B.A.T Industries p.l.c., with acquisitions in the paper, cosmetics, retail and financial services industries, among others. Various business reorganisations followed as the business was eventually refocused on the Group's core cigarette, cigars and tobacco products businesses with BAT becoming a separately listed entity on the LSE in 1998.

In 1999, the Group announced a global merger with Rothmans International, at that time the fourth largest tobacco company in the world. The Group acquired Imperial Tobacco Canada in 2000, and in 2003 the Group acquired Ente Tabacchi Italiani S.p.A., Italy's state-owned tobacco company. Investments were made in Peru and Serbia in 2003, through the acquisitions of Tabacalera Nacional and Duvanska Industrija Vranje. In July 2004, the US assets, liabilities and operations, other than certain specified assets and liabilities, of BAT's wholly owned subsidiary, B&W, were combined with RJR Tobacco Company. RAI was formed as a new holding company for these combined businesses. As a result of the B&W business combination, B&W acquired beneficial ownership of approximately 42% of the RAI shares. In 2008, the BAT Group acquired Tekel, the Turkish state-owned tobacco company, as well as 100% of the cigarette and snus business of Skandinavisk Tobakskompagni A/S. Following the acquisition of its business during 2009, the Group recognised an effective 99% interest in Bentoel in Indonesia. In 2011, the Group completed the acquisition of 100% of Protabaco in Colombia. In 2012, the Group acquired CN Creative Limited, a UK based start-up company specialising in the development of e-cigarette technologies. During 2013, the Group entered into joint operations in China and Myanmar. In 2015, the Group acquired: the shares it did not already own in Souza Cruz; the Blue Nile Cigarette Company Limited, a tobacco manufacturing and distribution company in the Republic of Sudan; and the CHIC Group, a vapour product business in Poland; and TDR d.o.o., a cigarette manufacturer in Central Europe. Also in 2015, in connection with the Lorillard Merger, the Group invested US$4.7 billion to maintain its approximate 42% equity position in the enlarged RAI, following RAI's purchase of Lorillard.

In 2016, the Group acquired Ten Motives, a UK based e-cigarette business with particular strength in traditional grocery and convenience channels.

In 2017, the Group completed the acquisition of the remaining 57.8% of RAI the Group did not already own. Following completion of the acquisition, RAI became an indirect, wholly owned subsidiary of BAT and is no longer a publicly held corporation.

During 2017, the Group acquired certain tobacco assets from Bulgartabac Holding AD in Bulgaria and FDS in Bosnia. The Group also acquired Winnington Holdings AB in Sweden and certain assets from Must Have Limited in the UK, including the electronic cigarette brand ViP. The financial impact of these transactions to the Group were immaterial individually and in aggregate.

On 21 December 2017, the Group signed an agreement to acquire 100% of the share capital of Twisp Propriety Limited, a South African e-cigarette / nicotine vapour company, for ZAR 635 million (£37.9 million). Completion of the proposed acquisition is conditional upon South African anti-trust clearance, which is expected to be given in the second quarter of 2018.

BAT was incorporated in July 1997 under the laws of England and Wales as a public limited company and is domiciled in the United Kingdom.

Seasonality
The Group's business segments are not significantly affected by seasonality although in certain markets cigarette consumption trends rise during summer months due to longer daylight time and tourism.

Patents and trademarks
Our trademarks, which include the brand names under which our products are sold, are key assets which we consider, in the aggregate, to be important to the business as a whole. As well as protecting our brand names by way of trademark registration, we also protect our innovations by means of patents and designs in key global jurisdictions.

Selected financial information

This information set out below has been derived from, in part, the audited consolidated financial statements of the Group commencing on page 106. This selected financial information should be read in conjunction with the consolidated financial statements and the Strategic Report.

	As of and for the Year Ended 31 December[(1)]				
All items shown in £m except per share information	2017	2016	2015	2014	2013
Income statement data					
Revenue[(2)]	**20,292**	14,751	13,104	13,971	15,260
Raw materials and consumables used	**(4,520)**	(3,777)	(3,217)	(3,088)	(3,348)
Changes in inventories of finished goods and work in progress	**(513)**	44	184	58	105
Employee benefit costs	**(2,679)**	(2,274)	(2,039)	(2,194)	(2,384)
Depreciation, amortisation and impairment costs	**(902)**	(607)	(428)	(523)	(477)
Other operating income	**144**	176	225	178	302
Other operating expenses	**(5,346)**	(3,658)	(3,272)	(3,856)	(3,932)
Profit from operations	**6,476**	4,655	4,557	4,546	5,526
Net finance (costs)/income	**(1,094)**	(637)	62	(417)	(466)
Share of post-tax results of associates and joint ventures	**24,209**	2,227	1,236	719	739
Profit before taxation	**29,591**	6,245	5,855	4,848	5,799
Taxation on ordinary activities	**8,113**	(1,406)	(1,333)	(1,455)	(1,600)
Profit for the year	**37,704**	4,839	4,522	3,393	4,199
Per share data					
Basic weighted average number of ordinary shares, in millions	**2,044**	1,858	1,858	1,864	1,901
Diluted weighted average number of ordinary shares, in millions	**2,051**	1,865	1,863	1,870	1,908
Earnings per share-basic (pence)	**1,836.3p**	250.2p	230.9p	167.1p	205.4p
Earnings per share-diluted (pence)	**1,830.0p**	249.2p	230.3p	166.6p	204.6p
Dividends per share (pence)[(3)]	**195.2p**	169.4p	154.0p	148.1p	142.4p
Dividends per share (US dollars)[(3)]	**$2.52**	$2.30	$2.35	$2.44	$2.23
Balance sheet data					
Asset:					
Non-current assets	**127,072**	27,414	21,701	17,035	17,363
Current assets	**13,966**	12,359	9,814	9,132	9,518
Total assets	**141,038**	39,773	31,515	26,167	26,881
Liabilities					
Non-current liabilities	**64,468**	19,511	17,477	11,584	11,510
Current liabilities	**15,544**	11,856	9,006	8,769	8,436
Total borrowings	**49,450**	19,495	17,001	12,258	11,696
Equity					
Share capital	**614**	507	507	507	507
Total equity	**61,026**	8,406	5,032	5,814	6,935
Cash flow data					
Net cash generated from operating activities	**5,347**	4,610	4,720	3,716	4,436
Net cash used in investing activities	**(18,544)**	(640)	(3,991)	(470)	(335)
Net cash used in financing activities	**14,759**	(4,229)	(219)	(3,467)	(3,967)

Notes:

(1) All of the information above is in respect of continuing operations. The historical financial data for 2014 and 2013 is unaudited.

(2) Revenue is net of duty, excise and other taxes of £37,780 million, £32,136 million, £27,896 million, £28,535 million and £30,925 million for the years ended 31 December 2017, 2016, 2015, 2014 and 2013, respectively.

(3) Dividends per share includes the interim dividend, which is paid during the year, and the final dividend in respect of the year, which is declared and paid subsequent to year end. In February 2018, the BAT directors declared an interim dividend of 195.2p per ordinary share of 25p, payable in four equal quarterly instalments of 48.8p per ordinary share. This will be paid in May 2018, August 2018, November 2018 and February 2019. The BAT Directors recommended, and the BAT shareholders approved at the 2017 Annual General Meeting, a final dividend of 118.1 pence per share for the year ended 31 December 2016. The dividend was paid to BAT shareholders on 4 May 2017. The total dividend paid was £2,194 million, which took the total dividends paid in respect of 2016 to £3,155 million representing 169.4 pence per share. On 5 December 2017, the Directors also declared, as part of the transition to quarterly dividends, a second interim dividend of 43.6p (equivalent to 25% of the cash dividend paid in 2017) which was paid on 8 February 2018.

Non-GAAP measures

To supplement the presentation of the Group's results of operations and financial condition in accordance with IFRS, we also present several non-GAAP measures used by management to monitor the Group's performance. The Group's management regularly reviews the measures used to assess and present the financial performance of the Group and, as relevant, its geographic segments.

Changes to non-GAAP measures in 2017

Due to the significant impact of the acquisition of Reynolds American, several of the non-GAAP measures are now presented on an organic basis; see 'Results on an organic basis' below for further details. Furthermore, in 2017, the Group has added an additional measure of Adjusted revenue, as items in revenue have met the Group's definition of an adjusting item following the acquisitions of certain tobacco assets of Bulgartabac and FDS, completed in 2017. See 'Adjusted revenue' below for further details.

The Group has ceased to report on free cash flow in 2017, presenting instead adjusted cash generated from operations and the operating cash flow conversion ratio, which are reviewed by management in its assessment of the Group's financial position and are metrics used for certain remuneration schemes.

Results on an organic basis

Definition – the performance of the business before inclusion of acquired entities.

The acquisition of Reynolds American, Bulgartabac, Winnington and Fabrika Duhana Sarajevo have impacted the Group's results in 2017. BAT management reviews certain of its results, including volume, revenue, profit from operations, and non-GAAP measures including adjusted revenue and adjusted profit from operations, prior to the impact of acquisitions. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of acquisitions provide additional useful information to investors regarding the underlying performance of the business on a comparable basis. Accordingly, the organic financial measures appearing in this document should be read in conjunction with the Group's results as reported under IFRS.

We also present the growth in organic adjusted operating margin in 2017 compared to adjusted operating margin in 2016; 2017 organic adjusted operating margin represents the ratio of profit from operations before adjusting items and the impact of 2017 acquisitions to revenue before adjusting items and the impact of 2017 acquisitions. Please see the following reconciliations of revenue to adjusted revenue and profit from operations to adjusted profit from operations.

Adjusted revenue

Definition – revenue before the impact of adjusting items.

To supplement BAT's revenue presented in accordance with IFRS, the Group management board, as the chief operating decision maker, reviews adjusted revenue to evaluate the underlying business performance of the Group and its geographic segments. The Group management board defines adjusted revenue as revenue before the impact of adjusting items, specifically the excise on bought-in goods that the Group will acquire and sell, for a limited period, will be recorded in accordance with IFRS as a cost of sale and within revenue, with a dilutive effect on operating margin. Once the short-term arrangements cease, the goods will be manufactured by the Group, and the excise, in accordance with Group policy, will not be included in cost of sales or revenue – leading to a reduction in revenue and improvement in operating margin that does not represent the underlying performance of the Group. As such, the excise on bought-in goods meets the Group's definition of an adjusting item, as defined in note 1 in the Notes on the Accounts.

The Group management board also believes that adjusted revenue provides information that enables investors to better compare the Group's business performance across periods. Adjusted revenue has limitations as an analytical tool. The most directly comparable IFRS measure to adjusted revenue is revenue. It is not a presentation made in accordance with IFRS, is not a measure of financial condition or liquidity and should not be considered as an alternative to revenue as determined in accordance with IFRS. Adjusted revenue is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this performance measure in isolation from, or as a substitute analysis for, BAT's results as determined in accordance with IFRS.

The table below reconciles the Group's revenue to adjusted revenue for the periods presented, and to adjusted revenue at constant rates based on a retranslation of adjusted revenue for each year at the previous year's exchange rates. Refer to note 2 in the Notes on the Accounts for further discussion of the segmental results and for the reconciliation of adjusted revenue at current and constant rates of exchange to segmental revenue and to Group revenue for the year for the years ended 31 December 2017, 2016 and 2015.

	For the year ended 31 December (£m)				
	2017	2016	2015	2014	2013
Revenue	**20,292**	14,751	13,104	13,971	15,260
Less: Excise on goods bought-in on short-term arrangements	**(258)**	–	–	–	–
Adjusted revenue	**20,034**	14,751	13,104	13,971	15,260
Impact of translational foreign exchange	**(750)**	(743)	1,616	1,711	662
2017 adjusted revenue retranslated at 2016 exchange rates	**19,284**				
2016 adjusted revenue retranslated at 2015 exchange rates		14,008			
2015 adjusted revenue retranslated at 2014 exchange rates			14,720		
2014 adjusted revenue retranslated at 2013 exchange rates				15,682	
2013 adjusted revenue retranslated at 2012 exchange rates					15,882
Change in adjusted revenue at prior year's exchange rates (constant rates)	**+30.7%**	+6.9%	+5.4%	+2.8%	+4.6%

Adjusted profit from operations and adjusted operating margin

Definition – profit from operations before the impact of adjusting items, and adjusted profit from operations as a percentage of adjusted revenue.

To supplement BAT's results from operations presented in accordance with IFRS, the Group management board, as the chief operating decision maker, reviews adjusted profit from operations to evaluate the underlying business performance of the Group and its geographic segments, to allocate resources to the overall business and to communicate financial performance to investors. The Group also presents adjusted operating margin, which is defined as adjusted profit from operations as a percentage of adjusted revenue, as defined above. Adjusted profit from operations and adjusted operating margin are not measures defined by IFRS. The most directly comparable IFRS measure to adjusted profit from operations is profit from operations.

Adjusting items, as identified in accordance with the Group's accounting policies, represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting and provides details of items that are specifically excluded from being classified as adjusting items. Adjusting items in profit from operations include restructuring and integration costs, amortisation of trademarks and similar intangibles, the fair value movement in stock on acquisition, a gain on deemed partial disposal of a trademark, and certain litigation. The definition of adjusting items is explained within note 1in the Notes on the Accounts.

The Group management board believes that these additional measures are useful to investors, and are used by the Group management board as described above, because they exclude the impact of adjusting items in profit from operations, which have less bearing on the routine operating activities of the Group, thereby enhancing users' understanding of underlying business performance. The Group management board also believes that adjusted profit from operations provides information that enables investors to better compare the Group's business performance across periods. Additionally, the Group management board believes that similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies comparable to the Group, many of which present an adjusted operating profit-related performance measure when reporting their results. Adjusted profit from operations and adjusted operating margin have limitations as analytical tools. They are not presentations made in accordance with IFRS, are not measures of financial condition or liquidity and should not be considered as alternatives to profit for the year, profit from operations or operating margin as determined in accordance with IFRS. Adjusted profit from operations and adjusted operating margin are not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider these performance measures in isolation from, or as a substitute analysis for, BAT's results of operations as determined in accordance with IFRS.

The table below reconciles the Group's profit from operations to adjusted profit from operations, and to adjusted profit from operations at constant rates based on a retranslation of adjusted profit from operations for each year, at the previous year's exchange rates, and presents adjusted operating margin for the periods presented. Refer to note 2 to the Group's consolidated financial statements for further discussion of the segmental results and for the reconciliation of adjusted profit from operations at current and constant rates of exchange to segmental profit from operations and to Group profit for the year for the years ended 31 December 2017, 2016 and 2015.

	For the year ended 31 December (£m)				
	2017	2016	2015	2014	2013
Profit from operations	**6,476**	4,655	4,557	4,546	5,526
Add:					
Restructuring and integration costs	**600**	603	367	452	246
Amortisation of trademarks and similar intangibles	**383**	149	65	58	74
Fair value movement in stock on acquisition	**465**	–	–	–	–
Gain on deemed partial disposal of a trademark	**–**	–	–	–	(26)
Fox River	**–**	20	–	(27)	–
Flintkote	**–**	–	3	374	–
Other	**69**	53	–	–	–
Adjusted profit from operations	**7,993**	5,480	4,992	5,403	5,820
Adjusted operating margin*	**39.9%**	37.2%	38.1%	38.7%	38.1%
Operating margin	**31.9%**	31.6%	34.7%	32.5%	36.2%
Impact of translational foreign exchange	**(328)**	(283)	628	672	221
2017 adjusted profit from operations retranslated at 2016 exchange rates	**7,665**				
2016 adjusted profit from operations retranslated at 2015 exchange rates		5,197			
2015 adjusted profit from operations retranslated at 2014 exchange rates			5,620		
2014 adjusted profit from operations retranslated at 2013 exchange rates				6,075	
2013 adjusted profit from operations retranslated at 2012 exchange rates					6,041
Change in adjusted profit from operations at prior year's exchange rates (constant rates)	**+39.9%**	+4.1%	+4.0%	+4.4%	+7.1%

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

Non-GAAP measures continued

Adjusted share of post-tax results of associates and joint ventures

Definition – share of post-tax results of associates and joint ventures before the impact of adjusting items.

To supplement BAT's performance presented in accordance with IFRS, the Group's share of post-tax results of associates and joint ventures is also presented before adjusting items as defined in note 1 to the Group's financial statements. The Group management board believes that adjusted share of post-tax results of associates and joint ventures provides information that enables investors to better compare the Group's business performance across periods. The Group management board uses adjusted share of post-tax results from associates and joint ventures as part of the total assessment of the underlying performance of all the Group's business interests. Adjusted share of post-tax results of associates and joint ventures has limitations as an analytical tool. It is not a presentation made in accordance with IFRS, is not a measure of financial condition or liquidity and should not be considered as an alternative to the Group's share of post-tax results of associates and joint ventures as determined in accordance with IFRS. Adjusted share of post-tax results of associates and joint ventures is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this performance measure in isolation from, or as a substitute analysis for, BAT's results of operations as determined in accordance with IFRS.

The most directly comparable IFRS measure to adjusted share of post-tax results of associates and joint ventures is share of post-tax results of associates and joint ventures. A reconciliation is provided on page 125 within note 5 in the Notes on the Accounts.

Underlying tax rate

Definition – Tax rate incurred before the impact of adjusting items and to adjust for the inclusion of the Group's share of post-tax results of associates and joint ventures within the Group's pre-tax results.

BAT management monitors the Group's underlying tax rate to assess the tax rate applicable to the Group's underlying operations, excluding the Group's share of post-tax results of associates and joint ventures in BAT's pre-tax results and adjusting items as defined in note 1 in the Notes on the Accounts. Underlying tax rate is not a measure defined by IFRS. The most directly comparable IFRS measure to underlying tax rate is the effective tax rate based upon profit before tax. The Group management board believes that this additional measure is useful to investors, and is used by BAT management as described above, because it excludes the contribution from the Group's associates, recognised after tax but within the Group's pre-tax profits, and adjusting items, thereby enhancing users' understanding of underlying business performance.

Underlying tax rate has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to the effective tax rate as determined in accordance with IFRS. Underlying tax rate is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's effective tax rate as determined in accordance with IFRS. The table below reconciles the Group's effective tax rate as determined in accordance with IFRS with underlying tax rate for the periods presented.

	For the year ended 31 December (%)				
	2017	2016	2015	2014	2013
Profit before taxation	**29,591**	6,245	5,855	4,848	5,799
Less: Share of post-tax results of associates and joint ventures	**(24,209)**	(2,227)	(1,236)	(719)	(739)
Adjusting items within profit from operations	**1,517**	825	435	857	294
Adjusting items within finance costs	**205**	108	(489)	–	–
Adjusted profit before taxation, excluding associates and joint ventures	**7,104**	4,951	4,565	4,986	5,354
Taxation on ordinary activities	**8,113**	(1,406)	(1,333)	(1,455)	(1,600)
Deferred tax credit	**(9,620)**	–	–	–	–
Deferred tax on unremitted earnings	**(180)**	–	–	–	–
Deferred tax on associates sale of trademarks	**–**	61	22	–	–
Deemed tax on repatriation of foreign earnings	**34**	–	–	–	–
Taxation on adjusting items	**(454)**	(128)	(80)	(69)	(46)
Adjusted taxation	**(2,107)**	(1,473)	(1,391)	(1,524)	(1,646)
Underlying tax rate	**29.7%**	29.8%	30.5%	30.6%	30.7%

Adjusted diluted earnings per share

Definition – diluted earnings per share before the impact of adjusting items.

BAT management monitors adjusted diluted earnings per share, a measure which removes the impact of adjusting items, as defined in note 1 to the Group's consolidated financial statements, from diluted earnings per share. Adjusted diluted earnings per share is used by management within the Group's incentive schemes, as reported within the remuneration report beginning on page 75 and reported in note 7 to the Group's consolidated financial statements. The Group management board believes that this additional measure is useful to investors, and is used by BAT management as described above, as an indicator of diluted earnings per share before adjusting items. Adjusted diluted earnings per share has limitations as an analytical tool and should not be used in isolation from, or as a substitute for, diluted earnings per share as determined in accordance with IFRS. The most directly comparable IFRS measure to adjusted diluted earnings per share is diluted earnings per share and a reconciliation is provided in note 7 in the Notes on the Accounts. The definition of adjusting items is provided in note 1 in the Notes on the Accounts.

Results on a Constant Translational Currency Basis

Movements in foreign exchange rates have impacted the Group's financial results. The Group management board reviews certain of its results, including adjusted revenue, adjusted profit from operations, adjusted diluted earnings per share and adjusted cash generated from operations@, at constant rates of exchange. The Group calculates these financial measures at constant rates of exchange based on a retranslation, at prior year exchange rates, of the current year results of the Group and, where applicable, its geographic segments. The Group does not adjust for the normal transactional gains and losses in operations that are generated by exchange movements. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group management board does believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the Group's operating performance on a local currency basis. Accordingly, the constant rates of exchange financial measures appearing in the discussion of the Group results of operations (beginning on page 33) should be read in conjunction with the information provided in note 2 in the Notes on the Accounts.

In 2017, 2016 and 2015, results were affected by translational exchange rate movements. In 2017, at the prevailing exchange rates, adjusted revenue increased by 35.8%, adjusted profit from operations increased by 45.9% and adjusted cash generated from operations@ increased by 5.4% versus 2016. At constant rates of exchange, adjusted revenue would have increased by 30.7%, adjusted profit from operations would have increased by 39.9% and adjusted cash generated from operations@ would have increased by 0.3%. This higher growth rate at prevailing exchange rates reflects the translational benefit as a results on the relative weakness of the pound sterling. In 2016, at the prevailing exchange rates, adjusted revenue increased by 12.6%, adjusted profit from operations increased by 9.8% and adjusted cash generated from operations@ fell by 7.5% versus 2015. At constant rates of exchange, adjusted revenue would have increased by 6.9%, adjusted profit from operations would have increased by 4.1% and adjusted cash generated from operations@ would have fallen by 13.4%. This higher growth rate at prevailing exchange rates reflects the translational benefit as a result of the relative weakness of the pound sterling.

In 2017, 2016 and 2015, adjusted diluted earnings per share was affected by translational exchange rate movements. In 2017, the adjusted diluted earnings per share of 284.4p, an increase of 14.9%, would, when translated at 2016 exchange rates, have been 272.1p, an increase of 9.9%. In 2016, the adjusted diluted earnings per share of 247.5p, an increase of 18.8%, would, when translated at 2015 exchange rates, have been 230.0p, an increase of 10.4%. This higher growth rate, in 2017 and 2016, at prevailing exchange rates, reflects the translational benefit as a result of the relative weakness of the pound sterling. In 2015, adjusted diluted earnings per share of 208.4p, an increase of 0.1%, would, when translated at 2014 exchange rates, have been 229.1p, an increase of 10.1%. This lower growth rate, in 2015, at prevailing exchange rates reflects the negative translational effect as a result of the relative strength of the pound sterling.

Operating cash flow conversion ratio@

Definition – net cash generated from operating activities before the impact of adjusting items, trading loan to a third party, pension shortfall funding, taxes paid, and after net capital expenditure and dividends from associates, as a proportion of adjusted profit from operations.

Operating cash flow conversion ratio is a measure of operating cash flow which is used within the Group's incentive schemes as reported within the remuneration report beginning on page 75. Operating cash flow conversion ratio has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to measures of liquidity or financial position as determined in accordance with IFRS. Operating cash flow conversion ratio is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's results of operations or cash flows as determined in accordance with IFRS.

The table below shows the computation of operating cash flow conversion ratio for the periods presented.

	For the year ended 31 December (£m)				
	2017	2016	2015	2014	2013
Net cash generated from operating activities	**5,347**	4,610	4,720	3,716	4,436
Cash related to adjusting items, including FII GLO	**685**	711	(483)	762	310
Dividends from associates	**(903)**	(962)	(593)	(515)	(510)
Tax paid	**1,675**	1,245	1,273	1,433	1,440
Net capital expenditure	**(767)**	(559)	(483)	(627)	(547)
Pension fund shortfall funding	**156**	78	148	140	190
Trading loans to third parties	**101**	–	–	–	–
Other	**(9)**	(1)	1	(1)	1
Operating cash flow	**6,285**	5,122	4,583	4,908	5,320
RAI cash generated post acquisition	**(628)**				
Operating cash flow excluding RAI cash (for incentive schemes)	**5,658**				
Adjusted profit from operations	**7,993**	5,480	4,992	5,403	5,820
Exclude adjusted profit from operation from RAI	**2,081**				
Adjusted profit from operations, excluding RAI (for incentive schemes)	**5,912**				
Operating cash flow conversion ratio	**79%**	93%	92%	91%	91%
Operating cash flow conversion ratio (ex RAI) – provided for LTIP	**96%**				
Cash conversion ratio*	**83%**	99%	104%	82%	80%

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

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

Non-GAAP measures continued

Adjusted cash generated from operations (Adjusted CGFO)@

Definition – net cash generated from operating activities before the impact of adjusting items and trading loans provided to a third party, excluding dividends received from associates, and after dividends paid to non-controlling interests, net interest paid and net capital expenditure.

To supplement the Group's presentation of net cash generated from operating activities, BAT also presents adjusted cash generated from operations. Adjusted cash generated from operations is a measure of cash flow which is used by management to monitor the Group's financial position and is used within the Group's incentive schemes as reported within the remuneration report beginning on page 75. The most directly comparable IFRS measure to adjusted cash generated from operations is net cash generated from operating activities.

The Group management board believes that this additional measure is useful to investors, and is used by BAT management as described above, because it excludes the impact of adjusting items on cash, includes the impact of capital expenditure given this is a core component of the underlying performance of the Group, the impact of financing or dividends received from associates which do not form part of the underlying performance of the Group's day-to-day operations. This measure is presented as it enhances users' understanding of underlying business performance. The definition of adjusting items is provided in note 1 to the Group's consolidated financial statements.

Adjusted cash generated from operations is not a measure defined by IFRS and has limitations as an analytical tool. It is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measures in isolation from, or as a substitute analysis for, the Group's liquidity or measures of financial position as determined in accordance with IFRS. The table below shows the reconciliation from net cash generated from operating activities to adjusted cash generated from operations for the periods presented.

	For the year ended 31 December (£m)				
	2017	2016	2015	2014	2013
Net cash generated from operating activities	**5,347**	4,610	4,720	3,716	4,436
Net cash impact from adjusting items	**685**	711	480	762	310
Dividends paid to non-controlling interests	**(167)**	(147)	(235)	(249)	(265)
Net interest paid	**(1,004)**	(537)	(522)	(426)	(443)
Net capital expenditure	**(767)**	(559)	(483)	(627)	(547)
Dividends from associates	**(903)**	(962)	(593)	(515)	(510)
Trading loans to third parties	**101**	–	–	–	–
Other	**(10)**	(1)	1	(1)	1
Adjusted cash generated from operations	**3,282**	3,115	3,368	2,660	2,982
Impact of translational foreign exchange	**(157)**	(197)	288	367	139
2017 adjusted CGFO retranslated at 2016 exchange rates	**3,215**				
2016 adjusted CGFO retranslated at 2015 exchange rates		2,918			
2015 adjusted CGFO retranslated at 2014 exchange rates			3,656		
2014 adjusted CGFO retranslated at 2013 exchange rates				3,027	
2013 adjusted CGFO retranslated at 2012 exchange rates					3,121
Change in adjusted CGFO at prior year's exchange rates (constant rates)	**+0.3%**	-13.4%	+37.4%	+1.5%	+13.9%

Net debt

Definition – total borrowings, including related derivatives, less cash and cash equivalents and current available-for-sale investments.

The Group uses net debt to assess its financial capacity. Net debt is not a measure defined by IFRS. The most directly comparable IFRS measure to net debt is total borrowings. The Group management board believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how business financing has changed over the year. Net debt has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to total borrowings or total liabilities determined in accordance with IFRS. Net debt is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. The table below reconciles net debt to total borrowings for the periods presented.

	As of the year ended 31 December (£m)				
	2017	2016	2015	2014	2013
Total borrowings	**49,450**	19,495	17,001	12,258	11,696
Derivatives in respect of net debt:					
– assets	**(640)**	(809)	(373)	(362)	(146)
– liabilities	**117**	300	164	137	125
Cash and cash equivalents	**(3,291)**	(2,204)	(1,963)	(1,818)	(2,106)
Current available-for-sale investments	**(65)**	(15)	(35)	(50)	(54)
Net debt	**45,571**	16,767	14,794	10,165	9,515

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

Additional disclosures on liquidity and capital resources

The Group's cash inflows derive principally from its operating activities. They are supplemented when required by cash flows from financing activities, typically to support acquisitions. The principal sources of liquidity for the Group are cash flows generated from the operating business and proceeds from issuances of debt securities described below under "Capital Resources."

The Board reviews and agrees the overall treasury policies and procedures, delegating appropriate oversight to the Finance Director and the treasury function. The treasury policies include a set of financing principles and key performance indicators. The Group's treasury position is monitored by a Corporate Finance Committee chaired by the Finance Director. Treasury operations are subject to periodic independent reviews and audits, both internal and external.

In 2017, 2016 and 2015, all contractual borrowing covenants were met and none are expected to inhibit the Group's operations or funding plans.

Capital expenditure

Gross capital expenditures include purchases of property, plant and equipment and purchases of intangibles. The Group's gross capital expenditures for 2017, 2016 and 2015 were £862 million, £652 million and £591 million, respectively, representing investment in the Group's global operational infrastructure (including, but not limited to, the manufacturing network, trade marketing and IT systems). The Group expects gross capital expenditures in 2018 of approximately £1,075 million, representing the ongoing investment in the Group's operational infrastructure, with the increase due to the full year's acquisition of RAI and expansion of NGP. This is expected to be funded by the Group's cash flows and existing facilities.

Hedging instruments

As discussed in note 23 in the Notes on the Accounts, the Group hedges its exposure to interest rate movements and currency movements. BAT's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. A certain number of forward foreign currency contracts were used to manage the currency profile of external borrowings. Interest rate swaps have been used to manage the interest rate profile of external borrowings, while cross currency swaps have been used to manage the currency profile of external borrowings.

Capital resources

Policy

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to ensure that there is the maximum mobilisation of cash within the Group. The key objectives of treasury in respect of cash and cash equivalents, are to protect the principal value of the Group's cash and cash equivalents, to concentrate cash at the centre to minimise the required long-term debt issuance and to optimise the yield earned. The amount of debt the Group issues is determined by forecasting the net debt requirement after the mobilisation of cash.

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies. All contractual borrowing covenants have been met and none are expected to inhibit the Group's operations or funding plans.

Borrowings

The following table sets out the Group's long- and short-term borrowings as of the dates indicated:

				As of 31 December (£m)(1)		
	Currency	Maturity dates	Interest rates at 31 December 2017	**2017**	2016	2015
Eurobonds(4)	Euro	2019 to 2045	0.4% to 4.9%	**8,585**	7,704	6,603
	Euro	2018 to 2021	3m EURIBOR +50bps	**1,326**	341	294
	UK pound sterling	2019 to 2055	1.8% to 7.3%	**4,680**	4,241	3,413
	US dollar	2019	1.6%	**482**	527	203
	Swiss franc(2)	2016	–	**–**	–	238
	Swiss franc	2021 to 2026	0.6% to 1.4%	**498**	526	446
US dollar bonds(4)	US dollar	2018 to 2047	1.9% to 8.1%	**25,545**	4,472	4,208
	US dollar	2018 to 2022	3m USD LIBOR +51bps to 88 bps	**1,665**	405	339
Commercial Paper(3)(4)				**1,200**	254	505
Other loans				**4,466**	110	236
Bank loans				**512**	336	258
Bank Overdrafts				**469**	553	232
Finance leases				**22**	26	26
Total				**49,450**	19,495	17,001

Notes:
(1) The financial data above has been extracted from the Group's consolidated financial statements.

(2) The Swiss franc bonds with a maturity date of 2016 referred to above had an interest rate of 3m CHF LIBOR +16 basis points prior to their repayment in 2016.

(3) The interest on the commercial paper referred to in the table above is based on US $LIBOR plus a margin ranging between 19 and 38 basis points (2016: between 22 and 77 basis points, 2015: between 25 and 43 basis points).

(4) The issuers of these debt securities are B.A.T. International Finance p.l.c., B.A.T Capital Corporation, Reynolds American Inc., or R.J. Reynolds Tobacco Company, as applicable. British American Tobacco p.l.c. is the ultimate guarantor in each case.

Additional disclosures on liquidity and capital resources continued

Off-balance sheet arrangements and contractual obligations

Except for operating leases, the Group has no significant off-balance sheet arrangements. The Group has contractual obligations to make future payments on debt agreements. In the normal course of business, the Group enters into contractual arrangements where the Group commits to future purchases of services from unaffiliated and related parties.

The Group's undiscounted contractual obligations as of 31 December 2017 were as follows:

	Payments Due by Period (£m)				
	Total	Less than 1 Year	1–3 Years	3–5 Years	Thereafter
Long-term notes and other borrowings, exclusive of interest[1]	**49,005**	4,978	9,355	9,770	24,902
Interest payments related to long-term notes[1]	**445**	445	–	–	–
Finance lease obligations	**22**	10	11	1	–
Operating lease obligations[2]	**445**	108	135	85	117
Purchase obligations[3]	**2,051**	1,481	569	1	–
Total cash obligations	**51,968**	7,022	10,070	9,857	25,019

Notes:

(1) For more information about the Group's long-term debt, see note 20 in the Notes on the Accounts.

(2) Operating lease obligations represent estimated lease payments primarily related to vehicles, office space, warehouse space and equipment. See note 28 in the Notes on the Accounts.

(3) Purchase obligations primarily include commitments to acquire tobacco leaf. Purchase orders for the purchase of other raw materials and other goods and services are not included in the table, as the Group's operating subsidiaries are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders typically represent authorisations to purchase rather than binding agreements.

The table above does not include any amounts that the Group may pay to fund its retirement benefit plans as the timing and amount of any such future fundings are unknown and dependent on, among other things, the future performance of defined benefit pension plan assets, interest rate assumptions and other factors. The net retirement benefit scheme liabilities totalled £698 million as of 31 December 2017, which is net of pension assets of £12,350 million. The Group expects to be required to contribute £241 million to its defined benefit plans during 2018. See note 12 in the Notes on the Accounts for further information.

US$ exchange rate

The following table sets forth the high and low noon buying rates of each month of the last six months, as certified for customs purposes by the Federal Reserve Bank of New York, for the pound sterling expressed in US dollars per pound sterling.

	High	Low
August 2017	1.3236	1.2787
September 2017	1.3578	1.2972
October 2017	1.3304	1.3063
November 2017	1.3506	1.3067
December 2017	1.3529	1.3316
January 2018	1.4264	1.3513

The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for the pound sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years.

	Average
Year ended 31 December 2013	1.5668
Year ended 31 December 2014	1.6461
Year ended 31 December 2015	1.5250
Year ended 31 December 2016	1.3444
Year ended 31 December 2017	1.3016

On 19 February 2018 the latest practicable date prior to this filing, the noon buying rate was £1.00 = US$1.4026.

The rates presented above may differ from the actual rates used in preparation of financial information appearing in this Annual Report and Form 20-F. The presentation of such rates is not meant to suggest that the US dollar amounts actually represent the pound sterling amounts or that such amounts could have been converted to US dollars at any particular rate.

Employees

As of 31 December 2017, the number of persons permanently employed by the Group was 62,270 worldwide. The Group believes that its labour relations are good.

Certain temporary employees are included in the below figures. The number of such temporary employees is approximately 2,800 and largely relates to seasonal workers within operations.

The following table sets forth the number of Group permanent employees by region in 2017, 2016 and 2015.

	As of 31 December		
Region (number of employees worldwide)	**2017**	2016	2015
United States[1]	**5,201**		
Asia-Pacific	**13,501**	16,059	17,385
Americas	**13,735**	14,743	15,118
Western Europe[2]	**19,080**	14,668	14,808
EEMEA	**10,753**	11,592	12,413
Total Employees	**62,270**	57,062	59,724

Notes:

(1) Total number of employees increased to 62,270 as of 31 December 2017 from 57,062 as of 31 December 2016 partly due to the addition of 5,201 employees following the acquisition of RAI.

(2) Included within the employee numbers for Western Europe are certain employees in different locations in respect of central functions. Some of the costs of these employees are allocated or charged to the various regions and markets in the Group.

Additional risks for the Group

A summary of other risks for the Group which are not considered principal risks, but are monitored by the Board through the Group's risk register, and potential their impact, is set out below. The principal risks facing the Group are set out at pages 48 to 54.

Inability to launch innovative products that offer consumers meaningful value-added differentiation
The Group may be unsuccessful in launching innovative products that offer consumers meaningful value-added differentiation, leading to a failure to capture growth opportunities, compete in strategic consumer segments and capture synergistic benefits from having strong brands across our markets, and the risk of under or over-supply, loss of competitive advantage, unrecoverable costs and/or erosion of our consumer base.

Risk of disruption to the Group's data and information technology systems, including compromise by cyber-attack
The Group's increasing reliance on digital and information technology means that a significant disruption, malicious manipulation or cyber-attack of the Group's systems, including those managed by third-party service providers, or unintended or malicious behaviour by employees, contractors or service providers, may affect the Group's communications and operations. Data (including confidential, personal or other sensitive information) stored or communicated by IT systems may be corrupted, lost or disclosed, which may cause reputational, competitive or operational damage, fraudulent abuse, malicious manipulation or legal liability and may result in significant remediation costs, prosecution by enforcement bodies, fines and/or penalties and other costs to the Group.

Exposure to availability of and price volatility in tobacco leaf and other raw materials
Raw materials and other inputs used in the Group's businesses are subject to price volatility. The Group's results of operations are exposed to fluctuations in the availability and price of tobacco leaf and other commodities required in cigarette manufacture. The Group's access to raw materials may be adversely affected by a significant event occurring in one or more major leaf growing areas, including climate instability or diseases causing crop failure, which may have a negative impact on the Group's business, such as decreased quantity and/or quality of leaf, increased prices, reallocation of growing areas and factories or supply-chain disruptions.

Commodity price, quality and quantity changes beyond the Group's control may affect its profitability and business. The Group may not be able to increase prices to offset increased costs without suffering reduced sales volume and income, or meet increased demand for certain types of tobacco.

Risk of loss of production capacity or key suppliers, distribution interruption, commodity risk, problems with labour relations, or significant disaster
Severe disruption to any aspect of the Group's supply chain or suppliers' operations or deterioration in the financial condition of a trading partner may have an adverse impact on the Group's ability to produce and deliver products meeting customer demands and could ultimately have an adverse effect on the results of operations, cash flows and financial conditions of the Group, through increased costs, loss of market share and profit. Continuing industry consolidation among distributors and suppliers may lead to reduced efficiency, higher costs and concentrated risk of supply chain interruptions, contract disputes and systems and logistics failures.

In some markets, distribution of the Group's products is through third party monopoly channels, often licensed by governments. The Group may be unable to renew these third-party supplier and distribution agreements on satisfactory terms for numerous reasons, including government regulations, and loss of distribution may adversely affect the Group's sales volume, market share and profits. Any deterioration in labour or union relations, or any disputes or work stoppages or other labour related developments may increase costs and disrupt the Group's business.

Disasters such as a major fire, violent weather conditions or other disasters that affect manufacturing or other facilities of the Group may have a material adverse effect on the operations of the Group, through increased costs and the loss of market share and profit in the event of loss of or insufficient production capacity to supply its products or meet increased demand.

Failure to successfully design, implement and sustain an integrated operating model
Failure by the Group to successfully design, implement and sustain an integrated operating model and organisational structure, or to deliver associated cost savings, may lead to the failure to realise anticipated benefits, increased costs, disruption to operations, decreased trading performance and reduced market share, which in turn may reduce profitability and funds available for investment in long-term growth opportunities.

Inability to achieve growth through successful mergers, acquisitions and joint ventures
The Group may be unable to acquire attractive businesses on favourable terms and may inappropriately value or otherwise fail to capitalise on growth opportunities. The Group may not be able to deliver strategic objectives and revenue improvements from business combinations, successfully integrate businesses it acquires or establishes, or obtain appropriate regulatory approvals for business combinations. These risks may result in increased costs, decreased revenues, a loss of opportunities, and a diversion of focus and resources from other strategic goals. The Group may become liable for claims arising in respect of conduct prior to the merger or acquisition of businesses if deemed to be a successor to the liabilities of the acquired company, and any resulting adverse judgment against the Group may adversely affect its business.

Risk of non-compliance with markets' tobacco and nicotine-related legislation
Increasing scope and severity of compliance regimes introduced by new regulation for the advertising, sale and consumption of tobacco and nicotine products may lead to higher costs and greater complexity, and potential reputational damage, product recall, regulatory sanctions or fines in connection with inadvertent breach. Please refer to pages 228 to 231 for details of tobacco and nicotine regulation regimes under which the Group's businesses operate.

Failure to uphold high standards of corporate behaviour could subject the Group to potential liability under anti-bribery and anti-corruption laws, and other applicable laws and regulations
Failure by the Group or its counterparties to comply with anti-bribery and anti-corruption laws, and other applicable laws and regulations, may result in legal liability, significant fines and/or penalties, criminal sanctions against the Group, its officers and employees, increased costs, prohibitions on conduct of the Group's business, and damage to the Group's reputation. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims. Please refer to page 55 of the Directors' Report for a description of certain investigations to which we are subject.

Failure to establish and maintain adequate controls and procedures over financial reporting
The acquisition of RAI resulted in the Group becoming subject to US securities, corporate governance and compliance laws and regulations, different from regulations that applied to the Group prior to the acquisition. Current and future US regulations may have an adverse effect on the results of operations, cash flows and financial position of the Group, and the increased scope and severity of new regulations may lead to higher costs and greater complexity, legal liability, significant fines and/or penalties, criminal sanctions against the Group, its officers and employees, and damage to the Group's reputation in connection with inadvertent breach of applicable laws and regulations.

Risk of potential liability under competition (or antitrust) laws
Failure by the Group to comply with competition (or antitrust) laws may result in legal liability, significant fines, penalties and/or damages actions, criminal sanctions against the Group, its officers and employees, increased costs, prohibitions on conduct of the Group's business, director disqualifications, commercial agreements being held void, and damage to the Group's reputation. The Group is currently subject to a number of ongoing competition law investigations.

Risk of potential liability under sanctions laws and regulations
National and international sanction regimes affect certain jurisdictions where the Group operates and/or the Group's counterparties operate, which may lead to supply chain or payment chain disruption and forced market exits. Failure by the Group to comply with sanctions laws and regulations may result in legal liability, significant fines and/or penalties, criminal sanctions against the Group, its officers and employees, increased costs, prohibitions on conduct of the Group's business, and damage to the Group's reputation.

Changes in corporate tax rates
The Group's earnings may be impacted by changing corporate tax rates around the world.

Risks associated with failing to successfully integrate RAI Companies into the Group's business
The Group may fail to successfully integrate RAI Companies into the Group's business. This may result in disruption and loss of focus on the business due to diversion of the attention of management and resources, the failure to deliver expected cost synergies, and an inability to retain key personnel, which may adversely impact the Group's business operations, or the combined businesses may not otherwise perform as expected.

The Group's business may be negatively affected by the economic conditions in the EU
The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, as well as the breakup of or exit from the EU and/or eurozone by the UK or any other member state may cause severe stress in the financial system generally and on the euro and other European currencies, may disrupt the banking system, and adversely affect markets in which the Group operates and the economic condition of the Group's counterparties, customers, suppliers and creditors in ways which are difficult to predict. These risks, alone or in combination with regulatory changes, including devaluation of local currencies or increased inflation, or actions of market participants, may increase the Group's exposure to foreign exchange rate risks and may cause a loss of competitiveness from increased production cost and lower revenue, increased customer down-trading, significant write-downs of stock and growth in illicit trade.

Risk of contamination of the Group's products
The Group's market position may be affected through the contamination of its products, either by accident or deliberate malicious intent during supply chain or manufacturing processes, or may otherwise fail to comply with the Group's quality standards. This may lead to disruption to production, product recall, increased costs, loss of market share, legal liability, significant fines and/or penalties, and damage to the Group's reputation, and may adversely impact sales volume, market share and profitability.

Exposure to intellectual property rights infringements and risk to Group licenses to use certain brands and trademarks
The Group risks being exposed to intellectual property rights infringements by third parties due to limitations in judicial protection and/or inadequate enforceability in some markets in which the Group operates. Any resulting substantial erosion in the value of the Group's brands, or failure to obtain or maintain adequate protection of intellectual property rights for any reasons, may have a material adverse effect on the Group's business and results of operations. In addition, as third-party rights are not always identifiable, the Group may also be subject to claims for infringement of third party intellectual property rights, which may result in legal liability, damages, negative impact on reputation and disruption to the business.

Some brands and trademarks under which the Group's products are sold are licensed for a fixed period of time in certain markets. If any of these licences are terminated or not renewed after the end of the applicable term, the Group would no longer have the right to use, and to sell products under, those brand(s) and trademark(s) in the relevant markets which may have an adverse effect on the Group's business, results of operations and financial condition.

The Group has net liabilities under retirement benefit schemes of the Group which may increase in the future due to a number of factors
The Group currently maintains and contributes to defined benefit pension plans and other post-retirement benefit plans that cover various categories of employees and retirees worldwide, and obligations to make contributions to fund benefit obligations under these arrangements is based on actuarial valuations on certain assumptions, including long-term return on plan assets and discount rate. Changes in asset returns, salary increases, inflation, long-term interest rates, life expectancies, population trends and other actuarial assumptions may have an adverse impact on the Group's financial condition and operations, which may adversely affect its credit rating and ability to raise funds. Please refer to note 12 in the Notes on the Accounts for details of the Group's retirement benefit schemes.

Exposure to counterparty risks
Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. Failure of any counterparty to meet the Group's payment obligations or performance undertakings to it or deterioration in the financial condition of one or more of its counterparties may have an adverse effect on the Group's financial condition or operations.

Risk of loss of key personnel or inability to attract and retain the best global talent
Unanticipated losses of key employees or the inability to identify, attract, develop and retain qualified personnel in the future may adversely impact on the Group's business operations.

Regulation of the Group's business

Overview

The Group's businesses operate under increasingly stringent regulatory regimes worldwide. The tobacco industry is one of the most highly regulated in the world, with manufacturers required to comply with a variety of different regulatory regimes across the globe. The Group continues to respond to these regimes and engages with governments and other regulatory bodies to find solutions to changing regulatory landscapes. Restrictions on the manufacture, sale, marketing and packaging of tobacco products are in place in nearly all countries and markets.

Regulation can typically be categorised as follows:

- **Place:** including regulations restricting smoking in private, public and work places (e.g., public place smoking bans);
- **Product:** including regulations on the use of ingredients, product design and attributes (e.g., ceilings regarding tar, nicotine and carbon monoxide yields, as well as restrictions on flavours); product safety regulations (e.g., General Product Safety Directive (2001/95/EC), electrical safety regulations and reduced cigarette ignition propensity standards) and regulatory product disclosure requirements (e.g., in relation to ingredients and emissions);
- **Packaging and labelling:** including regulations on health warnings and other government-mandated messages (e.g., in respect of content, positioning, size and rotation); restrictions on the use of certain descriptors and brand names; requirements on pack shape, size, weight and colour and mandatory plain packaging;
- **Sponsorship, promotion and advertising:** including partial or total bans on tobacco advertising, marketing, promotions and sponsorship and restrictions on brand sharing and stretching (the latter refers to the creation of an association between a tobacco product and a non-tobacco product by the use of tobacco branding on the non-tobacco product);
- **Purchase:** including regulations on the manner in which tobacco products are sold, such as type of outlet (e.g., supermarkets and vending machines) and how they are sold (e.g., above the counter versus beneath the counter); and
- **Price:** including regulations which have implications for the prices which manufacturers can charge for their tobacco products (e.g., excise taxes and minimum prices).

In addition, the Group operates a number of global policies, and in some cases its businesses have also entered into voluntary agreements, which may impose more onerous obligations or standards than those imposed by local legislation.

World Health Organization Framework Convention on Tobacco Control

Much of the recent development in regulation at a global level has been driven by the World Health Organization Framework Convention on Tobacco Control (FCTC). The FCTC came into force in 2005 and contains provisions aimed at, among other things, reducing tobacco consumption and toxicity. The original treaty is supplemented by protocols and guidelines. Whilst these guidelines are not legally binding, they provide a framework of recommendations for parties to the guidelines.

To date, the FCTC has been ratified by 181 countries, not including the United States. The FCTC has led to increased efforts by tobacco-control advocates and public health organisations to reduce the supply of and demand for tobacco products, and to encourage governments to further regulate the tobacco industry. As national regulations increasingly reflect global influences, the scope of areas regulated will likely further expand. The guidelines on advertising, promotion and sponsorship, for example, seek to broaden the definition of tobacco advertising to include product display, the use of vending machines as well as the design of the pack itself. Where adopted by contracting parties, a number of the measures referred to in the guidelines may result in either additional costs for the tobacco industry or restrictions on a manufacturer's ability to differentiate its products and communicate those differences to adult smokers. For example, a change in the number and size of on-pack health warnings requires new printing cylinders to be commissioned, while the implementation of new plant protection product standards, product testing and the submission of ingredients information to national governments require extensive resources, time and material.

EU Tobacco and Related Products Directive (2014/40/EU)

Other developments in regulation have been driven by tobacco control activities undertaken outside the FCTC process. For example, the EU Tobacco Products Directive (2001/37/EC), referred to as TPD1, was adopted by the EU in May 2001 for transposition into EU member states' laws by September 2002. TPD1 included provisions that set maximum tar, nicotine and carbon monoxide yields, introduced larger health warnings and banned descriptors such as 'light' and 'mild'.

A revised TPD1, the EU Tobacco and Related Products Directive (2014/40/EU), referred to as the TPD2, was adopted in April 2014 for transposition into EU member states' law by May 2016. Provisions of the TPD2 include: larger combined pictorial and textual health warnings covering 65% of the two main pack surfaces (front and back) for cigarettes; restrictions on pack shape and size, including minimum pack sizes of 20 sticks for cigarettes and 30g for roll-your-own and make-your-own tobacco; increased ingredients reporting; 'tracking and tracing' requirements; and for e-cigarettes: nicotine limits, pre-market notification, ingredients reporting and advertising bans. Among other things, the TPD2 bans the sale of cigarettes and roll-your-own tobacco with a characterising flavour. Menthol flavoured cigarettes are exempt from the ban until May 2020. (See 'United States' for information pertaining to the regulation of menthol in that market).

The TPD2 also purports to leave open to EU member states the possibility of further standardising the packaging of tobacco products and to apply its provisions in different ways. For example, it provides, among other things, that the labelling, packaging and the tobacco product itself shall not include any element or feature that suggests that a particular tobacco product has vitalising, energetic, healing, rejuvenating, natural, or organic properties or has other health or lifestyle benefits. On 1 February 2017, the French Government applied its laws transposing these provisions into French national law to prohibit the sale of all variants of Vogue cigarettes from February 2018, as well as the use of certain other tobacco brand and brand variant names. The law was subsequently annulled, but France may seek to reintroduce it.

Restrictions on smoking in private, public and work places

The Group operates in a number of markets which have in place restrictions on smoking in certain private, public and work places, including restaurants, bars and nightclubs. While these restrictions vary in scope and severity, extensive public and work place smoking bans have been enacted in markets including the United States, Canada, the United Kingdom, Spain, New Zealand and Australia. Restrictions on smoking in private have also been adopted or proposed, and typically take the form of prohibitions on smoking in cars or residential homes when children are present, or smoking within a certain distance from specified public places (such as primary schools).

Regulation of ingredients, including flavoured tobacco products

A number of countries have restricted and others are seeking to restrict or ban the use of certain flavours or ingredients in cigarettes and other tobacco products, on the basis that such products are alleged to: appeal disproportionally to minors, act as a catalyst for young people taking up smoking and/or increase the addictiveness or toxicity of the relevant product.

In Canada, the manufacture and sale of cigarettes, little cigars and blunt wraps with characterising flavours are banned. While the Canadian ingredient ban currently exempts menthol at the federal level, most Canadian provinces have adopted or are in the process of adopting menthol bans. The Canadian federal government has also recently published draft regulations that would prohibit menthol in cigarettes. In Australia, the majority of the states have banned flavours in cigarettes that give an 'overtly' fruit-flavoured taste and the government is currently considering further regulatory options. The TPD2 similarly bans the manufacture and sale of cigarettes and roll-your-own tobacco with a characterising flavour other than tobacco, subject to an exemption until May 2020 for menthol cigarettes.

An ingredients ban in Brazil, which would ban the use of certain ingredients with flavouring or aromatic properties, including menthol, is not currently in force due to ongoing legal challenges. In Turkey, a ban on the use of menthol in cigarettes will apply from 20 May 2020. A number of the above regulations are subject to ongoing legal challenges. (See 'United States' for information pertaining to the regulation of menthol in that market).

Further legislation on ingredients is to be expected. In particular, the EU Commission is required to prepare a report by no later than 20 May 2021 in respect of, among other things, the benefits of establishing a single list of permitted ingredients at the EU level by reference to available scientific evidence on the toxic and addictive effects of different ingredients. Similarly, the Conference of Parties to the FCTC has tasked a working group to further elaborate the partial guidelines on the regulation of the contents of tobacco products and tobacco product disclosures.

Plain and standardised packaging

Plain (or 'standardised') packaging generally refers to a ban on the use of trademarks, logos and colours on packaging other than the use of a single colour and the presentation of brand name and variant in a specified font and location(s). The presentation of individual cigarettes may be similarly restricted.

Plain packaging is particularly high on the agenda of tobacco control groups, and the FCTC guidelines recommend that contracting parties consider introducing plain packaging. To date, nine countries have adopted plain packaging legislation.

The world's first plain packaging law was passed in Australia in November 2011, where plain packaging has been fully implemented since December 2012 (i.e., it has been unlawful to sell non-plain packaged products since this date in all Australian states and territories). In France, plain packaging has been fully implemented since January 2017. In the United Kingdom, plain packaging has been fully implemented since 20 May 2017.

In Hungary, compliance is required immediately for new product launches, and by no later than May 2019 for existing products. In Slovenia, detailed specifications are still to be adopted, which may alter or amend the implementation timetable, but the existing legislation currently requires compliance from 1 January 2020. In Ireland, the legislation provides for a manufacturing deadline of 30 September 2017, with a 12-month sell through period for non-compliant product manufactured before this date. In New Zealand, the legislation provides for a manufacturing deadline of 14 March 2018, with a six-week distribution period plus an additional six-week sell through period for non-compliant product manufactured before this date. In Norway, all cigarettes, roll-your-own tobacco and snus products will need to be manufactured and sold in plain packaging from 1 July 2018. Plain packaging will be implemented in Georgia from January 2023. Countries, territories and states that are currently considering adopting plain packaging legislation, include, but are not limited to, Brazil, Canada, Chile, Singapore and Sweden. Others, such as Hong Kong, are considering implementing large graphic health warnings.

Product display bans at point of sale and licensing regimes

Product display bans at point of sale and licensing regimes have been in place in a number of countries for several years and have been implemented both at national and state levels. Ireland was the first EU member state to introduce a point-of-sale display ban, which became effective in July 2009, with Norway, Iceland, Finland, New Zealand, Thailand, Canada, Australia, the United Kingdom and a number of other countries implementing or passing similar legislation banning tobacco displays. A number of countries, such as Hungary, have also sought to restrict the supply of tobacco products, including through the adoption of licensing regimes limiting the number of retail outlets from which it is possible to purchase tobacco products and/or by prohibiting the sale of tobacco products within a certain distance of specified public places.

Illicit trade

The illegal market for tobacco products is an increasingly important issue for governments and the industry across the world.

Euromonitor International estimates that approximately 456 billion cigarettes per year are smuggled, manufactured illegally or counterfeited. A number of governments, regulators and organisations have or are considering adopting regulation to support anti-illicit trade activities. Among other forms, such regulation may comprise mandatory 'tracking and tracing' requirements, enabling regulators to identify the point at which any seized product left the legal supply chain, security features to combat counterfeiting and inspection and authentication obligations in respect of seized product. The TPD2, for example, requires that all unit packets of tobacco are marked with a unique and irremovable identifier, which when scanned provides various information about that product's route to market.

In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products which includes a raft of supply chain control measures, including the implementation of 'tracking and tracing' technologies. To date, 35 parties have ratified the Protocol, which will come into force once the 40th party has ratified it.

Regulation of the Group's business continued

Next Generation Products

More recently, significant debate has been generated regarding the appropriate regulation of Next Generation Products, including regulation of the nicotine liquids used in vapour products. Whilst this nascent category has grown in size and complexity in a relatively short period of time, a consensus framework for regulation and taxation has yet to emerge. The TPD2, for example, establishes frameworks for the regulation of novel tobacco products and e-cigarettes, introducing nicotine limits, health warnings requirements, advertising bans and pre-market notification and post-market disclosure obligations. Conversely, some governments have intentionally banned or are seeking to ban novel tobacco products and products containing nicotine, while others would need to amend their existing legislation in order to permit their sale. For example, in Australia nicotine is classified as poison, meaning that the importation of vaping products or nicotine refill liquids is illegal in every state and territory, as is the possession and use of these products. In Canada, vaping products containing nicotine are not approved for general sale. However, at a federal level there is no regulation on non-nicotine vaping products, meaning that a number of provinces and municipalities have begun to develop their own frameworks for the sale and marketing of these products. Even in countries where the sale of Next Generation Products is permitted, some governments have adopted, or are seeking to adopt, bans on vaping in public places.

United States

Through the RAI subsidiaries, the Group is subject to US federal, state and local laws and regulations. In 2009, President Obama signed into law the Family Smoking Prevention and Tobacco Control Act (FSPTCA), which grants the US Food & Drug Administration (FDA) broad authority over the manufacture, sale, marketing and packaging of tobacco products. Key elements of the FSPTCA include: filing of facility registrations, product listing, constituent testing and ingredient information; obtaining FDA clearance for all new products or product modifications; banning all characterising flavours other than tobacco or menthol in cigarettes; establishing 'user fees' to fund the FDA's regulation of tobacco products; increasing the health warning size on cigarette packs with the option to introduce pictorial health warnings; implementing good manufacturing practices; revising the labelling and advertising requirements for smokeless tobacco products; and requiring the study of menthol. The US Congress did limit the FDA's authority in two areas, prohibiting it from:

– banning all tobacco products; and

– requiring the reduction of nicotine yields of a tobacco product to zero.

On 10 May 2016, the FDA issued a final regulation, referred to as the Final Rule, deeming all products that meet the FSPTCA's definition of 'tobacco product' to be subject to the FDA's regulatory authority under the FSPTCA. The Final Rule became effective as of 8 August 2016, though each requirement of the Final Rule has its own compliance date. Such newly 'deemed' tobacco products subject to the FSPTCA include, among others, electronic nicotine delivery systems (including e-cigarettes, e-hookah, e-cigars, vape pens, advanced refillable personal vapourisers, electronic pipes and e-liquids mixed in vape shops), certain dissolvable tobacco products, cigars, and pipe tobacco.

The 'grandfather' date under the Final Rule for newly deemed products remains the same as the 'grandfather' date for those tobacco products already subject to the FSPTCA – 15 February 2007. Any tobacco product that was not legally marketed as of 15 February 2007 will be considered a new tobacco product subject to premarket review by the FDA. The FDA has recognised that few, if any, e-cigarettes were on the market as of the 15 February 2007, but thousands of such products (including R.J. Reynolds Vapor's Vuse Digital Vapor Cigarette) subsequently have entered into commerce. To address this issue, the FDA established a compliance policy regarding the premarket review requirements for all newly deemed tobacco products that are not grandfathered products, but were on the market as of 8 August 2016. The FDA will allow such products to remain on the market so long as the manufacturer has filed the appropriate Premarket Tobacco Product Application (PMTA) by a specific deadline.

The Final Rule established staggered initial compliance periods based on the expected complexity of the applications to be submitted. On 28 July 2017, as part of FDA's announcement of a comprehensive regulatory plan for nicotine and tobacco, the FDA extended the deadline for submission of PMTAs for newly deemed products by several years. PMTAs for non-combustible products, such as e-cigarettes, must be submitted by 8 August 2022. R.J. Reynolds Vapor intends to file a PMTA with respect to Vuse and certain other of its e-cigarette products. Based on the FDA's draft guidance setting forth the type of evidence that must be included within a premarket review application, R.J. Reynolds Vapor expects the costs of preparing a PMTA to be significant.

On 28 July 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation that recognises the continuum of risk for nicotine delivery. The FDA plans to publish an ANPRM to seek public input regarding the potential health benefits and possible adverse effects of lowering the level of nicotine in combustible cigarettes. The ANPRM will request comments from interested stakeholders regarding the potential impact of a nicotine product standard on, among other things:

– the likelihood that existing users of tobacco products will stop using cigarettes;

– the likelihood that those who do not use tobacco products will start using such products; and

– the illicit trade of cigarettes containing nicotine at levels higher than a non-addictive nicotine threshold.

In addition, the Center for Tobacco Products (CTP), which was established within the FDA in 2009, will coordinate with the FDA Center for Drug Evaluation and Research regarding medicinal nicotine and other therapeutic products as part of an agency-wide nicotine framework. As part of the comprehensive plan, the FDA also announced its intent to issue ANPRMs requesting public stakeholder input on the impact of flavours (including menthol) in increased initiation among youth and young adults as well as assisting adult smokers to switch to potentially less harmful forms of nicotine delivery; and the patterns of use and public health impact of premium cigars. This follows on from the FDA's decision to issue its own preliminary scientific evaluation regarding menthol cigarettes in 2013, which concluded that menthol cigarettes adversely affect initiation, addiction and cessation compared to non-menthol cigarettes.

The FDA may seek to adopt regulations banning or severely restricting the use of menthol in tobacco products, the sale of menthol cigarettes, or limiting nicotine yields in the United States. In addition to the potential regulation of menthol in cigarettes by the FDA, certain municipalities either have adopted, or are considering the adoption of, a ban on the sale of menthol cigarettes.

The FDA has also noted its plans to develop product standards to protect against known public health risks, such as issues with electronic nicotine delivery systems batteries and concerns about children's exposure to liquid nicotine.

In January 2017, the FDA issued its first proposed product standard just prior to President Trump's inauguration whereby the agency would require the reduction, over a three-year period, of the levels of N-nitrosonornicotine ('NNN') contained in smokeless tobacco products. Since issuing this proposal, the agency has simply stated that it is evaluating submitted comments. It is not known whether or when this proposed rule will be adopted, and, if adopted, whether the final rule will be the same as or similar to the proposed rule.

Under the FSPTCA, for a manufacturer to launch a new tobacco product or modify an existing tobacco product after 22 March 2011, the manufacturer must obtain an order from the CTP, allowing the new or modified product to be marketed. Similarly, a manufacturer that introduced a product between 15 February 2007 and 22 March 2011, was required to file a substantial equivalence report with the CTP demonstrating either (1) that the new or modified product had the same characteristics as a product commercially available as at 15 February 2007, referred to as a predicate product, or (2) if the new or modified product had different characteristics than the predicate product, that it did not raise different questions of public health. A product subject to such report is referred to as a provisional product. A manufacturer may continue to market a provisional product unless and until the CTP issues an order that the provisional product is not substantially equivalent (NSE), in which case the FDA could then require the manufacturer to remove the provisional product from the market. Substantially all RAI subsidiaries' products currently on the market are provisional products. At present, there is substantial uncertainty over the approaches that the FDA and CTP will take to determining RAI subsidiaries' MRTP applications, PMTAs, and substantial equivalence reports.

The FDA plans to develop foundational regulations to provide clarity and predictability to the tobacco product submission process, to include regulations outlining the information that the FDA expects to be provided in PMTAs for Electronic Nicotine Delivery Systems (ENDs), Modified Risk Tobacco Product (MRTP) applications, and substantial equivalence reports, as well as finalised guidance on PMTA reviews. Further, the FDA will evaluate whether its current plan to review the substantial equivalence reports for all provisional products is an effective use of its resources, or if the FDA could take a different approach that would free up resources and provide greater market clarity for manufacturers. The FDA did not provide a timeline for publication for the ANPRM documents or the commencement of regulatory activities related to the comprehensive nicotine policy.

On 18 December 2017, the CTP accepted for review MRTP applications for six Camel Snus smokeless tobacco products. Beginning in 2018, the CTP will undertake a review of these applications which will include facility inspections, a meeting before the Tobacco Product Scientific Advisory Committee and ultimately a decision from the agency as to whether it will clear the proposed claims submitted by R.J. Reynolds Tobacco Company.

Cigarettes and other tobacco products are subject to substantial taxes in the United States. All states and the District of Columbia currently impose cigarette excise taxes. Certain city and county governments, such as New York, Philadelphia and Chicago, also impose substantial excise taxes on cigarettes sold in those jurisdictions. Also, all states and the District of Columbia currently subject smokeless tobacco products to excise taxes. Various states and the District of Columbia impose a tax on vapour products, such as e-cigarettes, and many other states have proposed taxes on vapour products. Currently, there is no federal tax on vapour products, such as e-cigarettes.

The Group believes that, as a responsible business, it can contribute through information, ideas and practical steps, to help regulators address the key issues regarding its products, including under-age access, illicit trade, product information, product design, involuntary exposure to smoke and the development of potentially less harmful products, while maintaining a competitive market that accommodates the significant percentage of adults who choose to be tobacco consumers. The Group is committed to working with national governments and multilateral organisations and welcomes opportunities to participate in good faith to achieve sensible and balanced regulation of traditional tobacco and Next Generation Products.

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA)

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities sanctioned under programmes relating to terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the US by non-US affiliates in compliance with applicable law, and whether or not the activities are sanctionable under US law.

As of the date of this report, BAT is not aware of any activity, transaction or dealing by the Group or any of its affiliates during the financial year ended 31 December 2017 that is disclosable under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Exchange Act, except as set forth below. This information is to the best of BAT's knowledge.

BAT has a local operation in Iran, established on 18 October 2003, through its wholly owned non-US subsidiary, B.A.T. Pars Company (Private Joint Stock) (BAT Pars). BAT Pars produces most of the products it sells in Iran, which include Kent, Pall Mall and Montana brands, in its own factory in Eshtehard, which is in the Alborz province of Iran. A minor volume of Dunhill product was imported from Russia in 2017 as it was not possible to produce this locally. BAT Pars distributes its product via 108 sub-agents with national and provincial distribution licenses, who sell products to wholesalers and retailers with the support of BAT Pars' sales representatives. BAT Pars has 283 direct employees and an additional 1,100 contract workers supplied by a private company.

Concerning the business of BAT Pars, various elements such as income tax, payroll, social security, other taxes, excise, monopoly fees, duties and other fees, including for utilities, licenses and judicial fees to commence litigation, are payable to the Government of Iran and affiliated entities regarding BAT Pars' operation. In 2017, BAT Pars paid some debts to the Iranian Tobacco Company (which is majority owned by the Government of Iran or affiliated entities) relating to contract manufacturing services provided to BAT Pars in the period 2014 to 2016. BAT Pars maintains bank accounts in Iran with various banks to facilitate its operations in the country and to make any required payments, as described above, to the Government of Iran and affiliated entities regarding its operations.

During the year ended 31 December 2017, BAT did not have any gross revenues or net profits derived from transactions with the Government of Iran or affiliated entities.

BAT believes, and maintains policies and procedures designed to ensure that, its activities in Iran and elsewhere comply in all material aspects with the applicable and relevant trade sanctions laws and regulations, including US and other international trade sanctions and/or embargoes. BAT's sanctions policies and procedures have been designed to be as robust as possible. However, there can be no absolute assurance that these policies and procedures will be effective. While we believe the imposition of penalties or sanctions against BAT for its activities in Iran by the relevant authorities would be an unlikely event, the impact of such penalties or sanctions, if imposed, could be material. To the extent permitted under applicable law, BAT Pars' activities in Iran are expected to continue.

Material contracts

Merger with RAI

On 16 January 2017, BAT entered into an Agreement and Plan of Merger with RAI, BATUS Holdings Inc., an indirect, wholly owned subsidiary of BAT, and Flight Acquisition Corporation (Merger Sub), an indirect, wholly owned subsidiary of BAT, as it and the plan of merger contained therein were amended as of 8 June 2017, pursuant to which, upon the terms and subject to the conditions thereof, on 25 July 2017, Merger Sub was merged with and into RAI, with RAI surviving as an indirect, wholly owned subsidiary of BAT. Pursuant to the terms of the merger agreement and at the effective time of the merger, each share of RAI common stock (other than shares of RAI common stock owned by BAT and its subsidiaries or owned by holders who were excluded because such holders properly asserted their rights of appraisal), was automatically converted into the right to receive (i) a number of BAT ADSs, representing 0.5260 of an ordinary share, nominal value 25 pence, of BAT, plus (ii) US$29.44 in cash, without interest. Based on the per share closing price of a BAT ADS of US$69.25, as quoted on the NYSE on 24 July 2017 at the time of the NYSE market close, the implied per share value of the merger consideration was approximately US$65.87.

The Master Settlement Agreement & State Settlement Agreements

In 1998, the major US cigarette manufacturers (including R.J. Reynolds Tobacco Company, Lorillard and Brown & Williamson, businesses which are now part of Reynolds American) entered into the Master Settlement Agreement (MSA) with attorneys general representing most US states and territories. The MSA imposes a perpetual stream of future payment obligations on the major US cigarette manufacturers. The amounts of money that the participating manufacturers are required to annually contribute are based upon, amongst other things, the volume of cigarettes sold and market share (based on cigarette shipments in that year).

During 2013, R.J. Reynolds Tobacco Company, various other tobacco manufacturers, 20 states, the District of Columbia and Puerto Rico reached a final agreement related to Reynolds American's 2003 Master Settlement Agreement (MSA) activities. Under this agreement R.J. Reynolds Tobacco Company will receive credits, currently estimated to be more than US$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits have been and will be applied against the company's MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations. During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. It is estimated that R.J. Reynolds Tobacco Company will receive US$170 million in credits, which will be applied over a five-year period from 2014. During 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US$285 million in credits, which will be applied over a four-year period from 2015. During 2016, no additional states agreed to settle NPM disputes. During 2017, two more states agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US$61 million in credits, which will be applied over a five year period from 2017. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjusting items. Only credits in respect of prior year payments are included as adjusting items.

The BAT Group is subject to substantial payment obligations under the MSA and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (such settlement agreements, collectively State Settlement Agreements). RAI's operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2017 amounted to US$2,856 million in respect of settlement expenses and US$4,612 million in respect of settlement cash payments.

Change of control provisions as at 31 December 2017

Significant Agreements

Nature of Agreement	Key provisions
The revolving credit facilities agreement effective 25 July 2017 and entered into between the Company, B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V., British American Tobacco Holdings (The Netherlands) B.V. and B.A.T Capital Corporation (as borrowers and, in the case of the Company, as a guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders), pursuant to which the lenders agreed to make available to the borrowers £6 billion for general corporate purposes (the 'Facility').	– 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.
Term loan facilities agreement dated 16 January 2017: B.A.T. International Finance p.l.c. and B.A.T Capital Corporation (as borrowers), the Company, (as guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers US$25 billion for the acquisition of RAI. Facilities A and B have been repaid and facilities C and D, totalling the sterling equivalent of US$5 billion, are still outstanding.	– should a borrower cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it; – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the term loan facilities to be repaid.
Packaging Materials Agreement dated 8 April 2015, between Souza Cruz S.A. and Amcor Group GmBH for the production and supply of packaging for a value of R$1,500,000,000.	– that either party may terminate the agreement in the event of any direct or indirect acquisition of at least 25% of the voting shares of the supplier and/or its affiliates by directly or indirectly a competitor of Souza Cruz S.A., importer or distributor.

Material contracts continued

Nature of Agreement	Key provisions
On 25 July 2017, the Company acceded as a guarantor under the indenture of its indirect, wholly owned subsidiary RAI. The securities issued under the indenture include approximately $12.7 billion aggregate principal amount of unsecured RAI debt securities.	– with respect to each series of debt securities issued under the indenture, upon a change of control event, combined with a credit ratings downgrade of the series to below investment grade level (such downgrade occurring on any date from the date of the public notice of an arrangement that could result in a change of control event until the end of the 60-day period following public notice of the occurrence of a change of control event), RAI is obligated to make an offer to repurchase all debt securities from each holder of debt securities. As a guarantor under the indenture, the Company guarantees such payments.

Long-Term Incentive Plans

The rules of the long-term incentive plans 2007 and 2016 (the LTIPs).	– in the event of a change of control of the Company as a result of a takeover, reconstruction or winding-up of the Company (not being an internal reorganisation), LTIP awards will become exercisable for a limited period based on the period of time that has elapsed since the date of the award and the achievement of the performance conditions at that date, unless the Remuneration Committee determines this not to be appropriate in the circumstances; – the rules of the LTIPs allow (as an alternative to early release) that participants may, if permitted, exchange their LTIP awards for new awards of shares in the acquiring company on a comparable basis.

Property, plant and equipment

The Group uses a mixture of in-house and contract manufacturers to manufacture its next generation products.

BAT-owned manufacturing facilities (1)

	United States	Western Europe	Asia-Pacific	Americas	EEMEA	Total
Fully Integrated cigarettes manufacturing	2	7	14	7	15	45
Sites processing tobacco only	1	2	6	7	3	19
Site manufacturing other tobacco products only	3	3	0	0	0	6
Research and Development facilities	1	2	1	2	1	7
Total	7	14	21	16	19	77

Note:
(1) As of 31 December 2017.

The plants and properties owned or leased and operated by the Group's subsidiaries are maintained in good condition and are believed to be suitable and adequate for the Group's present needs. As a result of the acquisition of the Blue Nile Cigarette Company Limited, the Group is currently investing in bringing an acquired factory to a condition deemed appropriate by the Group. The Group is progressing with the plans to close its factory in Bayreuth, Germany and to transfer its production to existing factories in Poland, Romania, Hungary and Croatia.

The technology employed in cigarette factories is sophisticated, especially in the area of cigarette making and packing where throughputs can reach between 500 and 1000 packs per minute. The Group can produce many different pack formats (e.g., the number of cigarettes per packet) and configurations (e.g., bevel edge, round corner, international) to suit marketing and consumer requirements. New technology machines are sourced from the leading machinery suppliers to the industry. Close cooperation with these organisations helps the Group support its marketing strategy by driving its product innovations, which are brought to the market on a regular basis.

The Group utilises quality standards, processes and procedures covering the entire end-to-end value chain to help to ensure quality products are provided to its customers and adult tobacco consumers according to the Group's requirements and end market regulatory requirements.

The Group has several improvement initiatives which it is currently managing. For example, the Group is continuing to realise the benefits of its Integrated Work System Program launched in 2014, which is centrally led with an aim to improve the performance of the Group's factories globally by focusing on manufacturing standards, continuous improvement, assessment and benchmarking and organisational development. The Group also utilises a survey process in the factories with an aim to improve factory productivity and reduce costs in the manufacturing environment. This process, known as "Bulls Eye," has been in existence for a number of years and highlights productivity opportunities by benchmarking.

In 2017, the Group manufactured cigarettes in 45 cigarette factories in 42 countries. These plants and properties are owned or leased and operated by the Group's subsidiaries. The Group's factory outputs and establishments vary significantly in size and production capacity.

For more information on property, plant and equipment, see note 10 in the Notes on the Accounts.

US corporate governance practices

In the US, ADSs of the Company are listed on the New York Stock Exchange (NYSE). The significant differences between the Company's corporate governance practices as a UK company and those required by NYSE listing standards for US companies are listed as follows:

The Company has applied a robust set of board governance principles, which reflect the UK Corporate Governance Code and its principles-based approach to corporate governance. NYSE rules require US companies to adopt and disclose on their websites corporate governance guidelines. The Company complies with UK requirements, including a statement in this report of how the Company has applied the principles of the Code and that the Company has complied with the best practice provisions of the Code.

Independence

The Company's board governance principles require that all non-executive directors be determined by the board to be independent in character and judgement and be free from any business or other relationships that could interfere materially with, or appear to affect, their judgement. The Board also has formal procedures for managing conflicts of interest. The Board has determined that, in its judgement, all of the non-executive directors are independent. In doing so, the Board has taken into consideration the independence requirements outlined in the NYSE's listing standards and considers these to be met by the Chairman and all of its Non-Executive Directors.

Committees

The Company has a number of Board committees that are broadly comparable in purpose and composition to those required by NYSE rules for domestic US companies. For instance, the Company has a Nominations (rather than nominating/corporate governance) Committee and a Remuneration (rather than compensation) Committee. The Company also has an Audit Committee, which NYSE rules require for both US companies and foreign private issuers.

These committees are composed solely of Non-Executive Directors and, in the case of the Nominations Committee, the Chairman whom the Board has determined to be independent, in the manner described above.

Each Board Committee has its own terms of reference, which prescribe the composition, main tasks and requirements of each of the committees (see the Board Committee reports on pages 65, 71 and 73).

Under US securities law and the listing standards of the NYSE, BAT is required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and Section 303A.06 of the NYSE Listed Company Manual. BAT's audit committee complies with these requirements. The BAT audit committee does not have direct responsibility for the appointment, reappointment or removal of the independent auditors. Instead, it follows the UK Companies Act 2006 by making recommendations to the Board on these matters for it to put forward for shareholder approval at the AGM.

One of the NYSE's additional requirements for the audit committee states that at least one member of the audit committee is to have 'accounting or related financial management expertise'. The Board determined that Lionel Nowell, III possesses such expertise and also possesses the financial and audit committee experiences set forth in both the UK Corporate Governance Code and SEC rules (see Audit Committee report on page 65). Lionel Nowell, III is also the Audit Committee financial expert as defined in Item 16.A. of Form 20-F.

Shareholder approval of equity compensation plans

The NYSE rules for US companies require that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions to those plans. The Company complies with UK requirements that are similar to the NYSE rules. The Board, however, does not explicitly take into consideration the NYSE's detailed definition of what are considered 'material revisions'.

Codes of Business Conduct and Ethics

The NYSE rules require US companies to adopt and disclose a code of business conduct and ethics for all directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. The Group Standards of Business Conduct (SoBC) described on page 69 apply to all staff in the Group, including senior management and the Board, and satisfy the NYSE requirements. All Group companies have adopted the SoBC (or localised versions). The SoBC also set out the Group's whistleblowing policy, enabling staff, in confidence and anonymously, to raise concerns without fear of reprisal, including concerns regarding questionable accounting or auditing matters. The SoBC is available at www.bat.com/sobc.

For staff of RAI Companies, the RAI Code of Conduct, which is substantially in alignment with the SoBC and satisfies the NYSE requirements, applied in lieu of the SoBC for the full year 2017. RAI Companies adopted their localised version of the SoBC with effect from 1 January 2018.

The Company has also adopted a code of ethics for its Chief Executive, Finance Director, Group Financial Controller and Group Chief Accountant as required by the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules issued by the SEC. There have been no waivers from the code of ethics relating to any officers. The Company considers that these codes and policies address the matters specified in the NYSE rules for US companies.

Controls and procedures

Evaluation of disclosure controls and procedures

Disclosure Controls and Procedures

The Company maintains 'disclosure controls and procedures', as such term is defined in Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in reports the Company files or submits under the Exchange Act is recorded, processed, summarised and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management, including the Company's Chief Executive and Finance Director, recognise that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Group have been detected. The Group's disclosure controls and procedures have been designed to meet, and management believes that they meet, reasonable assurance standards.

The Company's management, with the participation of the Company's Chief Executive and Finance Director, has evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this annual report. Based on that evaluation, the Company's Chief Executive and Finance Director have concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Management's annual report on internal control over financial reporting and attestation report of the registered public accounting firm

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Changes in internal control over financial reporting

In July 2017, BAT completed its acquisition of RAI. As part of the post-closing integration, the Group is engaged in refining and harmonising the internal controls and processes of the acquired business with those of BAT.

Statements regarding competitive position

Statements referring to the competitive position of BAT and its subsidiaries are based on the Group's belief and best estimates. In certain cases, such statements and figures rely on a range of sources, including investment analyst reports, independent market surveys, and the Group's own internal assessments of market share.

Directors' Report information

This Other Information section of the British American Tobacco Annual Report and Form 20-F, which includes Additional disclosures and Shareholder information, forms part of, and includes certain disclosures which are required by law to be included in, the Directors' Report.

Strategic Report disclosures

Section 414C(11) of the Companies Act 2006 allows the Board to include in the Strategic Report information that it considers to be of strategic importance that would otherwise need to be disclosed in the Directors' Report. The Board has chosen to take advantage of this provision and accordingly, the information set out below, which would otherwise be required to be contained in the Directors' Report, has been included in the Strategic Report.

Information required in the Directors' Report	Section in the Strategic Report
Information on dividends	Financial review
Certain risk information about the use of financial instruments	Financial review
An indication of likely future developments in the business of the Group	Delivering our strategy
An indication of the activities of the Group in the field of research and development	Our business model
A statement describing the Group's policy regarding the hiring, continuing employment and training, career development and promotion of disabled persons	Delivering our strategy: Winning organisation
Details of employee engagement: information, consultation, 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
Details of charitable donations	Stakeholder engagement
Disclosures concerning greenhouse gas emissions	Delivering our strategy: Sustainability

Shareholder information disclosures

Information required in the Directors' Report	Section in Other Information
Change of control provisions	Material contracts
Information on dividends	Dividends
Share capital – structure and voting rights; restrictions on transfers of shares	Articles of Association
Major shareholders	Share capital and security ownership
Directors – appointment and retirement	Articles of Association
Amendment of articles of association	Articles of Association
Directors – share buyback powers	Purchases of shares

Listing Rules (LRs) disclosures

For the purpose of LR 9.8.4C R the applicable information required to be disclosed by LR 9.8.4 R	Section in Other Information
Section (12) – shareholder waivers of dividends	Group Employee Trust
Section (13) – shareholder waivers of future dividends	Group Employee Trust

Directors: interests and indemnities

Contracts and letters of appointment	– 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 2017 are given in the Remuneration report; and – 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.
Insurance	– appropriate cover provided in the event of legal action against the Company's Directors.
Indemnities	– provision of indemnities to Directors in accordance with the Company's Articles of Association and to the maximum extent permitted by law; and – 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.

Directors' Report approval and signature

The Directors' Report comprises the information on pages 55 to 72 and page 99® and pages 215 to 262. The Directors' Report was approved by the Board of Directors on 21 February 2018 and signed on its behalf by Paul McCrory, Company Secretary.

Cautionary statement

This document contains certain forward-looking statements, including "forward-looking" statements made within the meaning of Section 21E of the United States Securities Exchange Act of 1934. These statements are often, but not always, made through the use of words or phrases such as "believe," "anticipate," "could," "may," "would," "should," "intend," "plan," "potential," "predict," "will," "expect," "estimate," "project," "positioned," "strategy," "outlook", "target" and similar expressions. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. In particular, among other statements; (i) certain statements in the Overview section (pages 1 to 7), including the Chairman's introduction; (ii) certain statements in the Strategic management section (pages 12 to 32), including the Chief Executive's review, Finance Director's overview and Global market overview; and (iii) certain statements in the Other Information section (pages 215 to 262), including the Additional disclosures and Shareholder information sections.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this document. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates; adverse litigation and dispute outcomes and the effect of such outcomes on the Group's financial condition; changes or differences in domestic or international economic or political conditions; the inability to obtain price increases and the impact of price increases on consumer affordability thresholds; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the workplace; the ability to maintain credit ratings and to fund the business under the current capital structure; the ability to develop and commercialise new alternative products and to do so profitably; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group. Further details on the principal risk factors that may affect the Group can be found in the 'Principal Group risk factors' section of the Strategic Report on pages 48 to 54 of this document. A summary of other risks for the Group which are not considered principal risks is set out under the heading 'Additional risks for the Group' on pages 226 and 227 of this Additional disclosures section.

It is believed that the expectations reflected in this document are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and the Group undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.

Share prices and listings

Premium listing – London Stock Exchange (LSE)

The primary market for BAT's ordinary shares is the LSE (Share Code: BATS; ISIN: GB0002875804). BAT's ordinary shares have been listed on the LSE main market since 8 September 1998 and are a constituent element of the Financial Times Stock Exchange 100 Index.

Secondary listing – Johannesburg Stock Exchange (JSE Limited), South Africa

BAT's ordinary shares have a secondary listing and are traded in South African rand on the Main Board of the JSE in South Africa (Abbreviated name: BATS; Trading code: BTI). BAT's ordinary shares have been listed on the JSE since 28 October 2008 and are a constituent element of the JSE Top 40 Index.

American Depositary Shares (ADSs) – New York Stock Exchange (NYSE)

BAT ordinary shares trade in the form of BAT ADSs in the United States under the symbol BTI (CUSIP Number: 110448107). The BAT ADSs have been listed on the NYSE since 25 July 2017 as a Sponsored Level III ADS programme for which Citibank, N.A. is the depositary (the Depositary) and transfer agent. Each ADS represents one ordinary share. ADSs are evidenced by American depositary receipts (ADRs).

Disclosure of share prices

The following table sets out, for the periods indicated, the highest and lowest market prices for BAT's ordinary shares and ADSs for the periods shown. These are derived from the highest and lowest intra-day sales prices as reported on the LSE and NYSE, respectively.

	£		US$	
	Ordinary shares (LSE)		American depositary shares (ADSs)[1]	
	High	Low	High	Low
Year ended 31 December				
2013	38.075	30.890	47.973	40.988
2014	38.065	28.710	53.674	39.987
2015	39.315	32.315	54.891	45.896
2016	51.350	35.360	61.951	46.916
2017	56.430	45.085	71.769	53.785
Year ended 31 December				
2016: First quarter (January–March)	41.490	35.360	55.325	46.916
Second quarter (April–June)	48.430	40.160	61.237	54.848
Third quarter (July–September)	51.350	46.360	61.951	58.875
Fourth quarter (October–December)	51.080	42.370	61.116	50.627
2017: First quarter (January–March)	53.280	45.515	64.953	53.785
Second quarter (April–June)	56.430	51.650	71.769	64.630
Third quarter (July–September)	55.290	45.085	70.075	60.268
Fourth quarter (October–December)	51.000	46.455	67.246	60.843
2018: First quarter (to 19 February)	51.080	43.790	71.360	61.150
Month of				
August 2017	51.000	46.640	67.512	60.268
September 2017	49.395	45.085	63.946	61.160
October 2017	50.340	46.455	65.006	60.843
November 2017	51.000	46.890	66.820	63.073
December 2017	50.710	46.735	67.246	64.174
January 2018	51.080	48.005	71.360	66.310
February 2018 (to 19 February)	48.645	43.790	68.490	61.150

Note:
(1) **ADSs**: the Company effected a ratio change from one ADS representing two ordinary shares to one ADS representing one ordinary share on 14 February 2017. The historic prices shown for the ADSs have been adjusted to take account of the ratio change.

Dividends

Policy

The Group's policy is to pay dividends of 65% of long-term sustainable earnings, calculated with reference to adjusted diluted earnings per share, as defined on page 220, and reconciled from earnings per share in note 7 in the Notes on the Accounts. Please see page 37 of this Annual Report and Form 20-F 2017 for further discussion on the Group's dividend.

Currencies and exchange rates

Details of foreign exchange rates are set out in the Financial Review section of the Strategic Report on page 41 of this Annual Report and Form 20-F 2017. There are currently no UK foreign exchange controls or restrictions on remittance of dividends on the ordinary shares or on the conduct of the Company's operations, other than restrictions applicable to certain countries and persons subject to EU economic sanctions or those sanctions adopted by the UK Government which implement resolutions of the Security Council of the United Nations.

American Depositary Shares – Dividends

The following table shows the dividends paid by British American Tobacco p.l.c. in respect of the years ended 31 December 2013 to 31 December 2017, inclusive.

Announcement Year	Payment	Dividend period	Dividend per BAT ordinary share GBP	Dividend per BAT ADS[1] ADS ratio 2:1 USD[2]
2013	May	Final 2012	0.927	2.8796320
	September	Interim 2013	0.450	1.4562900
		Total	**1.377**	**4.3359220**
2014	May	Final 2013	0.974	3.2997170
	September/October	Interim 2014	0.475	1.5403300
		Total	**1.449**	**4.8400470**
2015	May	Final 2014	1.006	3.0616600
	September/October	Interim 2015	0.494	1.4928680
		Total	**1.500**	**4.5545280**
2016	May	Final 2015	1.046	3.0292160
	September/October	Interim 2016	0.513	1.3324660
		Total	**1.559**	**4.3516820**

Year	Payment	Dividend Period	Dividend Per BAT Ordinary Share GBP	Dividend Per BAT ADS[1] ADS ratio 1:1 USD[2]
2017	May	Final 2016	1.181	1.5239380
	September/October	Interim 2017	0.565	0.7585690
	February 2018	Second Interim 2017	0.436	0.6068680
		Total	**2.182**	**2.8893750**

Notes:

(1) **ADS ratio change:** prior to 14 February 2017, each BAT ADS represented two BAT ordinary shares; from 14 February 2017, each BAT ADS represents one BAT ordinary share.

(2) **Holders of BAT ADSs:** dividends are receivable in US dollars based on the sterling/US dollar exchange rate on the applicable ADS payment date, being three business days after the payment date for the BAT ordinary shares.

Dividends continued

Quarterly Dividends for the year ended 31 December 2017

On 26 April 2017, the Group announced its move to quarterly dividends with effect from 1 January 2018.

Further to that announcement, the Board has declared an interim dividend of 195.2p per ordinary share of 25p which is payable in four equal quarterly instalments of 48.8p per ordinary share in May 2018, August 2018, November 2018 and February 2019. This represents an increase of 15.2% on 2016 (2016: 169.4p per share), and a payout ratio, on 2017 adjusted diluted earnings per share, of 69%.

As part of the transition to quarterly dividend payments, the Group committed that shareholders would receive the equivalent amount of total cash payment in 2018 as they would have under the previous payment policy.

Based upon a dividend of 65% of 2017 earnings, under the previous calculation methodology, shareholders would have expected to receive a final dividend of 128.4p in May 2018 and an interim dividend of 61.6p in September 2018, being equivalent to one third of the dividend in respect of 2017, with a total dividend expected to be received in 2018 of 190.0p.

A second interim dividend of 43.6p (equivalent to 25% of the cash dividend paid in 2017) was announced on 5 December 2017 and was paid on 8 February 2018. This second interim dividend and the three quarterly dividend amounts payable in the calendar year 2018 (May, August and November), ensure that shareholders receive the equivalent cash amount during the year as they would have under the previous payment policy.

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

Holders of American Depositary Shares (ADSs)

For holders of ADSs listed on the New York Stock Exchange (NYSE), the record dates and payment dates are set out below. The equivalent quarterly dividends receivable by holders of ADSs in US dollars will be calculated based on the exchange rate on the applicable payment date.

South Africa branch register

In accordance with the JSE Limited (JSE) Listing Requirements, the finalisation information relating to shareholders registered on the South Africa branch register (comprising the amount of the dividend in South African rand, the exchange rate and the associated conversion date) will be published on the dates stated below, together with South Africa dividends tax information.

The quarterly dividends are regarded as 'foreign dividends' for the purposes of the South Africa Dividends Tax. For the purposes of South Africa Dividends Tax reporting, the source of income for the payment of the quarterly dividends is the United Kingdom.

Key dates

In compliance with the requirements of the London Stock Exchange (LSE), the NYSE and Strate, the electronic settlement and custody system used by the JSE, the following are the salient dates for the quarterly dividend payments. All dates are 2018, unless otherwise stated.

Event	Payment No. 1	Payment No. 2	Payment No. 3	Payment No. 4
Preliminary announcement (includes declaration data required for JSE purposes)	22 February 2018			
Publication of finalisation information (JSE)	12 March	19 June	25 September	13 December
No removal requests (in either direction) permitted between the UK main register and the South Africa branch register	12 March–23 March	19 June–29 June	25 September–5 October	13 December–28 December
Last day to trade (LDT) cum-dividend (JSE)	19 March	26 June	2 October	21 December
Shares commence trading ex-dividend (JSE)	20 March	27 June	3 October	24 December
No transfers permitted between the UK main register and the South Africa branch register	20 March–23 March	27 June–29 June	3 October–5 October	24 December–28 December
No shares to be dematerialised or rematerialised on the South Africa branch register	20 March–23 March	27 June–29 June	3 October–5 October	24 December–28 December
Shares commence trading ex-dividend (LSE and NYSE)	22 March	28 June	4 October	27 December
Record date (LSE, JSE and NYSE)	23 March	29 June	5 October	28 December
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (LSE)	17 April	18 July	25 October	17 January 2019
Payment date (LSE and JSE)	9 May	8 August	15 November	7 February 2019
ADS payment date (NYSE)	14 May	13 August	20 November	12 February 2019

Note:
Further details of the total amounts of dividends paid in 2017 (with 2016 comparatives) are given in note 8 in the Notes on the Accounts.

Shareholder taxation information

The following discussion summarises material US federal income tax consequences and UK taxation consequences to US holders of owning and disposing of ordinary shares or ADSs. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction or under any US federal laws other than those pertaining to income tax. This discussion is based upon the US Internal Revenue Code of 1986 (the US Tax Code), the Treasury regulations promulgated under the US Tax Code and court and administrative rulings and decisions, all as in effect on the date hereof. These laws may change, possibly retroactively, and any change could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those US holders of ordinary shares or ADSs who hold such equity interests as capital assets within the meaning of Section 1221 of the US Tax Code. Further, this discussion does not address all aspects of US federal income taxation that may be relevant to US holders in light of their particular circumstances or that may be applicable to them if they are subject to special treatment under the US federal income tax laws, including, without limitation:

- a bank or other financial institution;
- a tax-exempt organisation;
- an S corporation or other pass-through entity and an investor therein;
- an insurance company;
- a mutual fund;
- a regulated investment company or real estate investment trust;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market treatment;
- a US holder subject to the alternative minimum tax provisions of the US Tax Code;
- a US holder that received ordinary shares or ADSs through the exercise of an employee stock option, pursuant to a tax qualified retirement plan or otherwise as compensation;
- a US holder that is a tax-qualified retirement plan or a participant or a beneficiary under such a plan;
- a person that is not a US holder (as defined below);
- a person that has a functional currency other than the US dollar;
- a person required to recognise any item of gross income as a result of such income being recognised on an applicable financial statement;
- a US holder of ordinary shares or ADSs that holds such equity interest as part of a hedge, straddle, constructive sale, conversion or other integrated transaction; or
- a US expatriate.

The determination of the actual tax consequences to a US holder will depend on the US holder's specific situation. US holders of ordinary shares or ADSs should consult their own tax advisors as to the tax consequences of owning and disposing of ordinary shares or ADSs, in each case, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.

For purposes of this discussion, the term US holder means a beneficial owner of ordinary shares or ADSs (as the case may be) that:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation, including any entity treated as a corporation for US federal income tax purposes, created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) a trust if a US court is able to exercise primary supervision over the trust's administration and one or more US persons are authorised to control all substantial decisions of the trust or it has a valid election in effect under applicable Treasury regulations to be treated as a US person, or (iv) an estate that is subject to US federal income tax on its income regardless of its source; and
- is not resident in the UK for UK tax purposes.

The US federal income tax consequences to a partner in an entity or arrangement treated as a partnership for US federal income tax purposes that holds ordinary shares or ADSs generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding any such equity interest should consult their own tax advisors.

Material US federal income tax consequences relating to the ownership and disposition of ordinary shares or ADSs

The following is a discussion of the material US federal income tax consequences of the ownership and disposition by US holders of ordinary shares or ADSs. This discussion assumes that BAT is not, and will not become, a passive foreign investment company for US federal income tax purposes, as described below.

ADSs

A US holder of ADSs, for US federal income tax purposes, generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for or from ADSs will not be subject to US federal income tax.

Taxation of Dividends

The gross amount of distributions on the ordinary shares or ADSs will be taxable as dividends to the extent paid out of BAT's current or accumulated earnings and profits, as determined under US federal income tax principles. Such income will be includable in a US holder's gross income as ordinary income on the day actually or constructively received by the US holder. Such dividends will be treated as foreign source income and will not be eligible for the dividends received deduction allowed to corporations under the US Tax Code.

Shareholder taxation information continued

With respect to non-corporate US investors, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that the Treasury determines to be satisfactory for these purposes and that includes an exchange of information provision. The Treasury has determined that the treaty between the United States and the United Kingdom meets these requirements, and BAT believes that it is eligible for the benefits of the treaty. However, non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as 'investment income' pursuant to Section 163(d)(4) of the US Tax Code will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. US holders should consult their own tax advisors regarding the application of these rules to their particular circumstances.

The amount of any dividend paid by BAT in pounds sterling (including any such amount in respect of ADSs that is converted into US dollars by the depositary bank) will equal the US dollar value of the pounds sterling actually or constructively received, calculated by reference to the exchange rate in effect on the date the dividend is so received by the US holder, regardless of whether the pounds sterling are converted into US dollars. If the pounds sterling received as a dividend are converted into US dollars on the date received, the US holder generally will not be required to recognise foreign currency exchange gain or loss in respect of the dividend income. If the pounds sterling received as a dividend are not converted into US dollars on the date of receipt, the US holder will have a basis in pounds sterling equal to their US dollar value on the date of receipt. Any gain or loss realised on a subsequent conversion or other disposition of pounds sterling will be treated as US source ordinary income or loss. US holders of ADSs should consult their own tax advisors regarding the application of these rules to the amount of any dividend paid by BAT in pounds sterling that is converted into US dollars by the depositary bank.

To the extent that the amount of any distribution exceeds BAT's current and accumulated earnings and profits for a taxable year, as determined under US federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the US holder's adjusted basis of the ordinary shares or ADSs, and to the extent the amount of the distribution exceeds the US holder's tax basis, the excess will be taxed as capital gain recognised on a sale or exchange, as described below. BAT does not expect to determine earnings and profits in accordance with US federal income tax principles. Therefore, notwithstanding the foregoing, US holders should expect that distributions generally will be reported as dividend income for US information reporting purposes.

Distributions by BAT of additional ordinary shares (which may be distributed by the depositary bank to a holder of ADSs in the form of ADSs) to a US holder that is made as part of a pro rata distribution to all holders of ordinary shares and ADSs in respect of their ordinary shares or ADSs, and for which there is no option to receive other property (not including ADSs), generally will not be subject to US federal income tax. The basis of any new ordinary shares (or ADSs representing new ordinary shares) so received will be determined by allocating the US holder's basis in the previously held ordinary shares or ADSs between the previously held ordinary shares or ADSs and the new ordinary shares or ADSs, based on their relative fair market values on the date of distribution.

Passive foreign investment company

A passive foreign investment company, referred to as a PFIC, is any foreign corporation if, after the application of certain 'look-through' rules, (1) at least 75% of its gross income is 'passive income' as that term is defined in the relevant provisions of the US Tax Code, or (2) at least 50% of the average value of its assets produce 'passive income' or are held for the production of 'passive income.' The determination as to PFIC status is made annually.

BAT does not believe that it is, for US federal income tax purposes, a PFIC, and BAT expects to operate in such a manner so as not to become a PFIC. If, however, BAT is or becomes a PFIC, US holders could be subject to additional US federal income taxes on gain recognised with respect to the ordinary shares or ADSs and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate US holders will not be eligible for reduced rates of taxation on any dividends received from BAT if it is a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. BAT's US counsel expresses no opinion with respect to BAT's PFIC status.

Taxation of capital gains

Upon a sale, exchange or other taxable disposition of ordinary shares or ADSs, a US holder will generally recognise capital gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realised on the disposition and the US holder's adjusted tax basis in the ordinary shares or ADSs as determined in US dollars. Such gain or loss generally will be US source gain or loss, and will be long-term capital gain or loss if the US holder has held the ordinary shares or ADSs for more than one year. Certain non-corporate US holders may be eligible for preferential rates of US federal income tax in respect of net long-term capital gains. The deductibility of capital losses is subject to limitations.

The amount realised on a sale, exchange or other taxable disposition of ordinary shares for an amount in foreign currency will be the US dollar value of that amount on the date of sale or disposition. On the settlement date, the US holder will recognise US source foreign currency exchange gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale, exchange or other disposition and the settlement date. However, in the case of ordinary shares traded on an established securities market that are sold by a cash-basis US holder (or an accrual-basis US holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no foreign currency exchange gain or loss will be recognised at that time.

A US holder's tax basis in ordinary shares or ADSs will generally equal the US dollar cost of the ordinary shares or ADSs. The US dollar cost of ordinary shares purchased with foreign currency will generally be the US dollar value of the purchase price on the date of purchase, or the settlement date for the purchase in the case of ordinary shares traded on an established securities market that are purchased by a cash-basis US holder (or an accrual-basis US holder that so elects).

Information with respect to foreign financial assets

Individuals and certain entities that own ‘specified foreign financial assets’ with an aggregate value in excess of US$50,000 are generally required to file information reports with respect to such assets with their US federal income tax returns. Depending on the individual’s circumstances, higher threshold amounts may apply. Specified foreign financial assets include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (1) stocks and securities issued by non-US persons, (2) financial instruments and contracts held for investment that have non-US issuers or counterparties and (3) interests in non-US entities. If a US holder is subject to this information reporting regime, the failure to file information reports may subject the US holder to penalties. US holders are urged to consult their own tax advisors regarding their obligations to file information reports with respect to ordinary shares or ADSs.

Medicare net investment tax

Certain persons who are individuals (other than nonresident aliens), estates or trusts are required to pay an additional 3.8% tax on the lesser of (1) their ‘net investment income’ (in the case of individuals) or ‘undistributed net investment income’ (in the case of estates and trusts) (which includes dividend income in respect of, and gain recognised on the disposition of, ordinary shares or ADSs) for the relevant taxable year and (2) the excess of their modified adjusted gross income (in the case of individuals) or adjusted gross income (in the case of estates and trusts) for the taxable year over specified dollar amounts. US holders are urged to consult their tax advisors regarding the applicability of this provision to their ownership of ordinary shares or ADSs.

Credits or deductions for UK taxes

As indicated under ‘Material UK Tax Consequences’ below, dividends in respect of, and gains on the disposition of, ordinary shares or ADSs, may be subject to UK taxation in certain circumstances. A US holder may be eligible to claim a credit or deduction in respect of UK taxes attributable to such income or gain for purposes of computing the US holder’s US federal income tax liability, subject to certain limitations. The US foreign tax credit rules are complex, and US holders should consult their own tax advisors regarding the availability of US foreign tax credits and the application of the US foreign tax credit rules to their particular situation.

Information reporting and backup withholding

Information reporting and backup withholding may apply to dividend payments and proceeds from the sale, exchange or other taxable disposition of ordinary shares or ADSs. Backup withholding will not apply, however, to a US holder that (1) furnishes a correct taxpayer identification number, referred to as a TIN, certifies that such holder is not subject to backup withholding on Internal Revenue Service Form W-9 (or appropriate successor form) and otherwise complies with all applicable requirements of the backup withholding rules or (2) provides proof that such holder is otherwise exempt from backup withholding. Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules may be refunded or credited against a holder’s US federal income tax liability, if any, provided that such holder furnishes the required information to the Internal Revenue Service in a timely manner. The Internal Revenue Service may impose a penalty upon any taxpayer that fails to provide the correct TIN.

This summary of material US federal income tax consequences is not tax advice. The determination of the actual tax consequences for a US holder will depend on the US holder’s specific situation. US holders of ordinary shares or ADSs, in each case, should consult their own tax advisors as to the tax consequences of owning and disposing of ordinary shares or ADSs, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.

Material UK tax consequences

The following paragraphs set out below summarise material aspects of the UK tax treatment of US holders of ordinary shares or ADSs and do not purport to be either a complete analysis of all tax considerations relating to holding ordinary shares or ADSs or an analysis of the tax position of BAT. They are based on current UK legislation and what is understood to be current HM Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect.

The comments are intended as a general guide and (otherwise than where expressly stated to the contrary) apply only to US holders of ordinary shares or ADSs (other than under a personal equity plan or individual savings account) and who are the absolute beneficial owners of such shares. These comments do not deal with certain types of shareholders such as charities, dealers in securities, persons holding or acquiring shares in the course of a trade, persons who have or could be treated for tax purposes as having acquired their ordinary shares or ADSs by reason of their employment, collective investment schemes, persons subject to UK tax on the remittance basis and insurance companies. You are encouraged to consult an appropriate independent professional tax advisor with respect to your tax position.

Tax on chargeable gains as a result of disposals of ordinary shares or ADSs

Subject to the below, US holders will not generally be subject to UK tax on chargeable gains on a disposal of ordinary shares or ADSs provided that they do not carry on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment in connection with which the ordinary shares or ADSs are held.

A US holder who is an individual, who has ceased to be resident for tax purposes in the United Kingdom for a period of less than five years and who disposes of ordinary shares or ADSs during that period may be liable for UK tax on capital gains (in the absence of any available exemptions or reliefs). If applicable, the tax charge will arise in the tax year that the individual returns to the United Kingdom.

Shareholder taxation information continued

Tax on dividends

BAT is not required to withhold UK tax at source from dividends paid on ordinary shares or ADSs.

US holders will not generally be subject to UK tax on dividends received from BAT provided that they do not carry on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment in connection with which the ordinary shares or ADSs are held.

Stamp duty and stamp duty reserve tax, referred to as SDRT

Based on current published HM Revenue & Customs practice and recent case law, transfers of ADSs should not be subject to SDRT or stamp duty provided that any instrument of transfer is executed and remains outside the UK and the transfer of an underlying ordinary share to the ADS holder in exchange for the cancellation of an ADS should also not give rise to a stamp duty or SDRT charge.

Transfers of ordinary shares outside of the depositary bank, including the repurchase of ordinary shares by BAT, will generally be subject to stamp duty or SDRT at the rate of 0.5% of the amount or value of the consideration given, except as described above in connection with the cancellation of an ADS. If ordinary shares are redeposited into a clearance service or depositary system, the redeposit will attract stamp duty or SDRT at the higher rate of 1.5%.

The purchaser or the transferee of the ordinary shares or ADSs will generally be responsible for paying any stamp duty or SDRT payable. Where stamp duty or SDRT is payable, it is payable regardless of the residence position of the purchaser.

Inheritance tax

A gift or settlement of ordinary shares or ADSs by, or on the death of, an individual shareholder may give rise to a liability to UK inheritance tax even if the shareholder is not a resident of or domiciled in the United Kingdom.

A charge to inheritance tax may arise in certain circumstances where ordinary shares or ADSs are held by close companies and trustees of settlements.

However, pursuant to the Estate and Gift Tax Treaty 1980, referred to as the Treaty, entered into between the United Kingdom and the United States, a gift or settlement of ordinary shares or ADSs by shareholders who are domiciled in the United States for the purposes of the Treaty may be exempt from any liability to UK inheritance tax.

Share capital and security ownership

Share capital

Share capital Ordinary shares of 25p each	31 December 2017
Issued ordinary shares (excluding treasury shares)	2,293,632,824
Treasury shares	162,645,590
Total allotted and fully paid ordinary shares[1]	2,456,278,414
Aggregate nominal value £m	614.1

Note:
1. Includes treasury shares and shares owned by employee share trusts.

Analyses of shareholders

Ordinary Shares

At 31 December 2017 there was a total of 2,456,278,414 ordinary shares in issue held by 115,842 shareholders. These shareholdings are analysed as follows:

(a) by listing as at 31 December 2017:

Register	Total number of shares	% of issued share capital	Number of holders
UK	2,212,935,055	90.09	40,036
South Africa	243,343,359	9.91	75,806
Total	2,456,278,414	100.00	115,842

(b) by size of shareholding as at 31 December 2017: UK Register

	Number of holders	% of UK ordinary share capital
1–1,999	33,591	0.68
2,000–9,999	4,585	0.79
10,000–199,999	1,336	3.09
200,000–499,999	221	3.09
500,000 and over	302	85.00
Treasury shares (UK)	1	7.35
Total	40,036	100.00

South Africa Register

	Number of holders	% of SA ordinary share capital
1–1,999	69,775	7.75
2,000–9,999	4,233	6.97
10,000–199,999	1,646	26.18
200,000–499,999	83	9.70
500,000 and over	69	49.40
Total	75,806	100.00

Combined registers

	Number of holders	% of issued ordinary share capital
1–1,999	103,366	1.38
2,000–9,999	8,818	1.41
10,000–199,999	2,982	5.37
200,000–499,999	304	3.75
500,000 and over	371	81.47
Treasury shares (UK)	1	6.62
Total	115,842	100.00

American Depositary Shares (ADSs)

At 31 December 2017 there was a total of 257,074,522 ADSs outstanding held by 10,917 registered holders. The ADS register is analysed by size of shareholding as at 31 December 2017 as follows:

	Number of holders	% of total ADSs
1–1,999	10,629	0.87
2,000–9,999	257	0.34
10,000–199,999	29	0.30
200,000–499,999	–	
500,000 and over[1]	2	98.49
Total	10,917	100.00

Note:
1. One registered holder of ADSs represents 456,770 underlying shareholders.

Security ownership of ordinary shares

As at 19 February 2018, there were 39,897 record holders of ordinary shares listed on the LSE (including Citibank as the depositary bank for the ADSs) and 2,213,317,102 of such ordinary shares outstanding. As at that date, to BAT's knowledge, 298 record holders, representing 0.02% of the ordinary shares listed on the LSE, had a registered address in the United States. As at 19 February 2018, there were 881 record holders of ordinary shares listed on the JSE (including PLC Nominees (Proprietary) Limited as the nominee for the dematerialised ordinary shares listed on the JSE) and 242,969,267 of such ordinary shares outstanding. As at such date, to BAT's knowledge, no record holders of the ordinary shares listed on the JSE had a registered address in the United States. As at 19 February 2018, based on information received from Citibank, there were 10,830 record holders of ADSs and 254,466,849 ADSs outstanding. As at that date, based on information received from Citibank, 10,753 record holders, representing 99.94% of ADSs representing ordinary shares, had a registered address in the United States.

Security ownership – major shareholders

At 31 December 2017, the following substantial interests (3% or more) in the Company's ordinary share capital (voting securities) had been notified to the Company in accordance with Section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs). As at 19 February 2018, the Company had not received notification in accordance with the DTRs 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[1]
BlackRock, Inc.	132,891,526	5.79
The Capital Group Companies, Inc.	94,321,111	4.11

Note:
1. The latest percentage of issued share capital excludes treasury shares.

Share capital and security ownership continued

All shares held by the significant shareholders represent the Company's ordinary shares. These significant shareholders have no special voting rights compared to other holders of the Company's ordinary shares.

Additional significant shareholding disclosure

Capital World Investors, a division of Capital Research and Management Company, filed with the SEC a statement on Schedule 13G under the Exchange Act on 14 February 2018 disclosing that as of 29 December 2017 it beneficially owned 137,487,651 ordinary shares, including 10,177,358 ordinary shares represented by ADSs. This represents approximately 5.99% of the Company's ordinary shares outstanding as of 31 December 2017. The notifications regarding the holdings by The Capital Group Companies, Inc., listed below, indicate that Capital Research and Management Company is part of a chain of controlled undertakings with The Capital Group Companies, Inc.

In accordance with the DTRs, share transfers by major shareholders of greater than 1% must be reported to the Company. The notifications received by the Company during the past three years to the best of the Company's knowledge are set out below.

The Capital Group Companies, Inc. notified the Company on 25 August 2015 that its interest had increased above 4% to 75,240,878 ordinary shares on 24 August 2015.

The Capital Group Companies, Inc. notified the Company on 3 March 2016 that its interest had increased above 5% to 94,321,111 ordinary shares on 2 March 2016.

Reinet Investments S.C.A. notified the Company on 6 October 2017 that its interest had decreased below the notifiable threshold of 3% to 68,053,670 ordinary shares on 25 July 2017.

To the extent known by BAT, BAT is not directly or indirectly owned or controlled by another corporation, any foreign government or by any other natural or legal person, severally or jointly. BAT is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Group.

Security ownership of the Board of Directors and the Management Board

The following table presents information regarding the total amount of ordinary shares beneficially owned (outright, by their family or by connected persons) by each current Director of BAT, each member of the Management Board and all Directors and the Management Board as a group, as of 19 February 2018. Unless otherwise indicated, the address for each Director and member of the Management Board listed is: c/o British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom. The address for Ricardo Oberlander is 401 North Main Street, Winston-Salem, NC 27101, United States of America.

	Number of Ordinary Shares	Percentage of Class[11]
Directors		
Richard Burrows	15,000	0.0007
Nicandro Durante[1][2][3]	400,309	0.0175
Ben Stevens[1][2][3]	164,031	0.0072
Sue Farr	–	–
Ann Godbehere[4]	3,100	0.0001
Marion Helmes	4,500	0.0002
Luc Jobin[4]	45,236	0.0020
Holly Keller Koeppel[4][5]	8,416	0.0004
Savio Kwan	6,352	0.0003
Pedro Malan	–	–
Lionel Nowell, III[4][6]	17,436	0.0008
Dimitri Panayotopoulos	3,300	0.0001
Kieran Poynter	5,000	0.0002
Management Board		
Jerome Abelman[7][8][9]	60,480	0.0026
Jack Bowles[7][8][9]	156,055	0.0068
Alan Davy[7][8][9]	73,965	0.0032
Giovanni Giordano[7][8][9][10]	70,548	0.0031
Andrew Gray[7][8][9]	82,278	0.0036
Tadeu Marroco[7][8][9]	37,114	0.0016
David O'Reilly[7][8][9]	48,834	0.0021
Ricardo Oberlander[7][8][9]	77,084	0.0034
Naresh Sethi[7][8][9]	77,013	0.0034
Johan Vandermeulen[7][8][9]	39,816	0.0017
Kingsley Wheaton[7][8][9]	40,882	0.0018
All Directors and Management Board as a group (24 persons)	**1,436,749**	**0.0626**

Notes:

(1) The number of ordinary shares beneficially owned by the Executive Directors include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts above include the following ordinary shares held in the trust under the SIP: (a) 2,114 ordinary shares for Mr Durante, of which 425 have been held for less than three years; and (b) 558 ordinary shares for Mr Stevens, of which 272 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with his instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board'' for additional details regarding the SIP and the ordinary shares held thereunder.

(2) The number of ordinary shares beneficially owned by the Executive Directors include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 19 February 2018: (a) 122,477 options under the LTIP for Mr Durante; and (b) 66,925 options under the LTIP for Mr Stevens. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.

(3) The number of ordinary shares beneficially owned by the Executive Directors include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 19 February 2018: (a) 19,419 ordinary shares for Mr Durante; and (b) 12,732 ordinary shares for Mr Stevens. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.

(4) The ordinary shares beneficially owned by Ms Godbehere, Mr Jobin, Ms Koeppel and Mr Nowell are represented by ADSs, each of which represents one ordinary share.

(5) Ms Koeppel holds 20,568.87 deferred stock units (DSUs) which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment following ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs will increase on each dividend payment date by reference to the value of dividends declared on the ADSs underlying the DSUs.

(6) Mr Nowell holds 37,330.63 deferred stock units (DSUs) which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment following ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs will increase on each dividend payment date by reference to the value of dividends declared on the ADSs underlying the DSUs.

(7) The number of ordinary shares beneficially owned by the members of the Management Board include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts above include the following ordinary shares held in the trust under the SIP: (a) 340 ordinary shares for Mr Abelman, of which 224 have been held for less than three years; (b) 481ordinary shares for Mr Bowles, of which 238 have been held for less than three years; (c) 499 ordinary shares for Mr Davy, of which 250 have been held for less than three years; (d) 743 ordinary shares for Mr Giordano, of which 271 have been held for less than three years; (e) 774 ordinary shares for Mr Gray, of which 281 have been held for less than three years; (f) 472 ordinary shares for Mr Marroco, of which 239 have been held for less than three years; (g) 1,587 ordinary shares for Dr O'Reilly, of which 373 have been held for less than three years; (h) 385 ordinary shares for Mr Oberlander, of which 237 have been held for less than three years; (i) 1,266 ordinary shares for Mr Sethi, of which 331 have been held for less than three years; (j) 340 ordinary shares for Mr Vandermeulen, of which 187 have been held for less than three years; and (k) 631 ordinary shares for Mr Wheaton, of which 265 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with his instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.

(8) The number of ordinary shares beneficially owned by the members of the Management Board include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 19 February 2018: (a) 22,533 options under the LTIP for Mr Abelman; (b) 34,131 options under the LTIP for Mr Bowles; (c) 24,853 options under the LTIP for Mr Davy; (d) 32,805 options under the LTIP for Mr Giordano; (e) 35,788 options under the LTIP for Mr Gray; (f) 23,195 options under the LTIP for Mr Marroco; (g) 23,195 options under the LTIP for Dr O'Reilly; (h) 28,332 options under the LTIP for Mr Oberlander; (i) 28,332 options under the LTIP for Mr Sethi; (j) 27,503 options under the LTIP for Mr Vandermeulen; and (k) 28,332 options under the LTIP for Mr Wheaton. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.

(9) The number of ordinary shares beneficially owned by the members of the Management Board include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 19 February 2018: (a) 1,706 ordinary shares for Mr Abelman; (b) 7,359 ordinary shares for Mr Bowles; (c) 5,358 ordinary shares for Mr Davy; (d) 7,073 ordinary shares for Mr Giordano; (e) 7,716 ordinary shares for Mr Gray; (f) 3,825 ordinary shares for Mr Marroco; (g) 5,001 ordinary shares for Dr O'Reilly; (h) 6,108 ordinary shares for Mr Oberlander; (i) 6,108 ordinary shares for Mr Sethi; (j) 5,892 ordinary shares for Mr Vandermeulen; and (k) 5,158 ordinary shares for Mr Wheaton. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.

(10) 8,000 ordinary shares held by Mr Giordano are represented by ADSs, each of which represents one ordinary share.

(11) The information in this column is based on 2,293,640,779 ordinary shares outstanding (excluding treasury shares) as of 19 February 2018. Any securities not outstanding subject to options, warrants, rights or conversion privileges that give the beneficial owner the right to acquire the securities within 60 days are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class by any other person.

Share capital and security ownership continued

Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board

The following table presents information regarding the options and the restricted share awards held by the Directors and the Management Board as of 19 February 2018. The following Directors (being the Chairman and the Non-Executive Directors) have not been granted share-based Awards or Options-based Awards over ordinary shares: Mr Burrows, Ms Farr, Ms Godbehere, Dr Helmes, Mr Jobin, Ms Koeppel, Mr Kwan, Dr Malan, Mr Nowell, Mr Panayotopoulos and Mr Poynter.

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Directors						
Nicandro Durante						
LTIP(1)	127,448	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	140,529	12 May 2016	0.00	42.34	–	12 May 2021–11 May 2026
	114,181	27 Mar 2017	0.00	52.11	–	27 Mar 2022–26 Mar 2027
Sharesave(2)	543	26 Aug 2014	27.87	34.83	–	1 Oct 2019–31 Mar 2020
	369	24 Mar 2017	40.56	50.70	–	1 May 2022–31 Oct 2022
Total Options(3)	**383,070**					
DSBS(4)	–	27 Mar 2015	–	–	19,419	27 Mar 2018
	–	29 Mar 2016	–	–	29,690	29 Mar 2019
	–	27 Mar 2017	–	–	28,545	27 Mar 2020
SIP(5)	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	44	8 May 2018
	–	30 Sep 2015	–	–	23	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	43	9 May 2019
	–	28 Sep 2016	–	–	20	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	43	4 May 2020
	–	28 Sep 2017	–	–	25	28 Sep 2020
	–	8 Feb 2018	–	–	20	8 Feb 2021
Total Restricted Share Awards(6)					**78,079**	
Ben Stevens						
LTIP(1)	69,641	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	71,669	12 May 2016	0.00	42.34	–	12 May 2021–11 May 2026
	58,232	27 Mar 2017	0.00	52.11	–	27 Mar 2022–26 Mar 2027
Sharesave(2)	543	26 Aug 2014	27.87	34.83	–	1 Oct 2019–31 Mar 2020
	495	23 Mar 2015	30.26	37.82	–	1 May 2020–31 Oct 2020
Total Options(3)	**200,580**					
DSBS(4)	–	27 Mar 2015	–	–	12,732	27 Mar 2018
	–	29 Mar 2016	–	–	19,468	29 Mar 2019
	–	27 Mar 2017	–	–	15,805	27 Mar 2020
SIP(5)	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	15	8 May 2018
	–	30 Sep 2015	–	–	7	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	13	9 May 2019
	–	28 Sep 2016	–	–	6	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	12	4 May 2020
	–	28 Sep 2017	–	–	7	28 Sep 2020
	–	8 Feb 2018	–	–	5	8 Feb 2021
Total Restricted Share Awards(6)					**48,277**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Management Board						
Jerome Abelman						
LTIP[1]	23,448	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	22,732	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	19,583	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave[2]	991	23 Mar 2015	30.26	37.82	–	1 May 2020–31 Oct 2020
Total Options[3]	**66,754**					
DSBS[4]	–	27 Mar 2015	–	–	1,706	27 Mar 2018
	–	29 Mar 2016	–	–	8,164	29 Mar 2019
	–	27 Mar 2017	–	–	6,658	27 Mar 2020
SIP[5]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	3	9 May 2019
	–	28 Sep 2016	–	–	2	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	5	4 May 2020
	–	28 Sep 2017	–	–	4	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
Total Restricted Share Awards[6]					**16,752**	
Jack Bowles						
LTIP[1]	35,517	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	31,943	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	26,463	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Total Options[3]	**93,923**					
DSBS[4]	–	27 Mar 2015	–	–	7,359	27 Mar 2018
	–	29 Mar 2016	–	–	11,473	29 Mar 2019
	–	27 Mar 2017	–	–	8,997	27 Mar 2020
SIP[5]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	7	8 May 2018
	–	30 Sep 2015	–	–	3	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	6	9 May 2019
	–	28 Sep 2016	–	–	3	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	6	4 May 2020
	–	28 Sep 2017	–	–	3	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
Total Restricted Share Awards[6]					**28,067**	

Share capital and security ownership continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Alan Davy						
LTIP[1]	25,862	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	23,027	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	19,099	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave[2]	543	26 Aug 2014	27.87	34.83	–	1 Oct 2019–31 Mar 2020
	221	24 Mar 2017	40.56	50.70	–	1 May 2020–31 Oct 2020
Total Options[3]	**68,752**					
DSBS[4]	–	27 Mar 2015	–	–	5,358	27 Mar 2018
	–	29 Mar 2016	–	–	8,270	29 Mar 2019
	–	27 Mar 2017	–	–	6,493	27 Mar 2020
SIP[5]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	7	8 May 2018
	–	30 Sep 2015	–	–	5	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	7	9 May 2019
	–	28 Sep 2016	–	–	4	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	10	4 May 2020
	–	28 Sep 2017	–	–	6	28 Sep 2020
	–	8 Feb 2018	–	–	4	8 Feb 2021
Total Restricted Share Awards[6]					**20,371**	
Giovanni Giordano						
LTIP[1]	34,137	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	30,113	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	24,966	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave[2]	475	23 Mar 2015	30.26	37.82	–	1 May 2018–31 Oct 2018
	88	24 Mar 2017	40.56	50.70	–	1 May 2020–31 Oct 2020
Total Options[3]	**89,779**					
DSBS[4]	–	27 Mar 2015	–	–	7,073	27 Mar 2018
	–	29 Mar 2016	–	–	10,815	29 Mar 2019
	–	27 Mar 2017	–	–	8,488	27 Mar 2020
SIP[5]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	10	8 May 2018
	–	30 Sep 2015	–	–	6	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	12	9 May 2019
	–	28 Sep 2016	–	–	6	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	14	4 May 2020
	–	28 Sep 2017	–	–	9	28 Sep 2020
	–	8 Feb 2018	–	–	7	8 Feb 2021
Total Restricted Share Awards[6]					**26,647**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Andrew Gray						
LTIP[1]	37,241	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	32,829	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	27,197	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave[2]	576	28 Mar 2014	26.00	32.50	–	1 May 2019–31 Oct 2019
	543	26 Aug 2014	27.87	34.83	–	1 Oct 2019–31 Mar 2020
Total Options[3]	**98,386**					
DSBS[4]	–	27 Mar 2015	–	–	7,716	27 Mar 2018
	–	29 Mar 2016	–	–	11,791	29 Mar 2019
	–	27 Mar 2017	–	–	9,247	27 Mar 2020
SIP[5]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	13	8 May 2018
	–	30 Sep 2015	–	–	8	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	14	9 May 2019
	–	28 Sep 2016	–	–	7	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	15	4 May 2020
	–	28 Sep 2017	–	–	9	28 Sep 2020
	–	8 Feb 2018	–	–	8	8 Feb 2021
Total Restricted Share Awards[6]					**29,035**	
Tadeu Marroco						
LTIP[1]	24,137	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	21,315	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	21,109	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave[2]	534	26 Mar 2013	28.07	35.08	–	1 May 2018–31 Oct 2018
	495	23 Mar 2015	30.26	37.82	–	1 May 2020–31 Oct 2020
Total Options[3]	**67,590**					
DSBS[4]	–	27 Mar 2015	–	–	3,825	27 Mar 2018
	–	29 Mar 2016	–	–	7,655	29 Mar 2019
	–	27 Mar 2017	–	–	7,177	27 Mar 2020
SIP[5]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	3	8 May 2018
	–	30 Sep 2015	–	–	3	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	5	9 May 2019
	–	28 Sep 2016	–	–	3	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	8	4 May 2020
	–	28 Sep 2017	–	–	6	28 Sep 2020
	–	8 Feb 2018	–	–	4	8 Feb 2021
Total Restricted Share Awards[6]					**18,896**	

Share capital and security ownership continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
David O'Reilly						
LTIP(1)	24,137	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	21,315	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	17,674	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Total Options(3)	**63,126**					
DSBS(4)	–	27 Mar 2015	–	–	5,001	27 Mar 2018
	–	29 Mar 2016	–	–	7,655	29 Mar 2019
	–	27 Mar 2017	–	–	6,009	27 Mar 2020
SIP(5)	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	34	8 May 2018
	–	30 Sep 2015	–	–	18	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	33	9 May 2019
	–	28 Sep 2016	–	–	15	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	32	4 May 2020
	–	28 Sep 2017	–	–	19	28 Sep 2020
	–	8 Feb 2018	–	–	15	8 Feb 2021
Total Restricted Share Awards(6)					**19,038**	
Ricardo Oberlander						
LTIP(1)	29,482	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	26,511	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	21,996	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave(2)	534	26 Mar 2013	28.07	35.08	–	1 May 2018–31 Oct 2018
	495	23 Mar 2015	30.26	37.82	–	1 May 2020–31 Oct 2020
Total Options(3)	**79,018**					
DSBS(4)	–	27 Mar 2015	–	–	6,108	27 Mar 2018
	–	29 Mar 2016	–	–	9,522	29 Mar 2019
	–	27 Mar 2017	–	–	7,478	27 Mar 2020
SIP(5)	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	5	8 May 2018
	–	30 Sep 2015	–	–	2	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	5	9 May 2019
	–	28 Sep 2016	–	–	3	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	7	4 May 2020
	–	28 Sep 2017	–	–	5	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
Total Restricted Share Awards(6)					**23,345**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Naresh Sethi						
LTIP(1)	29,482	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	26,009	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	21,545	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave(2)	369	24 Mar 2017	40.56	50.70	–	1 May 2022–31 Oct 2022
Total Options(3)	**77,405**					
DSBS(4)	–	27 Mar 2015	–	–	6,108	27 Mar 2018
	–	29 Mar 2016	–	–	9,341	29 Mar 2019
	–	27 Mar 2017	–	–	7,325	27 Mar 2020
SIP(5)	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	24	8 May 2018
	–	30 Sep 2015	–	–	13	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	24	9 May 2019
	–	28 Sep 2016	–	–	11	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	25	4 May 2020
	–	28 Sep 2017	–	–	15	28 Sep 2020
	–	8 Feb 2018	–	–	12	8 Feb 2021
Total Restricted Share Awards(6)					**23,105**	
Johan Vandermeulen						
LTIP(1)	28,620	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	25,094	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	21,195	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Sharesave(2)	991	23 Mar 2015	30.26	37.82	–	1 May 2020–31 Oct 2020
Total Options(3)	**75,900**					
DSBS(4)	–	27 Mar 2015	–	–	5,892	27 Mar 2018
	–	29 Mar 2016	–	–	9,013	29 Mar 2019
	–	27 Mar 2017	–	–	7,206	27 Mar 2020
SIP(5)	–	1 Apr 2015	–	–	17	1 Apr 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	2	9 May 2019
	–	28 Sep 2016	–	–	2	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	4	4 May 2020
	–	28 Sep 2017	–	–	4	28 Sep 2020
	–	8 Feb 2018	–	–	3	8 Feb 2021
Total Restricted Share Awards(6)					**22,298**	

Share capital and security ownership continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Kingsley Wheaton						
LTIP[(1)]	29,482	27 Mar 2015	0.00	36.25	–	27 Mar 2018–26 Mar 2025
	25,242	12 May 2016	0.00	42.34	–	12 May 2019–11 May 2026
	21,382	27 Mar 2017	0.00	52.11	–	27 Mar 2020–26 Mar 2027
Total Options[(3)]	**76,106**					
DSBS[(4)]	–	27 Mar 2015	–	–	5,158	27 Mar 2018
	–	29 Mar 2016	–	–	9,066	29 Mar 2019
	–	27 Mar 2017	–	–	7,270	27 Mar 2020
SIP[(5)]	–	1 Apr 2015	–	–	52	1 Apr 2018
	–	8 May 2015	–	–	10	8 May 2018
	–	30 Sep 2015	–	–	6	30 Sep 2018
	–	1 Apr 2016	–	–	88	1 Apr 2019
	–	9 May 2016	–	–	11	9 May 2019
	–	28 Sep 2016	–	–	5	28 Sep 2019
	–	3 Apr 2017	–	–	67	3 Apr 2020
	–	4 May 2017	–	–	12	4 May 2020
	–	28 Sep 2017	–	–	8	28 Sep 2020
	–	8 Feb 2018	–	–	6	8 Feb 2021
Total Restricted Share Awards[(6)]					**21,759**	

Notes:

Options

(1) LTIP: Grants or awards of ordinary shares under the LTIP are for nil consideration. The number of options shown is the maximum that may be exercised subject to the completion of the applicable performance period and conditions under the rules of the LTIP. The number of options which may vest and become exercisable may be less than the numbers of ordinary shares shown in the table.

(2) Sharesave Scheme: Grants of options under the Sharesave Scheme are: (a) normally granted at a discount of 20% to the market price of ordinary shares at the time of invitation, as permitted by the rules of the Sharesave Scheme; and (b) are exercisable at the end of a three-year or five-year savings contract up to a monthly limit of £500.

(3) Each of the LTIP and Sharesave Scheme contains provisions which permit the Board of Directors or a duly authorised committee of the Board of Directors to establish further plans for the benefit of overseas employees based on the relevant share plan but modified as necessary or desirable to take account of overseas tax, exchange control or securities laws. Any new ordinary shares issued under such plans would not count towards any applicable plan limits under the LTIP or the Sharesave Scheme.

Restricted Share Awards

(4) DSBS: Awards of deferred shares are made through the DSBS and comprise free ordinary shares normally held in trust for three years and no further performance conditions apply in that period. The ordinary shares carry no rights to vote in that period.

(5) SIP: The SIP is an all-employee plan which includes the SRS under which eligible employees receive an award of ordinary shares, referred to as Free Shares, in April of each year in which the plan operates in respect of performance in the previous financial year. The Free Shares are held in a UK-based trust from the date of the award for a minimum period of three years. During that time the SIP participant is entitled to receive dividends on those ordinary shares which are re-invested by such trust to buy further ordinary shares, referred to as Dividend Shares, on behalf of the SIP participant. The Dividend Shares are also held in the trust from the date of acquisition for a minimum period of three years. During the three-year holding periods, the SIP participant may not remove the Free Shares or the Dividend Shares from the trust, but may direct the trust to exercise its voting rights in accordance with his or her instructions. In addition to the Free Shares and Dividend Shares, participants in the SIP are also eligible to purchase additional ordinary shares from their pre-tax salary up to an annual statutory limit, referred to as Partnership Shares. The SIP also provides that BAT has the right to offer additional ordinary shares to a participant at no cost for each Partnership Share the participant purchases, at a ratio of two such ordinary shares for each Partnership Share purchased, referred to as Matching Shares. BAT does not currently provide any Matching Shares.

(6) BAT has established similar plans to the SIP for non-UK employees and specific plans for employees in Germany, Belgium and The Netherlands. Each of these plans has been modified to take account of overseas tax, exchange control and securities laws.

Articles of Association

The Company is incorporated under the name of British American Tobacco p.l.c. and is registered in England and Wales under registered number 3407696. Under the Companies Act 2006 (the 'Companies Act'), the Company's objects are unrestricted. The following descriptions summarise certain provisions of the Company's current Articles of Association (the 'Articles') (as adopted by special resolution at the AGM on 28 April 2010), applicable English law and the Companies Act. This summary is qualified in its entirety by reference to the Companies Act and the Articles, available on www.bat.com. The Articles may be altered or added to or completely new articles may be adopted by a special resolution of the shareholders of the Company, subject to the provisions of the Companies Act.
Additional reference should be made to the sections entitled 'Description of BAT Ordinary Shares – BAT Articles of Association' and 'Comparison of Shareholder Rights – BAT' in BAT's Amendment No.3 to the Registration Statement on Form F-4 (Reg. No. 333-217939) filed with the SEC on 9 June 2017, which sections are incorporated by reference.

Share capital – structure
Ordinary shares
– all of the Company's ordinary shares are fully paid
– no further contribution of capital may be required by the Company from the holders of such shares
Alteration of share capital – the Company by ordinary resolution may:
– consolidate and divide all or any of its shares into shares of a larger amount than its existing shares
– divide or sub-divide any of its shares into shares of smaller amount than its existing shares
– determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with the others
Alteration of share capital – the Company, subject to the provisions of the Companies Act, may:
– reduce its share capital, its capital redemption reserve and any share premium account in any way
– purchase its own shares, including redeemable shares, and may hold such shares as treasury shares or cancel them
Dividend rights
– shareholders may, by ordinary resolution, declare dividends but not in excess of the amount recommended by the Directors
– the Directors may pay interim dividends out of distributable profits
– no dividend shall be paid otherwise than out of the profits available for distribution as specified under the provisions of the Companies Act
– the Directors may, with the authority of an ordinary resolution of the shareholders, pay scrip dividends or satisfy the payment of a dividend by the distribution of specific assets
– unclaimed dividends for a period of 12 years may be forfeited and cease to be owed by the Company
– specific provisions enable the Directors to elect to pay dividends by bank or electronic transfer only

Share capital – voting rights
Voting at general meetings
– by a show of hands, unless a poll is demanded; and on a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held by the shareholder
– every proxy appointed by a shareholder and present at a general meeting has one vote except that if the proxy has been duly appointed by more than one shareholder entitled to vote on the resolution and is instructed by one or more of those shareholders to vote for the resolution and by one or more others to vote against it, or is instructed by one or more of those shareholders to vote in one way and is given discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way) he has one vote for and one vote against the resolution
– on a poll, every shareholder who is present in person or by proxy has one vote for every share held by the shareholder
– a shareholder (or his duly appointed proxy) entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way
– a poll may be demanded by any of the following: (1) the Chairman of the meeting; (2) the Directors; (3) not less than five shareholders having the right to vote at the meeting; (4) a shareholder or shareholders representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting (excluding any voting rights attached to treasury shares); or (5) a shareholder or shareholders holding shares which confer a right to vote on the resolution at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right (excluding any voting rights attached to treasury shares)
Matters transacted at general meetings
– ordinary resolutions: can include resolutions for the appointment, reappointment and removal of Directors, the receiving of the Annual Report, the declaration of final dividends, the appointment and reappointment of the external auditor, the authority for the Company to purchase its own shares and the grant of authority to allot shares
– an ordinary resolution is passed when a simple majority of the votes cast at a meeting at which there is a quorum vote in favour of the resolution
– special resolutions can include resolutions amending the Company's Articles and resolutions relating to certain matters concerning a winding-up of the Company
– a special resolution is passed when not less than three-quarters of the votes cast at a meeting at which there is a quorum vote in favour of the resolution
– quorum for a meeting of the Company: this is a minimum of two shareholders present in person or by proxy or by a duly authorised representative(s) of a corporation which is a shareholder and entitled to vote
– convening a meeting: the Company may specify a time not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day) by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting

Articles of Association continued

Share capital – pre-emptive rights and new issues of shares

- holders of ordinary shares have no pre-emptive rights under the Articles – the ability of the Directors to cause the Company to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted
- under the Companies Act, the Directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in a general meeting, but which in either event cannot last for more than five years
- under the Companies Act, a company may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders

Restrictions on transfers of shares

- Directors can, in their absolute discretion, refuse to register the transfer of a share in certificated form which is not fully paid, provided that such a refusal would not prevent dealings in shares in certificated form which are not fully paid from taking place on a proper basis
- The Directors may also refuse to register a transfer of a share in certificated form (whether fully paid or not) unless the instrument of transfer: (1) is lodged, duly stamped, and is deposited at the registered office of the Company or such other place as the Directors may appoint and is accompanied by a certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (2) is in respect of only one class of share; and (3) is in favour of not more than four transferees
- for uncertificated shares, transfers shall be registered only in accordance with the terms of the Uncertificated Securities Regulations 2001 so that Directors may refuse to register a transfer which would require shares to be held jointly by more than four persons
- if the Directors refuse to register a share transfer, they must give the transferee notice of this refusal as soon as practicable and in any event within two months of the instrument of transfer being lodged with the Company

Repurchase of shares

- subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act
- any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital

Directors

Appointment and retirement

- a Board of Directors of not fewer than five Directors and not subject to any maximum (unless otherwise determined by ordinary resolution of shareholders)
- Directors and the Company (by ordinary resolution) may appoint a person who is willing to act as a Director
- the Articles govern the minimum number of Directors who must be subject to retirement at each AGM and who may seek re-election
- notwithstanding the Articles, all of the Directors of the Company will be subject to re-election at the forthcoming AGM to be held on 25 April 2018 in accordance with the UK Corporate Governance Code
- fees for Non-Executive Directors and the Chairman are determined by the Directors but cannot currently exceed in aggregate an annual sum of £2,500,000, unless determined otherwise by ordinary resolution of the shareholders
- the remuneration of the Executive Directors is determined by the Remuneration Committee, which comprises independent Non-Executive Directors

Disclosure of interests

- specific provisions apply to the regulation and management of the disclosure of Directors' interests in transactions and any conflicts of interest that may occur in such situations including those which may arise as a result of the Director's office or employment or persons connected with him or her

Meetings and voting

- the quorum for a meeting of Directors is two Directors
- the Directors may delegate any of their powers to a person or a committee
- the Articles place a general prohibition on a Director voting at a Board meeting on any matter in which he has an interest other than by virtue of his interest in shares in the Company
- specific provisions apply to a Director's ability to vote in relation to: the giving of guarantees; the provision of indemnities; insurance proposals; retirement benefits; and transactions or arrangements with a company in which the Director may have an interest

Borrowing powers

- the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital
- the Directors may also issue debentures, debenture stock and other securities

Purchases of shares

Renewal of authority for Company to purchase own shares

Current authority to purchase shares	– this authority (granted at the 2017 AGM) will expire at the 2018 AGM; the share buy-back programme was suspended with effect from 30 July 2014; and – fresh authority to purchase the Company's ordinary shares in order that the appropriate mechanisms are in place to enable the share buy-back programme to be reinstated at any time; and authority would be exercised when, in the opinion of the Directors, the exercise of the authority would result in an increase in the Company's earnings per share and would be in the interest of its shareholders generally.
Proposed authority to purchase 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; – in the absence of the necessary practical arrangements, the proposed authority has not been extended to enable BAT to purchase its own ordinary shares on the Johannesburg Stock Exchange (JSE Limited) in South Africa or the New York Stock Exchange in the form of American Depositary Shares (ADSs); and – further details are set out in the Notice of Annual General Meeting 2018 which is made available to all shareholders and is published on www.bat.com.
Treasury shares	– in accordance with the Company's policy, any repurchased shares are expected to be held as treasury shares; at 31 December 2017 the number of treasury shares was 162,645,590 (2016: 162,645,590); and no dividends are paid on treasury shares; treasury shares have no voting rights; treasury shares may be resold at a later date.

Purchases of equity securities by the issuer and affiliated purchasers

At the Annual General Meeting on 26 April 2017, authorisation was given to the Company to repurchase up to 186.4 million ordinary shares for the period until the next Annual General Meeting in 2018. This authorisation is renewed annually at the Annual General Meeting. No ordinary shares were repurchased by the Company during 2017. The following table provides details of ordinary share purchases made by the trustees of employee share ownership plans (ESOPs) and other purchases of ordinary shares and ADSs made to satisfy the commitments to deliver shares under certain employee share-based payment plans.

	Total number of ordinary shares purchased by ESOPs or certain employee share-based plans	Average price paid per ordinary share £	Total number of ADSs purchased by ESOPs or certain employee share-based plans	Average price paid per ADS USD	Total number of ordinary shares purchased as part of a publicly announced plan[1]	Maximum number of shares that may yet be purchased as part of a publicly announced plan[1] m
2017						
4 January	1,784	46.00362	–	–	–	–
1February	1,681	48.97000	–	–	–	–
1 March	1,605	51.33000	–	–	–	–
30 March- 3 April	3,180,000	52.73133				
3 April	120,023	53.01528	–	–	–	–
3 April	15,084	52.87500	–	–	–	–
3 April	2,098*	52.90000	–	–	–	–
5 April	1,623	52.78000	–	–	–	–
21 April	71,186	51.95892	–	–	–	–
3 May	1,729	52.61273	–	–	–	–
7 June	1,555	55.87000	–	–	–	–
5 July	1,775	52.03850	–	–	–	–
2 August	2,058	48.15500	–	–	–	–
6 September	1,879	48.05000	–	–	–	–
21 September	–	–	20,000	61.7243	–	–
4 October	1,941	47.20000	–	–	–	–
1 November	1,873	48.86500	–	–	–	–
6 December	1,936	49.07000	–	–	–	–
8 December	–	–	25,000	66.2691	–	–
	3,409,830	**50.84855**	**45,000**	**63.9967**	**–**	**–**

Notes:

(1) There was no publicly announced plan for BAT to purchase its own ordinary shares or ADSs during the year ended 31 December 2017.

(2) All the purchases of ordinary shares and/or ADS were made on open market transactions except for the purchase marked * which was made by way of an arm's length private treaty arrangement between BAT and the relevant trustee.

Group Employee Trust

The British American Tobacco Group Employee Trust (BATGET)			
Function	– used to satisfy the vesting and exercise of awards of ordinary shares under the BAT Deferred Share Bonus Scheme and Long-Term Incentive Plans; and – a committee of senior management reporting to the Board's Share Schemes Committee monitors the number of ordinary shares held in BATGET to satisfy outstanding awards.		
Funding	– funded by interest-free loan facilities from the Company totalling £1 billion; – this enables BATGET to facilitate the purchase of ordinary shares to satisfy the future vesting or exercise of options and awards; – loan to BATGET: £562.4 million at 31 December 2017 (2016: £369.5 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; and – if any options lapse, ordinary shares may be sold by BATGET to cover the loan repayment.		
Ordinary shares held in BATGET		1 Jan 2017	**31 Dec 2017**
	Number of ordinary shares	5,137,602	**6,750,597**
	Market value of ordinary shares	£237.4m	**£338.7m**
	% of issued share capital of Company	0.25	**0.27**
Dividends paid in 2017	– BATGET currently waives dividends on the ordinary shares held by it; – final dividend 2016: £5.9 million in May 2017; and – interim dividend 2017: £3.9 million in September 2017.		
Voting rights	– the trustee does not exercise any voting rights while ordinary shares are held in BATGET; and – share scheme participants may exercise the voting rights attaching to those ordinary shares once the ordinary shares have been transferred out of BATGET.		

Notes:

1. **Company share – based payment arrangements:** details of the material equity share-based and cash-settled share-based arrangements are set out in note 25 on the accounts.
2. The values of ordinary shares shown are based on the closing-mid market share price on 29 December 2017 (being the last trading day of 2017): 5,018p (30 December 2016 (being the last trading day of 2016): 4,621.5p).
3. In addition to the ordinary shares held in the BATGET, the trust held the following American Depositary Shares (ADSs) which relate to the vesting and exercise of certain employee stock awards formerly granted by RAI over RAI common stock and which were assumed by BAT to be satisfied by the delivery of ADSs following the merger with RAI on 25 July 2017.

	1 Jan 2017	**31 Dec 2017**
Number of ADSs	–	**19,908**
Market value of ADSs[(a)]	–	**$1.3m**
% of issued share capital	–	**0.001**

Note:
(a) The value of the ADSs shown is based on the closing price of ADSs on 29 December 2017 (being the last trading day of 2017) of $66.99.

American Depositary Shares

Fees and charges payable by ADS holders

Citibank, N.A. ('Citibank') was appointed as the depositary bank (the 'Depositary') for BAT's ADS programme pursuant to the Amended and Restated Deposit Agreement dated 1 December 2008 and amended as of 14 February 2017 and 14 June 2017 between BAT, the Depositary and the owners and holders of ADSs (the 'Deposit Agreement').

The Deposit Agreement provides that ADS holders may be required to pay various fees to the Depositary, and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

Service	Fees
Issuance of ADSs upon deposit of ordinary shares (excluding issuances as a result of distributions of shares described below)	Up to US$0.05 per ADS issued(1)
Cancellation of ADSs	Up to US$0.05 per ADS surrendered(1)
Distribution of cash dividends or other cash distributions (i.e., sale of rights and other entitlements)	Up to US$0.05 per ADS held(2)
Distribution of ADSs pursuant to (1) stock dividends or other free stock distributions, or (2) exercise of rights to purchase additional BAT ADSs	Up to US$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spinoff shares)	Up to US$0.05 per ADS held
Depositary bank services	Up to US$0.05 per ADS held

Notes:

(1) Under the terms of a separate agreement between BAT and the Depositary, the Depositary has agreed to waive the fees that would otherwise be payable in connection with the issuance of ADSs upon deposit of ordinary shares and the cancellation of ADSs and corresponding withdrawal of ordinary shares, in each case by BAT or any of its affiliates, officers, directors or employees. The terms of this separate agreement may be amended at any time by BAT and the Depositary.

(2) While under the Deposit Agreement cash dividends paid in respect of ADSs are subject to a fee of up to $0.05 per ADS payable to the Depositary, under the terms of the separate agreement between BAT and the Depositary referred to above, such dividends are instead subject to a fee of up to $0.02 per ADS per year (a fee of $0.01 per dividend based on the distribution of an interim and a final cash dividend per year or a fee of $0.005 per dividend based on the distribution of four quarterly cash dividends per year). Under the separate agreement, this dividend fee may not be varied by the Depositary without the consent of BAT.

Contact details for Citibank Shareholder Services are on page 262.

In addition, ADS holders may be required under the Deposit Agreement to pay the Depositary: (a) taxes (including applicable interest and penalties) and other governmental charges; (b) registration fees; (c) certain cable, telex and facsimile transmission and delivery expenses; (d) the expenses and charges incurred by the Depositary in the conversion of foreign currency; (e) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements; and (f) the fees and expenses incurred by the Depositary, the custodian or any nominee in connection with the servicing or delivery of deposited securities. The Depositary may: (a) withhold dividends or other distributions or sell any or all of the shares underlying the ADSs in order to satisfy any tax or governmental charge; and (b) deduct from any cash distribution the applicable fees and charges of, and expenses incurred by, the Depositary and any taxes, duties or other governmental charges on account.

Fees and payments made by the Depositary to BAT

Under the terms of the contractual arrangements set out in the separate agreement between BAT and the Depositary referred to above, BAT received a total of approximately US$2.8 million from the Depositary, comprising US$2.2 million arising out of fees charged in respect of dividends and a net amount of US$0.6 million from a fixed contribution to BAT's ADS programme administration costs for the year ended 31 December 2017.

In 2017, these programme administration costs principally included those associated with annual general meeting proxy mailings; exchange listing and regulatory fees; foreign private issuer analysis; legal fees; share registration fees; and other expenses incurred by BAT in relation to the ADS programme.

Under these contractual arrangements, the Depositary has also agreed to waive certain standard fees associated with the administration of the ADS programme.

Shareholding administration and services

United Kingdom Registrar

Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
tel: 0800 408 0094; +44 370 889 3159
web-based enquiries: www.investorcentre.co.uk/contactus

www.computershare.com/uk/investor/bri

Access the web-based enquiry service of Computershare Investor Services PLC for holders of shares on the UK share register; view details of your BAT shareholding and recent dividend payments and register for shareholder electronic communications to receive notification of BAT shareholder mailings by email.

www.computershare.com/dealing/uk

Go online or telephone 0370 703 0084 (UK) to buy or sell British American Tobacco shares traded on the London Stock Exchange. The internet share dealing service is only available to shareholders resident in countries in the European Economic Area.

South Africa Registrar

Computershare Investor Services Proprietary Limited
PO Box 61051, Marshalltown 2107, South Africa
tel: 0861 100 634; +27 11 870 8216
email enquiries: web.queries@computershare.co.za

American Depositary Shares

Enquiries regarding ADS holder accounts and payment of dividends should be directed to:

Citibank Shareholder Services
PO Box 43077, Providence, Rhode Island 02940-3077, USA
tel: 1-888 985-2055 (toll-free) or +1 781 575 4555
email enquiries: citibank@shareholders-online.com
website: www.citi.com/dr

Documents on Display and Publications

This Annual Report and Form 20-F 2017 is available online at bat.com/annualreport. Copies of current and past Annual Reports are available on request. Copies of the Group corporate brochure, We are BAT, are also available. Highlights from these publications can be produced in alternative formats such as Braille, audio tape and large print.

Contact:
British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326
email: bat@team365.co.uk

Holders of shares held on the South Africa register can contact the Company's Representative office in South Africa using the contact details shown at the end of this Annual Report and Form 20-F.

ADS holders can contact Citibank Shareholder Services in the United States using the contact details shown above.

The Company is subject to the information requirements of the US Securities Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, the company files its Annual Report on Form 20-F and other documents with the SEC. It is possible to read and copy documents that have been filed with the SEC at its headquarters located at 100 F Street, NE, Washington, DC 20549, US. You also may call the SEC at +1 800-SEC-0330. In addition, BAT's SEC filings are available to the public at the SEC's website, www.sec.gov.

Our website – www.bat.com

Access comprehensive information about British American Tobacco and download shareholder publications at the corporate website; visit the Investors section for valuation and charting tools, dividend and share price data and subscribe to the email alert services for key financial events in the British American Tobacco financial calendar; download the British American Tobacco Investor Relations app to access all the latest financial information on your iPad, iPhone or Android device.

Dividend Reinvestment Plan

Available to the majority of shareholders on the UK register, this is a straightforward and economic way of utilising your dividends to build up your shareholding in British American Tobacco. Contact Computershare Investor Services PLC in the UK for details.

Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA – contact:

The Share Centre
PO Box 2000, Aylesbury, Bucks HP21 8ZB
tel: 0800 800 008; +44 1296 414 141
email enquiries: service@share.co.uk
website: www.share.com

(The tax advantages of ISAs depend on your individual circumstances and the benefits of ISAs could change in the future. You should note that investments, their value and the income they provide can go down as well as up and you might not get back what you originally invested.)

Capital gains tax

Fact sheet for British American Tobacco historical UK capital gains tax information; contact the British American Tobacco Company Secretarial Department, tel: +44 20 7845 1000 or access online at www.bat.com/cgt

Payment of Dividends – Mandatory Direct Credit

BAT has simplified the way in which it pays dividends to shareholders by only paying cash dividends directly into a shareholder's nominated bank account. This is known as mandatory direct credit. BAT no longer issues dividend cheques. Shareholders recorded on the main register as receiving dividend payments by cheque have been advised by Computershare. Those shareholders will need to take the required action by selecting the appropriate option as set out in the Computershare notification.

Shareholders on the UK main register who already had their dividends paid: (1) by direct credit into their UK bank or building society account; or (2) through the Euroclear service using the CREST messaging system; or (3) through Computershare's Global Payments Service (GPS) are not affected by this change. Similarly, shareholders who participate in the British American Tobacco Dividend Reinvestment Plan (DRIP) are not required to take any action unless they choose to withdraw from the DRIP.

For the South Africa branch register, Computershare South Africa has notified affected shareholders of the equivalent applicable arrangements for the payment of dividends, as appropriate.

Calendar 2018

Wed 25 April at 11:30am	**Annual General Meeting** Milton Court Concert Hall, Silk Street, London EC2Y 9BH Details of the business to be proposed at the meeting are in the Notice of AGM, which is made available to all shareholders and is published on www.bat.com. BAT provides for the vote on each resolution to be by poll rather than by a show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The voting results will be released on the same day in accordance with regulatory requirements and made available on bat.com.
Thu 26 July	**Half-Year Report**

Exhibits

The following documents are filed in the SEC EDGAR system, as part of this Annual Report on Form 20-F, and can be viewed on the SEC's website, www.sec.gov:

Exhibit Number	Description
1	Articles of Association of British American Tobacco p.l.c.[1]
2.1	Amended and Restated Deposit Agreement, dated as of December 1, 2008, by and among British American Tobacco p.l.c., Citibank, N.A., as depositary bank, and all holders and beneficial owners of American Depositary Shares issued thereunder[2]
2.2	Amendment No. 1 to the Amended and Restated Deposit Agreement, dated as of February 14, 2017, by and among British American Tobacco p.l.c., Citibank, N.A., as depositary bank, and all holders and beneficial owners of American Depositary Shares issued thereunder[3]
2.3	Amendment No. 2 to the Amended and Restated Deposit Agreement, dated as of June 14, 2017, by and among British American Tobacco p.l.c., Citibank, N.A., as depositary bank, and all holders and beneficial owners of American Depositary Shares issued thereunder[4]
2.4	Indenture, dated August 15, 2017, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee
2.5	Registration Rights Agreement, dated as of August 15, 2017, by and among B.A.T. Capital Corporation, B.A.T. International Finance p.l.c., Reynolds American Inc., B.A.T. Netherlands Finance B.V. and British American Tobacco Holdings (The Netherlands) B.V., as guarantors, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. as representatives of the initial purchasers
2.6	Twenty-Eighth Supplemental Trust Deed, dated as of 31 May 2017, by and among B.A.T. International Finance p.l.c., B.A.T Capital Corporation, British American Tobacco Holdings (The Netherlands) B.V., B.A.T. Netherlands Finance B.V., British American Tobacco p.l.c. and the Law Debenture Trust Corporation p.l.c. further modifying and restating the Trust Deed dated 6 July 1998 (as previously modified and restated) relating to the US$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme[5]
2.7	Twenty-Ninth Supplemental Trust Deed, dated 12 February 2018, by and among B.A.T. International Finance p.l.c., B.A.T Capital Corporation, British American Tobacco Holdings (The Netherlands) B.V., B.A.T. Netherlands Finance B.V., British American Tobacco p.l.c. and the Law Debenture Trust Corporation p.l.c., further modifying the Trust Deed dated 6 July 1998 (as previously modified and restated) relating to the US$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme
4.1	Agreement and Plan of Merger, dated as of January 16, 2017, among British American Tobacco p.l.c., BATUS Holdings Inc., Flight Acquisition Corporation and Reynolds American Inc. and Amendment to Agreement and Plan of Merger, dated as of June 8, 2017, among British American Tobacco p.l.c., BATUS Holdings Inc., Flight Acquisition Corporation and Reynolds American Inc.[6]
4.2	Term loan facilities agreement, dated as of January 16, 2017, among B.A.T. International Finance p.l.c. and B.A.T Capital Corporation, as original borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent, HSBC Bank USA, National Association, as US agent and the lenders and financial institutions party thereto[7]
4.3	Revolving credit facilities agreement, dated January 20, 2017, among British American Tobacco p.l.c., B.A.T. International Finance p.l.c., British American Tobacco Holdings (The Netherlands) B.V., B.A.T. Netherlands Finance B.V. and B.A.T Capital Corporation, as borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent and euro swingline agent, HSBC Bank USA, National Association, as US agent and US$ swingline agent, and the banks and financial institutions party thereto[8]
4.4	Rules of the British American Tobacco 2007 Long-Term Incentive Plan[9]
4.5	Rules of the British American Tobacco 2016 Long-Term Incentive Plan[10]
4.6	British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme[11]
4.7	Deferred Compensation Plan for Directors of Reynolds American Inc. (Amended and Restated Effective November 30, 2017)[12]
4.8	Service Contract between British American Tobacco p.l.c. and Nicandro Durante, dated as of 10 December 2010[13]
4.9	Service Contract between British American Tobacco p.l.c. and John Benedict Stevens, dated as of 26 March 2008 [14]
4.10	Letter Agreement between British American Tobacco p.l.c. and John Benedict Stevens, dated as of 23 July 2010 [15]
4.11	Form of Letter of Appointment of Richard Burrows as Director and Chairman of British American Tobacco p.l.c.[16]
4.12	Form of Letter of Appointment of Kieran Poynter as Non-Executive Director of British American Tobacco p.l.c.
4.13	Form of Letter of Appointment of Susan Farr as Non-Executive Director of British American Tobacco p.l.c.
4.14	Form of Letter of Appointment of Ann Godbehere as Non-Executive Director of British American Tobacco p.l.c.
4.15	Form of Letter of Appointment of Dr Marion Helmes as Non-Executive Director of British American Tobacco p.l.c.
4.16	Form of Letter of Appointment of Savio Kwan as Non-Executive Director of British American Tobacco p.l.c.
4.17	Form of Letter of Appointment of Dr Pedro Malan as Non-Executive Director of British American Tobacco p.l.c.
4.18	Form of Letter of Appointment of Dimitri Panayotopoulos as Non-Executive Director of British American Tobacco p.l.c.
4.19	Form of Letter of Appointment of Luc Jobin as Non-Executive Director of British American Tobacco p.l.c.
4.20	Form of Letter of Appointment of Holly Keller Koeppel as Non-Executive Director of British American Tobacco p.l.c.
4.21	Form of Letter of Appointment of Lionel Nowell, III as Non-Executive Director of British American Tobacco p.l.c.
4.22	Master Settlement Agreement, referred to as the MSA, dated 23 November 1998, between the Settling States named in the MSA and the Participating Manufacturers also named therein[17]
4.23	Settlement Agreement dated August 25,1997, between the State of Florida and settling defendants in The State of Florida v. American Tobacco Co.[18]

Exhibits continued

Exhibit Number	Description
4.24	Comprehensive Settlement Agreement and Release dated January 16, 1998, between the State of Texas and settling defendants in The State of Texas v. American Tobacco Co.[19]
4.25	Settlement Agreement and Release in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of May 8, 1998[20]
4.26	Settlement Agreement and Stipulation for Entry of Consent Judgment in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of May 8, 1998[21]
4.27	Form of Consent Judgment by Judge Kenneth J. Fitzpatrick, Judge of District Court in re: The State of Minnesota v. Philip Morris, Inc.[22]
4.28	Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order dated July 2, 1998, by and among the Mississippi Defendants, Mississippi and the Mississippi Counsel in connection with the Mississippi Action[23]
4.29	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated July 24,1998, by and among the Texas Defendants, Texas and the Texas Counsel in connection with the Texas Action[24]
4.30	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated September 11,1998, by and among the State of Florida and the tobacco companies named therein[25]
4.31	Term Sheet agreed to by R. J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc., certain other Participating Manufacturers, 17 states, the District of Columbia and Puerto Rico[26]
8	List of Subsidiaries (included on page 199 in this report)
11	Code of Ethics
12	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13	Certification under Section 906 of the Sarbanes-Oxley Act of 2002[27]
15	Consent of KPMG LLP (United Kingdom), independent registered public accounting firm of British American Tobacco p.l.c.
101	Interactive Data Files (formatted in XBRL (Extensible Business Reporting Language) and furnished electronically)

Notes:

1. Incorporated by reference to Exhibit 3.1 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
2. Incorporated by reference to Exhibit (a)(ii) to BAT's Post-Effective Amendment No. 1 to the Registration Statement on Form F-6 (Reg. No. 333-155563) filed on 13 January 2017.
3. Incorporated by reference to Exhibit 4.4 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
4. Incorporated by reference to Exhibit (a)(i) to BAT's Registration Statement on Form F-6 (Reg. No. 333-221983) filed on 11 December 2017.
5. Incorporated by reference to Exhibit 4.7 to BAT's Amendment No. 2 to Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 1 June 2017.
6. Incorporated by reference to Exhibit 2.1 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
7. Incorporated by reference to BAT's Amendment No. 4 to Schedule 13D filed on 17 January 2017.
8. Incorporated by reference to Exhibit 4.5 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
9. Incorporated by reference to Exhibit 10.6 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
10. Incorporated by reference to Exhibit 10.7 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
11. Incorporated by reference to Exhibit 10.8 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
12. Incorporated by reference to Exhibit 10.43 to Reynolds American Inc.'s Annual Report on Form 10-K for the fiscal year ended 31 December 2007 filed on 27 February 2008.
13. Incorporated by reference to Exhibit 10.9 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
14. Incorporated by reference to Exhibit 10.10 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
15. Incorporated by reference to Exhibit 10.11 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
16. Incorporated by reference to Exhibit 10.12 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
17. Incorporated by reference to Exhibit 4 to R.J. Reynolds Tobacco Holdings Inc.'s Form 8-K dated 24 November 1998.
18. Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 5 September 1997.
19. Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 27 January 1998.
20. Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
21. Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
22. Incorporated by reference to Exhibit 99.3 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
23. Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
24. Incorporated by reference to Exhibit 99.4 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
25. Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 September 1998 filed on 12 November 1998.
26. Incorporated by reference to Exhibit 10.1 to Reynolds American Inc.'s Form 8-K dated 12 March 2013 and filed on 18 March 2013.
27. These certifications are furnished only and are not filed as part of this Annual Report on Form 20-F.

Certain instruments which define the rights of holders of long-term debt issued by BAT and its subsidiaries are not being filed because the total amount of securities authorised under each such instrument does not exceed 10% of the total consolidated assets of BAT and its subsidiaries. BAT agrees to furnish copies of any or all such instruments to the SEC on request.

Glossary

ADR	American depositary receipt
ADS	American depositary share – 1 ADS is equivalent to 1 BAT ordinary share
AGM	Annual General Meeting
APFO	Adjusted profit from operations
BATGET	British American Tobacco Group Employee Trust
bps	Basis points
CC	Constant currency
CGFO	Cash generated from operations
CO_2e	Carbon dioxide equivalent
Code	UK Corporate Governance Code
CSR	Corporate Social Responsibility
DSBS	Deferred share bonus scheme
EEMEA	Eastern Europe Middle East and Africa
EMTN	European Medium Term Notes
EPS	Earnings per share
EU	European Union
FII GLO	Franked Investment Income Group Litigation order
FCTC	Framework Convention on Tobacco Control
FMCG	Fast Moving Consumer Goods
GAAP	Generally accepted accounting practice
GDB	Global Drive Brands, being Kent, Dunhill, Pall Mall, Lucky Strike and Rothmans
GDSB	Global Drive and Key Strategic Brands, being the GDBs, plus Shuang Xi and State Express 555
GJ	Gigajoules (of energy use)
IASB	International Accounting Standards Board
IEIS	International executive incentive scheme
IFRS	International Financial Reporting Standards as issued by the IASB and as adopted by the EU
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LR	Listing rules
LTIP	Long-term incentive plan
MCE	Million cigarettes equivalent
MSA	Master Settlement Agreement
NGP	Next Generation Product
NTO	Net turnover or revenue
NYSE	New York Stock Exchange
OCF	Operating cash flow
OECD	Organisation for Economic Co-operation and Development
OTP	Other tobacco products, including but not limited to roll you own, make your own and cigars
PCAOB	Public Company Accounting Oversight Board
PRRP	Potentially Reduced-Risk Products
RAI	Reynolds American Inc.
RAI Companies	Reynolds American Inc. group of companies
ROCE	Return on Capital Employed
SAFL	Sustainable Agriculture and Farmer Livelihoods
SEC	United States Securities and Exchange Commission
SIP	Share incentive plan
SoBC	Group Standards of Business Conduct
SOx	United States Sarbanes-Oxley Act of 2002
SRS	Share reward scheme
TaO	Programme to implement the new operating model, including one instance of SAP
TDR	TDR d.o.o
THP	Tobacco Heating Products
TPD	European Tobacco Products Directive (directive 2001/37/EC)
TSR	Total shareholder return
UKLA	United Kingdom Listing Authority
UURBS	Unfunded unapproved retirement benefit scheme
WHO	World Health Organisation

Cross-reference to Form 20-F

Registered office

Globe House, 4 Temple Place, London WC2R 2PG
tel: +44 20 7845 1000, facsimile: +44 20 7240 0555
Incorporated in England and Wales No. 3407696

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PO Box 631, Cape Town 8000, South Africa
tel: +27 21 003 6576

Secretary

Paul McCrory

General Counsel

Jerome Abelman

Investor relations

Enquiries should be directed to Mike Nightingale, Rachael Brierley or Stephanie Brassinne
tel: +44 20 7845 1180

Press office

Enquiries should be directed to Anna Vickerstaff
tel: +44 20 7845 2888
email: press_office@bat.com

Auditors

KPMG LLP
15 Canada Square, Canary Wharf, London E14 5GL

References in this publication to 'British American Tobacco', 'BAT', 'we', 'us', and 'our' when denoting opinion refer to British American Tobacco p.l.c. (the Company) (No. 3407696) and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

Design and production: Radley Yeldar (London) www.ry.com

Photography by David Hares and Henry Thomas.

Printed in the UK by Pureprint Group on Revive 100% recycled papers, made entirely from post-consumer waste. All pulps used are Elemental Chlorine Free. The manufacturing mills hold the ISO14001 and EU Ecolabel (EMAS) certificates for environmental management.

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