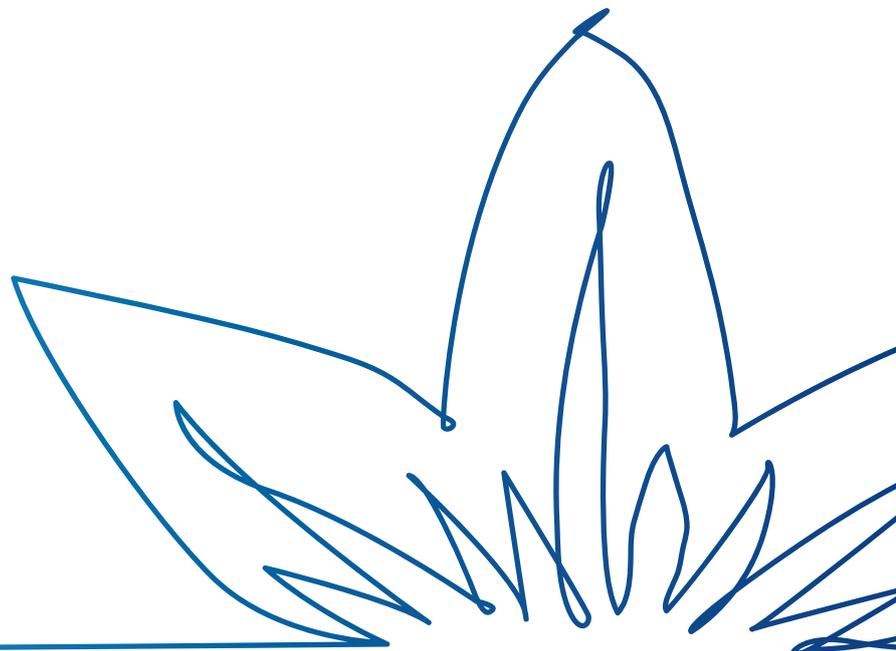


# Transforming Tobacco

Performance Summary 2017



Overview

Transforming Tobacco	01
Chairman's introduction	07
Our year in numbers	08
Chief Executive's review	10
Our strategic framework for transforming tobacco	12
Our global business	14
Finance Director's overview	16
Shareholder and contact information	17

**British American Tobacco p.l.c. (No. 3407696) Performance Summary 2017: Cautionary statement and other information**

This Performance Summary is extracted (without material adjustment) from, and should be read as an introduction to and in conjunction with, the Annual Report and Accounts of British American Tobacco p.l.c. (the Company) and the British American Tobacco Group prepared in accordance with UK requirements. It has been drawn up and is presented in accordance with, and reliance upon, applicable English company law and the liabilities of the Directors in connection with the report shall be subject to the limitations and restrictions provided by such law.

This Performance Summary 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, among 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.

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 Performance Summary. 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 of the Annual Report and Accounts. 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' in the Additional Disclosures section of the Annual Report and Accounts.

It is believed that the expectations reflected in this Performance Summary 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 Performance Summary 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.

This Performance Summary is provided for information only and is not intended to be a substitute for reading the Annual Report and Accounts. In particular, this Performance Summary does not comprise the Company's Strategic Report or any supplementary materials and it does not contain sufficient information to allow for as full an understanding of the results of the Group and the state of affairs of the Group, and the principal risks and uncertainties facing the Group, as would be provided by the Annual Report and Accounts.

Shareholders may view a copy of the Annual Report and Accounts on [www.bat.com](http://www.bat.com) or obtain a hard copy free of charge. Specific local mailing and/or notification requirements will apply to shareholders on the South Africa branch register.

If you have sold or transferred all your shares in British American Tobacco p.l.c., you should send this Performance Summary to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

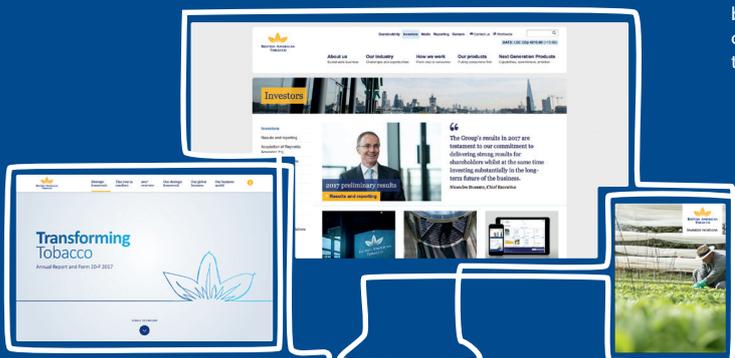
This Performance Summary provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). We believe these APMs provide readers with important additional information on our business. A comprehensive list of the APMs that we use, an explanation of how they are calculated, why we use them and a reconciliation to the most directly comparable IFRS measure where relevant is set out under the heading 'Non-GAAP measures' in the Additional Disclosures section of the Annual Report and Accounts.

BAT has shares listed on the London Stock Exchange (BATS) and the Johannesburg Stock Exchange (BTJ), and, as American Depositary Shares (ADSs), on the New York Stock Exchange (BTI).

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

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

References in this Performance Summary to information on websites, including the web addresses of BAT and Reynolds American Inc. (Reynolds American or RAI), have been included as inactive textual references only. These websites and the information contained therein or connected thereto are not intended to be incorporated into or to form part of this Performance Summary.



British American Tobacco (BAT) is one of the world's leading consumer goods companies, with brands sold around the globe. We employ over 55,000 people globally, partner with over 90,000 farmers and have factories in 42 countries, with offices in even more.

# Transforming Tobacco

At BAT, we have been satisfying consumers, delivering shareholder value and creating valued employment for over a century.

However, we are entering the most dynamic period of change our industry has ever encountered.

An unprecedented confluence of technology, societal change and public health awareness has created a unique opportunity: the opportunity to make a substantial leap forward in our long-held ambition to provide our consumers with lower risk tobacco and nicotine choices.

Our acquisition of Reynolds American Inc. (Reynolds American or RAI), which has transformed both the scale and geographic reach of our business and our portfolio of potentially reduced-risk products, now positions us perfectly to capitalise on this ambition.

We call this ambition 'transforming tobacco' and we are fully committed to leading this transformation.



The advent of new and better consumer technologies meant that, in 2012, we articulated a new vision – to be the best at satisfying consumer moments in “tobacco and beyond” – with consumers right at the centre of our strategy.

We were clear then, as we are now, that we would build our business based on outstanding products, informed consumer choice and a drive towards a reduced-risk portfolio. More choice, more innovation, less risk.

# Leading change to shape the future



It is widely accepted that most of the harm associated with tobacco is caused by inhaling the smoke produced by the combustion of tobacco. That is why we are dedicated to the development and sale of a range of potentially reduced-risk products that provide the enjoyment of smoking without burning tobacco.

These potentially reduced-risk products include Next Generation Products (NGPs), comprising vapour and tobacco heating products (THPs), as well as oral tobacco and nicotine products such as snus and moist snuff.

Since 2012, together with Reynolds American, we have invested approximately US\$2.5 billion in the growth of our range of NGPs. We have also significantly increased the size of our existing oral tobacco business with the addition of more snus and moist snuff brands in the US.

Our commitment to leading and accelerating this transformation is also demonstrated by the changes we are making in how we run our business – including our NGP activities being integrated into the heart of the Company across all functions and across all geographies.

While we cannot be certain whether all smokers will switch to potentially reduced-risk products, we are committed to making a range of high-quality, innovative products as widely available as practicable to address the varied preferences of our consumers.

We believe that by doing this, and working with regulators to establish supportive regulatory regimes, many millions of smokers will increasingly make the choice to switch.

# ...supported by proactive **external engagement**

This transformation is larger than just BAT. Lasting change will only be achieved by a combination of the commitment and product investment from companies like BAT and the support of regulators through the establishment of sensible regulation promoting a spectrum of potentially reduced-risk products.

We also need the objective and balanced support of public health bodies, politicians, media and academics in driving informed choice and consumer trust.

If we can all work successfully together we can drive a triple win. Our consumers will have a range of potentially safer choices; society could benefit from real progress in tobacco harm reduction; and our shareholders will own an even more sustainable and profitable business.





The investments that we have made are now delivering real, tangible results. Thanks to our commitment, we are now able to provide an unrivalled suite of potentially less harmful products that can address the many and varied preferences of today's more demanding consumers.



# Inspiring products



Today, we have industry-leading products in vapour; in tobacco heating products (including snus and moist snuff); and in our tobacco-free nicotine pouches. This is just a beginning. We aim for far more.

These smokeless products offer genuine choices to consumers searching for alternatives to traditional cigarettes.

This investment has been driven by our firmly held belief that our consumers are not all the same and so will need a range of different products to meet their varied and constantly evolving preferences.

However, this is just the start. To lead this transformation we must win the technology race, so our R&D investment, led by hundreds of scientists across the world, is predominantly focused on developing our pipeline of potentially reduced-risk products.





...that meet  
evolving  
**consumer**  
**preferences**



All of the progress we have made to date gives us confidence to set clear ambitions for our future.

By the end of 2018 our objective is to generate over £1 billion revenue from NGPs and by 2022 to have increased that figure fivefold to £5 billion.

Taken together with the growing revenue from our oral tobacco business, we fully expect that by 2030, a very significant percentage of Group revenue will be generated by our suite of potentially reduced-risk products.

# This is only the beginning

## £1bn

In 2018, our aim is to double our NGP revenue to £1 billion.

## £5bn

By 2022, our aim is to deliver £5 billion in NGP revenue.

These aims will not be easy to reach, but, with a combination of commitment and investment, we believe they are achievable.

However, even with these ambitious objectives, it is clear that conventional cigarettes will remain a key part of our business for many years to come and will continue to provide a vital source of investment for our NGPs.

We often get asked why we don't just stop selling cigarettes? In short, we don't believe this would be commercially sensible or practical: the ongoing consumer demand for these products would either transfer straight to our competitors or, more worryingly, the black market and in many markets there are still real regulatory obstacles to launching NGPs.

That is why alongside our commitment to the transformation of our business, we also remain fully committed to our combustible tobacco business during this transformation.



# Chairman's introduction



“During what has been a **landmark year in the history** of the Group, we have continued to deliver for shareholders”

**Richard Burrows**  
Chairman

## A strong set of results

During what has been a landmark year in the history of the Group, we have continued to deliver for shareholders and I am very pleased to report a strong set of results, with market share, revenue and profit all growing.

In a year when the Group became truly global following the acquisition of Reynolds American, we are now in an even better position to shape the future of our industry during a period of profound change which can deliver benefits for consumers, society and investors alike.

## Acquisition of Reynolds American

The deal to acquire Reynolds American not only creates a stronger, global tobacco and Next Generation Products business, committed to delivering sustained long-term profit growth and returns, it also enables us to leverage the complementary skills from our new, enlarged workforce. The Group now has a balanced presence across emerging markets and developed markets, including the attractive US market.

We are committed to transforming tobacco by using our enhanced resources following the acquisition to deliver even greater choice for our adult consumers – across the combustible portfolio as well as those potentially reduced-risk products like vapour, heated and oral tobacco.

Additionally, increased access to a significant proportion of Group cash flows provides further support to the Company's continued commitment to a dividend payout ratio of at least 65%. We will also retain a strong financial profile, with the Group targeting a solid investment grade credit rating through progressive deleveraging.

## Quarterly dividends

The dividend in respect of 2017 is 195.2p, being an increase over 2016 of 15.2% (2016: 169.4p).

As announced in April 2017, the Group has moved to quarterly dividends with effect from 1 January 2018. In order to effect the transition to quarterly dividends, we committed to ensuring shareholders would receive an equivalent cash amount in 2018 under the quarterly dividend approach as they would have done under the previous methodology.

As part of this process, a second interim dividend of 43.6p (equivalent to 25% of the cash dividend paid in 2017) was declared in December 2017 and paid in February 2018. The Board has declared an interim dividend of 195.2p per ordinary share, payable in four equal dividend payments of 48.8p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates. The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates.

Further information on dividends can be found on page 37 of the Financial Review and page 241 in the Shareholder information section of the Annual Report and Accounts.

## Board changes

We were very pleased to welcome Lionel Nowell, III, Holly Keller Koeppel and Luc Jobin who joined our Board as Non-Executive Directors from Reynolds American and I look forward to the insights that they will provide to the Board.

I would like to thank Ann Godbehere and Dr Pedro Malan, who will be retiring from the Board at the conclusion of the forthcoming AGM on 25 April 2018. Ms Godbehere has served as a Non-Executive Director since October 2011 and Dr Malan has served as a Non-Executive Director since February 2015.

## Our approach to governance

Good governance has long been a key priority for the Group. Continuing to meet all our obligations under the various frameworks with which we are bound by is not only about compliance with the law, but also about ensuring that the Group is delivering results with integrity.

With the Reynolds American acquisition now complete, not only are we a stronger business, but we are also subject to further requirements under US law. Whether through increased reporting transparency under the Sarbanes-Oxley Act, or through the Foreign Corrupt Practices Act, we have new legislation with which we have to comply.

As a result of these new requirements, our Annual Report encompasses our obligations under the UK (as required by the Companies Act, the FCA Handbook, the Financial Reporting Council and London Stock Exchange Rules), South Africa (as required by the Johannesburg Stock Exchange) and US (as required by US securities laws, the Securities and Exchange Commission rules and the New York Stock Exchange) regulations. All of these requirements have been brought into our consolidated Annual Report and Form 20-F.

## Outlook

This is a very exciting time for the tobacco and nicotine industry, and for the Group in particular. The advent of new, potentially reduced-risk products that can satisfy consumers means there are new growth opportunities for the business.

While challenging conditions persist, the Group's approach of placing the consumer at the centre of its strategy, along with a multi-category portfolio of products designed to address their varying preferences, ensures that our business is in an even stronger position to deliver long-term, sustainable growth.

**Richard Burrows**  
Chairman

# Our year in numbers

Our progress: The Group delivered another year of growth across our key metrics.

**KPI** Denotes KPI measure  
**Non-GAAP** Denotes non-GAAP financial measure, see Non-GAAP measures in the Annual Report and Accounts

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

**686bn**  
 +3.2% (-2.6% organic<sup>3</sup>)

2016: +0.2% (-0.8% organic)  
 2015: -0.5%

## Group market share of key markets

**+40 bps**

**KPI**

2016: +50 bps  
 2015: +40 bps

## Global Drive Brands (GDBs) cigarette and THP volume

**357bn**  
 +10.0% (+7.6% organic<sup>3</sup>)

2017	357bn
2016	324bn
2015	301bn

2016: +7.5%  
 2015: +8.5%

## GDB overall market share (ex US) growth

**+110 bps**

2016: +100 bps  
 2015: +120 bps

## Global Drive and Key Strategic Brands (GDSBs) total cigarettes and THP volume

**405bn**  
 +17.2% (+7.5% organic<sup>3</sup>)

**KPI**

2017	405bn
2016	346bn
2015	323bn

2016: +7.2%  
 2015: +8.0%

## Revenue (£m)

**£20,292m**  
 +37.6%

2017	£20,292m	+38%
2016	£14,751m	+13%
2015	£13,104m	-6%

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

## Profit from operations (£m)

**£6,476m**  
 +39.1%

2017	£6,476m	+39%
2016	£4,655m	+2%
2015	£4,557m	+0%

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

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

**+30.7%**

**KPI**  
**Non-GAAP**

2017	+31%
2017(org <sup>3</sup> )	+3%
2016	+7%
2015	+5%

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

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

**+39.9%**

**KPI**  
**Non-GAAP**

2017	+40%
2017(org <sup>3</sup> )	+4%
2016	+4%
2015	+4%

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

## Total dividends per share (p)

**195.2p**  
 +15.2%

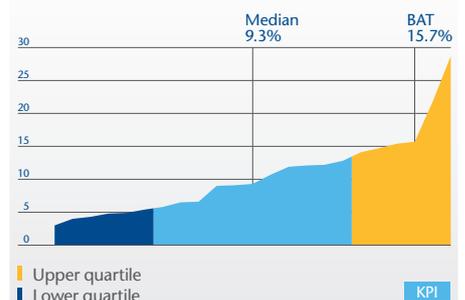
2017	+15%
2016	+10%
2015	+4%

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

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

## Total shareholder return (TSR) of the FMCG group – 1 January 2015 to 31 December 2017 (%)

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



**Notes:** To supplement our results of operations presented in accordance with IFRS, the information presented also includes several non-GAAP measures used by management to monitor the Group's performance. See the section Non-GAAP measures beginning on page 218 of the Annual Report and Accounts for information on these non-GAAP measures, including their definitions and reconciliations to the most directly comparable IFRS measure, where applicable. Certain of our measures are presented based on constant rates of exchange, on an adjusted basis and on an organic basis. See the Annual Report for further details.

- Where measures are presented 'at constant rates', the measures are calculated based on a re-translation, at prior year exchange rates, of the current year results of the Group and its segments.
- Where measures are presented as 'adjusted', they are presented before the impact of adjusting items. Adjusting items represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.
- Where measures are presented as 'organic' or 'org', they are presented before the impact of the contribution of businesses acquired during the year, including Reynolds American, Bulgartabac, Winnington and Fabrika Duhana Sarajevo.

**Diluted earnings per share (EPS) (p)**

**1,830.0p**  
+634%



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

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

**£5,347m**  
+16.0%



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

**Operating margin (%)**

**31.9%**



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

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

**+14.9%**

KPI  
Non-GAAP



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

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

**+0.3%**

KPI  
Non-GAAP



**Definition:** Change in adjusted cash generated from operations, as defined on page 222 of the Annual Report and Accounts, before the impact of fluctuations in foreign exchange rates.

**Adjusted<sup>2</sup> operating margin (%)**

**39.9%**

Non-GAAP



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

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

**+9.9%**

KPI  
Non-GAAP



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

**Cash conversion (%)**

**83%**



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

**Operating cash flow conversion ratio (%)**

**79%**

KPI  
Non-GAAP



**Definition:** Operating cash flow, as defined on page 221 of the Annual Report and Accounts as a percentage of adjusted profit from operations. Operating cash flow is not a measure defined by IFRS.

## Chief Executive's review



“Following our acquisition of RAI, and the progress we are making with NGPs, we can now **accelerate our ambition to transform tobacco**”

Nicandro Durante  
Chief Executive

## Leading the industry

The Group delivered another set of strong financial results in 2017, despite a challenging trading environment. Following the transformational deal in July 2017, these results benefit from the acquisition of Reynolds American Inc. (RAI) while also demonstrating the strength of the organic business.

The Group has delivered outstanding returns to shareholders for many years. We recognise that the tobacco and nicotine industry has entered a dynamic period of change. Increased public health awareness, new societal attitudes and rapid developments in new technologies have all combined to create a unique opportunity to accelerate the delivery of our long-held ambition to provide our consumers with less risky tobacco and nicotine choices.

Since 2012, together with RAI, we have invested approximately US\$2.5 billion in the growth of our Next Generation Product (NGP) business – comprising vapour and tobacco heating products (THPs). Following the acquisition of RAI, not only have we become the world's leading vapour company, we have also significantly increased the size of our existing oral tobacco and nicotine business with the addition of leading snus and moist snuff brands in the US. Collectively, we refer to these products as our potentially reduced-risk products.

Our investments are now coming to fruition and, recognising that not all consumers are the same, we now have an unrivalled range of exciting and innovative products across the potentially reduced-risk categories – including, vapour, THPs, oral tobacco, tobacco-free nicotine pouches and moist snuff. With the increased size and scale coming from RAI, we are clear leaders in the potentially reduced-risk product space and we are confident of leading the NGP category. This year we generated NGP revenue of £397 million. On a full year basis, including the contribution from RAI, this would have been approximately £500 million and we expect this to double in 2018 to £1 billion, rising to more than £5 billion in 2022.

## New Strategic Portfolio of brands

In light of the evolution of the business, with the addition of leading brands in the US, as well as the growing importance and progress of our potentially reduced-risk products, we have taken the opportunity to establish a new portfolio of priority brands – which we will in future refer to as our Strategic Portfolio.

This Strategic Portfolio comprises our existing GDBs, combined with RAI's Strategic Brands (Camel, Newport and Natural American Spirit). Also included is our portfolio of potentially reduced-risk products, including our key oral tobacco brands and NGP brands in vapour and THP. Further details can be found on pages 14 and 15.

From 2018, the Group will introduce a new metric called Revenue Growth of our Strategic Portfolio, replacing the Global Drive Brand (GDB) & Key Strategic Brand (KSB) volume growth metric. To provide the comparator against which 2018 will be measured, Revenue of our Strategic Portfolio in 2017 would have been £16,711 million assuming we had consolidated RAI for a full 12 months and after recognising the impact of implementing the new accounting requirements of IFRS 15.

## Strong results across our portfolio of products

Notwithstanding the good progress we are making with our potentially reduced-risk products, combustible cigarette products remain at the core of our business – delivering growth today and providing the funds required for investing in the future. I am therefore pleased that 2017 saw the Group yet again deliver another good performance.

The Group's cigarette market share in its Key Markets continued to grow strongly (up 40 bps). This was powered by another excellent performance by our GDBs, which grew 110 bps (ex US) and now account for more than 50% of Group cigarette and THP volume outside the US. Over the year, market share in the US also grew strongly and was up 20 bps, with the RAI Strategic Brands growing 40 bps.

Total Group cigarette and THP volume grew 3.2% to 686 billion, or on an organic basis fell 2.6%, outperforming the industry, which was estimated to have declined by around 3.5%.

In 2017, we also made excellent progress with our NGP business. Our flagship THP, glo, first launched in Japan in December 2016, reached 3.6% market share by the end of 2017 – having been rolled out nationally from October 2017. Since then, 50% of the overall category growth in Japan has been from glo – demonstrating its strong consumer appeal in a very short period. Good initial progress is also being made in our other launch markets of South Korea, Russia, Canada, Romania and Switzerland.

In the vapour category, Vype is now present in nine markets and we remain the market leader in the UK, with Vype and Ten Motives combined delivering around 40% share of measured retail in December 2017. We also lead the vapour category in Poland. In the US, the Vuse range of products continues to have a significant presence in the market. We see the rapidly developing vapour category, as a whole, contributing significantly to our long-term growth ambitions in NGPs.

The Group's financial performance was positively impacted by the accounting for the acquisition of RAI and the subsequent US tax reforms. These drove diluted earnings per share up by over 600% to 1,830.0p.

However, while trading conditions remain challenging in a number of markets, including ad hoc excise increases and increasing illicit consumption, 2017 again saw the Group deliver on its high single-digit earnings growth commitment on an adjusted basis, increasing adjusted diluted earnings per share by 14.9% to 284.4p, or 9.9% at constant rates of exchange.

## Group structural changes

Having the right organisational structure will set us up for continued long-term success as a truly global multi-category business, with NGPs embedded at the core.

With the NGP business set for significant expansion and growth, we decided to integrate it into our existing geographic structure. This has enabled us to begin fully leveraging the scale and expertise of the whole Group to drive growth in an area that is fast becoming a key part of our core business.

In order to address the key opportunities and challenges we face going forward, we recognised the need to ensure the combustible business operates even more efficiently than ever before. To achieve this, we created three new regions – Americas and Sub-Saharan Africa; Europe and North Africa; and Asia-Pacific and Middle East – in place of the previous four. The creation of these three new regions has simplified the existing structure by rationalising the complexity and scale of existing direct reporting business units (DRBUs) and has pushed decision making further down the organisation by creating fewer, larger DRBUs. These changes took effect from 1 January 2018 and the revised regional structure will therefore form the basis of our reporting going forward.

To facilitate these changes, we created the new role of Chief Operating Officer for the International business – reporting directly to me and managing our global business outside the US. The President and CEO of RAI also reports directly to me and leads our business in the US – reflecting its scale and the importance of ensuring a smooth integration that does not impact ongoing business delivery.

## Confidence in future growth

The Group's results in 2017 are testament to our commitment to delivering strong results for shareholders whilst at the same time investing substantially in the long-term future of the business. Following our acquisition of RAI, and the progress we are making with NGPs, we can now accelerate our ambition to transform tobacco. With the right people, products and strategy we are ideally positioned to deliver greater choice for our consumers, potential benefits for society as a whole and long-term sustainable value for shareholders.

**Nicandro Durante**  
Chief Executive

# Our strategic framework for transforming tobacco

Our strategy remains as relevant today to drive our transforming tobacco ambition as it was when it was first rolled out in 2012. It enables us to deliver growth today while driving the investment required to deliver our transformational agenda.

Our vision remains clear: while combustible tobacco products will remain at the core of our business for some time to come, we understand that long-term sustainability will be delivered by our transforming tobacco ambition.



## Our vision

World's best at satisfying consumer moments in tobacco and beyond.

Our consumers are at the core of everything we do and our success depends on addressing their preferences, concerns and behaviours.

We know that these are fragmenting and evolving at an unprecedented pace, and consequently, we are focusing on providing a range of tobacco and nicotine products across the risk spectrum. In addition, we are clear that to win in this space we need to understand our consumers' preferences and further invest in a pipeline of ever evolving innovations.

## Our mission

Delivering our commitments to society, while championing informed consumer choice.

We have long known that, as a major international business, we have a responsibility to address societal issues with our tobacco products and that, as our business continues to grow, so does our influence and the responsibility that comes with it.

We are also clear that we have a duty to our shareholders to ensure we continue to deliver today and invest for a sustainable future and to our consumers to provide, in addition to our combustible products, a range of potentially reduced-risk products such as NGPs and oral tobacco products.

Our transforming tobacco ambition, with its core objective of providing consumers with more choice, more innovation and less risk will allow us to: satisfy these consumers; address societal concerns at large through the growth of multiple categories of potentially reduced-risk tobacco and nicotine products; and provide a sustainable, profitable future for our shareholders.

## Strategic focus areas

Our four key focus areas remain fundamental to our strategy as we focus on our transforming tobacco ambition.

### Growth

Constantly developing our portfolio of potentially reduced-risk products and new technologies while continuing to drive revenue growth from our traditional combustible products.

### Productivity

Effectively deploying resources between product categories and managing our cost base to release funds for investment.

### Winning organisation

Ensuring we have great people with the right skill sets in the right teams to drive the transformation of our business.

### Sustainability

Ensuring a sustainable business that meets the expectations of all our various stakeholders.

 See the Annual Report and Accounts for further details at [www.bat.com/reporting](http://www.bat.com/reporting)

## Guiding Principles

Our Guiding Principles provide clarity about what we stand for. They form the core of our culture and guide how we deliver our strategy.

### Enterprising spirit

We value enterprise from all of our employees across the world, giving us a great breadth of ideas and viewpoints to enhance the way we do business. We have the confidence to passionately pursue growth and new opportunities while accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.

### Freedom through responsibility

We give our people the freedom to operate in their local environment, providing them with the benefits of our scale but also the ability to succeed locally. We always strive to do the right thing, exercising our responsibility to society and other stakeholders. We use our freedom to take decisions and act in the best interest of consumers.

### Open minded

Our corporate culture is a great strength of the business and one of the reasons we have been, and will continue to be, successful. We are forward-looking and anticipate consumer preferences, winning with innovative, high-quality products. We listen to, and genuinely consider, other perspectives and changing social expectations. We are open to new ways of doing things.

### Strength from diversity

Our management population comprises people from over 140 nations, giving us unique insights into local markets and enhancing our ability to compete across the world. We respect and celebrate each other's differences and enjoy working together. We harness diversity – of our people, cultures, viewpoints, brands, markets and ideas – to strengthen our business. We value what makes each of us unique.

# Our global business

British American Tobacco is a leading, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world.

With market leadership in over 55 countries and cigarette factories in 42 we have genuine global reach. Our world-class portfolio of cigarette brands is complemented by our increasing range of potentially reduced-risk products. This includes our Next Generation Products, comprising our vapour and tobacco heating products, and our oral tobacco and nicotine products such as moist snuff and snus.

Following the acquisition of leading brands in the US, as well as the growing importance and progress of our potentially reduced-risk products, we have established a portfolio of priority brands – our Strategic Portfolio – to replace the Global Drive Brands (Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans).

## Our geographic diversity

BAT is a truly global consumer goods company with brands sold in over 200 markets. In 2017, we had strong market positions in each of our five regions\*, outlined here.

We have one principal associate company – ITC Ltd in India – and we also have a joint operation, CTBAT, with China National Tobacco Corporation.

55+

countries where we are market leader

45

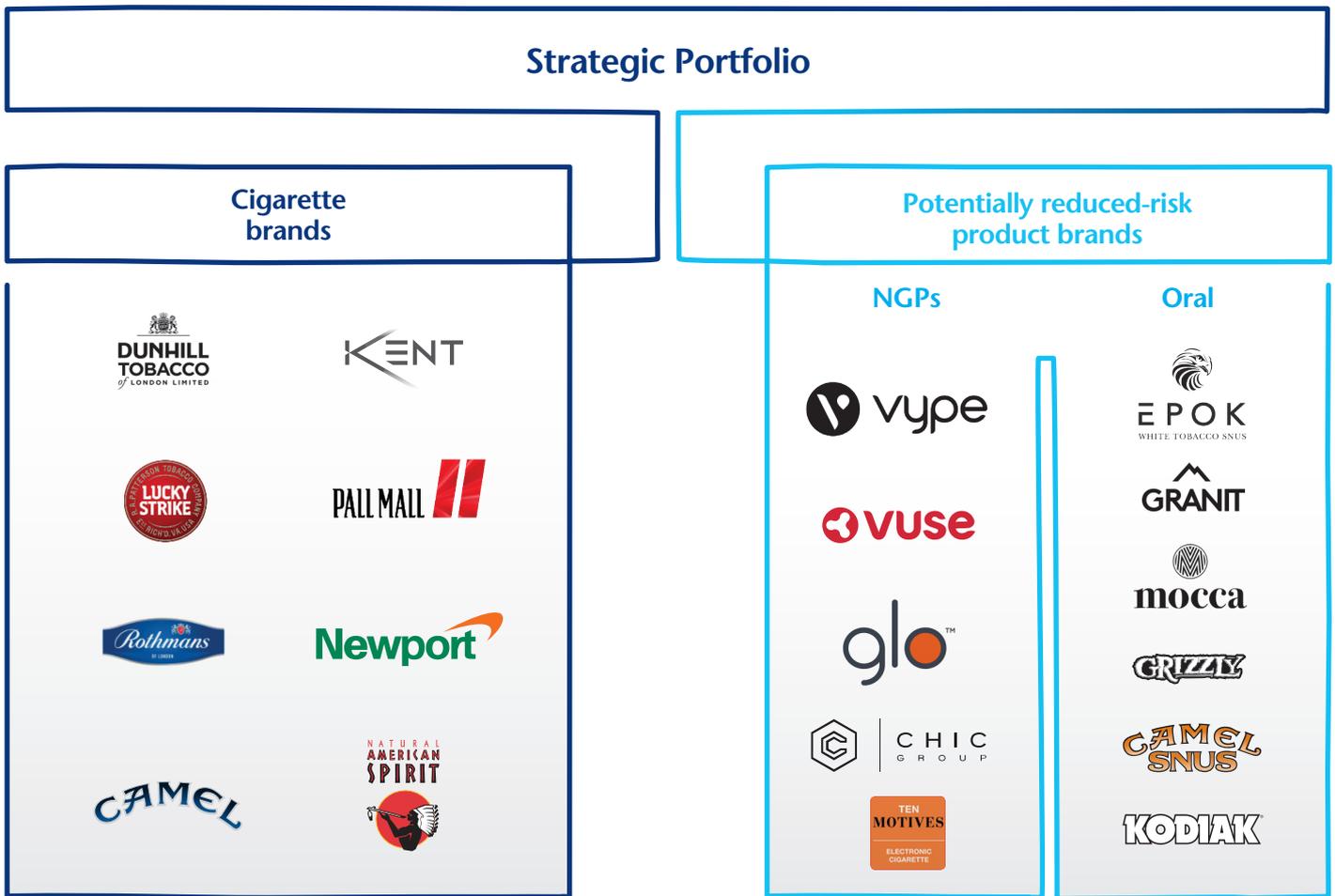
cigarette factories in 42 countries



\* As of 1 January 2018, the Group's International regional structure (ex-US) was reduced to three regions comprising: Americas and Sub-Saharan Africa; Europe and North Africa; and Asia-Pacific and Middle East.

Our Strategic Portfolio, as set out below, reflects our priority to provide consumers with a range of potentially reduced-risk products while recognising the important role that our combustible brands play in delivering ongoing value for shareholders and the funds required to invest further in our Next Generation Products.

We also have many international and local cigarette brands which, although not part of our Strategic Portfolio, play an important role in delivering the Group’s strategy in a number of Key Markets.



Other international and local cigarette brands



# Finance Director's overview

“These financial results illustrate the **ongoing strength** of the Group – delivering against the financial objectives whilst investing for the changing environment”

**Ben Stevens**  
Finance Director



## Another set of good financial results

The Group delivered another set of good financial results in 2017. Whilst the results are dominated by the inclusion of RAI as a wholly owned subsidiary since the acquisition date of 25 July 2017, the Group continued to perform well on an organic basis.

The Group's results continued to benefit from the weakness in sterling which, due to the Group's operating results being predominantly delivered in local currency and converted to sterling for reporting purposes, acted as a tailwind of 4%.

## Increased revenue and profit from operations

Revenue grew by 37.6%, or by 2.9% excluding the impact of acquisitions and excise on bought-in goods, and on a constant currency basis. This was driven by pricing and the growth of NGPs, notably in Asia Pacific, more than offsetting a decline in organic volume.

Profit from operations was up 39.1%, as the inclusion of RAI and growth in revenue more than offset the marketing investment in NGPs, the amortisation of acquired brands and costs incurred as part of the Group's restructuring programme.

Adjusted profit from operations on a constant currency, organic basis was up 3.7%.

A full reconciliation of our results under IFRS to adjusted revenue and adjusted profit from operations is provided on pages 218 and 219 of the Annual Report and Accounts.

All regions performed well (as described on pages 42 to 47 of the Annual Report and Accounts) on a constant rate basis, in challenging conditions. Asia-Pacific delivered an increase in adjusted profit from operations whilst supporting the roll out of NGPs in Japan and South Korea.

In Americas, adjusted profit from operations was up as growth in Canada, Chile and Mexico more than offset the continued economic challenges in Brazil. Transactional foreign exchange headwinds and difficult trading in Russia, GCC and South Africa led to adjusted profit from operations in EEMEA being marginally lower than prior years. In Western Europe, adjusted profit from operations was up driven by Romania and Germany.

## Operating margin increased, with net finance costs and tax impacted by the RAI transaction

Our operating margin increased by 270 bps, driven by the performance of the organic business and by RAI, which had a positive mix effect on margin, and partly due to the US\$70 million synergies achieved by the year end. Organic adjusted operating margin increased by 40 bps.

Net finance costs grew as the Group incurred an increase in borrowings to support the acquisition of RAI. Our banking facilities require a gross interest cover of at least 4.5 times. In 2017 this was 7.8 times (2016: 12.2 times).

Due to the change in reporting of RAI as a wholly owned subsidiary following the acquisition, the Group recognised a deemed gain of £23,288 million on the deemed disposal of RAI as an associate. Our other material associate, ITC, continued to perform well.

Due to the impact of the deferred tax credit (£9.6 billion) arising from the US tax reforms, our tax charge was a net credit of £8,113 million, being a tax rate of 27.4% (credit) compared to 22.5% (charge) in 2016. This is also affected by the inclusion of associates post-tax income, in our pre-tax profits. On an underlying basis, excluding such impacts and the affect of adjusting items, the tax rate was a charge of 29.7%, a marginal decrease on 2016 (29.8%).

## Continuing strength of cash flow generation

Net cash generated from operating activities grew by 16.0% to £5,347 million, largely due to the cash generated by RAI subsequent to the acquisition, the profit from operations earned in the period from the rest of the Group and a reduction in inventories. This more than offset an increase in receivables, reduction in trade and other payables, the payment of the 2017 liability related to the Master Settlement Agreement (MSA) in the United States and the final quarterly payments in relation to the Quebec Class Action.

Adjusted cash generated from operations (as defined on page 222 of the Annual Report and Accounts) was £3,282 million, an increase of 5.4%, or in line with 2016 on a constant rate basis. This increase was impacted by the timing of the early payment of the 2017 MSA liability, which is tax deductible at 2017 tax rates. Excluding the timing of this payment, adjusted cash generated from operations would have increased by over 45%.

Based upon net cash generated from operating activities, the Group's cash conversion ratio decreased from 99% in 2016 to 83% in 2017. Operating cash flow conversion ratio (as defined on page 221 of the Annual Report and Accounts) fell from 93% to 79%. Excluding the timing of the payment of the 2017 MSA liability, our operating cash flow conversion ratio would have been 96%, ahead of 2016 (93%), and reflecting the Group's ability to deliver cash from the operating performance of the business.

## Delivering in a period of change

These financial results illustrate the ongoing strength of the Group – delivering against the financial objectives whilst investing for the changing environment and managing the various challenges that working in a global business bring.

**Ben Stevens**  
Finance Director

# Shareholder and contact information

## 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](http://www.investorcentre.co.uk/contactus)

## [www.computershare.com/uk/investor/bri](http://www.computershare.com/uk/investor/bri)

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

## [www.computershare.com/dealing/uk](http://www.computershare.com/dealing/uk)

Go online or telephone 0370 703 0084 (UK) to buy or sell British American Tobacco shares traded on the London Stock Exchange. 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](mailto:web.queries@computershare.co.za)

## American Depository Shares

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

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

## Documents on Display and Publications

The Annual Report and Accounts is available online at [bat.com/annualreport](http://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](mailto:bat@team365.co.uk)

Holders of shares held on the South Africa register can contact the Company's Representative office in South Africa using the contact details shown overleaf.

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](http://www.sec.gov).

## Our website – [www.bat.com](http://www.bat.com)

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

## Dividend Reinvestment Plan

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

## Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA – contact:

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

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

## Capital gains tax

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

## 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	<b>Annual General Meeting</b> Milton Court Concert Hall, Silk Street, London EC2Y 9BH
Thu 26 July	<b>Half-Year Report</b>

# Shareholder and contact information 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.

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		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 (JSE, NYSE and LSE)	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

### 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

### Representative Office in South Africa

Waterway House South, No 3 Dock Road,  
V&A Waterfront, Cape Town 8000, South Africa  
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](mailto:press_office@bat.com)

### Auditors

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

Design and production: Radley Yeldar (London) [www.ry.com](http://www.ry.com)

Photography by David Hares and Henry Thomas.

Printed in the UK by Pureprint Group on Revive 100% recycled paper, 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.