

Chairman's introduction on Governance



Richard Burrows
Chairman

Introduction & Board

Audit Committee

Nominations Committee

Remuneration Committee

Responsibility of Directors

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Dear Shareholder

During 2018, our Board focused on the evolution of our business, with an emphasis on driving our potentially reduced-risk product portfolio and overseeing the integration of our US business into the Group.

Effective succession planning is another essential component underpinning our long-term sustainable success. In 2018, our Nominations Committee led a thorough and extensive selection process leading up to its recommendation to appoint Jack Bowles as successor to our Chief Executive, Nicandro Durante. We will report on the selection process leading up to the appointment of Tadeu Marroco as the successor to our Finance Director, Ben Stevens, in our Annual Report and Form 20-F for 2019.

The Nominations Committee continues to keep the composition and diversity of our Board and Management Board under regular review and, in January, we welcomed new Management Board members as part of changes introduced to accelerate execution of the Group's strategy. Board succession planning and development of a diverse senior management succession pipeline will continue to be priorities for the Nominations Committee in 2019. We give a full report on the activities of our Nominations Committee on pages 71 to 72.

It is equally important that the Board as a whole has the capability to lead our transforming tobacco strategy. Board performance is evaluated in detail on an annual basis. I have led this year's internal evaluation of the Board, which found that the Board continues to be effective and efficient. You will find details of this year's evaluation and key outcomes on pages 61 to 62.

To assess the evolution of our potentially reduced-risk product portfolio, the Board visited our Global R&D Centre in Southampton to review the technologies and innovation driving our transforming tobacco strategy, and the world-class science supporting it, with scientists, product developers and other dedicated R&D teams. In support of our strategy, the Board approved refreshed International Marketing Principles in 2018 that apply across our product portfolio worldwide and demonstrate our continued commitment to marketing our products responsibly and in full compliance with evolving regulations in all markets we operate in.

We are focused on ensuring that integrity remains paramount in the conduct of our business across the Group. I would like to emphasise that the Board does not tolerate failure to comply with either our legal obligations or our internally mandated high standards of behaviour. As previously reported, through external legal advisers we are rigorously investigating allegations of misconduct and we continue to cooperate with the UK Serious Fraud Office's investigation and with other relevant authorities. A sub-Committee of the Board continues to have oversight of these matters.

We continue to enhance our global business conduct framework and, during 2018, our 'Delivery with Integrity' programme included extensive training for employees worldwide on the potential bribery and corruption risks associated with our operations and the launch of a refreshed anti-bribery and corruption procedure. The Board also approved a revised Group Data Privacy Policy applicable across the Group, supporting compliance with data protection obligations introduced by the EU GDPR. You can read more about our 'Delivery with Integrity' programme on page 31.

Following the acquisition of RAI, we are subject to US compliance obligations under NYSE rules and US securities laws as a 'foreign private issuer'. During 2018, our Audit Committee has played a critical role in monitoring the Group's preparations to ensure full compliance with SOx, including oversight of our management assessment of the effectiveness of our internal controls over financial reporting (ICFR), and support the attestation of compliance by our Chief Executive and Finance Director. We explain our SOx compliance programme on page 69.

In the UK, 2018 saw some of the most extensive reform of the corporate governance landscape since the UK Corporate Governance Code was first published in 1992. We welcome the introduction of the revised Code, its broader view of corporate governance and its emphasis on relationships with shareholders and wider stakeholders in delivering long-term sustainable success. The Board has carefully considered both the letter and the spirit of the revised Code and we will report to shareholders on our application of the revised Code in our Annual Report and Form 20-F for 2019.

In revising our Directors' Remuneration Policy, presented for your consideration in the Remuneration Report ahead of our AGM in April 2019, our Remuneration Committee took into account extensive shareholder feedback and the revised Code requirements to sharpen our policy's alignment with shareholder interests and to ensure it continues to promote the Company's long-term sustainable success. I would like to thank our shareholders who have already contributed to the development of our revised Remuneration Policy and their engagement on broader aspects of our corporate governance. My fellow Board members and I look forward to meeting further with shareholders in the lead up to, and at, our AGM in April 2019.

On behalf of the Board, I confirm that we believe that this combined Annual Report and Form 20-F presents a fair, balanced and understandable assessment of the Company's position, its performance and prospects, as well as its business model and strategy.

Richard Burrows
Chairman

Board of Directors as at 27 February 2019

N

**Richard Burrows**

Chairman (73)

Nationality: Irish

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

Other appointments: Senior Independent Director and Chairman of the Remuneration Committee of Rentokil Initial plc; Supervisory Board member and Chairman of the Remuneration Committee at Carlsberg A/S.

Skills and experience: Richard brings considerable consumer goods and international business experience to the Board, having been Chief Executive of Irish Distillers and Co-Chief Executive of Pernod Ricard. Prior to joining the Board, Richard was Governor of the Bank of Ireland. Richard is a Fellow of the Institute of Chartered Accountants of Ireland.

A N

**Kieran Poynter**

Senior Independent Director (68)

Nationality: British

Position: Senior Independent Director since October 2016; Non-Executive Director since 2010; member of the Audit and Nominations Committees.

Other appointments: Non-Executive Director and Chair of the Audit and Compliance Committee of International Consolidated Airlines Group S.A.; Chairman and Chair of the Nominations, Audit and Compliance and Risk and Remuneration Committees of F&C Asset Management plc.

Skills and experience: Kieran brings a wealth of financial and international experience to the Board. He was Chairman and Senior Partner of PricewaterhouseCoopers from 2000 to his retirement in 2008, having started as a graduate trainee in 1971, and is a former Chairman of Nomura International PLC. Kieran is a Chartered accountant.

**Nicandro Durante**

Chief Executive (62)

Nationality: Brazilian/Italian

Position: Chief Executive since 2011; Executive Director since 2008. Nicandro will retire from the Board of Directors on 1 April 2019.

Other appointments: Senior Independent Director of Reckitt Benckiser Group plc.

Skills and experience: Nicandro has extensive leadership skills developed in various senior international roles within the Group. He joined Souza Cruz in Brazil in 1981, rising to become President of that company. Nicandro joined the Management Board in 2006 as Regional Director for the Africa and Middle East region. He joined the Board in 2008 as Chief Operating Officer, before being appointed as Chief Executive in 2011.

**Jack Bowles**

Chief Executive Designate (55)

Nationality: French

Position: Chief Executive Designate since 1 November 2018; Executive Director since 1 January 2019. Jack will succeed Nicandro Durante as Chief Executive on 1 April 2019.

Skills and experience: Jack brings significant experience in management and leadership developed across his previous roles. He joined the Group in 2004 and was appointed as Chairman of British American Tobacco France in 2005, before becoming Managing Director of British American Tobacco Malaysia in 2007. He joined the Management Board as Regional Director for Western Europe in 2009, becoming Regional Director for the Americas in 2011, then Regional Director for Asia-Pacific in 2013. Jack became Chief Operating Officer in 2017 and Chief Executive Designate in November 2018, before being appointed to the Board in January 2019.

**Ben Stevens**

Finance Director (59)

Nationality: British

Position: Finance Director since 2008. Ben will retire from the Board of Directors on 5 August 2019.

Other appointments: Non-Executive Director of ISS A/S.

Skills and experience: Ben joined the Group in 1990 and has broad international experience spanning both senior finance and general management roles. He was Head of Merger Integration following the merger with Rothmans and Chairman and Managing Director of both Pakistan Tobacco Company and British American Tobacco Russia. Ben was appointed to the Management Board in 2001 as Development Director and became Director, Europe, in 2004. He joined the Board in 2008 as Finance Director.

N R

**Sue Farr**

Non-Executive Director (62)

Nationality: British

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

Other appointments: Special Advisor, Chime Group; Non-Executive Director and Chair of the Corporate Responsibility Committee of Dairy Crest Group plc; Non-Executive Director and Chair of the Nominations & Remuneration Committee of Accsys Technologies PLC.

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

N R

**Dr Marion Helmes**

Non-Executive Director (53)

Nationality: German

Position: Non-Executive Director since 2016; member of the Nominations and Remuneration Committees.

Other appointments: Vice Chairwoman of the Supervisory Board and co-chairwoman of the Presiding and Nomination Committee of ProSiebenSat.1 Media SE; Supervisory Board member and Chairman of the Audit Committee of Heineken N.V.; Supervisory Board member of Siemens Healthineers AG and Uniper SE.

Skills and experience: Marion brings significant financial expertise and operational experience gained at an international level having spent her working life managing businesses across Europe, the Americas and Asia. Her extensive career includes Chief Financial Officer positions at Celesio, Q-Cells and ThyssenKrupp Elevator Technology.

A N

**Luc Jobin**

Non-Executive Director (59)

Nationality: Canadian

Position: Non-Executive Director since July 2017; member of the Audit and Nominations Committees.

Other appointments: Independent Consultant providing executive leadership advisory services to corporate clients.

Skills and experience: Luc brings extensive financial and strategic experience, including in the US tobacco sector as an independent director of RAI from 2008 until the acquisition in 2017. Luc was President and Chief Executive Officer of Canadian National Railway Company, from July 2016 until March 2018, having served as Executive Vice President and Chief Financial Officer since 2009. He was Executive Vice President of Power Corporation of Canada from 2005 to 2009. Luc was Chief Executive Officer of Imperial Tobacco Canada, a subsidiary of the Company, from 2003 to 2005 and Executive Vice President and Chief Financial Officer from 1998 to 2003.

A N

**Holly Keller Koepfel**

Non-Executive Director (60)

Nationality: American

Position: Non-Executive Director since July 2017; Chairman of the Audit Committee since 14 January 2019; member of the Nominations Committee.

Other appointments: Non-Executive Director of Vesuvius plc; Director and Chair of the Governance Committee of AES Corporation.

Skills and experience: Holly has extensive operational and financial management experience and served as an independent director on the Board of RAI from 2008 until the acquisition in 2017. Holly was a Senior Advisor to Corsair Capital LLC until April 2018, where she had previously served as Managing Partner and Co-Head of Infrastructure from 2015 until her retirement in 2017. From 2010 to 2015, she served as Co-Head of Citi Infrastructure Investors. Prior to 2010, she held financial and executive management roles with American Electric Power Company, Inc. and Consolidated Natural Gas Company.

N R

**Savio Kwan**

Non-Executive Director (70)

Nationality: British

Position: Non-Executive Director since 2014; member of the Nominations and Remuneration Committees.

Other appointments: Co-Founder and CEO of A&K Consulting Co Ltd, advising entrepreneurs and their start-up businesses in China; Visiting Professor at Henley Business School; Member of the Governing Body of the London Business School; Non-Executive Director of the Alibaba Hong Kong Entrepreneur Fund, Crossborder Innovative Ventures International Limited and a Non-Executive Director and Advisory Board member of Homaer Financial.

Skills and experience: Savio brings significant business leadership experience of Greater China and Asia to the Board. During his extensive career he has worked broadly in technology for General Electric, BTR plc and Alibaba Group, China's largest internet business, where he was both Chief Operating Officer and, later, a Non-Executive Director.

R N

**Dimitri Panayotopoulos**

Non-Executive Director (67)

Nationality: Greek/British

Position: Non-Executive Director since 2015; Chairman of the Remuneration Committee since October 2016; member of the Nominations Committee.

Other appointments: Senior Advisor at The Boston Consulting Group; Advisory Board member of JBS USA; Non-Executive Director of Logitech International S.A.

Skills and experience: Dimitri has extensive general management and international sales and brand building expertise. He was Vice Chairman and Adviser to the Chairman and CEO of Procter & Gamble (P&G), where he started his career in 1977. During his time at P&G, Dimitri led on significant breakthrough innovations and continued to focus on this, speed-to-market and scale across all of P&G's businesses while Vice Chairman of all the Global Business Units.

Attendance at Board meetings in 2018¹

Name	Director since	Attended/Eligible to attend	
		Scheduled ³	Ad hoc
Richard Burrows	2009	6/6	4/4
Nicandro Durante	2008	6/6	4/4
Ben Stevens	2008	6/6	4/4
Sue Farr ^{2(a)}	2015	6/6	2/4
Ann Godbehere ^{4(b)}	2011-2018	2/2	0/0
Dr Marion Helmes	2016	6/6	4/4
Luc Jobin ^{2(b)}	2017	6/6	3/4
Holly Keller Koepfel	2017	6/6	4/4
Savio Kwan ^{2(c)}	2014	6/6	3/4
Dr Pedro Malan ^{4(b)}	2015-2018	2/2	0/0
Lionel Nowell, III ^{2(d), 4(c)}	2017-2018	4/6	4/4
Dimitri Panayotopoulos	2015	6/6	4/4
Kieran Poynter ^{2(e)}	2010	6/6	3/4

Notes:

- Number of meetings in 2018: The Board held 10 meetings in 2018, four of which were ad hoc and convened at short notice, three to discuss succession planning for the Board and the Management Board and one to discuss product regulation proposed in the US. Part of the October Board meeting was held off-site at the Group's R&D facilities in Southampton, UK, to review the Group's strategy and product portfolio.
- (a) Sue Farr did not attend the ad hoc Board meeting in October and one of the two ad hoc Board meetings in November due to prior commitments; (b) Luc Jobin did not attend one of the two ad hoc Board meetings in November due to prior commitments; (c) Savio Kwan did not attend one of the two ad hoc Board meetings in November due to prior commitments; (d) Lionel Nowell, III did not attend the February and July Board meetings and the 2018 AGM due to prior commitments; and (e) Kieran Poynter did not attend the ad hoc Board meeting in October due to prior commitments.
- Number of meetings in 2019: Six Board meetings are scheduled for 2019.
- Composition: (a) the Board of Directors is shown as at the date of this Annual Report and Form 20-F; (b) Ann Godbehere and Pedro Malan retired as Non-Executive Directors at the conclusion of the AGM on 25 April 2018; and (c) Lionel Nowell, III retired as a Non-Executive Director with effect from 12 December 2018.

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- Committee Chairman
- Executive Director
- Non-Executive Director

Management Board as at 27 February 2019



Jerome Abelman
Director, Legal & External Affairs
and General Counsel (55)

Nationality: American

Jerry was appointed Director, Legal & External Affairs and General Counsel in May 2015, having joined the Management Board as Group Corporate & Regulatory Affairs Director in January 2015.



Marina Bellini
Director, Digital and Information (45)

Nationality: Italian/Brazilian

Marina joined the Management Board as Director, Digital and Information on 1 January 2019.



Luciano Comin
Regional Director, Americas
and Sub-Saharan Africa (49)

Nationality: Italian/Argentinian

Luciano joined the Management Board as Regional Director, Americas and Sub-Saharan Africa on 1 January 2019.



Alan Davy
Director, Operations (55)

Nationality: British

Alan joined the Management Board as Group Operations Director in March 2013.



Giovanni Giordano
Director, Group Human Resources (53)

Nationality: Italian/American

Giovanni joined the Management Board as Group Human Resources Director in June 2011. He will step down from the Management Board at the end of March 2019.



Hae In Kim
Director, Talent and
Culture Designate (45)

Nationality: Korean

Hae In joined the Management Board as Director, Talent and Culture Designate on 1 January 2019. She will become Director, Talent and Culture on 1 April 2019, succeeding Giovanni Giordano.



Paul Lageweg
Director, New Categories (49)

Nationality: Dutch

Paul joined the Management Board as Director, New Categories on 1 January 2019.



Tadeu Marroco
Director, Group
Transformation (52)

Nationality: Brazilian

Tadeu was appointed Director, Group Transformation on 1 January 2019. In addition to this role, Tadeu has been appointed as Deputy Finance Director with effect from 1 March 2019. He will succeed Ben Stevens as Finance Director on 5 August 2019 and will be appointed to the Board as an Executive Director on the same date.



Guy Meldrum
Regional Director, Asia-
Pacific and Middle East (47)

Nationality: New Zealand

Guy joined the Management Board as Regional Director, Asia-Pacific and Middle East on 1 January 2019.



Dr David O'Reilly
Director, Research and Science (52)

Nationality: British

David was appointed Director, Research and Science on 1 January 2019, having joined the Management Board as Group Scientific Director in 2012.



Ricardo Oberlander
President and CEO,
Reynolds American Inc. (55)

Nationality: Brazilian

Ricardo was appointed President and CEO of Reynolds American Inc. on 1 January 2018, having joined the Management Board as Regional Director for the Americas in 2013.



Naresh Sethi
Director, Business Development (52)

Nationality: Australian/British

Naresh was appointed Director, Business Development in December 2016. He joined the Management Board in 2012 and has held various roles. Naresh will step down from the Management Board at the end of March 2019.



Johan Vandermeulen
Regional Director, Europe
and North Africa (51)

Nationality: Belgian

Johan was appointed Regional Director, Europe and North Africa on 1 January 2019. He joined the Management Board in 2014 and has held various roles.



Kingsley Wheaton
Chief Marketing Officer (46)

Nationality: British

Kingsley was appointed Chief Marketing Officer on 1 January 2019. He joined the Management Board in 2012 and has held various roles.

Leadership and effectiveness

Introduction & Board

Audit Committee

Nominations Committee

Remuneration Committee

Responsibility of Directors

Governance framework

The Board

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

Board responsibilities:

- Group strategy.
- Significant corporate activities.
- Group policies.
- Corporate governance.
- Board and Management Board appointments and succession.
- Group budget.
- Risk management and internal control.
- Annual Report & 20-F approval.
- Periodic financial reporting.
- Dividend policy.

Board Committees

The Board has three principal Board Committees to which it has delegated certain responsibilities. The roles, memberships and activities of these Committees are described in their individual reports in this section.

Each Committee has its own terms of reference, available at www.bat.com/governance. These terms of reference are all reviewed and updated regularly, most recently to reflect revisions to internal governance and reporting processes to align with the UK Corporate Governance Code 2018.

Board programme

The Board has a comprehensive annual programme of meetings to monitor and review the Group's strategy across all the elements of the Group's business model. The key activities of the Board in 2018, discussed under the Group's four strategy pillars of Growth, Productivity, Sustainability and Winning Organisation, are detailed on pages 58 and 59. The Board's strategic priorities for 2018 are identified within the key performance indicators set out in our Strategic Report on pages 10 and 11.

The Board devotes considerable attention to Group Corporate Governance, including internal control and compliance issues. It receives verbal updates from the Chairman of each Committee following each Committee meeting. Copies of the minutes of all Committees are circulated to all members of the Board.

Collective decision-making

The Chairman seeks a consensus at Board meetings but, if necessary, decisions are taken by majority. If any Director has concerns on any issues that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2018.

Management Board

The Management Board, chaired by the Chief Executive, is responsible for overseeing the implementation of the Group's strategy and policies set by the Board, and for creating the framework for the day-to-day operation of the Group's operating subsidiaries. Its members comprise the Executive Directors and 14 senior Group executives whose names and roles are described on page 56.

To accelerate execution of the Group's strategy, the following appointments to the Management Board were made with effect from 1 January 2019:

- Kingsley Wheaton, previously Regional Director, Americas and Sub-Saharan Africa, was appointed as Chief Marketing Officer replacing Andrew Gray;
- Tadeu Marroco, previously Regional Director, Europe and North Africa, was appointed as Director, Group Transformation and additionally, with effect from 1 March 2019, as Deputy Finance Director, to then succeed Ben Stevens as Finance Director with effect from 5 August 2019;
- Marina Bellini, previously Chief Information Officer, was appointed as Director, Digital and Information;
- Hae In Kim, previously Group Head of Talent and Organisational Effectiveness, was appointed as Director, Talent and Culture Designate and will replace Giovanni Giordano, currently Director, Group Human Resources, from 1 April 2019;
- Luciano Comin, previously Regional Head of Marketing, Americas and Sub-Saharan Africa, was appointed Regional Director, Americas and Sub-Saharan Africa;
- Johan Vandermeulen, previously Regional Director, Asia-Pacific and Middle East, was appointed as Regional Director, Europe and North Africa;
- Guy Meldrum, previously Area Director, Australasia Area, was appointed as Regional Director, Asia-Pacific and Middle East; and
- Paul Lageweg, previously Regional Marketing Manager, Asia-Pacific and Middle East, was appointed as Director, New Categories.

Audit Committee

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Nominations Committee

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Remuneration Committee

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Leadership roles and responsibilities

Leadership

Chairman

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

Chief Executive

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

Oversight

Non-Executive Directors (NEDs)

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

Senior Independent Director (SID)

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

Management Board

- Develops Group strategy for the Group's product portfolio for approval by the Board.
- Monitors Group operating performance.
- Ensures Group, regional and functional strategies and resources are effective and aligned.
- Manages the central functions.
- Oversees the management and development of Group talent.

Board activities in 2018

Growth

Growth remains our key strategic focus. Continued investment in, and development of, our strategic focus areas is central to the Board's annual agenda.

Activities in 2018

Reviewing:

- the Group's transforming tobacco strategy, its implementation in international business regions and in the US, and oversight of resource allocation activities to support strategy execution;
- the Group's financial performance and current outlook throughout the year, and the Group's half-year and year-end results;
- Group and regional operating performance against the Group's key performance metrics and the key challenges faced and opportunities for growth in each region;
- the Group's product portfolio performance in the context of the broader competitor landscape, and strategic focus areas for the Group;
- the Group's PRRP portfolio and new product launches;
- the Company's share price performance, factors impacting share price performance and investor perspectives;
- the continued significant impact of foreign exchange rates on the Group's financial performance, including measures taken by management to mitigate foreign exchange risks; and
- the quarterly financial performance of the associates of the Group.

Strategy review highlights: Growth

Global product portfolios: The Board conducted a 'deep dive' into the Group's product portfolios, covering PRRPs (vapour, THP and oral categories) and combustible products, the innovation pipeline and technology roadmap for those products, the Group's investment in R&D activities supporting development of product portfolios and the regulatory and competitive landscape in which the Group operates. In relation to the US region, the Board assessed progress of the Substantial Equivalence (SE) application in relation to glo and the Modified Risk Tobacco Product Application (MRTPA) and Premarket Tobacco Product Application (PMTA) filings in relation to Camel snus products, and considered engagement activities undertaken with the FDA in respect of those applications.

Throughout the year, the Board also reviewed the performance of the Group's product portfolios, their contribution to Group revenues, risks faced and opportunities for growth, geographic expansion in PRRP categories and progress of national product launches.

Productivity

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

Activities in 2018

Reviewing:

- operating performance on a Group, regional and key market level across the product portfolio, including PRRPs;
- the Group's cash flow performance, including monitoring the progress to realise opportunities and optimise the balance sheet, to ensure the Group is able to invest for the future whilst reducing the carrying value of debt;
- transactional arrangements to implement the offer to bond holders to exchange US\$17.25 billion of bonds for SEC registered bonds and approving associated transaction documentation;
- the Group's compliance with its financing principles, including in relation to Group liquidity, capital allocation, adjusted net debt/adjusted EBITDA, the Group's revolving credit facilities, planned refinancing and other treasury activities for the year ahead;
- progress in delivering expected synergies of over US\$400 million by the end of 2020 from the integration of RAI Companies;
- SOx compliance governance structures and controls and updates on implementation of the Group's SOx compliance programme;
- Group supply chain strategy and optimisation programmes; and
- business transformation programmes to implement operational efficiencies.

Strategy review highlights: Productivity

Supply chain review: The Board gained thorough insights into the Group's supply chain organisation, across leaf, procurement, manufacturing and supply networks, with a particular focus on the Americas and Sub-Saharan Africa region. The Board considered actions taken to build a future-fit product portfolio for the region, strategies for combating illicit trade and business continuity measures to safeguard against potential supply chain disruption, including civil unrest and natural disasters.

Group THP and vapour supply chain optimisation: The Board reviewed the Group's THP and vapour supply chain strategy, product components, key suppliers and sourcing footprint, and assessed the progress of actions to drive cost optimisation and enhance supply chain capabilities, resilience and geographic reach to support the Group's transforming tobacco strategy.

Sustainability

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

Activities in 2018

Reviewing:

- the Group's regulatory engagement activities and evolving product regulation;
- the US FDA's proposed new measures in relation to vapour products and its proposal to regulate or prohibit menthol in cigarettes in the US following its announcement in November 2018;
- the status of litigation proceedings involving Group companies, including updates on the class-actions in Quebec Province against Group subsidiary Imperial Tobacco Canada, the Fox River and Kalamazoo River proceedings, and claims brought by RAI dissenting shareholders following acquisition of the remaining shares in RAI;
- updates on compliance matters, including allegations of misconduct, and progress of the Group's 'Delivery with Integrity' compliance programme;
- environment, health and safety performance for the preceding year and long-term targets and action plans;
- refreshed International Marketing Principles, updates to the Group Supplier Code of Conduct and the Group's annual Modern Slavery Act statement, and approving these for adoption;
- the Group's leaf sustainability performance and its leaf footprint;
- the Group's Risk Register, considering the Group's risk appetite in the context of its strategic objectives, and determining the Group's viability for reporting purposes, taking account of the Company's current position and principal risks; and
- the Group's director and officer insurance cover.

Strategy review highlights: Sustainability

International Marketing Principles: The Board approved refreshed International Marketing Principles applicable across all Group product portfolios, designed to underpin the Group's transforming tobacco strategy and to coherently articulate the Group's commitment to marketing all our products responsibly and in full compliance with product and other regulations in all markets in which we operate. The Board was also updated on the robust measures maintained across the Group to prevent youth access to vapour and other products.

Group Supplier Code of Conduct: The Board reviewed changes to the Group Supplier Code of Conduct, to integrate the requirements of RAI Companies and to specify additional supply chain controls in relation to conflict minerals, and approved the adoption of the revised Supplier Code of Conduct across the Group.

Winning organisation

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

Activities in 2018

Reviewing:

- Executive Director and Management Board succession planning, and monitoring the progress of Management Board development plans;
- the effectiveness and performance of the Directors and Management Board members;
- Non-Executive Director Board and Committee appointments;
- the composition of Board Committees and approving changes to the Committees' terms of reference;
- proposed changes to the roles and responsibilities of the Management Board and approving new appointments;
- the proposed new Directors' Remuneration Policy;
- internal governance processes and workforce engagement mechanisms, and approving revisions to align with the UK Corporate Governance Code 2018;
- the Group's talent and diversity strategy, and the progress of initiatives supporting its objectives;
- the Group's existing short- and long-term employee incentive schemes to integrate the participation of RAI Companies' employees into those schemes;
- the funding positions relating to the Group's retirement benefit schemes; and
- the revised Group Data Privacy Policy and approving the policy for adoption across the Group.

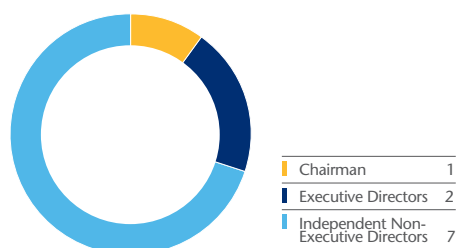
Strategy review highlights: Winning organisation

Workforce engagement: The Board approved a refreshed approach to Group workforce engagement, implemented from January 2019, to ensure the Group maintains channels delivering meaningful and regular dialogue with our workforce. Given the geographical spread, scale and diversity of our workforce, the Group uses a range of engagement mechanisms to enable this, supplemented by regular Board reporting and feedback to the workforce, discussed further on page 26. The Board will report on these arrangements and their effectiveness in the Company's Annual Report and Form 20-F 2019.

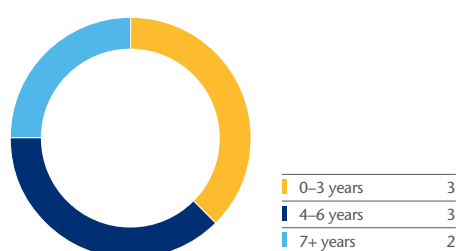
Developing talent as a competitive advantage: The Board completed a comprehensive review of the Group's talent and diversity strategy, and initiatives supporting its objectives, including the launch of Parents@BAT, guaranteeing minimum paid leave and flexible work benefits for every new parent employed across all markets.

Board effectiveness

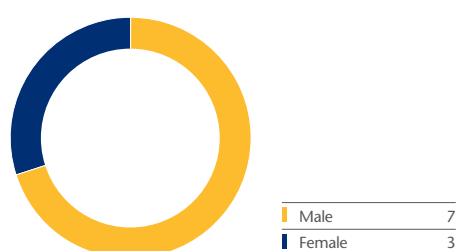
Balance of Non-Executive Directors and Executive Directors



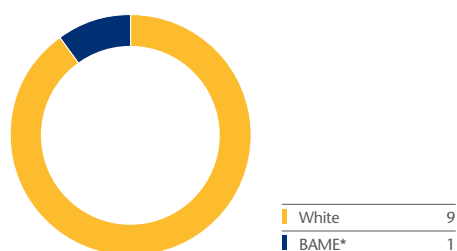
Length of tenure of Non-Executive Directors



Gender split of Directors

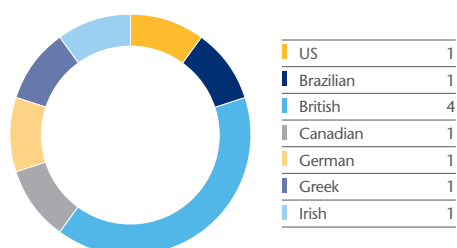


Ethnicity split of Directors



* applying the Parker Report guidance.

Nationality of Directors



Note: The information in the above charts is at 31 December 2018.

Balance and diversity

Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Short biographies of the Directors are set out in this section on pages 54 and 55.

The Hampton-Alexander Review set recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 Boards by 2020. From 1 April 2019, women will represent 30.0% of our Board and 14.3% of our Management Board.

The Board appreciates the benefits of diversity in all of its forms, within its own membership and at all levels across the Group. Our Strategic Report discusses our Group diversity initiatives and provides details of the representation of women in our total workforce and in our senior manager population on pages 24 to 26.

Board Diversity Policy

We believe that great talent and an engaging culture are key to our success, and diversity is a critical component of both.

'Strength from Diversity' is one of our Group's long-standing four Guiding Principles. This principle is reflected in our Group Employment Principles discussed further on pages 25 and 26, and is taken into consideration in determining the composition of our Board and Management Board.

We think of diversity in its widest sense, as those attributes that make each of us unique. These include our race, ethnicity, cultural background, geographical origin, gender, age, disability, sexual orientation, religion, skills, experience, education, professional background, perspectives and thinking styles.

The Nominations Committee is responsible for regularly reviewing the composition of the Board and Management Board to ensure both boards have an appropriate balance of skills, expertise and knowledge, and ensuring that all appointments are made on merit against objective criteria and with due regard for the benefits of diversity. These principles were rigorously applied by the Nominations Committee in identifying and recommending Jack Bowles for appointment to the Board.

Our Board Diversity Policy sets out the Board's commitment to the following objectives:

- considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board;

- considering a wide pool of candidates of both genders for appointment to the Board;
- maintaining at least 30% representation of women on our Board, with the ambition of progressing towards further gender balance;
- giving preference, where appropriate, to engagement of executive search firms that are accredited under the Standard and Enhanced Codes of Conduct for Executive Search Firms, which include gender diversity; and
- oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers, through the activities of the Nominations Committee.

Please refer to page 72 for details of progress in 2018 against these objectives.

Independence

The Board considers all Non-Executive Directors to be independent, as they are free from any business or other relationships that could interfere materially with, or appear to affect, their judgement.

In respect of Luc Jobin and Holly Keller Koeppel, who were originally appointed to the Board following the acquisition of RAI and pursuant to the Agreement and Plan of Merger with RAI, the Board determined each of them to be independent Directors, having taken into account their respective periods of service on the board of RAI as independent, non-executive directors.

The Board has also considered the independence requirements outlined in the NYSE's listing standards and has determined that these are met by the Chairman and all the Non-Executive Directors.

Conflicts of interest

The Board has formal procedures for managing conflicts of interest. Directors are required to give advance notice of any conflict issues to the Company Secretary. These are considered either at the next Board meeting or, if the timing requires it, at a meeting of the Board's Conflicts Committee. Each year, the Board also considers afresh all previously authorised situational conflicts. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest.

During 2018, the Board convened a Conflicts Committee at which the interests of Dr Marion Helmes were noted. There were two appointments considered, her appointment to the Board of Heineken N.V., where no reasonable likelihood of conflict was identified, and her appointment to the Board of Siemens Healthineers AG, where a situational conflict was authorised by the Conflicts Committee.

A further Conflicts Committee was convened to consider Lionel Nowell, III's appointment to the Board of Ecolab Inc. where a potential conflict was identified and authorised by the Conflicts Committee.

The Board, in accordance with the Company's procedures, confirmed the Conflicts Committee's decisions in these above matters.

Where a situational conflict was authorised, that Director is regarded as having an interest in any transaction or agreement between the Company and that entity, without the requirement to give further notice.

In December 2018, the Board noted that in respect of Dimitri Panayotopoulos' appointment as a member of the Advisory Board of JBS USA Food Company, whose parent company, JBS S.A. was previously a supplier to the Group, it was established that since September 2017 both JBS S.A. and JBS USA Food Company were no longer suppliers to the Group and that a situational conflict no longer exists.

The Board further noted that Richard Burrows will step down as Senior Independent Director and Non-Executive Director of Rentokil Initial PLC on 8 May 2019, when a situational conflict will no longer exist. Mr Burrows also stepped down from the Board of Craven House Capital PLC on 17 October 2018.

Information and professional development

Board induction

On joining the Board, all Directors receive a full induction tailored to their individual requirements.

Jack Bowles completed our Executive Director induction programme in preparation for his appointment to the Board on 1 January 2019. Mr Bowles' induction focused on the Company's corporate governance structures, Board processes, responsibilities as Chief Executive and Directors' duties more generally, shareholder and wider stakeholder engagement programmes and perspectives, and the UK and US regulatory frameworks applicable to listed issuers.

Training and professional development

Non-Executive Directors receive a full programme of briefings on an annual basis across all areas of the Company's business from the Executive Directors, members of the Management Board, the Company Secretary and other senior executives.

Non-Executive Directors regularly attend meetings of the Group's Regional Audit and Corporate and Social Responsibility Committees and Corporate Audit Committee to gain an enhanced understanding of the Group's regions and central functions and the risks faced by the business at market, regional and functional levels.

The Chairman meets with each Non-Executive Director individually towards the end of each year, to discuss their individual training and development plans.

Training and development highlights:

Group product portfolio

The Board gained extensive insight into the Group's product innovation pipeline and the science supporting it, presented by scientists, product developers and other R&D teams at our Global R&D Centre in Southampton.

UK Corporate Governance

The Board received a series of briefings on the UK Corporate Governance Code 2018 and new UK reporting regulations from the Company Secretary and the Company's external legal advisers and discussed the revised Code and the spirit in which it should be implemented. These activities informed Board decisions on the practical steps to be taken across the Group to align our corporate governance with the new requirements from 1 January 2019.

Non-Executive Director meetings

When required, the Non-Executive Directors, led by the Chairman, meet prior to or following Board meetings. Regular meetings led by the Chairman are scheduled in the Board calendar without the Executive Directors present.

The Executive and the Non-Executive Directors also meet annually, led by the Senior Independent Director and without the Chairman present, to discuss the Chairman's performance.

Board evaluation

Evaluation process

The performance and effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman were evaluated internally in 2018, facilitated by the Company Secretary, using a series of detailed questionnaires. An external evaluation was undertaken in 2016, facilitated by Independent Audit Limited.

The Chairman is responsible for the overall evaluation process and each Committee Chair is responsible for the evaluation of the performance and effectiveness of their Committee.

All Directors participated in the evaluation process, assessing the Board, the Committees of which they were a member or regularly attended in 2018, and each of the Directors individually. Directors were requested to rank the Board, their Committees and each other against several outcomes across a range of different areas and to provide commentary to support their assessments.

Anonymised reports specifying the findings of the evaluations were prepared by the Company Secretary for the Board and each Committee. The Board or respective Committee (as applicable) then reviewed and discussed their report and identified action areas for 2019 taking into account the evaluation findings.

The Chairman received reports from the Company Secretary on the performance and effectiveness of each of the Executive and Non-Executive Directors in 2018 and individual feedback was provided by the Chairman to each of the Directors. The Senior Independent Director received a report from the Company Secretary on the Chairman's performance and effectiveness in 2018 and led a discussion reviewing the Chairman's effectiveness with the other Directors (without the Chairman present). The Senior Independent Director then provided individual feedback to the Chairman.

Directors: information and advice

Information: Board and Committees	<ul style="list-style-type: none"> – Directors receive papers for review in good time ahead of each meeting; – the Company Secretary ensures effective information flow within and between the Board and its Committees, and between the Non-Executive Directors and senior management; and – the Company Secretary, in conjunction with external advisers where appropriate, advises the Board on all governance matters.
Advice	<ul style="list-style-type: none"> – all Directors have access to the advice and services of the Company Secretary; – a procedure is in place for all Directors to take independent professional advice at the Company's expense if required; and – each of the three principal Committees of the Board may obtain independent legal or other professional advice, at the Company's expense, and secure attendance at meetings of outsiders if needed.

Board effectiveness continued

Evaluation outcomes

The findings of the annual Board evaluation show that the Board and each of its Committees continues to function effectively. The Directors work very well together and they each contribute effectively to the Board and their designated Committees.

Key strengths of the Board include its broad range of expertise and diversity of skill sets, its strong understanding of the Group's business and the competitor landscape, and its scrutiny of business strategy and performance. Board members receive high-quality information enabling effective decision making and are well supported by the Company Secretary. The Board's oversight of the integration of the US business into the Group, its leadership of the evolution of the NGP category and its pro-active management of succession planning for the Chief Executive were highlighted as examples of the Board's effectiveness.

Frequent opportunities for the Board to engage with senior management and conduct 'deep dives' into key aspects of Group strategy continue to be highly valued by the Non-Executive Directors. Board feedback welcomed the extensive insights gained from meeting with scientists, product developers and other R&D teams at the Group's Global R&D Centre in Southampton and recognised the high quality of operational performance information provided to the Board. The Board identified that these strategic sessions should remain a focus in 2019 through R&D Centre and market visits.

The Board retains an effective balance of skills and experience, and diversity of gender, nationalities and backgrounds, to enable it to perform effectively. The Executive Directors remain highly regarded, including for their valuable expertise and the in-depth industry knowledge they bring to the Board. The Chairman continues to ensure that Board meetings are conducted effectively with sufficient time allocated, particularly for significant or emerging matters.

As part of the annual Board evaluation, the Board assessed progress against the areas of focus identified for 2018 reported in the Company's 2017 Annual Report and Form 20-F.

The Remuneration Committee has led a focused review of the Directors' Remuneration Policy over the year to develop a revised policy that remains aligned with shareholder interests. The Remuneration Committee Chairman continues to lead a programme of engagement with shareholders to understand their views on the Company's policy proposals in advance of the Company's 2019 AGM.

Sufficient time has been allocated to ongoing risk monitoring and oversight of compliance issues, supported by continued enhancement of the Group's global business conduct framework described further at pages 30 to 31.

The Nominations Committee has reviewed the size and composition of the Board and the membership of Board Committees in view of the retirements of Ann Godbehere, Dr Pedro Malan and Lionel Nowell, III. As part of this review, the Board accepted the recommendations of the Nominations Committee to appoint Holly Keller Koepfel as the Chairman of the Audit Committee, to appoint Luc Jobin to the Audit Committee and to appoint Dr Marion Helmes to the Remuneration Committee with effect from 14 January 2019 (Dr Helmes and Mr Jobin having stepped down from the Audit and Remuneration Committees, respectively from that date). Board succession planning will continue to be a priority for the Nominations Committee in 2019.

Other areas of focus for 2019, identified through the annual Board evaluation, include enhanced Board review of the Group's culture and its alignment with the Group's purpose, values and strategy, continued rigour in the oversight of the development of a diverse senior management succession pipeline and the allocation of additional time for the Nominations Committee to review and monitor the progress of the Group's diversity strategies.

Shareholder engagement

Dialogue with our shareholders

The Board is committed to open and transparent dialogue with shareholders. The Senior Independent Director and other Non-Executive Directors are available to meet with major shareholders on request. The AGM is an opportunity for further shareholder engagement and for the Chairman to explain the Company's progress and, with other members of the Board, to answer any questions.

All Directors attend the AGM, unless illness or pressing commitments prevent them. All Directors, except for Lionel Nowell, III, attended the AGM in 2018.

Details of our 2019 AGM are set out on page 321.

Update on 2018 AGM voting results

All resolutions were passed at the Company's AGM held on 25 April 2018 with the requisite majority of votes. However, in respect of three resolutions, the re-election of Dr Marion Helmes as Director, authority to allot shares and the Directors' Remuneration Report, we acknowledge that a significant minority of our shareholders did not support these resolutions.

Dr Marion Helmes has since stepped down from the Supervisory Board of Bilfinger SE with effect from 15 May 2018 and has also retired as a Non-Executive Director of NXP Semiconductors N.V. with effect from 22 June 2018. Following these retirements, and with her appointment to the Supervisory Board of Heineken N.V. from 19 April 2018, Dr Helmes' portfolio of listed company non-executive directorships (and equivalent) total five appointments (including her position at British American Tobacco). The Board continues to listen to the views of our shareholders and Directors are required to obtain Board approval prior to undertaking additional external appointments.

We comply with the Disclosure Guidance and Transparency Rules requirements for corporate governance statements by virtue of the information included in this section, together with the information contained in the Other Information section.

As a result of the listing of the Company's American Depositary Shares (ADSs) on the NYSE, the Company is required to meet certain NYSE requirements relating to corporate governance matters. Certain exceptions to these requirements apply to the Company as a foreign private issuer. For a discussion of the significant differences between the NYSE requirements and the Company's practices, please see page 293.

Compliance statement

Throughout the year ended 31 December 2018, we applied the Main Principles of the April 2016 version of the UK Corporate Governance Code as it applies to the year ended 31 December 2018. The Company was compliant with all provisions.

The Board considers that this Annual Report and Form 20-F, and notably this section, provides the information shareholders need to evaluate how we have complied with our current obligations under the Code. For ease of reference, we prepare a separate voluntary annual compliance report by reference to each provision of the Code, available at www.bat.com/governance.

From 1 January 2019, we have applied the Principles of the July 2018 version of the UK Corporate Governance Code and we will report on our application of those Principles in the Company's Annual Report and Form 20-F for 2019.

In respect of authority to allot shares, it is standard market practice for many FTSE listed companies to retain this type of authority and the authority sought by the Company at its 2018 AGM is in accordance with the Investment Association's share capital management guidelines. However, we are aware that some institutional investors, particularly in South Africa, have policies against supporting this type of resolution. We will continue to listen to the views of our shareholders in order to better understand the position of those for which this resolution presents concerns, and will keep best practice under review.

Please refer to page 108 for an update in respect of the resolution regarding the 2017 Directors' Remuneration Report.

Annual investor relations programme

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is undertaken each year by the Head of Investor Relations, usually accompanied by one or more of the Executive Directors. The Chairman also met with shareholders over the year and, following his appointment as CEO Designate, Jack Bowles has also attended shareholder meetings.

Every two years, combined investor meetings are held over two days with the Management Board in attendance. Our next investor event will be held in March 2019 in London.

In 2018, as part of the annual investor relations programme, meetings were held with institutional shareholders owning the majority of the Group's shares, primarily in the UK, US and South Africa. Over the past year, over 380 investor engagement activities were completed, mainly comprising face to face meetings, telephone conferences and group meetings. Regular investor presentations were also given and these together with the results presentations are published on www.bat.com. All results presentations are also available to shareholders by webcast.

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

During 2018, the Remuneration Committee Chairman led an extensive programme of shareholder engagement in relation to proposed revisions to the Directors' Remuneration Policy, supported by the Chairman, the Executive Directors and members of senior management. Engagement with shareholders on the revised policy has continued in the lead up to the Company's 2019 AGM. Please refer to the Remuneration Report for details of this engagement programme and the Company's regard for shareholder interests in developing the revised policy.

Board reporting on shareholder views

During 2018, the Head of Investor Relations regularly updated the Board on key issues raised by institutional shareholders and provided commentary on share price performance. Key issues raised by shareholders and considered by the Board during 2018 included the growth of PRRPs, the US market, FDA regulation and Group debt.

The Chairman and the Executive Directors regularly update the Board on their dialogue with shareholders. The Board discusses key issues raised and takes shareholder feedback into account in developing the Group's strategy.



For disclosures required by paragraph 7.2.6 of the Disclosure Guidance and Transparency Rules and the Companies Act 2006 see the Other Information section.

Audit Committee



Kieran Poynter
Chairman of the
Audit Committee
to 14 January 2019



Holly Keller Koepfel
Current Chairman of
the Audit Committee

Audit Committee current members

Holly Keller Koepfel (Chairman from 14 January 2019)

Luc Jobin (from 14 January 2019)

Kieran Poynter (Chairman to 14 January 2019)

Attendance at meetings in 2018

Name	Member since	Attended/Eligible to attend	
		Scheduled	Ad hoc
Holly Keller Koepfel ¹	2017	5/5	0/0
Dr Marion Helmes ^{3(d)}	2016–2019	5/5	0/0
Dr Pedro Malan ^{3(b)}	2016–2018	2/2	0/0
Lionel Nowell, III ^{2(b), 3(c)}	2017–2018	3/5	0/0
Kieran Poynter ¹	2012	5/5	0/0

Notes:

- Holly Keller Koepfel, Luc Jobin and Kieran Poynter each have recent and relevant financial experience. Holly Keller Koepfel, Luc Jobin and Kieran Poynter are each designated as an audit committee financial expert in accordance with applicable US federal securities laws and NYSE listing standards. The members of the Committee as a whole have competence relevant to the sectors in which the Group operates.
- Number of meetings in 2018: (a) the Committee held five meetings in 2018; and (b) Lionel Nowell, III did not attend the meetings held in April and July due to prior commitments.
- Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2016 Provision C.3.1., applicable US federal securities laws and NYSE listing standards; (b) Dr Pedro Malan ceased to be a member of the Committee upon his retirement as a Non-Executive Director on 25 April 2018; (c) Lionel Nowell, III ceased to be a member of the Committee upon his retirement as a Non-Executive Director on 12 December 2018; and (d) Dr Marion Helmes ceased to be a member of the Committee with effect from 14 January 2019.
- The Finance Director attends all meetings of the Committee but is not a member. Other Directors may attend by invitation. The Director of Legal & External Affairs, the Group Head of Internal Audit and the external auditors also attend meetings on a regular basis.
- The Committee meets alone with the external auditors and, separately, with the Group Head of Internal Audit at the end of every Committee meeting. The Committee also meets periodically with management.



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

Role

The Audit Committee monitors and reviews the:

- integrity of the Group's financial statements and any formal announcements relating to the Company's performance, considering any significant financial reporting issues, significant judgments and estimates reflected in them, before their submission to the Board;
- consistency of the Group's accounting policies;
- effectiveness of, and makes recommendations to the Board on, the Group's accounting, internal accounting and other financial controls, auditing matters and business risk management systems;
- effectiveness of the Company's internal audit function; and
- independence, performance, effectiveness and objectivity of the Company's external auditors, making recommendations as to their reappointment (or for a tender of audit services where appropriate), and approving their terms of engagement and the level of audit, audit-related and non-audit fees.

Audit Committee terms of reference

Revised Audit Committee terms of reference have been adopted by the Board to reflect revisions to internal governance and reporting processes to align with the requirements of the UK Corporate Governance Code 2018. The revised Audit Committee terms of reference incorporate:

- the Committee's role in supporting the Board to carry out a robust assessment of the Company's emerging risks;
- the Committee's role in supporting the Board to routinely review the Group's whistleblowing channels, the reports arising from their operation, and the arrangements in place for proportionate and independent investigation and follow up, as appropriate; and
- confirmation of the Committee's responsibility to conduct the tender process for appointment of external auditors from time to time, as considered necessary or as required by applicable regulations.

Key activities in 2018

Regular work programme – reviewing:

- the Group's 2017 results, 2018 half-year results, the application of accounting standards, and the external auditors' reports where results are audited;
- the Group's external auditors' year-end audit, including the key audit matters, materiality assessments and the Group's control environment, and confirming the independence of the Group's external auditors;
- the Basis of Preparation and Accounting Judgements;
- adjusting items, applicable accounting treatment and the use of alternative performance measures;
- the annual assessment of goodwill impairment;
- the accounting applicable to retirement benefits liabilities and assets;
- the Group's liquidity position, current facilities and financing needs through 2018;
- the steps taken to validate the Group's 'going concern' assessment at half-year and year-end and agreeing on the process and steps taken to determine the Group's viability statement at year-end;
- the internal processes followed for the preparation of the Annual Report and Form 20-F 2018 and confirming that the processes appropriately facilitated the preparation of an Annual Report and Form 20-F that is 'fair, balanced and understandable';
- the Group's Risk Register, including prioritisation and categorisation of, and mitigating factors in respect of, Group risks;
- regular reports from the Group Head of Internal Audit on internal audits of markets, processes and operations, management responses to internal audit findings and action plans put in place to address any issues raised;
- the 2019 internal audit plan and progress against the 2018 plan;
- the Group's sustainability performance, including the Group's youth smoking prevention activities and the Group's corporate social investment in the focus areas of empowerment, civic life and sustainable agriculture and environment initiatives in countries and communities in which the Group operates;
- periodic reports from the Group's Corporate Audit Committee and Regional Audit and Corporate Social Responsibility Committees;
- annual and interim reports on the Group's Business Conduct & Compliance programme, whistleblowing and compliance with the Group Standards of Business Conduct (SoBC);
- the annual report from the Group Head of Security on security risks, losses and fraud arising during the preceding year;
- half-year and year-end reports on political contributions; and
- the Committee's effectiveness in 2018, following the annual evaluation of the Committee discussed further at page 61.

Further specific matters considered by the Committee in relation to the financial statements:

- in relation to the offer to bond holders to exchange debt (previously issued under Rule 144A format) for SEC registered bonds discussed at page 40, the revision of the 2017 financial statements to reflect the Group's regional structures and retrospective implementation of IFRS 15 (Revenue from Contracts with Customers), as required by applicable US securities regulations;
- revisions to the Group's accounting policies to reflect the application of IFRS 9 (relating to financial instruments) with effect from 1 January 2018, the retrospective application of IFRS 15 (Revenue from Contracts with Customers) and management's impact assessment of the application of IFRS 9 and 15, discussed further at note 1 in the Notes on the Accounts; and
- methodology for the Group's application of IFRS 16 (Leases) with effect from 1 January 2019 and revisions to the Group's accounting policies to reflect the application of IFRS 16, discussed further at note 1 in the Notes on the Accounts.

Significant accounting judgements considered by the Committee in relation to the 2018 financial statements:

- **the Group's significant tax exposures:** the Committee reviewed periodic updates on corporate tax matters and considered reports from the Group Head of Tax on the current status of the Franked Income Investment Group Litigation Order (FII GLO) and the status of issues in various markets. These included significant tax disputes in Brazil, South Africa and the Netherlands. The Committee confirmed management's assessments and extended disclosures in respect of these tax exposures (see note 28 in the Notes on the Accounts);
- **contingent liabilities, provisions and deposits in connection with ongoing litigation:** the Committee confirmed that quarterly deposits made as security for costs in relation to the Quebec class-actions by the Group's subsidiary Imperial Tobacco Canada would continue to be treated as an asset to be recovered upon a successful appeal of the original judgment (see note 14 in the Notes on the Accounts) and approved the continued recognition of a contingent liability pending the final outcome of the class-actions (see note 28 in the Notes on the Accounts). The Committee reassessed the provision in respect of the Fox River clean-up costs and related legal expenses subsequent to a funding agreement in relation to the sharing of the costs. The Committee confirmed that the provision would be retained at the prior year level (see note 3 in the Notes on the Accounts), although inherent uncertainties remain (see note 28 in the Notes on the Accounts). The Committee reviewed the position in respect of the Kalamazoo River claim and agreed with management's assessment that no provision should be recognised on the basis set out at note 28 in the Notes on the Accounts;
- **foreign exchange:** as the Group has operations in certain territories with severe currency restrictions where foreign currency is not readily available, the Committee assessed management's approach to applicable accounting treatment and was satisfied that the methodologies used to determine relevant exchange rates for accounting purposes were appropriate;

Audit Committee continued

- **RAI group companies:** the Committee reviewed and approved the final purchase price allocation in relation to the acquisition in 2017 of the remaining shares in RAI not already owned and subsequently the 2018 assessment of the carrying value of the intangibles, including goodwill. The Committee also considered and concurred with management's approach to accounting for the Master Settlement Agreement, the *Engle* class-action and progeny cases and claims brought by RAI dissenting shareholders seeking determination of 'fair value' for their shares following acquisition of the remaining shares in RAI (see note 28 in the Notes on the Accounts); and
- **proposed FDA regulations:** the Committee considered the potential impact of the FDA's announcement proposing to regulate or prohibit menthol in cigarettes in the US and agreed with management's judgement that, in accordance with IFRS, this did not constitute an impairment trigger on the basis that (amongst other factors) any proposed regulation of menthol in cigarettes would need to be introduced through the established US comprehensive rule-making process, the timetable and outcome for which was uncertain, and it was unclear how any such potential US regulation might affect the manufacture and marketing of Group combustible brands containing menthol, indicating a lack of evidence that any impairment had occurred and that the amount of any potential impairment could not be reasonably estimated at this time. The Committee requested that management continue to monitor developments in relation to the FDA's proposals and required that potential impact be kept under review.

Other specific matters considered by the Committee:

- review of the Company's status as a Foreign Private Issuer for the purposes of US securities laws;
- revisions to the Audit Committee terms of reference to reflect internal governance changes implementing the UK Corporate Governance Code 2018;
- evaluation of the progress on the Group's 'Delivery with Integrity' compliance programme (discussed further on page 31) and monitoring SoBC incident reporting and the effectiveness of 'Speak Up' channels;
- review of the outcomes from assessments of key countries of concern to the Group from a human rights perspective, including local compliance with the Group's Supplier Code of Conduct and other applicable Group policies in those countries; and
- oversight of the assessment of UK Group company payment practices and the procedures established to ensure that applicable companies report on payment practices in compliance with UK regulations.

Risk topics considered by the Committee included:

- oversight of the programme established to ensure ongoing SOx compliance (discussed further at page 69);
- the status of Group subsidiary Imperial Tobacco Canada's appeal of the class-action judgment in Quebec Province (see note 28 in the Notes on the Accounts);
- revisions to the Group's risk appetite framework as it relates to the Group's strategic objectives and regular review of emerging risks to the Group prior to Board assessment;
- the report on the effectiveness of the Company's risk management system;
- risks associated with increased exposure to interest rate changes on net finance costs, arising from existing and future refinanced debt;
- Group anti-bribery and corruption controls, with emphasis on the controls established in markets assessed to be exposed to higher bribery and corruption risks;

- impact of the EU General Data Protection Regulation (GDPR), review of the Group-wide programme established to support GDPR compliance from 1 May 2018 and oversight of programme implementation;
- increased threat of cyber-attack to the Group's operations and the evolving nature of those threats, and the Group's implementation of enhanced administrative, technical and physical defence capabilities to protect its information systems and data through a cyber security roadmap integrated across the Group, including business continuity plans, security policies and procedures, network and systems monitoring, employee training and third-party risk assessments; and
- periodic reassessment of the risks faced by the Group as a consequence of the UK's decision to exit the EU (Brexit), including potential risks relating to increased costs of capital, transactional and translational foreign exchange rate exposures, supply chain continuity, taxation and changes in customs duty, and talent acquisition and retention.



For further information please refer to the Principal Group risks on pages 48 to 52 and the Group risk factors on pages 270 to 284.

Audit Committee effectiveness

An annual evaluation of the Committee's effectiveness was undertaken as part of the wider internal Board evaluation conducted in 2018. The evaluation found that the Board considered the Committee to operate effectively and that its working relationship with the Board continues to be sound. The process by which the Committee's effectiveness was evaluated is discussed at page 61.

External auditors

KPMG LLP (KPMG) were appointed as the Company's auditors with effect from 23 March 2015, following a formal tender process carried out in 2015. The Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness.

UK Competition and Markets Authority Audit Order

The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2018.

Group Auditor Independence Policy (AIP)

The Group has an established AIP, reflecting the requirements of applicable laws, to safeguard the independence and objectivity of the Group's external auditors and to specify the approval processes for the engagement of the Group's external auditors to provide audit, audit-related and other non-audit services.

The key principle of the AIP is that the Group's external auditors may only be engaged to provide services in cases where the provision of those services does not impair the independence and objectivity of the Group's external auditors. The Committee recognises that using the external auditors to provide services can be beneficial given their detailed knowledge of our business. However, the AIP does not permit the Committee to delegate its responsibilities to the external auditors and the external auditors are only permitted to provide audit, audit-related and non-audit services in accordance with the AIP.

The AIP does not permit the external auditors to maintain a financial, employment or business relationship with any Group company, or provide services to any Group company, which:

- creates a mutual or conflicting interest with any Group company;
- places the external auditors in the position of auditing their own work;
- results in the external auditors acting as a manager or employee of any Group company; or
- places the external auditor in the position of advocate for any Group company.

Audit services are approved in advance by the Committee on the basis of an annual engagement letter and the scope of audit services is agreed by the Committee with the external auditors.

Subject to the restrictions specified in the AIP, the external auditors may also provide certain non-audit services with the prior approval of the Committee. The requirement for the Committee's pre-approval of non-audit services may be waived only if the aggregate amount of all non-audit services provided is less than 5% of the total amount paid to the external auditors during the reporting year, where those services were not recognised to be non-audit services at the time of engagement, and provided those services are promptly brought to the attention of the Committee and their provision is approved prior to completion of the audit in the relevant reporting year.

The provision of permitted non-audit services must be put to tender if expected spend exceeds limits specified in the AIP, unless a waiver of this requirement is agreed by the Finance Director and notified to the Committee.

The AIP:

- requires Committee pre-approval for all audit, audit-related and other non-audit services, except in respect of non-audit services falling within the exceptions described above;
- prohibits the provision of certain types of services by the external auditors, including those with contingent fee arrangements, expert services unrelated to audit and other services prohibited by US securities laws and the Public Company Accounting Oversight Board;
- prohibits the Chief Executive, Finance Director, Group Financial Controller and Group Chief Accountant from having been employed by the external auditors in any capacity in connection with the Group audit for two years before initiation of an audit;
- specifies requirements in respect of audit partner rotation, including for both the lead and the concurring external audit partners to rotate off the Group audit engagement at least every five years, and not to recommence provision of audit or audit-related services to the Group for a further five years; and
- provides authority for the Committee to oversee any allegations of improper influence, coercion, manipulation or purposeful misleading in connection with any external audit, and to review any issues arising in the course of engagement with the external auditors.

External audit fees

The Committee reviews a schedule identifying the total fees for all audit and audit-related services, tax services and other non-audit services expected to be undertaken by the external auditors in the following year. Tax services and other non-audit services in excess of the tender thresholds referred to above must be itemised. Updated schedules are also submitted to the Committee at mid-year and year-end, so that it has full visibility of the Group spend on services provided by the Group's external auditors.

A breakdown of audit, audit-related, tax and other non-audit fees paid to KPMG firms and associates in 2018 is provided in note 3(c) in the Notes on the Accounts and is summarised as follows:

Services provided by KPMG firms and associates 2018

	2018 £m	2017 £m
Audit services	15.1	17.6
Audit of defined benefit schemes	0.4	–
Audit-related assurance services	9.4	8.0
Total audit and audit-related services	24.9	25.6
Other assurance services	0.3	4.1
Tax advisory services	–	–
Tax compliance	–	0.2
Other non-audit services	–	–
Total non-audit services	0.3	4.3

Notes: In 2018, non-audit fees paid to KPMG amounted to 1.2% of the audit and audit-related assurance fees paid to them (2017: 16.8%). All audit and non-audit services provided by the external auditors in 2018 were pre-approved by the Committee. The other assurance services of £4.1 million in 2017 includes costs in relation to the Group's acquisition of RAI and associated regulatory filings.

External auditor effectiveness

The Committee, on behalf of the Board, is responsible for the relationship with the external auditors. The Committee carries out an annual assessment of the Group's external auditors, covering qualification, expertise and resources, and objectivity and independence, as well as the effectiveness of the audit process. This assessment takes into account the Committee's interactions with, and observations of, the external auditors and gives regard to factors including:

- experience and expertise of the external auditors in their direct communication with, and support to, the Committee;
- their mindset and professional scepticism;
- their effectiveness in completing the agreed external audit plan;
- their approach to handling significant audit and accounting judgements;
- content, quality and robustness of the external auditors' reports; and
- their provision of non-audit services, as noted above.

The Committee's assessment is also informed by an external audit satisfaction survey completed by members of the Group's senior management. No material issues were identified during the external auditor assessment in 2018. The Committee is satisfied with the qualification, expertise and resources of its external auditors and that the objectivity and independence of its external auditors are not in any way impaired by the non-audit services which they provide. The Committee has recommended to the Board the proposed reappointment of KPMG at the 2019 AGM.

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

FRC Audit Quality Review

The UK Financial Reporting Council (FRC) Audit Quality Review (AQR) team selected the audit of the Group's financial statements for the year ended 31 December 2017 for review, as part of their annual inspection of audit firms. The AQR covered the audit work at Group level and the AQR report did not identify any significant areas for improvement. The Committee reviewed and discussed the scope of the AQR, the AQR report conclusions and the actions that will be taken in response to the AQR findings with the External Audit Engagement Partner.

Audit Committee continued

Competition & Markets Authority statutory audit market study

The UK Competition and Markets Authority (CMA) invited the Company to participate in its statutory audit market survey in 2018. The Committee Chairman led the Committee's response to the CMA's requests for information in connection with the study. The Committee Chairman also met with representatives from the CMA's study team to discuss the UK statutory audit market and the Company's approach to external audit tenders.

Risk management and internal control

Overview

The Company maintains its system of risk management and internal control with a view to safeguarding shareholders' investment and the Company's assets. It is designed to identify, evaluate and manage risks that may impede the Company's objectives. It cannot, and is not designed to, eliminate them entirely. The system therefore provides a reasonable, not absolute, assurance against material misstatement or loss. A description of the principal risks that may affect the Group's business is provided in our Strategic Report on pages 48 to 52.

The main features of the risk management processes and system of internal control operated within the Group are described below. These have been in place throughout the year under review and remain in place to date. These do not cover associates of the Group.

Board oversight

During the year, the Board considered the nature and extent of the principal risks that the Group is willing to take to achieve its strategic objectives (its 'risk appetite') and for maintaining sound risk management and internal control systems. It keeps its risk appetite under review to ensure that it is appropriate and consistent with internal policies and the Group's strategic objectives.

With the support of the Committee, the Board conducts a review of the effectiveness of the Group's risk management and internal control systems annually. This review covers all material controls including financial, operational and compliance controls and risk management systems.

Audit and CSR Committee framework

The Group's Regional Audit and CSR Committee framework underpins the Board's Audit Committee. It provides a flexible channel for the structured flow of information through the Group, with committees covering each of the Group's regions, and locally-listed Group entities and complex markets where considered appropriate in certain markets. The Regional Audit and CSR Committees are supported by Risk and Control Committees established at business unit level, and within certain Group functions where considered appropriate.

The Group's Regional Audit and CSR Committee framework structure was amended with effect from 1 May 2018 to reflect the Group's new international business model, and to establish a Regional Audit and CSR Committee for each of the three Group regions, in addition to the RAI Regional Audit and CSR Committee covering the Group's US business. The Committee approved revised terms of reference for the Regional Audit and CSR Committee to implement this new international structure. The Group's Regional Audit and CSR Committees are all chaired by a member of the Management Board and attended by one or more Non-Executive Directors.

The Corporate Audit Committee focuses on the Group's risks and control environment that fall outside the regional committees' remit, for example head office central functions, global programmes and projects. It comprises members of the Management Board, is chaired by a Regional Director and is also attended by one or more of the Non-Executive Directors.

External and internal auditors attend meetings of these committees and regularly have private audiences with members of the committees after meetings. Additionally, central, regional and individual market management, along with internal audit, support the Board in its role of ensuring a sound control environment.

This framework ensures that significant financial, social, environmental and reputational risks faced by the Group are appropriately managed and that any failings or weaknesses are identified so that remedial action may be taken.

Risk management

Risk registers, based on a standardised methodology, are used at Group, regional, area and individual market level to identify, assess and monitor the risks (both financial and non-financial) faced by the business at each level. Information on prevailing trends, for example whether a risk is considered to be increasing or decreasing over time, is provided in relation to each risk and all identified risks are assessed and prioritised at three levels by reference to their impact (high/medium/low) and likelihood (probable/possible/unlikely).

Mitigation plans are required to be in place to manage the risks identified and progress against those plans is monitored. The risk registers are reviewed on a regular basis. Regional and above-market risk registers are reviewed regularly by the relevant Regional Audit and CSR Committee or the Corporate Audit Committee, as appropriate.

At Group level, specific responsibility for managing each identified risk is allocated to a member of the Management Board. The Group Risk Register is reviewed regularly by a committee of senior managers, chaired by the Finance Director. In addition, it is reviewed annually by the Board and twice yearly by the Committee. The Board and the Committee review changes in the status of identified risks, assessing the changes in impact and likelihood. The Committee also conducts 'deep dives' into selected risks, meeting senior managers responsible for managing and mitigating them, so that it can consider those risks in detail.

The Board noted that the Group's principal risks remained significantly unaltered during 2018.



The Board also considered the Group Viability Statement see page 48 of the Strategic Report.*



For more information on risks see the Principal Group risks on pages 48 to 52 and the Group risk factors on pages 270 to 284.

Internal control

Group companies and other business units are annually required to complete a checklist, called Control Navigator, of the key controls that they are expected to have in place. Its purpose is to enable them to self-assess their internal control environment, assist them in identifying any controls that may need strengthening and support them in implementing and monitoring action plans to address control weaknesses. The Control Navigator checklist is reviewed annually to ensure that it remains relevant to the business and covers all applicable key controls. In addition, at each year-end, Group companies and other business units are required to:

- review their system of internal control, confirm whether it remains effective and report on any material weaknesses and the action being taken to address them; and
- review and confirm policies and procedures to promote compliance with the SoBC are fully embedded within the Group company or business unit and identify any material instances of non-compliance.

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

The results of these reviews are reported to the relevant Regional Audit and CSR Committees or to the Corporate Audit Committee, and to the Committee, to ensure that appropriate remedial action has been, or will be, taken where necessary. They are also considered by the SOx Steering Committee and the Disclosure Committee in determining management's opinion on ICFR.

Internal Audit function

The Group's Internal Audit function is responsible for carrying out risk-based audits of Group companies, other business units, and in relation to global processes. The internal audit function of RAI Companies was integrated into the Group's Internal Audit function and its ways of working with effect from 1 January 2018, reporting directly to the Group Head of Internal Audit.

There is a separate Business Controls Team which provides advice and guidance to the Group's businesses on best practices in risk management and controls systems.

The Group's Internal Audit function maintains a rolling 18-month audit plan, which is reviewed by the Committee on an annual basis. The internal audit plan is aligned to the Group's Risk Register and prioritises principal risk areas in relation to the Group's business. In 2018, internal audits covered various markets, Group manufacturing facilities, functional transformation programmes and specific processes, including readiness for compliance with the EU Tobacco Products Directive. The Committee considered internal audit findings and action plans established to address any issues identified.

The internal audit plan for 2019 reviewed by the Committee places increased focus on emerging risks for the Group, emphasising audits relating to THP and vapour processes, enterprise organisation programmes and global business services, whilst maintaining thorough coverage of core business activities, lines of defence and IT controls. The scope of each internal audit is assessed for SOx impact and audit of applicable SOx controls is included where relevant. Reviews of SOx controls and their effectiveness are primarily conducted by the Group's Business Controls Team and assurance is also undertaken by the Group's external auditors, as referred to below.

The Committee reviews the effectiveness of the Company's Internal Audit function on an annual basis. The Committee considers the Internal Audit function to be effective and to have the necessary resources to enable it to fulfil its mandate.

Financial reporting controls

The Group has in place a series of policies, practices and controls in relation to the financial reporting and consolidation process, which are designed to address key financial reporting risks, including risks arising from changes in the business or accounting standards and to provide assurance of the completeness and accuracy of the content of the Annual Report and Form 20-F.

A key area of focus is to assess whether the Annual Report and Form 20-F and financial statements are 'fair, balanced and understandable' in accordance with regulatory requirements, with particular regard to:

- Fair: Consistency of reporting between the financial statements and narrative reporting of Group performance and coverage of an overall picture of the Group's performance;
- Balanced: Consistency of narrative reporting of significant accounting judgements and key matters considered by the Committee with disclosures of material judgements and uncertainties noted in the financial statements; appropriate prominence and explanation of primary and adjusted measures; and
- Understandable: Clarity and structure of the Annual Report and Form 20-F and financial statements, appropriate emphasis of key messages, and use of succinct and focused narrative with strong linkage throughout the report, to provide shareholders with the information needed to assess the Group's business, performance, strategy and financial position.

The Group Manual of Accounting Policies and Procedures sets out the Group accounting policies, its treatment of transactions and its internal reporting requirements. The internal reporting of financial information to prepare the Group's half-yearly and year-end financial statements is signed off by the heads of finance responsible for the Group's markets and business units. The heads of finance responsible for the Group's markets and all senior managers must also confirm annually that all information relevant to the Group audit has been provided to the Directors and that reasonable steps have been taken to ensure full disclosure in response to requests for information from the external auditors.

The current and previous Committee Chairmen participated in the Annual Report and Form 20-F 2018 drafting and review processes, and engaged with the Finance Director and the Group Head of Internal Audit during the drafting process.

SOx compliance oversight

Following the registration of Company securities in 2017 under the US Securities Act of 1933, as amended (the Securities Act), the Company is subject to certain rules and regulations of US securities laws, including the US Securities Exchange Act 1934 and SOx. SOx places specific responsibility on the Chief Executive and the Finance Director to certify or disclose information applicable to the financial statements, disclosure controls and procedures (DCP) and the internal controls over financial reporting (ICFR). For 2018, this includes our Chief Executive and Finance Director giving attestation, required for the first time, in respect of ICFR effectiveness under §404 of SOx.

The Committee has oversight of processes established to ensure full and ongoing compliance with applicable US securities laws, including SOx. Two committees provided assurance during 2018 with regard to applicable SOx certifications. The Disclosure Committee reviews the Company's financial statements for appropriate disclosure and designs and maintains DCPs and reports to, and is subject to the oversight of, the Chief Executive and the Finance Director. A sub-committee of the Disclosure Committee, the SOx Steering Committee, provides assurance that ICFR have been designed, and are being implemented, evaluated and disclosed appropriately, in accordance with applicable requirements and subject to the oversight of the Chief Executive and Finance Director. The activities of this sub-committee are directly reported to the Disclosure Committee.

The outputs from the Disclosure Committee and SOx Steering Committee were presented to and reviewed by the Committee. No material weaknesses were identified and the Committee was satisfied that, where areas for improvement were identified, processes are in place to ensure that remedial action is taken and progress is monitored.

In 2018, the Committee also reviewed the scope of the external auditors' SOx procedures, and received reports on their progress with their independent assessment of ICFR across the Group and the Group's SOx implementation.

Audit Committee continued

Code of Ethics for the Chief Executive and Senior Financial Officers

In addition to the SoBC, which applies to all staff of the Group including senior management and the Board, the Company has adopted a Code of Ethics applicable to the Chief Executive, the Finance Director, and other senior financial officers, as required by US securities laws and NYSE listing standards.

The Code of Ethics includes requirements in relation to confidentiality, conflicts of interest and corporate opportunities, and obligations for those senior financial officers to act with honesty and integrity in the performance of their duties and to promote full, fair, accurate, timely and understandable disclosures in all reports and other documents submitted to the US Securities and Exchange Commission, the UK Financial Conduct Authority, and any other regulatory agency. No waivers or exceptions to the Code of Ethics were granted in 2018.

Annual review

The Financial Reporting Council's 'Guidance on Risk Management and Internal Control and Related Business Reporting' reflects the requirements of the UK Corporate Governance Code 2016 regarding the applicability of, and compliance with, that Code's provisions with regard to issues of risk and internal control management and related financial and business reporting.

The processes described above, and the reports that they give rise to, enable the Board and the Committee to monitor risk and internal control management on a continuing basis throughout the year and to review its effectiveness at the year-end. The Board, with advice from the Committee, has completed its annual review of the effectiveness of that system for 2018.

The Board is satisfied that the system of risk and internal control management accords with the UK Corporate Governance Code 2016 and satisfies the requirements for internal controls over financial reporting.

Group Standards of Business Conduct

The Committee is responsible for monitoring compliance with the SoBC, which underpins the Group's commitment to good corporate behaviour. The SoBC requires all staff to act with a high degree of business integrity, comply with applicable laws and regulations, and ensure that standards are never compromised for the sake of results. Every Group company and all staff worldwide, including senior management and the Board, are expected to adhere to the SoBC. The SoBC and the Group's 'Delivery with Integrity' programme is discussed further on pages 30 to 31.

All Group companies have adopted the SoBC or local equivalent. Information on compliance with the SoBC is gathered at a regional and global level and SoBC incidents reports, and details of the channels through which incidents are reported, are provided on a regular basis to the Regional Audit and CSR Committees, Corporate Audit Committee, and to the Committee. A breakdown of incidents reported under the SoBC across the Group in 2018 is set out at page 31.

The SoBC and information on the total number of incidents reported under it in 2018 (including established breaches) is available at www.bat.com/sobc

Whistleblowing

The Group maintains whistleblowing channels which enable concerns regarding SoBC compliance matters, including concerns about possible improprieties in financial reporting, to be raised in confidence (and anonymously should an individual wish) without fear of reprisal.

The SoBC includes the Group's whistleblowing policy, which is supplemented by local procedures throughout the Group that provide staff with further guidance on reporting matters and raising concerns, and the channels through which they can do so. The Committee is satisfied that the Group's whistleblowing policy and procedures enable proportionate and independent investigation of matters raised, and ensure that appropriate follow-up action is taken.



Further information about the Group's whistleblowing channels and whistleblowing reports in 2018 is provided at page 31.

Political contributions

The Group does not make contributions to European Union (EU) political organisations or incur EU political expenditure. The total amount of political contributions made to non-EU political parties in 2018 was £3,718,540 (2017: £4,832,321) as follows:

RAI Companies reported political contributions totalling £3,718,540 (US\$4,965,850) for the full year 2018 to US political organisations, non-federal-level political party committees and to campaign committees of various non-federal candidates, in accordance with their contributions programme. No corporate contributions were made to federal candidates or political party committees and all contributions were made in accordance with applicable laws.

All political contributions made by RAI Companies are assessed and approved in accordance with RAI's policies and procedures to ensure appropriate oversight and compliance with applicable laws.

In accordance with the US Federal Election Campaign Act, RAI Companies continue to support an employee-operated Political Action Committee (PAC), a non-partisan committee registered with the US Federal Election Commission that facilitates voluntary political donations by eligible employees of RAI Companies. According to US federal finance laws, the PAC is a separate segregated fund and is controlled by a governing board of individual employee-members of the PAC. In 2018, RAI Companies incurred expenses, as authorised by US law, in providing administrative support to the PAC.

No other political contributions were reported.

Nominations Committee



Richard Burrows
Chairman of
the Nominations
Committee

Nominations Committee current members

Richard Burrows (Chairman)	Holly Keller Koeppel
Sue Farr	Savio Kwan
Dr Marion Helmes	Dimitri Panayotopoulos
Luc Jobin	Kieran Poynter

Attendance at meetings in 2018

Name	Member since	Attended/Eligible to attend	
		Scheduled	Ad hoc
Richard Burrows	2009	2/2	5/5
Sue Farr ^(b)	2015	2/2	3/5
Ann Godbehere ^(b)	2011–2018	1/1	1/1
Dr Marion Helmes	2016	2/2	5/5
Luc Jobin ^(c)	2017	2/2	4/5
Holly Keller Koeppel	2017	2/2	5/5
Savio Kwan	2014	2/2	5/5
Dr Pedro Malan ^(b)	2015–2018	1/1	1/1
Lionel Nowell, III ^{(d), 2(c)}	2017–2018	1/2	4/5
Dimitri Panayotopoulos	2015	2/2	5/5
Kieran Poynter ^(e)	2010	2/2	4/5

Notes:

- Number of meetings in 2018: (a) the Committee held seven meetings, five of which were ad hoc and convened at short notice; (b) Sue Farr did not attend the ad hoc meetings in October and November due to prior commitments; (c) Luc Jobin did not attend the ad hoc meeting in November due to prior commitments; (d) Lionel Nowell, III did not attend the meeting in July, and the ad hoc meeting in April, due to prior commitments; and (e) Kieran Poynter did not attend the ad hoc meeting in October due to prior commitments.
- Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with UK Corporate Governance Code 2016 Provision B.2.1., applicable US federal securities laws and NYSE listing standards; (b) Ann Godbehere and Dr Pedro Malan ceased to be members of the Committee upon their retirement as Non-Executive Directors on 25 April 2018; and (c) Lionel Nowell, III ceased to be a member of the Committee upon his retirement as a Non-Executive Director on 12 December 2018.
- Other attendees: the Chief Executive, Chief Executive Designate, Group Human Resources Director, Talent and Culture Director Designate and Group Head of Talent & Organisation Effectiveness regularly attend meetings by invitation but are not members.



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

Role

The Nominations Committee is responsible for:

- reviewing the structure, size and composition of the Board and Management Board on a regular basis to ensure both have an appropriate balance of skills, expertise, knowledge and (for the Board) independence;
- reviewing the succession plans for appointments to the Board, the Management Board and as Company Secretary, to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of both the Board and the Management Board;
- making recommendations to the Board on suitable candidates for appointments to the Board, the Management Board and as Company Secretary, and ensuring that the procedure for those appointments is rigorous, transparent, objective and merit-based, and has regard for diversity;
- assessing the time needed to fulfil the roles of Chairman, Senior Independent Director and Non-Executive Director, and ensuring Non-Executive Directors have sufficient time to fulfil their duties; and
- implementing the Board Diversity Policy and monitoring progress towards the achievement of its objectives, highlighted on page 72.

Nominations Committee terms of reference

Revised Nominations Committee terms of reference have been adopted by the Board to reflect revisions to internal governance and reporting processes to align with the requirements of the UK Corporate Governance Code 2018.

The revised Nominations Committee terms of reference incorporate the Committee's role in overseeing the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.

Key activities in 2018:

- Leading an extensive selection process to identify a successor to the Chief Executive and recommending to the Board the appointment of Jack Bowles as Chief Executive Designate with effect from 1 November 2018, discussed further on page 72.
- Making recommendations to the Board in respect of Committee appointments, specifically to appoint Holly Keller Koeppel as the Chairman of the Audit Committee, Luc Jobin to the Audit Committee and Dr Marion Helmes to the Remuneration Committee with effect from 14 January 2019 (Dr Helmes and Mr Jobin having stepped down from the Audit Committee and Remuneration Committee respectively from that date).
- Making recommendations to the Board in relation to Directors' annual appointment and re-election at the AGM, discussed further on page 72.
- Reviewing the Executive Directors' and Management Board members' annual performance assessments.
- Considering organisational changes to accelerate execution of Group strategy, and recommending that the Board make the Management Board appointments set out at page 57.
- Succession planning for the Board and for the Management Board, having regard to the Board Diversity Policy.
- Reviewing the Group talent strategy, talent development priorities and the programmes underpinning the Group's commitment to investment in engaging, developing and retaining talent.
- Reviewing the Group's Diversity & Inclusion strategy, specific diversity initiatives to further develop a diverse and gender-balanced work place, and progress made in the development of a diverse senior management succession pipeline.

Nominations Committee continued

- Assessing the progress of bespoke development plans for candidates for Executive Director and Management Board roles.
- Reviewing an update on outcomes of the global 'Your Voice' survey of employee opinion conducted across the Group in 2017.
- Assessing the Committee's effectiveness in 2018, following the annual evaluation of the Committee discussed further at pages 61 and 62.

Board appointments

The Committee is responsible for identifying candidates for Board positions, taking into account the Board Diversity Policy. This includes a full evaluation of candidates' attributes to ensure the Board maintains an appropriate balance of skills, expertise and knowledge and generally involves interviews with several candidates, supported by independent, specialist external search firms to identify and shortlist appropriate candidates.

Leading the rigorous selection process to identify the successor to the Chief Executive was a key priority for the Committee during 2018. As part of the selection process, all Committee members participated in a series of interviews with internal and external shortlisted candidates, assessed the outcomes of candidates' competency testing, and gave thorough consideration to the skills, experience and diversity of attributes of each potential candidate and their respective abilities to deliver the Group's strategic objectives and fulfil its leadership requirements. This selection process was supported by Heidrick & Struggles, an independent executive search firm accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms. Following this selection process, the Board approved the Committee's recommendation to appoint Jack Bowles as Chief Executive Designate with effect from 1 November 2018, then as an Executive Director with effect from 1 January 2019 and as Chief Executive from 1 April 2019.

Details of the selection process informing the Committee's recommendation to appoint Tadeu Marroco as Deputy Finance Director with effect from 1 March 2019, and then to join the Board and succeed Ben Stevens as Finance Director with effect from 5 August 2019, will be reported in the Company's Annual Report and Form 20-F for 2019.

Terms of appointment to the Board

Details of the Directors' terms of appointment to the Board and the Company's policy on payments for loss of office are contained in the Directors' Remuneration Policy, which is set out in full in the Remuneration Report 2015, contained in the Annual Report for the year ended 2015 available at www.bat.com. The terms of appointment and the Company's policy on payments for loss of office are retained without alteration in the proposed new Directors' Remuneration Policy at pages 86 and 87.

The Executive Directors have rolling contracts of one year. The Non-Executive Directors do not have service contracts with the Company but instead have letters of appointment for one year. Their expected time commitment is 25–30 days per year.

Board retirements

Nicandro Durante will retire from the Board with effect from 1 April 2019, on his retirement as Chief Executive. Ann Godbehere and Dr Pedro Malan retired as Non-Executive Directors of the Company with effect from the conclusion of the Annual General Meeting on 25 April 2018. Lionel Nowell, III retired as a Non-Executive Director of the Company with effect from 12 December 2018.

Board succession planning

The Board considers the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time. Board succession planning remains a priority for the Committee in 2019.

The Chairman will have served as a Director for just over nine years at the time of the 2019 AGM. The Committee has given careful consideration to Director transitions to ensure orderly Board succession and has prioritised effective succession planning for the Chief Executive and the Finance Director which takes effect during 2019. In the forthcoming year, the Committee will be focused on succession planning for the Chairman and will have close regard to the requirements of the new Corporate Governance Code.

Annual General Meeting 2019

The Company will be submitting all eligible Directors for re-election and, in the case of Jack Bowles, election for the first time. Prior to making recommendations to the Board in respect of Directors' submissions for election or re-election (as applicable), the Committee carried out an assessment of each Director, including their performance, contribution to the long-term success of the Company and, in respect of each of the Non-Executive Directors, their continued independence.

In respect of the reappointment of Kieran Poynter, who will have served as a Non-Executive Director for just over eight years at the time of the 2019 AGM, the Committee conducted a particularly rigorous review, taking into account his performance (including as Senior Independent Director and, until 14 January 2019, Chairman of the Audit Committee), his involvement in matters relevant to his role outside of formal Committee meetings and his attendance record. The Committee concluded that Mr Poynter continues to make effective use of his extensive experience in the fields of accounting and risk management, challenges management constructively and maintains independence of thought and approach. Accordingly, the Committee considered it appropriate to recommend to the Board that Mr Poynter be submitted for re-election at the 2019 AGM.

The Chairman's letter accompanying the AGM Notice confirms that all Non-Executive Directors being proposed for election or re-election (as applicable) are effective and that they continue to demonstrate commitment to their roles as Non-Executive Directors.

Board Diversity Policy progress update

Board objective	Progress in 2018
Considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board.	– The Nominations Committee has regard to diversity in its broadest sense, including gender, social and ethnic background, and cognitive and personal strengths, when undertaking these activities.
Considering a wider pool of candidates of both genders for appointment to the Board.	– Executive search firms are engaged to support Board and Management Board succession planning where applicable and are required to provide gender-balanced shortlists of candidates. Succession planning for Executive Directors and Management Board members takes into account potential internal candidates from across the Group and potential external candidates.
Maintaining at least 30% female Board representation, with the ambition of progressing towards further gender balance.	– The representation of women on the Board will be 30% as at 1 April 2019 (30% as at 31 December 2018).
Giving preference, where appropriate, to engagement of executive search firms accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms, including on gender diversity.	– Only executive search firms accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms were engaged to provide executive search services to support Board and Management Board succession planning in 2018.
Oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.	– The representation of women on the Management Board will be 14.3% as at 1 April 2019 (nil as at 31 December 2018), indicating the success of our Diversity & Inclusion strategy in delivering steady but significant progress. Please refer to page 25 for information about our Diversity & Inclusion strategy.

Annual Statement on Remuneration



Dimitri Panayotopoulos
Chairman of the Remuneration Committee

Introduction & Board	Audit Committee	Nominations Committee	Remuneration Committee	Responsibility of Directors
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The following Annual Report on Remuneration has been prepared in accordance with the relevant provisions of the Companies Act 2006 and as prescribed in The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the UK Directors' Remuneration Report Regulations). Where required and for the purpose of the audit conducted in accordance with International Standards on Auditing (ISA) data has been audited by KPMG and this is indicated appropriately.

Dear Shareholder

Remuneration and strategy

We have completed the review of our Directors' Remuneration Policy during 2018, taking into consideration investor and advisory body feedback arising from the 2018 AGM, recent changes in the UK corporate governance environment and an assessment of our competitive position in the marketplace. The Committee acknowledges the feedback provided by shareholders through the vote on the Directors' Remuneration Report in 2018, which has been uppermost in our minds as we have conducted the review process.

Our focus has been to ensure that we have an effective Remuneration Policy which: (1) enables the Group to attract and retain top quality talent in the global marketplace; (2) rewards sustainable long-term performance in an appropriate and competitive manner; (3) forges closer long-term links between the Group's senior management and its shareholders; and (4) incorporates best practice policy features while maintaining policy elements which have been well supported and remain appropriate for the Group.

Our recent experiences of working closely with our shareholders to successfully streamline, simplify and reshape our Remuneration Policy reflect these objectives and it is my role to ensure that this focus is maintained.

Shareholder engagement

The latter part of 2018 and early 2019 have been devoted to a programme of engagement with shareholders on the outcomes for 2018 and the remuneration proposals contained in the new Remuneration Policy. I would personally like to thank all those shareholders who worked with us and have helped us achieve an ongoing and transparent dialogue concerning executive remuneration.

New remuneration policy

The Committee has undertaken a focused review of the Remuneration Policy, building on the extensive work undertaken prior to 2016 that created the current policy which is strongly aligned with shareholder interests and remains fit for purpose in all its major aspects.

I believe that the proposed changes will further sharpen alignment with shareholder interests and simplify the policy while ensuring that executive compensation continues to be competitive. Key changes are as follows:

Pension: Pension contribution rates for new Executive Directors under the defined contribution plan will be reduced from 35% to 15% of annual base salary. Changes will align contributions with those available to our wider UK population and deliver a coherent pension policy throughout the organisation.

Short-Term Incentive Scheme (STI): The individual performance multiplier has been removed from the annual bonus, refocusing the STI on strategic metrics and corporate performance solely, while retaining the ability to reduce bonus in cases of poor individual performance.

Short-Term Incentive Scheme (STI): Post-cessation payments to 'good leavers' will no longer be paid 'on target' on a pro rata basis at leave date and instead will operate on a 'wait and see' basis, being paid pro rata, by reference to full-year results and paid at the normal time in March of the following year.

Long-Term Incentive Plan (LTIP): While there are no current changes in award quantum for the Executive Directors, the policy will move to a singular scheme maximum. Moving to a singular scheme maximum is considered an appropriate policy adjustment; it will mean an appropriate level of differentiation in award quantum is maintained between the CEO and other Executive Directors whilst providing flexibility to the Committee over the lifetime of the policy.

Long-Term Incentive Plan (LTIP): In addition, Altria will be included in the TSR comparator group for awards made from 2019. This expansion of the TSR comparator group is believed to be appropriate following the acquisition of RAI and the Group's presence in the US market.

Dividend equivalent payments: Dividend equivalent payments under the Deferred Share Bonus Scheme (DSBS) and the LTIP will be settled in shares, rather than cash.

Post-employment shareholding: In accordance with the UK Corporate Governance Code 2018, we have developed a policy setting out post-employment shareholding requirements for Executive Directors. This policy introduces a requirement for former Executive Directors to hold shares equivalent to 100% of current shareholding requirements for two full years following the date of their departure.

These changes to policy have been introduced to further ensure long-term alignment between the interests of the Executive Directors and those of shareholders, and to support Executive Directors in building a high level of personal shareholding in the Company.

Annual Statement on Remuneration continued

Disclosure of STI targets

A number of shareholders have requested publication of targets relating to the STI earlier than has previously been made. Since the revised reporting requirements came into effect, publication of the STI targets has been deferred for one year on the basis of the commercially sensitive nature of those targets. Notwithstanding that the Remuneration Committee continues to consider that STI targets remain commercially sensitive, the Remuneration Committee has, on balance, decided that publication of STI targets will in future be published in the remuneration report following the end of the relevant performance year. Consequently, this year's remuneration report sets out the targets relating to both the 2017 and 2018 performance years.

Outcomes 2018

Our incentive arrangements are closely aligned to our strategy and performance metrics align with the key performance indicators stated in the Strategic Report.

The Group has delivered an outstanding operational performance in 2018, building on the long-term strategic growth agenda and exceeding the expectations established by the Committee, which had been revised upwards beyond the original targets which were established in early 2018.

This is evidenced by the Group's performance in 2018 across key business metrics, excluding the impact of translational foreign exchange and on a representative basis, which normalises the Group's results for acquisitions in prior periods.

In 2018, the Group has exceeded performance expectations, growing market share together with an increase in adjusted revenue and adjusted profit from operations (at constant rates of exchange) in all regions. In addition, the Group delivered a strong set of results with growth in adjusted, diluted, constant currency EPS and a strong operating cash conversion rate. RAI Companies' results are now wholly reflected within the 2018 short-term incentive scheme and within the 2018 performance year attaching to the 2016, 2017 and 2018 LTIP awards.

These results are reflected positively in the outcomes for the Group's STI, the International Executive Incentive Scheme (IEIS), for which the corporate result across the four measures (Adjusted profit from operations, the Group's share of key markets, Adjusted revenue growth from the strategic portfolio and Cash generated from operations) was 100%.

The 2016 LTIP award with metrics representing Adjusted diluted EPS, relative TSR, Adjusted revenue growth and the Operating cash flow conversion ratio will vest in March 2019 at 70.5%. The vesting result is an accurate reflection of the sustained and strong underlying performance of the Company in challenging market conditions, but also reflects, through the relative TSR measure, the movement in the Group's share price during the performance period. Consequently, the absolute value attached to the awards at the close of three year performance period is circa 50% lower than the value of the 2016 awards at grant.

Following determination of the formulaic outcome for both the 2018 STI and the 2016 LTIP performance conditions, the Remuneration Committee considered the vesting levels against the underlying performance of the Group, and whether the decrease in the Group's share price performance should be reflected in the STI and LTIP outcomes for Directors. The Remuneration Committee considered that a further adjustment to the STI and LTIP outcomes was not appropriate, in recognition of:

- the strong underlying performance of the Group which should form a solid basis for future growth and share price performance;
- the structure of the LTIP is already designed to ensure that the value delivered to Directors is affected by share price movements, through fixing the maximum number of shares at the time of grant;
- share price movements are also reflected in three tranches of deferred bonus held by each of the Directors; and
- the significant personal shareholdings of the Directors in the Group, which have experienced a material decline in value.

The Remuneration Committee considered salary increases for Executive Directors in the context of the level of pay increases for UK employees. These ranged between 0% and 5% based on performance in the prior year and the position of an individual's pay relative to the market, with an average increase of 2%.

With consideration of the changes in the composition of the Main Board, the Remuneration Committee decided that with effect from 1 April 2019 the Chief Executive's salary will remain as per the terms of appointment at £1,175,000 and the Finance Director's salary will remain unchanged at £924,000.

2019 LTIP awards

The Committee acknowledges the recent decline in the Group's share price and the attendant concern as to new awards being out of proportion with previous awards made. Accordingly, the Committee has decided to apply a downward adjustment to the 2019 LTIP award. The 2019 award will be made on the basis of the Group's closing share price on 25 February 2019, increased by 15%, with a resulting share price of £33.28. In the event that the Group's share price increases beyond this level at the award date in March 2019, the higher share price shall be used as the basis of the award.

Executive Director changes

As discussed elsewhere in the Annual Report, Nicandro Durante will be stepping down as CEO with effect from 1 April 2019 and will be succeeded by Jack Bowles. Mr Durante's leaving arrangements will be in line with our shareholder approved Remuneration Policy and as such will include no additional elements outside of our normal approach to executives who are departing by reason of retirement.

The Committee gave careful and detailed consideration to Mr Bowles' remuneration package for 2019, taking into account all relevant factors. This included a thorough review of the external marketplace, consideration of Mr Bowles' experience within the industry and his accumulated experience as part of the Management Board and most recently as COO together with due consideration to changes within the UK Corporate Governance environment and the views expressed by shareholders during previous engagements on policy.

Upon appointment Mr Bowles will receive an annual salary of £1,175,000 which will next be reviewed in April 2020. This compares to the current salary for the CEO of £1,310,000. In addition, the pension contribution rate for Mr Bowles will be revised downward to 15% of salary which will then be aligned with our wider UK population. When considering the changes in aggregate, the result is a 21% decrease in fixed pay for the CEO and a 15% decrease in total remuneration.

As set out elsewhere in this Annual Report, Ben Stevens will step down from his role as Finance Director and from the Main Board with effect from 5 August 2019. He will retire from the Group with effect from 30 September 2019. The terms and conditions of Mr Stevens' retirement are in accordance with our current shareholder approved Remuneration Policy and as such will include no additional elements outside our normal approach to executives who are leaving by reason of retirement. As also set out in this Annual Report, Mr Stevens will be succeeded by Tadeu Marroco, currently Director, Group Transformation. The Remuneration Committee, at its February 2019 meeting, has discussed and approved the terms of appointment for Mr Marroco.

Pay and transparency

The Remuneration Committee is very aware of the continued debate on executive remuneration and corporate governance, the emphasis on long-term alignment with shareholder interests and the importance of considering executive compensation in the broader context of the Group's employees. With the introduction of the UK Corporate Governance Code 2018 from 1 January 2019, we have ensured that, during the Remuneration Policy review process, we have applied where appropriate the principles of the new Code to the design and structure of our remuneration arrangements.

We have taken the opportunity to review our Remuneration Policy and have restructured and shortened it where possible to simplify and streamline content, which we hope readers will find helpful.

New UK reporting regulations have introduced the requirement to disclose our CEO to employee pay ratio for financial years from 1 January 2019. The Committee will be reviewing the relevant data during 2019 in readiness to report on the ratios, following calculation method A which we believe to be the most robust and comprehensive means of assessment, as part of the Directors' Remuneration Report to be published in early 2020.

In March 2019 we will be publishing data relating to UK Gender Pay in line with statutory requirements. Upon reviewing the data prior to publication, the Committee noted that while men and women are rewarded equally for similar roles, the Group does have a 'gender pay gap' as defined by the UK legislation. While the Group continues to make excellent progress with senior female representation, including two recent female appointments to the Management Board, the pay gap is largely a reflection of having more men than women in senior roles and the Group has a comprehensive set of diversity initiatives in place to drive progress on this issue.

Our focus in 2019

On behalf of the Remuneration Committee, I acknowledge the scope of the tasks for the year ahead as we turn our attention to the implementation of our new policy and continue our work in relation to delivering on the pay and transparency agenda.

Dimitri Panayotopoulos

Chairman, Remuneration Committee

27 February 2019

Annual Statement on Remuneration continued

Policy Report

Introduction

This policy section of the Remuneration Report (the Policy Report) sets out a proposed new Remuneration Policy for the Executive Directors and the Non-Executive Directors.

This new Remuneration Policy, which is intended to replace the current remuneration policy approved by shareholders at the 2016 AGM, is subject to a binding vote by shareholders at the AGM on 25 April 2019 and, if approved, will come into effect from 26 April 2019. The new Remuneration Policy is set out in full on the following pages with changes from the current remuneration policy identified for reference.

Principles of remuneration

The Committee's remuneration principles are to:

- reward, as an overriding objective, the delivery of the Group's long-term strategy in a manner which is simple, straightforward and understandable and which is aligned with shareholders' interests;
- structure a remuneration package that is appropriately positioned relative to the market and comprises core fixed elements and performance-based variable elements;
- design the fixed elements of pay (comprising base salary, pension and other benefits) to recognise the skills and experience of our Executive Directors and to ensure current and future market competitiveness in attracting talent;
- design the variable elements of pay (provided via two performance-based incentive schemes: a short-term incentive scheme delivered through a combination of a cash element and a deferral element, and a long-term incentive scheme), to be both transparent and stretching and to support, motivate and reward the successful delivery of the Group's long-term strategy and growth for shareholders on a sustainable basis;
- ensure that reputational, behavioural and other risks that can arise from target-based incentive plans are identified and mitigated;
- maintain an appropriate balance between fixed pay and the opportunity to earn performance-related remuneration with immediate and deferred elements: the performance-based elements form, at maximum opportunity, between 80% and 90% of the Executive Directors' total remuneration packages;
- ensure, through its annual review, that the Remuneration Policy is both rigorously applied and remains aligned with the Company's purpose, values and strategy and the need to promote the long-term success of the Company; and
- ensure that remuneration arrangements are transparent and promote effective engagement with shareholders and the workforce.

Summary of key changes

The background and explanation of the proposed key changes from the current remuneration policy are given in the Annual Statement from the Chairman of the Remuneration Committee starting on page 73 of this Remuneration Report. Those key changes have been further explained in relevant sections of the Policy Report as summarised below:

Policy Element	Change in Policy	Page Number
Pensions	The rate of pension provision under the defined contribution arrangements has been reduced from 35% of base salary to 15% of base salary, to ensure alignment with the defined contribution arrangements in place for UK employees.	78
Short-Term Incentive Scheme (STI), annual bonus opportunity	The previous individual performance multiplier, allowing a +20% adjustment to the outcome based on the corporate result, has been removed with effect from the 2019 performance year.	79
Short-Term Incentive Scheme (STI), good leaver provisions	Post-cessation payments to 'good leavers' will no longer be paid pro rata and 'on target' at leave date and instead will operate on a 'wait and see' basis, being paid pro rata, by reference to full year results and paid at the normal time in March of the following year.	86
Long-Term Incentive Plan (LTIP), award quantum	The limit on the levels of award to Executive Directors other than the Chief Executive, which has featured in previous remuneration policies, has been removed. It is not intended that this will lead to a change in the maximum opportunity for the current Finance Director, but is believed to be appropriate to give flexibility over the life of the Remuneration Policy, while maintaining an appropriate level of differentiation between the Chief Executive and other Executive Directors.	81
Long-Term Incentive Plan (LTIP), performance measures	The TSR comparator group is expanded to include the Altria Group for awards made from 2019.	80
Dividend equivalent payments	For awards made from 2019, dividend equivalent payments under the Deferred Share Bonus Scheme (DSBS) and the LTIP will be settled in shares, rather than cash.	79, 80
Shareholding requirements	Post-employment shareholding requirements have been introduced for former Executive Directors to hold shares equivalent to 100% of current shareholding requirements for two full years following the date of their departure.	81

Future Policy Table – Executive Directors

Base salary																																				
How the element supports the Company's strategic objectives		To attract and retain high calibre individuals to deliver the Group's long-term strategy and to offer market-competitive levels of guaranteed cash to reflect an individual's skills, experience and role within the Company.																																		
Operation of the element 2019 Policy: no change in policy		<p>Base salary is normally paid in 12 equal monthly instalments during the year. Salaries are normally reviewed annually in February (with salary changes effective from April) or subject to an ad hoc review on a significant change of responsibilities.</p> <p>Salaries are reviewed taking into account factors including individual performance as well as appropriate market data including general UK pay trends and a company size and complexity model based on a Pay Comparator Group including UK companies, the constituents of which for 2019 are as follows:</p> <table><tr><td>Altria Group</td><td>Anheuser-Busch InBev</td><td>AstraZeneca</td><td>Bayer</td></tr><tr><td>BP</td><td>Coca-Cola</td><td>Colgate-Palmolive</td><td>Danone</td></tr><tr><td>Diageo</td><td>Estée Lauder</td><td>GlaxoSmithKline</td><td>Heineken</td></tr><tr><td>Imperial Brands</td><td>Japan Tobacco</td><td>Johnson & Johnson</td><td>Kellogg</td></tr><tr><td>Kraft Heinz</td><td>L'Oréal</td><td>LVMH</td><td>Mondelēz International</td></tr><tr><td>Nestlé</td><td>PepsiCo</td><td>Pfizer</td><td>Philip Morris International</td></tr><tr><td>Procter & Gamble</td><td>Reckitt Benckiser</td><td>Royal Dutch Shell</td><td>Unilever</td></tr><tr><td>Vodafone</td><td></td><td></td><td></td></tr></table> <p>The Committee will continue to exercise its judgement to vary the constituents of the Pay Comparator Group over the life of this Remuneration Policy.</p> <p>Only base salary is pensionable.</p>			Altria Group	Anheuser-Busch InBev	AstraZeneca	Bayer	BP	Coca-Cola	Colgate-Palmolive	Danone	Diageo	Estée Lauder	GlaxoSmithKline	Heineken	Imperial Brands	Japan Tobacco	Johnson & Johnson	Kellogg	Kraft Heinz	L'Oréal	LVMH	Mondelēz International	Nestlé	PepsiCo	Pfizer	Philip Morris International	Procter & Gamble	Reckitt Benckiser	Royal Dutch Shell	Unilever	Vodafone			
Altria Group	Anheuser-Busch InBev	AstraZeneca	Bayer																																	
BP	Coca-Cola	Colgate-Palmolive	Danone																																	
Diageo	Estée Lauder	GlaxoSmithKline	Heineken																																	
Imperial Brands	Japan Tobacco	Johnson & Johnson	Kellogg																																	
Kraft Heinz	L'Oréal	LVMH	Mondelēz International																																	
Nestlé	PepsiCo	Pfizer	Philip Morris International																																	
Procter & Gamble	Reckitt Benckiser	Royal Dutch Shell	Unilever																																	
Vodafone																																				
Maximum potential value 2019 Policy: no change in policy		<p>Annual increases for Executive Directors' base salaries in the normal course will generally be in the range of the increases in the base pay of other UK-based employees in the Group and will not exceed 10% per annum during the policy period.</p> <p>The salary of a recently appointed Executive Director as he or she progresses in a role may exceed the top of the range of the salary increases for UK-based employees where the Committee considers it appropriate to reflect the accrual of experience. A significant change in responsibilities or material change in role may be reflected in an above average increase (which may exceed 10%) in salary.</p>																																		

Benefits	
How the element supports the Company's strategic objectives	<p>To provide market-competitive benefits consistent with the role which:</p> <ul style="list-style-type: none">– attract and retain high calibre individuals to deliver the Group's long-term strategy; and– recognise that such talent is global in source and that the availability of certain benefits (e.g. relocation, repatriation, taxation compliance advice) will from time to time be necessary to avoid such factors being an inhibitor to accepting the role.
Operation of the element 2019 Policy: no change in policy	<p>The Company currently offers the following contractual benefits to Executive Directors: a car or car allowance; the use of a car and driver for personal and business use; employment tax advice (including in instances where multi-jurisdictional tax authorities are involved); tax equalisation payments (where appropriate); private medical insurance, including general practitioner 'walk-in' medical services; personal life and accident insurance; and housing and education allowances or similar arrangements as appropriate to family circumstances (anticipated to be provided for Executive Directors who relocate internationally).</p> <p>Other benefits may include the Executive Directors 'and their partners' attendance at hospitality or similar functions, and the provision of services and benefits which may be treated as benefits for tax purposes, such as the provision of home security and the reimbursement of expenses incurred in connection with their duties.</p> <p>Other benefits not identified above may be offered if, in the Committee's view, these are necessary in order to remain aligned with market practice.</p> <p>With the exception of the car or car allowance, in line with the UK market and the practice followed for all the Group's other UK employees, it is also practice to pay the tax that may be due on benefits.</p> <p>The Company provides Directors and Officers liability insurance (D&O) and an indemnity to Directors to cover costs and liabilities incurred in the execution of their duties.</p>

Annual Statement on Remuneration continued

<p>Maximum potential value 2019 Policy: no change in policy</p>	<p>The maximum potential values are based on market practice for individuals of this level of seniority, with any tax on benefits paid by the Company in addition.</p> <p>The maximum annual value (subject to periodic inflation-related increases where applicable) that can be offered for the following benefits is:</p> <ul style="list-style-type: none"> – car allowance: £20,000; – use of a car and company driver for personal and business use: cost is dependent on the miles driven in any year; – the cost of private medical insurance is dependent on an individual's circumstances and is provided on a family basis; – GP 'walk-in' medical services located close to the Group's headquarters in London: £5,000; – personal life and accident insurance designed to pay out at a multiple of four and five times base salary, respectively; – employment tax advice as required, but not exceeding £30,000 and tax equalisation payments as agreed by the Committee from time to time; and – housing and education allowances or other similar arrangements, as appropriate to the individual's family circumstances.
<p>Pensions</p>	
<p>How the element supports the Company's strategic objectives</p>	<p>To provide competitive post-retirement benefit arrangements which recognise both the individual's length of tenure with the Group and the external environment in the context of attracting and retaining senior high calibre individuals to deliver the Group's long-term strategy.</p>
<p>Operation of the element 2019 Policy: The rate of pension provision under the defined contribution arrangements is to be reduced from 35% of base salary to 15% of base salary, to ensure alignment with the defined contribution arrangements in place for UK employees. This change will apply to the newly-appointed Chief Executive.</p> <p>This Remuneration Policy continues to be subject to Executive Directors being permitted to participate in legacy defined benefit arrangements.</p> <p>This change will apply from 1 May 2019, being the start of the first payroll month after this Remuneration Policy will come into effect.</p> <p>Please refer to the Statement of the Chairman of the Remuneration Committee on page 73 for further detail.</p>	<p>Defined contribution benefits</p> <p>Subject to participation in legacy arrangements, and with effect from 1 May 2019, Executive Directors are eligible to receive a pension benefit equivalent to 15% of base salary, which the Committee may determine to provide as a contribution into the defined contribution section of the British American Tobacco UK Pension Fund (the Pension Fund) (or a similar defined contribution arrangement from time to time) or as a gross cash sum paid in lieu thereof.</p> <p>The level of contribution in the defined contribution section of the Pension Fund is restricted to take into account the annual allowance, and the individual may elect to accumulate any balance in the unfunded unapproved retirement benefits scheme (UURBS) or receive the balance as a gross cash sum.</p> <p>Legacy arrangements</p> <p>Executive Directors may continue to participate in the defined benefit section of the Pension Fund where they were doing so before the section closed to new members. This is the case for the Finance Director and could also apply to future Executive Directors where they have legacy participation in the defined benefit section prior to appointment to the Board. In addition, the legacy pension provision of internal appointees may differ marginally from that outlined in this Remuneration Policy and such arrangements would ordinarily continue to apply.</p> <p>Where an individual is entitled to benefits calculated on a base salary that exceeds a scheme-specific salary cap, these are accrued in the UURBS.</p> <p>Operation</p> <p>The pension arrangements operate in accordance with the rules of the applicable scheme, including in respect of the benefits payable in the event of death or on early retirement. Details of the Executive Directors' accrued pension benefits are provided in the Annual Report on Remuneration on page 95.</p>
<p>Maximum potential value</p>	<p>With effect from 1 May 2019 the maximum annual contribution in the defined contribution section of the Pension Fund is 15% of base salary. Excess benefits (whether accrued in the UURBS or paid as a cash sum) are subject to this same limit.</p> <p>The pension accrual rate in respect of legacy participation in the defined benefit section of the Pension Fund will not exceed the maximum one-fortieth of salary per annum.</p>

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

How the element supports the Company's strategic objectives	<p>To incentivise the attainment of corporate targets aligned to the Group's strategic objectives on an annual basis, with a deferred element to ensure alignment with shareholders' interests.</p> <p>To ensure, overall, a market-competitive package to attract and retain high calibre individuals to deliver the Group's long-term strategy.</p>
Operation of the element 2019 Policy: the previous individual performance multiplier, allowing a +20% adjustment to the outcome based on the corporate result, has been removed with effect from the 2019 performance year. For DSBS awards from 2019 onwards, the dividend equivalent cash payments have been replaced by delivery of quarterly interim dividend equivalent shares.	<p>IEIS comprises an annual award referenced to base salary, 50% of which is paid immediately in cash and 50% of which is awarded in shares through the Deferred Share Bonus Scheme (DSBS).</p> <p>The deferred shares normally vest after three years and no further performance conditions apply in that period. Deferred shares attract a dividend equivalent which is delivered in additional quarterly interim dividend equivalent shares, which are subject to the shareholding requirements such that they cannot be sold unless the requirements have been met.</p> <p>Awards under the IEIS are not pensionable and no element of the bonus is guaranteed.</p> <p>IEIS cash payments are subject to clawback provisions, and the deferred shares element of the IEIS is subject to malus and clawback provisions, as described on page 81.</p>
Performance assessment 2019 Policy: no change in policy	<p>The Committee sets the performance targets each year and is also able to amend the performance measures and vary the weighting of them from year to year.</p> <p>The Committee reviews performance for the prior year in February each year and the Group's external auditors perform certain specified procedures to assist the Committee's assessment of the calculations used to determine the IEIS corporate bonus outcomes and future targets.</p> <p>The total payout is determined by the Company's performance under each measure relative to that measure's performance target. The Committee may at its discretion adjust, whether positively or negatively, the payout in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company.</p> <p>In cases of identified poor individual performance, the corporate result may be reduced by up to 50%.</p>
Performance measures and weighting 2019 Policy: no change in policy. The current KPIs for 2019 remain the same as for 2018, reflecting the inclusion of Adjusted revenue growth from the Strategic Portfolio, which replaces Global Drive Brands and Key Strategic Brands and is now included as this is a central value driver for the Group's business from both current and longer-term strategic perspectives.	<p>The IEIS contains four corporate performance measures (KPIs) and weightings measured over the financial year. These KPIs are the same as those KPIs used to measure performance against the Group's long-term strategy as outlined and explained from page 20 of the Strategic Report:</p> <ol style="list-style-type: none"> Adjusted profit from operations (APFO) (30%). APFO is the adjusted profit from operations at constant rates of exchange. Please refer to page 261 for the detailed description of APFO. Group's share of key markets (10%). The Group's retail market share in its Key Markets accounts for around 80% of the volumes of the Group's subsidiaries. The Group's share is calculated from data supplied by retail and audit service providers and is rebased as and when the Group's Key Markets change. When rebasing does occur, the Company will also restate historic data and provide fresh comparative data on the markets. Adjusted revenue growth from the Strategic Portfolio (30%). The Strategic Portfolio reflects the focus of the Group's investment activity, and is defined as Global Drive Brands (GDBs); strategic brands in the US Market; and potentially reduced-risk products portfolio (Vapour, THP, Traditional Oral and Modern Oral brands). This measure is assessed at constant rates of exchange. Please refer to page 260 for the detailed description of the Strategic Portfolio. Adjusted Cash generated from operations (ACGFO) (30%). Adjusted CGFO is defined as the net cash generated from operating activities, before the impact of adjusting items, dividends paid to non-controlling interests and received from associates, net interest paid and net capital expenditure. Adjusted CGFO is measured at constant rates of exchange.
Maximum potential value and payment and threshold 2019 Policy: no change in policy	<p>The maximum annual bonus opportunity for the Chief Executive is 250% of base salary and for other Executive Directors is 190% of base salary.</p> <p>The annual 'on-target' bonus opportunity for the Chief Executive is 125% of base salary and for other Executive Directors is 95% of base salary. For a bonus to be paid in respect of any performance measure, the applicable threshold performance must be exceeded (such that no bonus is paid at threshold).</p>

Annual Statement on Remuneration continued

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

How the element supports the Company's strategic objectives	<p>To facilitate the appointment of senior high calibre individuals required to deliver the Group's long-term strategy, and to promote the long-term success of the Company.</p> <p>To put in place a combination of measures with appropriately stretching targets around the long-term plan that provides a balance relevant to the Company's business and market conditions as well as providing alignment between Executive Directors' and shareholders' interests.</p>																										
Operation of the element 2019 Policy: for LTIP awards from 2019 onwards, the dividend equivalent cash payments have been replaced by delivery of dividend equivalent shares at vesting	<p>Discretionary annual awards over shares with vesting levels based on the achievement of appropriately stretching targets against performance measures that are aligned to the Group's long-term strategy over a three-year performance period, and with a five-year vesting period to ensure longer-term alignment with shareholders' interests.</p> <p>LTIP awards vest only to the extent that:</p> <ol style="list-style-type: none">1. the performance condition is satisfied at the end of the three-year performance period; and2. an additional vesting period of two years from the date of the third anniversary of the date of grant has been completed – the LTIP Extended Vesting Period. <p>Participants may receive a dividend equivalent which is delivered in additional shares on vesting at the end of the LTIP Extended Vesting Period to the extent to which awards vest. Dividend equivalent shares are subject to the shareholding requirements such that they cannot be sold unless the requirements have been met.</p> <p>LTIP awards may be delivered in any form provided under the LTIP rules as approved by shareholders. Awards are subject to malus and clawback provisions, as described on page 81.</p>																										
Performance assessment 2019 Policy: no change in policy	<p>The Committee sets the performance targets for the applicable performance period each year, including determining the total shareholder return (TSR) comparator group. The Committee is also able to amend the measures and vary the weighting of them from year to year, but will generally only seek to make amendments to them following consultation with shareholders.</p> <p>The Committee may at its discretion adjust, whether positively or negatively, the level of vesting in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company.</p>																										
Performance measures and weighting 2019 Policy: the TSR comparator group is expanded to include the Altria Group	<p>Performance is measured against five measures.</p> <ol style="list-style-type: none">1. Relative TSR (20%). This measures TSR compared with a comparator peer group of international FMCG companies as determined annually by the Committee. Full vesting of this element is at top quartile performance. Threshold vesting is at median performance, at which 3% of the award will vest.2. Adjusted diluted EPS growth at current exchange rates (20%). This measures growth in adjusted diluted EPS measured at current rates of exchange. Full vesting is at a compound annual growth rate (CAGR) of 10%. Threshold vesting is at a CAGR of 5%, at which 3% of the award will vest.3. Adjusted diluted EPS growth at constant exchange rates (20%). This measures growth in adjusted diluted EPS measured at constant rates of exchange. Full vesting is at a CAGR of 10%. Threshold vesting is at a CAGR of 5%, at which 3% of the award will vest.4. Adjusted revenue growth (20%). This measures adjusted revenue growth measured at constant rates of exchange. Full vesting is at a CAGR of 5%. Threshold vesting is at a CAGR of 3%, at which 3% of the award will vest. <p>There is an underpin to the adjusted revenue growth measure: no vesting will occur unless the corresponding three-year constant CAGR of adjusted profit from operations (APFO) exceeds the CAGR of the threshold performance level for APFO as approved annually in the STI and approved by the Board.</p> <ol style="list-style-type: none">5. Adjusted operating cash flow conversion ratio (20%). This measures operating cash flow, at current rates of exchange, as a percentage of adjusted operating profit. Full vesting is at a ratio of 95%. Threshold vesting is at a ratio of 85%, at which 3% of the award will vest. <p>The current constituents of the TSR comparator group, for awards to be granted in 2019 are:</p> <table><tr><td>Altria Group</td><td>Anheuser-Busch InBev</td><td>Campbell Soup</td><td>Carlsberg</td></tr><tr><td>Coca Cola</td><td>Colgate-Palmolive</td><td>Danone</td><td>Diageo</td></tr><tr><td>Heineken</td><td>Imperial Brands</td><td>Japan Tobacco</td><td>Johnson & Johnson</td></tr><tr><td>Kellogg</td><td>Kimberley-Clark</td><td>LVMH</td><td>Mondelēz International</td></tr><tr><td>Nestlé</td><td>PepsiCo</td><td>Pernod Ricard</td><td>Philip Morris International</td></tr><tr><td>Procter & Gamble</td><td>Reckitt Benckiser</td><td>Unilever</td><td></td></tr></table>			Altria Group	Anheuser-Busch InBev	Campbell Soup	Carlsberg	Coca Cola	Colgate-Palmolive	Danone	Diageo	Heineken	Imperial Brands	Japan Tobacco	Johnson & Johnson	Kellogg	Kimberley-Clark	LVMH	Mondelēz International	Nestlé	PepsiCo	Pernod Ricard	Philip Morris International	Procter & Gamble	Reckitt Benckiser	Unilever	
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Maximum potential value and payment at threshold		The maximum annual award of shares permitted under the rules of the LTIP, as approved by shareholders, is 500% of salary for Executive Directors. If the threshold performance level is attained in respect of all five measures, 15% of the award will vest.					
2019 Policy: the limit on the levels of award to Executive Directors other than the Chief Executive, which was featured in previous remuneration policies, has been removed. It is not intended that this will lead to a change in the maximum opportunity for the current Finance Director, but is believed to be appropriate to give flexibility over the life of the Remuneration Policy, while maintaining an appropriate level of differentiation between the Chief Executive and other Executive Directors.							
All-employee share schemes							
How the element supports the Company's strategic objectives		Executive Directors are eligible to participate in the Company's all-employee share schemes which are designed to incentivise employees by giving them an opportunity to build shareholdings in the Company.					
Operation of the element 2019 Policy: no change in policy		The Company currently operates two all-employee share schemes: the Sharesave Scheme , an HM Revenue & Customs (HMRC) tax-advantaged savings-related share option scheme, and the Share Incentive Plan (SIP) – an HMRC tax-advantaged plan operated by the Company to allow eligible employees to purchase shares in the Company (the Partnership Plan) and to make an annual award of free shares of a level based on performance in the previous financial year (the Share Reward Scheme).					
Maximum potential value 2019 Policy: no change in policy		Executive Directors are subject to the same limits on participation as other employees, as defined by the applicable statutory provisions. Currently, these limits are monthly savings under the Sharesave Scheme of £500 per month, and annual share purchases under the Partnership Plan of £1,800 and annual share awards under the Share Reward Scheme of £3,600.					
Shareholding requirements							
How the element supports the Company's strategic objectives		To strengthen the alignment between the interests of the Executive Directors and those of the shareholders by requiring Executive Directors to build up a high level of personal shareholding in the Company. To ensure long-term alignment between the interests of the Executive Directors and those of shareholders through the operation of post-employment shareholding requirements.					
Operation of the element and performance metrics used 2019 Policy: post-employment shareholding requirements are to be introduced with effect from the approval of this Remuneration Policy, to achieve a longer-term alignment with the Group's strategy and shareholders' interests.		<p>Executive Directors are required to hold shares in the Company:</p> <ul style="list-style-type: none">– during service as a Director, equal to the value of the same multiple of salary at which LTIP awards are made to that Director (and therefore of 500% for the CEO); and– after ceasing service as a Director during the period until the second anniversary of cessation of employment with the Group, of a value equal to 100% of the shareholding requirement that applied whilst a Director. In order to monitor and enforce the above provisions, former Executive Directors are required to hold their shares in a nominee account in respect of which a sale restriction applies to shares held to comply with the requirements. <p>Those Executive Directors who do not, at any point, meet the shareholding requirements, may generally sell a maximum of up to 50% of any shares vesting (after tax) under the Company's share plans until the threshold for the shareholding requirements has been met. The estimated notional net-of-tax number of shares held subject to unvested awards under the DSBS element, and LTIP Awards during the LTIP Extended Vesting Period, will count towards the respective shareholding requirements.</p> <p>A waiver of compliance with the shareholding requirements is permitted at the discretion of the Committee in circumstances which the Committee considers to be exceptional.</p>					

Additional notes to the Future Policy Table:

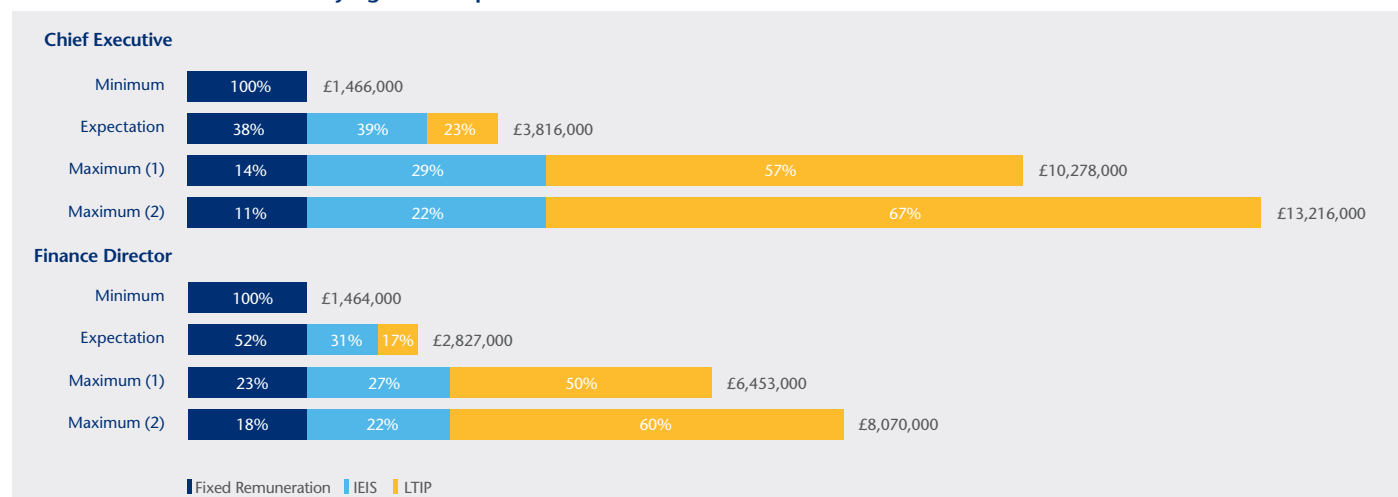
1. The Committee reserves the right to make any remuneration payments where the terms were agreed prior to an individual being appointed an Executive Director of the Company or prior to the approval and implementation of the Remuneration Policy (including, for the avoidance of doubt, pursuant to the current Remuneration Policy). This includes the achievement of the applicable performance conditions for Executive Directors who are eligible to receive payment from any award made prior to the approval and implementation of the Remuneration Policy.
2. The Company recognises the opportunities and benefits that accrue to the Company and its Executive Directors who undertake non-executive roles. Consequently, an Executive Director may, with the permission of the Board, undertake a single external appointment and the Executive Director may retain the fees from such appointment.
3. **Malus and clawback:** Bonus amounts paid under the IEIS are subject to clawback provisions, and awards made under the DSBS and the LTIP are subject to malus and clawback provisions. In summary, these provisions may be applied if, within specified periods of payment/grant; (1) there has been a material misrepresentation in relation to the performance of any Group company, relevant business unit and/or the participant; or (2) an erroneous calculation was made in assessing the extent to which an award vested or bonus was paid, which in either case resulted in the value of the award or payment being more than it should have been. These provisions may also be applied where a participant is found to have committed, at any time prior to payment of a bonus or the vesting of an award, an act or omission which justified dismissal for misconduct. Where the Committee determines that these provisions are to be applied, the participant may be required to repay up to the excess value which was paid or vested. This repayment may also be effected by the number of shares subject to the award being reduced and/or by a reduction in other cash or share-based awards held by the participant.

Annual Statement on Remuneration continued

Illustrations of the application of the Remuneration Policy

The levels of remuneration to be received by Jack Bowles and Ben Stevens as Executive Directors for the first complete year in which the Remuneration Policy will apply are shown as the hypothetical values of their remuneration packages under different performance scenarios in the charts below.

Remuneration outcomes for varying levels of performance



The following assumptions have been applied in the table above.

Maximum award opportunities (% of salary)		Chief Executive	Finance Director
STI (IEIS)		250%	190%
LTI (LTIP)		500%	350% (current award level maintained for Ben Stevens)
Minimum	Fixed salary, pension and benefits only:	No bonus payout; no vesting under LTIP	
Expectation	Fixed salary, pension and benefits, plus:	50% of the maximum IEIS award; threshold vesting under the LTIP	
Maximum (1)	Fixed salary, pension and benefits, plus:	100% payout of the IEIS; 100% vesting under the LTIP	
Maximum (2)	Fixed salary, pension and benefits, plus:	100% payout of the IEIS; 100% vesting under the LTIP; 50% share price appreciation during the relevant performance period of LTIP	

Notes:

- Benefits value for 2019: (1) comprises an estimated value of the car allowance, medical insurance, life assurance, tax advice and home security benefits, and associated tax costs, based where applicable on the values of the corresponding benefits in 2018, and for the Chief Executive taking into account an estimate of home security costs and an assumed value of tax advice based for these purposes on the policy maximum; (2) excludes any expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events; (3) excludes the cost of the car and driver provision as the cost of this benefit fluctuates annually depending on business need; and (4) in respect of all employee share plan participation, includes an assumed value of participation in the Share Reward Scheme based for these purposes on the plan maximum and excludes the value of any participation in the Sharesave Scheme or the Partnership Share Scheme.
- Pension value for 2019: for the Chief Executive is based on the contribution rate of 15% of base salary that will apply under this Remuneration Policy with effect from 1 May 2019 and for the Finance Director represents an estimated value of his legacy arrangements based on the corresponding value in 2018.
- No illustration is provided for Nicandro Durante, as he will cease to be an Executive Director from 1 April 2019, which is prior to the date on which this Remuneration Policy will (if approved by shareholders) come into force.

Other policy provisions in relation to Directors' pay

Flexibility, judgement and discretion

As the Remuneration Policy needs to be capable of operating over a three-year period, the Committee has built in a degree of flexibility to enable the practical implementation of the Remuneration Policy over that prospective lifetime, including as set out in the Future Policy Table above. The key discretions and areas of flexibility and judgement are summarised as follows:

Salary	<p>To determine salary levels, including any annual salary increases.</p> <p>To review and change the pay comparator group to ensure that it remains appropriate.</p>
Benefits	To determine benefit provision.
Pensions	To determine the form and level of pension provision within the parameters set out in the policy.
STI (cash and deferred shares) and LTIP	<p>To annually determine the targets for each STI performance measure, and to annually amend the performance measures and/or vary their weighting.</p> <p>To annually determine the targets for each LTIP performance measure, including to review and change the LTIP TSR comparator group.</p> <p>To amend the LTIP performance measures and/or vary their weighting, although the Committee will generally only seek to make amendments following consultation with shareholders.</p> <p>In respect of STI and LTIP:</p> <ul style="list-style-type: none"> – to adjust, whether positively or negatively, the level of payment/vesting in circumstances where the Committee considers it is appropriate to do so to reflect the overall performance of the Company. – to alter performance conditions if events happen which cause the Committee to determine that the performance condition is no longer a fair measure of the Company's performance, provided that the revised target is, in the opinion of the Committee, not materially less challenging than was intended in setting the original condition. – to exercise the available discretions in connection with any termination of employment or a change of control or similar event. – to determine whether awards under the LTIP are delivered as options or under any other form permitted under the LTIP rules as approved by shareholders and, in respect of operational matters not otherwise covered by the Policy, to operate the IEIS, DSBS and LTIP in accordance with their terms.
Other	<p>To determine (within the parameters set out in the Policy) appropriate contractual and remuneration arrangements in connection with the recruitment of a new Executive Director, and to determine, for an initial period only, to agree a contract of longer than a one-year rolling duration.</p> <p>Within the parameters set out in the Policy, to determine appropriate arrangements in connection with any termination of employment.</p> <p>Within the parameters set out in the Policy, to agree a waiver of shareholding guidelines, whether during or after service.</p> <p>To operate malus and clawback provisions.</p>

Annual Statement on Remuneration continued

Approach to remuneration of Directors on recruitment

<p>Principles In making an Executive Director appointment (whether an internal promotion or external appointee) the Committee will follow these principles.</p> <p>2019 Policy: no change in policy</p>	<p>British American Tobacco seeks to appoint senior, high calibre managers. Many of its competitors for talent are based outside the UK.</p> <p>To offer a package (both fixed salary, pension and performance-related remuneration) which is sufficiently competitive (but not excessively so) so that senior, high calibre candidates can be appointed, and which is designed to promote the long-term success of the Company. The Committee will consider the market, including the Pay Comparator Group, and by reference to other companies of equivalent size and complexity to ensure that it does not overpay.</p> <p>Consideration will be given to relevant factors, such as the candidate's skills, knowledge and experience and his or her current package and current location in determining the overall package.</p> <p>Internal pay relativities and the terms and conditions of employment of the new and existing Executive Directors will be considered to ensure fairness between Executive Directors.</p>
<p>External appointment to role of Executive Director – additional considerations</p> <p>2019 Policy: no change in policy</p>	<p>The Committee may exercise its discretion to award two or three-year contracts in the event that an Executive Director is recruited externally or from overseas; contracts with an initial period of longer than one year will then reduce to a one-year rolling contract after the expiry of the initial period.</p> <p>The Committee will consider matching up to the maximum of the expected value of lost short or long-term incentive awards in order to facilitate the recruitment of that individual.</p> <p>A replacement award would generally take the form of either a one-off award with a vesting period similar to the award given up (and, in the case of a replacement of a performance-based award, appropriate performance conditions) or a cash replacement payment in respect of an award that is within three months of vesting, although in either case the Committee may make other arrangements as it deems to be necessary.</p> <p>Where appropriate, a replacement award will also be made subject to malus and clawback provisions.</p>
<p>Relocation British American Tobacco may provide appropriate relocation support.</p> <p>2019 Policy: no change in policy</p>	<p>Relocation support of up to £200,000 may be provided in connection with recruitment. Examples of this support may include: shipment of goods; temporary accommodation; assistance to find accommodation; tax support services; and spouse or partner career counselling.</p> <p>Inbound relocation and shipment expenses are subject to clawback provisions.</p>

Service contracts – Executive Directors

The following table describes the provisions of the service contract of Jack Bowles. It is currently anticipated that service contracts for newly-appointed Executive Directors will not contain terms differing materially from these provisions (provided that other arrangements may be entered into in connection with the recruitment of Executive Directors, as described in the 'Approach to remuneration of Directors on recruitment' section on page 84).

Notice period Employed on a permanent contract, terminable by either party on one-year's notice.	<ul style="list-style-type: none"> – A period of notice to be given by either the Executive Director or the Company of 12 months. – The Company may require the Executive Director to be on garden leave during all or any part of the period of notice (whether given by the Executive Director or the Company). 						
Contractual terms The contract includes obligations which could give rise to, or impact upon, remuneration and/or payments for loss of office. The provisions of the Company's incentive arrangements applicable on a termination of employment are set out separately below.	<p>The primary obligations under the contract which may give rise to remuneration or payments for loss of office are as follows:</p> <ul style="list-style-type: none"> – to provide salary payment, contributions to applicable pension arrangements and benefits (whether in cash or in kind) as specified in the contract, and to reimburse reasonable expenses incurred by the Executive Director in performing his duties; – to give the Executive Director eligibility to participate in annual and/or long-term incentive arrangements; – to provide a company car and driver for personal and/or business use, and a car allowance; – to provide 25 working days' (plus public holidays) paid holiday per annum. On termination of employment the Company may at its discretion require the Executive Director to take all accrued holiday during any period of notice or pay him a sum in lieu; – to provide sick pay at the Executive Director's normal salary rate for up to 12 weeks during any rolling 12-month period, and thereafter at the Company's discretion, subject to the Company's Sick Pay Policy; – to give the Executive Director eligibility to participate in a private medical expenses scheme and a personal accident scheme, and to provide life assurance benefits, subject to the terms and conditions of such schemes from time to time in force; – to terminate the contract only on the expiry of 12 months' written notice or to make a payment in lieu of notice in respect of all, or the unexpired part, of the 12 months' notice calculated based on: (1) salary at then current base pay; and (2) the cost to the Company of providing private medical expenses insurance and personal accident insurance (or the Company may, at its option, continue those benefits for the unexpired period of the notice). In determining the value of a payment in lieu of notice the Company shall not be required to reward failure on the part of the Executive Director and shall have regard to corporate governance standards at the termination date. The Company may, at its reasonable discretion, make the payment in lieu of notice in phased monthly or quarterly instalments and may determine that it should be reduced in accordance with the duty on the part of the Executive Director to mitigate his loss; and – to continue to pay the Executive Director's salary and contractual benefits during any garden leave period. <p>In addition to the contractual rights to a payment on loss of office, the Executive Director may have statutory and/or common law rights to certain additional payments depending on the circumstances of the termination.</p>						
Legacy arrangements	<p>The contractual terms of the Finance Director, entered into prior to this Remuneration Policy coming into force, include the following provisions which are in addition to or differ from those described above:</p> <ul style="list-style-type: none"> – the contractual entitlement to sick pay applies at the Executive Directors' normal salary for a period of up to two months, and then half his normal salary for a period of up to one month, and thereafter at the Company's discretion; – any payment in lieu of notice is calculated based on: (1) salary at then current base pay; (2) car allowance; and (3) the cost to the Company of providing private medical expenses insurance, life assurance and personal accident insurance (or the Company may, at its option, continue any of those benefits for the unexpired period of the notice). Any payment in lieu of notice is payable in full on termination of employment; and – for any time spent on garden leave, the assessment of the Executive Director's performance under his relevant bonus scheme shall be at 'target' level. 						
Inspection of service contracts Copies may be inspected at the Company's registered office; these contracts are amended annually following the salary review.	<p>The dates of the latest service contracts are shown below:</p> <table border="1"> <thead> <tr> <th data-bbox="564 1984 778 2016">Executive Director</th><th data-bbox="788 1984 1506 2016">Execution date of current service contract</th></tr> </thead> <tbody> <tr> <td data-bbox="564 2022 778 2054">Jack Bowles</td><td data-bbox="788 2022 1506 2074">11 December 2018 (appointment as an Executive Director commenced 1 January 2019)</td></tr> <tr> <td data-bbox="564 2080 778 2112">Ben Stevens</td><td data-bbox="788 2080 1506 2112">26 March 2008 (as amended by side letter dated 23 July 2010)</td></tr> </tbody> </table>	Executive Director	Execution date of current service contract	Jack Bowles	11 December 2018 (appointment as an Executive Director commenced 1 January 2019)	Ben Stevens	26 March 2008 (as amended by side letter dated 23 July 2010)
Executive Director	Execution date of current service contract						
Jack Bowles	11 December 2018 (appointment as an Executive Director commenced 1 January 2019)						
Ben Stevens	26 March 2008 (as amended by side letter dated 23 July 2010)						

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Policy on payment for loss of office

<p>Treatment of awards under the share incentive schemes: International Executive Incentive Scheme (IEIS)/Deferred Share Bonus Scheme (DSBS)</p> <p>Long-Term Incentive Plan (LTIP)</p> <p>All-employee scheme</p> <p>The release of awards is dependent on 'leaver' status and is at the discretion of the Committee.</p>	<table><tr><th>Plan</th><th>'Good leaver'</th><th>'Other' leaver scenarios</th></tr><tr><td><p>IEIS and DSBS</p><p>2019 Policy: with effect from this Remuneration Policy coming into force, IEIS bonuses paid to good leavers are to be assessed on a 'wait and see' basis, by reference to full-year results, and paid at the normal time.</p></td><td><p>'Good leavers' are eligible for a bonus pro-rated for the period of employment during the year.</p><p>Payments made during a notice period or after cessation may, at the discretion of the Committee, be made in cash only.</p><p>Bonuses are assessed based on actual full-year performance and paid at the normal time.</p><p>Awards under the DSBS will vest upon termination of employment.</p></td><td><p>No entitlement to a bonus but the Committee has the discretion to treat 'other' leavers in the same manner as 'good leavers'; this discretion is not exercisable in the case of summary dismissal.</p><p>Awards under the DSBS will lapse unless the Committee, in its absolute discretion, decides otherwise.</p></td></tr><tr><td><p>LTIP</p><p>2019 Policy: no change in policy.</p></td><td><p>Vesting occurs at the end of the LTIP Extended Vesting Period, subject to performance over the normal performance period and, where applicable, pro-rated for the period of employment during the performance period.</p></td><td><p>Unvested awards, including any awards which are still subject to the LTIP Extended Vesting Period, will lapse unless the Committee, in its absolute discretion, decides otherwise.</p></td></tr><tr><td><p>All-employee share schemes</p></td><td><p>Directors are treated in accordance with the scheme rules, in the same manner as applies to all employees.</p></td><td></td></tr></table>	Plan	'Good leaver'	'Other' leaver scenarios	<p>IEIS and DSBS</p> <p>2019 Policy: with effect from this Remuneration Policy coming into force, IEIS bonuses paid to good leavers are to be assessed on a 'wait and see' basis, by reference to full-year results, and paid at the normal time.</p>	<p>'Good leavers' are eligible for a bonus pro-rated for the period of employment during the year.</p> <p>Payments made during a notice period or after cessation may, at the discretion of the Committee, be made in cash only.</p> <p>Bonuses are assessed based on actual full-year performance and paid at the normal time.</p> <p>Awards under the DSBS will vest upon termination of employment.</p>	<p>No entitlement to a bonus but the Committee has the discretion to treat 'other' leavers in the same manner as 'good leavers'; this discretion is not exercisable in the case of summary dismissal.</p> <p>Awards under the DSBS will lapse unless the Committee, in its absolute discretion, decides otherwise.</p>	<p>LTIP</p> <p>2019 Policy: no change in policy.</p>	<p>Vesting occurs at the end of the LTIP Extended Vesting Period, subject to performance over the normal performance period and, where applicable, pro-rated for the period of employment during the performance period.</p>	<p>Unvested awards, including any awards which are still subject to the LTIP Extended Vesting Period, will lapse unless the Committee, in its absolute discretion, decides otherwise.</p>	<p>All-employee share schemes</p>	<p>Directors are treated in accordance with the scheme rules, in the same manner as applies to all employees.</p>		<p>The Committee retains discretion in deciding 'good leaver' status other than in cases of automatic 'good leavers' as set out in the applicable provisions of the DSBS and LTIP rules. The discretionary powers are intended to provide flexibility as Executive Directors may leave employment for a broad variety of reasons which may not necessarily fall within the prescribed category of 'good leaver'. The Committee exercises its discretion by reference to guidelines which set out its agreed relevant factors to assist in the determination of a leaver's status.</p>	<table><tr><th colspan="2">Guidelines</th></tr><tr><th>Factors which may indicate that discretion may be exercised to treat as a 'good leaver'</th><th>Factors which may indicate that discretion may not be exercised</th></tr><tr><td><p>Resignation intending to cease work altogether.</p><p>Resignation intending to take up a different occupation, such as a portfolio career.</p><p>Delayed resignation from the Company to accommodate the Company's plans or the demands of his or her current workload.</p><p>Departure at the request of and/or with the agreement of the Company.</p><p>In exercising its discretion, the Committee will also take into account the individual's overall performance as well as their contribution to the Company during their total period of employment.</p></td><td><p>Resignation from the Company to work for a competitor or to undertake a role otherwise acting in conflict with the interests of the Company.</p><p>Resignation from the Company notwithstanding the Company's plans and role demands.</p><p>Termination or resignation in any circumstance involving factors such as misconduct or poor performance.</p></td></tr></table>	Guidelines		Factors which may indicate that discretion may be exercised to treat as a 'good leaver'	Factors which may indicate that discretion may not be exercised	<p>Resignation intending to cease work altogether.</p> <p>Resignation intending to take up a different occupation, such as a portfolio career.</p> <p>Delayed resignation from the Company to accommodate the Company's plans or the demands of his or her current workload.</p> <p>Departure at the request of and/or with the agreement of the Company.</p> <p>In exercising its discretion, the Committee will also take into account the individual's overall performance as well as their contribution to the Company during their total period of employment.</p>	<p>Resignation from the Company to work for a competitor or to undertake a role otherwise acting in conflict with the interests of the Company.</p> <p>Resignation from the Company notwithstanding the Company's plans and role demands.</p> <p>Termination or resignation in any circumstance involving factors such as misconduct or poor performance.</p>
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	Strategic Report	Governance	Financial Statements	Other Information		
		Introduction & Board	Audit Committee	Nominations Committee	Remuneration Committee	Responsibility of Directors

Other	<p>Payment of legal fees incurred by an individual in connection with reviewing a settlement agreement on termination of employment.</p> <p>Reimbursement of reasonable relocation costs of up to £200,000 where an Executive Director (and, where relevant, his or her family) had originally relocated to take up the appointment; this may include the shipment of personal goods and winding-up his or her affairs in the UK and the incidental costs incurred in doing so.</p> <p>In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors, potentially including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements. These arrangements would only be entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.</p>
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Annual Statement on Remuneration continued

Statement of consideration of employment conditions elsewhere in the Company remuneration provisions applicable to the wider Group

Remuneration provisions applicable to the wider Group

The Group's remuneration policies and practices are founded on a high degree of alignment and consistency across the organisation. Accordingly, remuneration for members of the Management Board and senior management is determined taking into account the remuneration principles that apply to the Executive Directors, and similar principles also form the basis of the remuneration arrangements for the wider workforce.

A globally consistent pay comparator group, derived from the peer group used by the Remuneration Committee for executive pay benchmarking, is utilised across all levels of the organisation for pay benchmarking purposes, with an appropriate level of flexibility provided to the other employing entities.

The approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of individual experience, responsibility, individual performance and pay levels in the selected peer group.

All middle-to-senior managers are eligible to participate in a short-term incentive plan with the same metrics as Executive Directors. Other employees in corporate functions are eligible to participate in annual bonus plans, which mirror the Executive Directors' performance objectives. Functional incentive schemes are offered to the Group's employees in non-corporate positions such as sales force or manufacturing roles. Opportunities and metrics which apply to those schemes may vary by organisational level with functional performance indicators incorporated where appropriate.

Senior managers are eligible to participate in the long-term incentive programme (LTIP), with opportunities varying across levels with the most senior managers having a bigger portion of their pay delivered under the LTIP.

In the UK, all employees are encouraged to become shareholders by participating in all-employee share plans on the same terms as Executive Directors. Similar all-employee share schemes have been adopted for other jurisdictions with the goal of encouraging broader long-term employee ownership.

The key difference between Executive Directors' remuneration and the wider employee population is the increased emphasis on long-term performance in respect of Executive Directors, with a greater percentage of their total remuneration being performance-related. This includes an additional two-year holding period on vested LTIPs, and post-employment shareholding requirements which do not apply to other employees. Under the LTIP, Executive Directors and Management Board members are subject to 'wait and see' provisions requiring the full three-year performance measure to be assessed before vesting is determined.

Retirement benefits, typically in the form of a pension, are provided based on local market practice. Pension contribution rates for Executive Directors under the defined contribution scheme will be aligned with those available to the wider UK employee population. Other benefits provided to the wider employee population reflect local market practice and legislative requirements.

Process in setting Executive Directors' remuneration

The Committee considers the budgeted salary increases for the UK-based employee population, the guidance given to managers on the range of salary increases and other remuneration arrangements and employment conditions for all UK-based employees when determining the remuneration for Executive Directors.

It is expected that future salary increases for Executive Directors will be in line with the range set out in the salary review guidelines for the general UK employee population, except in exceptional circumstances, such as where a recently-appointed Executive Director's salary is increased to reflect his or her growth in the role over time or where significant additional responsibilities are added to the role.

As a key principle, management provides the Remuneration Committee with visibility of the potential impact of proposed changes to the Executive Directors' Remuneration Policy on the wider employee population.

Workforce engagement

The Group has a range of well-established workforce engagement channels worldwide to ensure the Board, through updates provided by management, understands the views of the Group's workforce across all jurisdictions in which the Group operates. Group engagement channels include works councils, meetings with the European Employee Council, town hall sessions, global, functional and regional webcasts, and CEO webcasts. Additionally, the Board undertakes a Group market or site visit on an annual basis, including meeting with local employees, and the Executive Directors regularly visit markets and local sites across the Group. A global employee opinion survey is conducted across the Group every two years. Questions on the Group's pay arrangements are included in the survey and the outcomes are reviewed by the Remuneration Committee and the Board and then reported back across the Group. Regional and local Board Compensation Committees (covering our business units and global functions) are provided with the outcomes of remuneration policies and practices for the wider employee population and have visibility of key issues that may have an impact on competitiveness of remuneration elements.

From 1 January 2019, the Group has adopted an enhanced approach to workforce engagement worldwide, to ensure meaningful and regular dialogue is maintained between the Board and our workforce given its geographical spread, scale and diversity. In addition to the range of engagement channels above, which are implemented at market, business unit, functional and/or regional level as appropriate for the composition of the local workforce populations, the Group has implemented new reporting channels to enable regular reporting to the Board on workforce views on key topics at all levels across the Group, including pay and related policies. Board feedback and associated action planning, as appropriate, is cascaded back to the workforce and the Board is kept updated on progress against identified actions during the year.

The Remuneration Committee is regularly updated on the pay principles and practices in operation across the Group, in order to take these into account in setting the policy for Directors' pay. Although employees are not specifically consulted on the policy for Directors' pay as set out above, there continues to be an ongoing dialogue with employees, through a variety of channels, about the Company's pay practices.

Chairman and Non-Executive Directors

Fees

2019 Policy: no change in policy

The Chairman receives a single all-inclusive fee. Other Non-Executive Directors receive a base fee and may also receive additional fees in respect of committee membership and/or chairmanship.

The Committee considers annually the fee payable to the Chairman and to the other Non-Executive Directors. This process may take into account factors including the breadth and demands of the relevant role as well as comparison with fees paid by the same comparator group of companies used for setting the base salary of Executive Directors. The annual review does not necessarily result in a change to the fees.

It is anticipated that any future aggregate increase in fees for the Chairman and other Non-Executive Directors will generally be in the range of the increases in the base pay of UK-based employees in the Group and will not exceed 10% per annum during the policy period.¹

The Chairman and other Non-Executive Directors do not participate in any discussion on their own respective remuneration.

Benefits, travel and related expenses

2019 Policy: no change in policy

Non-Executive Directors may be reimbursed for the cost of travel, accommodation and related expenses incurred in connection with their duties and are eligible to use general practitioner 'walk-in' services. The Non-Executive Directors and their partners may attend hospitality or similar functions.

Benefits for the Chairman may also include: the use of a Company driver; private medical insurance and personal accident insurance benefits; the provision of home and personal security; and assistance in relation to personal tax matters.

If necessary, the Company will pay for independent professional advice in connection with the performance of duties as Non-Executive Directors.

The Company provides D&O insurance and an indemnity to the Non-Executive Directors to cover costs and liabilities incurred in the execution of their duties.

In instances where any benefits, reimbursements or expenses are classified by HMRC as a benefit to the Non-Executive Directors, it is also the practice of the Company to pay any tax due on any such benefits.

Other

2019 Policy: no change in policy

There are no formal requirements or guidelines to hold shares in the Company. No Non-Executive Director is eligible to participate in the British American Tobacco share schemes, bonus schemes or incentive plans and no Non-Executive Director may be a member of any Group pension plan.

Note:

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

Terms of Appointment for the Chairman and other Non-Executive Directors

Non-Executive Directors, including the Chairman, are appointed as officeholders, not employees. In any given year, the period of appointment runs from the close of the Company's last AGM to the close of the Company's next AGM.

The Chairman may terminate his or her appointment on one month's written notice, and the Company may give a compensation payment in lieu of all or part of such notice. The Chairman may be removed by the Company prior to the expiry of his or her term of appointment by three months' written notice or a compensation payment in lieu of all or part of such notice.

A Non-Executive Director may terminate his or her appointment at any time in accordance with the Company's Articles of Association. Alternatively, a Non-Executive Director's appointment will terminate if: (1) the Board requests that he or she not offer himself or herself for re-election at the next AGM; (2) the Non-Executive Director is not re-elected at the next AGM; (3) the Non-Executive Director is required to vacate office for any reason pursuant to any of the provisions of the Company's Articles of Association; or (4) the Non-Executive Director is removed as Director or otherwise required to vacate office under any applicable law.

Annual Report on Remuneration

1 Overview of what our Executive Directors earned in 2018 and why

What our Executive Directors earned in 2018 – audited[@]

Single figure for Executive Directors		Salary £'000	Taxable benefits £'000	Short-term incentives £'000	Long-term incentives £'000	Pension £'000	Other emoluments £'000			Total £'000				
	2018	2017	2018	2017	2018	2017	2018	2017 ¹	2018	2017	2018	2017	2018	2017
Nicandro Durante	1,295	1,235	295	218	3,275	3,039	3,510	5,411	430	307	32	34	8,837	10,244
Ben Stevens	916	887	132	167	1,756	1,650	1,790	2,957	491	305	18	16	5,103	5,982
Total	2,211	2,122	427	385	5,031	4,689	5,300	8,368	921	612	50	50	13,940	16,226

Note:

1. Long-term incentives shown for 2017: in accordance with the UK Directors' Remuneration Report Regulations, estimates for the values of the vesting 2015 LTIP awards were given in the Annual Report on Remuneration 2017; these amounts have been re-presented to show the actual market value on the date of vesting in 2018.

Further information in respect of this remuneration can be found in Section 2 on page 91.

How this aligns to performance

Short-term incentives for the performance period ended in 2018

Vesting at:

Chief Executive: corporate performance – 250% of salary; individual performance adjustment is not applicable

Finance Director: corporate performance – 190% of salary; individual performance adjustment is not applicable

Adjusted profit from operations (APFO)

at constant rates of exchange
+4% growth on a representative basis

Group share of Key Markets

+40 bps

Adjusted revenue growth from the Strategic Portfolio

+8.5% growth on a representative basis

Adjusted cash generated from operations (Adjusted CGFO)

at constant rates of exchange
Exceeded the maximum performance level set by the Remuneration Committee (equivalent to 112.2% operating cash flow conversion)

Long-term incentives for the three year performance period ended in 2018

Vesting at 70.5%

Total shareholder return (TSR)

19 out of 23 in FMCG comparator group 2016–2018

0% achievement

(0% of award vesting out of possible 20%)

Adjusted diluted earnings per share (EPS) growth

12.5% CAGR at current rates of exchange

100% achievement

(20% of award vesting out of possible 20%)

Adjusted diluted earnings per share (EPS) growth

10.7% CAGR at constant rates of exchange

100% achievement

(20% of award vesting out of possible 20%)

Adjusted revenue growth

3.9% CAGR at constant rates of exchange

52.5% achievement

(10.5% of award vesting out of possible 20%)

Adjusted operating cash flow conversion ratio

100.8% ratio over the performance period

100% achievement

(20% of award vesting out of possible 20%)

Non-GAAP measures

Adjusted profit from operations (APFO), adjusted cash generated from operations (Adjusted CGFO), adjusted diluted EPS, adjusted revenue and operating cash flow conversion ratio are non-GAAP measures used by the Remuneration Committee to assess performance. Please refer to pages 258 to 266 for definitions of these measures and a reconciliation of these measures to the most directly comparable IFRS measure where applicable.

For the purposes of the Remuneration Report in relation to STI and LTIP performance measures, APFO, Adjusted CGFO, Adjusted revenue and Adjusted operating cash flow conversion ratio for 2018 are measured on a representative basis to include the impact of acquisitions in 2017 as though they were acquired for the whole of that period.

2 Executive Directors' remuneration for the year ended 31 December 2018

Total remuneration for the year ended 31 December 2018 – audited[@]

	Nicandro Durante			Ben Stevens	For further information
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	
Salary	1,295	1,235	916	887	
Taxable benefits¹					
– car allowance	16	16	14	14	
– health insurance	7	6	10	9	
– tax advice	62	6	–	–	
– use of Company driver	83	64	100	80	
– home and personal security	121	115	6	44	
– other expenses related to individual and/or accompanied attendance at Company functions/events	6	11	2	20	
Total taxable benefits	295	218	132	167	
Short-term incentives					
STI vesting percentage (% of maximum)	100%	97.2%	100%	97.2%	
STI: cash – Group performance element	1,637.5	1,266	877.8	687.5	
STI: cash – Individual performance adjustment factor	–	507	–	275	
STI: DSBS – Group performance deferred element	1,637.5	1,266	877.8	687.5	
Total short-term incentives	3,275	3,039	1,756	1,650	Page 92
Long-term incentives					
LTIP vesting percentage (% of maximum)	70.5%	96.1%	70.5%	96.1%	
LTIP value to vest	3,001 ²	4,833 ³	1,531 ²	2,641 ³	
Dividend equivalent	509	578 ⁴	259	316 ⁴	
Total long-term incentives	3,510	5,411	1,790	2,957	Page 94
Total pension-related benefits	430	307	491	305	Page 95
Other emoluments					
Life insurance	29	26	15	12	
Share Reward Scheme (value of ordinary shares awarded)	3	4	3	4	
Sharesave Scheme (face value of discount on options granted)	–	4 ⁵	–	–	
Total other emoluments	32	34	18	16	
Total remuneration	8,837	10,244	5,103	5,982	

Notes:

- Taxable benefits:** the figures shown are gross amounts as in line with the UK market; it is the normal practice of the Company to pay the tax which may be due on any benefits, with the exception of the car or car allowance. Ben Stevens' home and personal security benefit in 2017 included costs associated with installation of a new home security system. Nicandro Durante's tax advice cost in 2018 is net £28,371; the number presented above is inclusive of applicable VAT and income tax.
- LTIP award shown for 2018:** the 2016 LTIP award is due to vest on 12 May 2021 based on performance to 31 December 2018. The value shown is based on the average share price for the three-month period ended 31 December 2018 of 3,029.52p.
- LTIP award shown for 2017:** the values disclosed in the Annual Report on Remuneration for the year ended 31 December 2017 were estimated values as the award had not vested by the date of that report; these amounts have been re-presented based on the actual market value on the date of vesting of 27 March 2018 of 3,946p.
- LTIP dividend equivalent payments:** the dividend equivalent payment that will attach to the LTIP award that is included in the Single Figure Table is reported. The values for the year ended 31 December 2017 have been restated on this basis.
- Sharesave Scheme:** the value disclosed for the year ended 31 December 2017 represents the difference between the closing share price on the working day prior to the start of the invitation period (24 February 2017) of 5,070p and the option price of 4,056p.

Annual Report on Remuneration continued

Short-term incentives for the year ended 31 December 2018

Timing of disclosures

In previous years, publication of the STI targets has been deferred for one year on the basis of the commercially sensitive nature of those targets. Notwithstanding that the Remuneration Committee continues to consider that STI targets remain commercially sensitive, the Remuneration Committee has, on balance, decided that publication of STI targets will in future be published in the remuneration report following the end of the relevant performance year. Consequently, this year's remuneration report sets out the targets relating to both the 2017 and 2018 performance years.

Disclosure of the specific targets for the STI in the year ended 31 December 2017, and the outcomes against those targets, are included on page 104.

STI performance measures, weightings and results for year ended 31 December 2018

STI: performance measure and target 2018	Description of measure 2018	Actual performance 2018
Adjusted profit from operations (APFO) (growth over prior year) Weighting: 30% Threshold: 1% growth over 2017 Maximum: 3.7% growth over 2017	APFO is the adjusted profit from operations at constant rates of exchange for the year ended 31 December 2018. Please refer to page 261 for the detailed description of APFO.	APFO growth over the prior year of 4% on a representative basis. Strategic Report: Delivering our strategy – Productivity
Group's share of Key Markets (growth over prior year) Weighting: 10% Threshold: 0 bps growth over 2017 Maximum: 20 bps growth over 2017	The Group's retail market share in its Key Markets accounts for around 80% of the volumes of the Group's subsidiaries. The Group's share is calculated from data supplied by retail audit service providers and is rebased as and when the Group's Key Markets change. When rebasing does occur, the Company will also restate historic data and provide fresh comparative data on the markets.	Global market share in key markets grew by 40 bps. Strategic Report: Delivering our strategy – Growth
Adjusted revenue growth from the Strategic Portfolio (growth over prior year) Weighting: 30% Threshold: 2% growth over 2017 Maximum: 7.8% growth over 2017	The Strategic Portfolio reflects the focus of the Group's investment activity, and is defined as Global Drive Brands (GDBs), strategic brands in the US Market, and PRAP brands (Vapour, THP, Traditional Oral and Modern Oral portfolio). This measure is assessed at constant rates of exchange. Please refer to page 260 for the detailed description of the Strategic Portfolio.	Adjusted revenue from the Strategic Portfolio grew by 8.5% on an representative basis. Strategic Report: Delivering our strategy – Growth
Adjusted cash generated from operations (Adjusted CGFO) (as against adjusted budget) Weighting: 30% Threshold: Equivalent to 102.8% operating cash flow conversion Maximum: Equivalent to 105.8% operating cash flow conversion	Adjusted CGFO is defined as the net cash generated from operating activities, before the impact of adjusting items, dividends paid to non-controlling interests and received from associates, net interest paid and net capital expenditure. Adjusted CGFO is measured at constant rates of exchange.	Adjusted CGFO exceeded the maximum performance level set by the Remuneration Committee (equivalent to 112.2% operating cash flow conversion). Strategic Report: Delivering our strategy – Productivity

Consideration of individual performance adjustment factor

In addition to the Company-based STI corporate performance measures, the Remuneration Committee has also reviewed each Executive Director's personal performance against a weighted set of operational and strategic measures. These were agreed as their specific individual objectives at the beginning of the year and depend on the priorities for each Director's area of responsibility in the context of the delivery of Group strategy. Personal performance rated as 'Outstanding' can result in an adjustment factor of up to 20% to the corporate STI result but is subject to the applicable maximum award limit. Personal performance rated as 'Requires Improvement' results in any corporate STI result being reduced by 50%. No individual performance adjustment factor is applicable for the 2018 STI results.

STI outcome for year ended 31 December 2018

	Available STI award as % of base salary	Group % result	Individual performance adjustment factor %	STI award achieved % of base salary	STI award achieved £'000 (Value shown in Single Figure Table)
Nicandro Durante	250%	100%	n/a%	250%	3,275
Ben Stevens	190%	100%	n/a%	190%	1,756

50% of the award in respect of the Group result will be paid in cash and 50% as an award under the DSBS.

Note:

1. **DSBS:** awards made under the DSBS are in the form of free ordinary shares in the Company that normally vest after three years and no further performance conditions apply in that period. In certain circumstances, such as resigning before the end of the three-year period, participants may forfeit all of the shares. Malus-only provisions apply for DSBS awards made from 2014 and clawback provisions operate from 2016 STI cash awards.

Annual Report on Remuneration continued

Long-term incentives (LTIP) for the year ended 31 December 2018

LTIP performance measures, weightings and results for the year ended 31 December 2018 – audited[@]

LTIP: performance measure	Description of measure and target for 2016 LTIP Performance period 1 January 2016 – 31 December 2018		Result achieved	Vesting percentage
Relative TSR¹	2016–2018 LTIP target		Ranked 19 out of 23	0% (out of maximum of 20%)
Relative to a peer group of international FMCG companies	Threshold	At median, 3% vests		
Weighting: 20%	Maximum	At upper quartile, 20% vests		
EPS growth at current exchange rates	2016–2018 LTIP target		12.5% CAGR	20% (out of maximum of 20%)
Compound annual growth in adjusted diluted EPS measured at current rates of exchange	Threshold	At CAGR of 5%, 3% vests	10.7% CAGR	20% (out of maximum of 20%)
Weighting: 20%	Maximum	At CAGR of 10%, 20% vests		
EPS growth at constant exchange rates	2016–2018 LTIP target			
Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	Threshold	At CAGR of 5%, 3% vests	3.9% CAGR	10.5% (out of maximum of 20%)
Weighting: 20%	Maximum	At CAGR of 10%, 20% vests		
Adjusted revenue growth²	2016–2018 LTIP target			
Compound annual growth measured at constant rates of exchange	Threshold	At CAGR of 3%, 3% vests	100.8% ratio	20% (out of maximum of 20%)
Weighting: 20%	Maximum	At CAGR of 5%, 20% vests		
Adjusted Operating cash flow conversion ratio	2016–2018 LTIP target			
Ratio over the performance period at current exchange rates	Threshold	Ratio of 85%, 3% vests	70.5% vesting	
Weighting: 20%	Maximum	Ratio of 95%, 20% vests		
Total vesting level				

Note:

1. Relative TSR: the constituents of the FMCG peer group are listed on page 80.

2. The underpin for adjusted revenue growth measure: the adjusted revenue growth measure can only vest provided the corresponding three-year CAGR of APFO exceeds the CAGR of the threshold performance level for APFO as approved annually in the STI and approved by the Board. The underpin was exceeded with reference to the APFO STI outcomes for 2016, 2017 and 2018.

Impact of the RAI acquisition on 2016 LTIP awards

Following the acquisition of the remaining shares of RAI which the Group did not already own on 25 July 2017, the Committee has taken time to consider how the impact of this major acquisition should be treated for the purposes of the 2017 performance year within the 2016 LTIP award. As a result of this review, the following treatments have been applied in respect of the RAI acquisition:

- relative TSR and EPS growth – no further adjustments were needed as the incremental costs and benefits associated with the acquisition are already factored into performance; and
- adjusted revenue growth and underpin – the 2017 performance year was measured based on organic BAT performance (excluding the impact of RAI and other 2017 acquisitions) to allow for a like-for-like comparison. The 2018 performance year was measured on a representative basis; please refer to page 259 for further details.

The Remuneration Committee believe this is the correct, fair and appropriate way to treat the acquisition of RAI.

LTIP outcome for year ended 31 December 2018

	Number of ordinary shares subject to award	Vesting % achieved (based on 2016–2018 performance period)	Number of ordinary shares to vest	Value of ordinary shares to vest ¹ £'000	Dividend equivalent payment on vesting ² £'000	Total value to vest £'000 (Value shown in Single Figure Table)
Nicandro Durante	140,529	70.5%	99,072	3,001	509	3,510
Ben Stevens	71,669	70.5%	50,526	1,531	259	1,790

These LTIP awards are due to vest on 12 May 2021, and will become exercisable on that same date.

Notes:

1. The value of ordinary shares to vest shown above is based on the average share price for the three-month period ended 31 December 2018 of 3,029.52p.

2. The dividend equivalent amount shown above that will become payable on vesting is the value of the dividend equivalents accrued on the proportion of the award that is due to vest.

Executive Directors' pension entitlements and accruals for the year ended 31 December 2018 – audited[@] Nicandro Durante

Pension values	Accrued pension at year-end 31 Dec 2018 £'000	Additional value of pension on early retirement
UURBS (UK)	168	–
Total	168	–

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

- effective from 1 March 2006 (being the date of his appointment as a member of the Management Board), an accrual of 0.65% for each year of service on a basic £ sterling salary comparable to that of a General Manager of Souza Cruz S.A. At retirement the pension will be based on a 12 month average and will be provided through the UURBS; and
- with effect from 1 January 2011 (being the date of his appointment as Chief Executive Designate), Nicandro Durante commenced an accrual of 2.5% for each year of service on a basic salary in excess of that stated above. At retirement the pension is based on a 12 month average and will be provided through the UURBS.

Total accrued pension is the amount of pension that would be paid annually on retirement based on service to the end of the year.

The pension-related benefits disclosed in the single figures for Executive Directors' remuneration represent Nicandro Durante's net accrual for the period, being the differential between his total pension entitlements as at 31 December 2017 (adjusted for inflation) and as at 31 December 2018, multiplied by 20 in accordance with the UK Directors' Remuneration Report Regulations.

Nicandro Durante receives a pension in payment from the Fundação Albino Souza Cruz (FASC) from Souza Cruz S.A., a Brazilian registered wholly-owned subsidiary of the Group. This pension benefit has been in payment since April 2012 and currently amounts to approximately £445,905 per annum (after adjusting for currency exchange) S.A. reflecting his 31 years' service at Souza Cruz.

Ben Stevens

Pension values	Accrued pension at year-end 31 Dec 2018 £'000	Additional value of pension on early retirement
British American Tobacco UK Pension Fund	101	–
UURBS (UK)	345	–
Total	446	–

Ben Stevens joined the UK Pension Fund after 1989, before the closure of its non-contributory defined benefit section to new members in April 2005. As a result, prior to 6 April 2006, he was subject to the HMRC cap on pensionable earnings (notionally £160,800 for the tax year 2018/19). In addition, he has an unfunded pension promise from the Company in respect of earnings above the cap on an equivalent basis to the benefits provided by the UK Pension Fund. This is provided through the UURBS. Further to the changes to the applicable tax regulations, Ben Stevens has reached his lifetime allowance of £1.8 million and therefore has ceased accrual in the Pension Fund with all future benefits being provided through membership of the UURBS. During the year, there has been no change to the overall pension entitlement of Ben Stevens.

Total accrued pension is the amount of pension that would be paid annually on retirement based on service to the end of the year.

The pension-related benefits disclosed in the single figures for Executive Directors' remuneration represent Ben Stevens' net accrual for the period, being the differential between his total pension entitlements as at 31 December 2017 (adjusted for inflation) and as at 31 December 2018, multiplied by 20 in accordance with the UK Directors' Remuneration Report Regulations.

These commitments are included in note 12 in the Notes on the Accounts. UK Pension Fund members are entitled to receive increases in their pensions once in payment, in line with price inflation (as measured by the Retail Prices Index) and up to 6% per annum.

Notes:

1. **UK Pension Fund:** this is non-contributory. Voluntary contributions paid by an Executive Director and resulting benefits are not shown. No excess retirement benefits have been paid to or are receivable by an Executive Director or past Executive Director.
2. Revised pension arrangements apply from 2019 for new Executive Directors as detailed further in the revised remuneration policy at page 78.

Annual Report on Remuneration continued

Other information relating to Chief Executives' remuneration for the year ended 31 December 2018

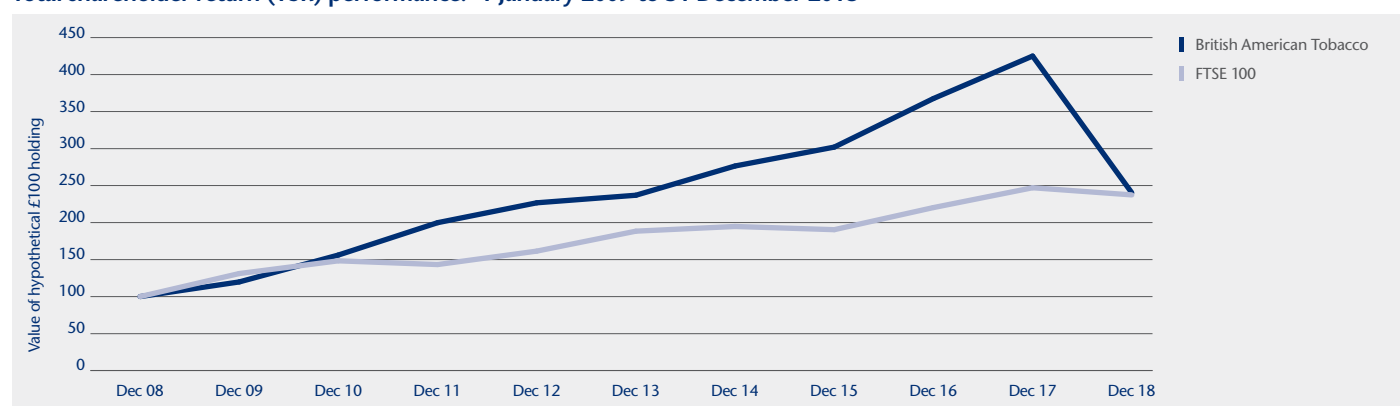
Chief Executives' pay – comparative figures 2009 to 2018

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Chief Executives' 'single figure' of total remuneration (£'000)										
Paul Adams ¹ (to 28 February 2011)	7,713	8,858	5,961	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (from 1 March 2011)	n/a	n/a	5,589	6,340	6,674	3,617	4,543	8,313	10,244 ³	8,837
Annual bonus (STI) paid against maximum opportunity (%)										
Paul Adams ¹ (to 28 February 2011)	67.7	87.0	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (from 1 March 2011)	n/a	n/a	100	85.0	81.3	73.2	100	100	97.2	100
Long-term incentive (LTIP) paid against maximum opportunity (%)										
Paul Adams ¹ (to 28 February 2011)	100	100	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (from 1 March 2011)	n/a	n/a	100	87.1	49.2	0.0	8.7	46.0	96.1	70.5

Notes:

- Paul Adams:** (a) historic data is taken from the Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the UK Directors' Remuneration Report Regulations; and (b) he retired as Chief Executive on 28 February 2011 which affected his STI and LTIP as follows in accordance with the rules of those schemes: (i) his STI for the year ended 31 December 2010 was paid as a 100% cash bonus instead of 50% in cash and 50% in deferred ordinary shares; (ii) the outstanding LTIP awards of ordinary shares vested immediately on his retirement either in full (2008 award) or on a time-apportioned basis (2009 award and 2010 award); and (iii) the LTIP dividend equivalent payments for the LTIP awards which vested at his retirement were also paid in full and/or on a pro-rated time and performance basis.
- Nicandro Durante:** (a) historic data is taken from the Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the UK Directors' Remuneration Report Regulations; and (b) he became Chief Executive on 1 March 2011 and his 'single figure' remuneration for the year ended 31 December 2011 has accordingly been time-apportioned.
- Long-term incentives 2017:** in accordance with the UK Directors' Remuneration Report Regulations, estimates for the values of the vesting 2015 LTIP awards were given in the Annual Report on Remuneration 2017. These amounts have been re-presented to show the actual market value on the date of vesting in 2018.

Total shareholder return (TSR) performance:¹ 1 January 2009 to 31 December 2018



Note:

- Performance and pay chart:** this shows the performance of a hypothetical investment of £100 in ordinary shares (as measured by the TSR for the Company) against a broad equity market index (the FTSE 100 Index) over a period of ten financial years starting from 1 January 2009 through to 31 December 2018 based on 30-trading-day average values. A local currency basis is used for the purposes of the TSR calculation making it consistent with the approach to TSR measurement for the LTIP.

Percentage change in the Chief Executive's remuneration

The following table shows the percentage change in the Chief Executive's remuneration measured against a comparator group comprising the UK employee population on UK employment contracts (2018: 2,097 individuals; 2017: 2,202 individuals).¹ This comparator group is considered to be the most appropriate group as Executive Directors are employed on UK contracts. Using a more widely-drawn group encompassing the worldwide nature of the Group's business would also present practical difficulties in collation and a less relevant comparator, given the significant variations in employee pay across the Group, the differing economic conditions and wide variations in gross domestic product per capita.

	Base salary			Taxable benefits			Short-term incentives		
	2018 £'000	2017 £'000	Percentage change %	2018 £'000	2017 £'000	Percentage change %	2018 £'000	2017 £'000	Percentage change %
Nicandro Durante (Chief Executive)	1,295	1,235	4.9	295	218	35.3	3,275	3,039	7.8
UK-based employees	75	70	5.9	4	4	3.7	25	23	7.5

Notes: UK-based employees:

- The 5.9% increase to average base salary and the increase in short-term incentive awards for UK-based employees is due to an increase in the proportion of more senior staff within the population. UK-based employees were awarded performance-based pay increases in 2018 in the range 0% to 8% with an average of around 3%.
- The data for the UK-based employees comparator group is made up as follows as at 31 December 2018: (1) the weighted average base salaries; (2) the average taxable benefits per grade; and (3) an estimated weighted average target bonus based on that population as at that date.

3 Executive Directors' remuneration for the upcoming year

Base salary for 2019

The Remuneration Committee has determined the following salaries for the Executive Directors.

	Base salary from 1 Apr 2019 £	Percentage change %	Base salary from 1 Apr 2018 £
Executive Directors – salaries			
Nicandro Durante	n/a	n/a	1,310,000
Ben Stevens ¹	924,000	n/a	924,000
Jack Bowles ²	1,175,000	n/a	n/a

The Remuneration Committee considered salary increases for Executive Directors in the context of the level of pay increases for UK employees. These ranged between 0% and 5% based on performance in the prior year, with an average increase of 2%.

Notes:

- The Remuneration Committee determined that Ben Stevens' salary will remain unchanged at £924,000.
- Jack Bowles' salary will next be reviewed in April 2020.

Benefits and pension

No changes have been made to the provision of benefits for 2019. Should the Policy be approved, Jack Bowles and other newly-appointed Executive Directors will participate in the Group's Defined Contribution Pension Plan, equivalent to 15% of base salary.

Annual Report on Remuneration continued

Short-term incentives for 2019 onwards

STI metrics and weightings will remain unchanged from 2018.

2019 STI metrics & weightings

Group share of key markets	10%
Adjusted revenue growth from the Strategic Portfolio ¹	30%
APFO	30%
Adjusted CGFO	30%
Total	100%

Note:

1. The Strategic Portfolio is comprised of the following core strategic categories – both cigarette brands and PRRP brands – in our portfolio, please refer to page 260 for further details:

Strategic Portfolio Definition for STI from 2018

Cigarette brands:

1. GDBs: Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans
2. RAI Companies Strategic Brands: Camel, Natural American Spirit, Newport

PRRP brands:

1. Vapour Brands
2. THP Brands
3. Traditional Oral Brands
4. Modern Oral Brands

Further detail is included in the description of the STI measures for the year ended 31 December 2018 on page 92.

Long-term incentives for 2019 onwards

The TSR comparator group has been expanded to include the Altria Group from the 2019 awards onwards. The performance measures and weightings for the LTIP award to be granted in 2019 will remain unchanged from those for 2018 awards. The measures and targets for 2019 LTIP awards are set out below.

LTIP measures and performance ranges					% of award vesting at maximum	% of award vesting at threshold
Relative TSR					20	3
Median performance vs. FMCG peer group to upper quartile.						
The current constituents of the FMCG peer group as at the date of this report are:						
Altria Group	Colgate-Palmolive	Japan Tobacco	Mondelēz International	Procter & Gamble		
Anheuser-Busch InBev	Danone	Johnson & Johnson	Nestlé	Reckitt Benckiser		
Campbell Soup	Diageo	Kellogg	PepsiCo	Unilever		
Carlsberg	Heineken	Kimberly-Clark	Pernod Ricard			
Coca-Cola	Imperial Brands	LVMH	Philip Morris International			
EPS growth at current exchange rates					20	3
5%–10% compound annual growth in adjusted diluted EPS over the performance period						
EPS growth at constant exchange rates					20	3
5%–10% compound annual growth in adjusted diluted EPS over the performance period						
Adjusted revenue growth					20	3
3%–5% compound annual growth over the performance period						
Adjusted Operating cash flow conversion ratio					20	3
Ratio of 85%–95% over the performance period at current exchange rates						
Total					100	15

As explained in the Annual Statement from the Chairman of the Remuneration Committee on page 74, the Committee has decided to apply a downward adjustment to the 2019 LTIP award. The 2019 award will be made on the basis of the Group's closing share price on 25 February 2019, increased by 15%, with a resulting share price of £33.28. In the event that the Group's share price increases beyond this level at the award date in March 2019, the higher share price shall be used as the basis of the award.

Annual Report on Remuneration continued

4 Chairman and Non-Executive Directors' remuneration for the year ended 31 December 2018 – audited*

The following table shows a single figure of remuneration for the Chairman and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2018 together with comparative figures for 2017.

	Base fee ⁵ £'000		Chair/Committee membership fees ⁵ £'000		Taxable benefits ¹ £'000		Total remuneration £'000	
	2018	2017	2018	2017	2018	2017	2018	2017
Chairman								
Richard Burrows	680	660	–	–	116	129	796	789
Non-Executive Directors								
Sue Farr	93	93	24	19	2	1	119	113
Dr Marion Helmes	93	93	24	19	12	12	129	124
Luc Jobin² (from 25 July 2017)	93	40	24	6	41	18	158	64
Holly Keller Koeppel³ (from 25 July 2017)	93	40	24	6	94	20	211	66
Savio Kwan	93	93	24	19	42	51	159	163
Dimitri Panayotopoulos	93	93	50	44	17	24	160	161
Kieran Poynter	93	93	86	79	–	14	179	186
Retired Non-Executive Directors								
Ann Godbehere (to 25 April 2018)	30	93	7	19	1	1	38	113
Dr Pedro Malan (to 25 April 2018)	30	93	7	19	15	49	52	161
Gerry Murphy (to 26 April 2017)	–	31	–	4	–	–	–	35
Lionel Nowell, III³ (from 25 July 2017 to 12 December 2018)	88	40	23	6	79	5	190	51
Total	1,479	1,462	293	240	419	324	2,191	2,026

Notes:

- Benefits:** the Chairman's benefits in 2018 comprised: health insurance and 'walk-in' medical services £15,000 (2017: £17,000); the use of a Company driver £81,000 (2017: £63,000); home and personal security in the UK and Ireland £4,000 (2017: £13,000); hotel accommodation and related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events £3,000 (2017: £29,000); and commuting flights to London £13,000 (2017: £7,000). The benefits for the other Non-Executive Directors principally comprised travel-related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or events and 'walk-in' medical services. The figures shown are grossed-up amounts (as appropriate) as, in line with the UK market, it is the normal practice of the Company to pay the tax that may be due on any benefits.
- Pension:** Luc Jobin receives a pension in respect of prior service to Imasco Limited (acquired in 2000 by the Group) and Imperial Tobacco Canada Limited, a subsidiary of BAT. In 2018 this amount was CAD\$150,228.96 (£86,849.10) (2017: CAD\$150,228.96 (£89,849.86) for the full year, however Luc Jobin was a Director from 25 July 2017).
- Deferred Compensation Plan for Directors of RAI (DCP):** as former outside directors of RAI, Holly Keller Koeppel and Lionel Nowell, III each participated in the DCP under which they could elect to defer payment of a portion of their RAI retainers and meeting attendance fees to an RAI stock account, a cash account, or a combination of both. Following the acquisition of RAI by BAT, amounts deferred to a stock account (Deferred Stock Units or DSUs) mirror the performance of, and receive dividend equivalents based on, BAT American Depository Shares (ADSs). Amounts deferred to a cash account earn quarterly interest at the prime rate as set by JPMorgan Chase Bank. The respective DSUs of Holly Keller Koeppel and Lionel Nowell, III are disclosed as a note to 'Summary of Directors' share interests' below. The deferred cash account for Lionel Nowell, III showed a balance of US\$125,879.62 at 12 December 2018 (31 December 2017: US\$119,824). DSUs and cash deferred under the DCP will be paid in accordance with the terms of the DCP, section 409A of the US Internal Revenue Code of 1986, as amended, and the Director's existing deferral elections.
- Committee memberships:** are shown, together with changes during the year, in the reports of the respective committees in the Governance sections of the Directors' Report.
- Non-Executive Directors' fees structure 2018:** is set out in the table below.

	Fees from 1 May 2018 £	Fees to 30 April 2018 £
Base fee	92,700	92,700
Senior Independent Director – supplement	37,100	36,000
Audit Committee: Chairman	39,200	36,000
Audit Committee: Member	13,500	11,000
Nominations Committee: Chairman	–	–
Nominations Committee: Member	12,000	11,000
Remuneration Committee: Chairman	39,200	36,000
Remuneration Committee: Member	13,500	11,000

Chairman and Non-Executive Directors' fees and remuneration for the upcoming year

As described in the Annual Report on Remuneration for the year ended 31 December 2017, the Chairman's fee was increased from £665,000 to £685,000 from 1 April 2018. In keeping with the level of pay awards granted to UK employees based on a 2% increase in budget, the Remuneration Committee determined the Chairman's fee will be £698,000 with effect from 1 April 2019 (+1.9%).

The fees for Non-Executive Directors are scheduled to be reviewed in April 2019 with any changes being effective from 1 May 2019.

5 Directors' share interests

Summary of Directors' share interests – audited®

	Outstanding scheme interests 31 Dec 2018					Total of all interests in ordinary shares at 31 Dec 2018
	Ordinary shares held at 31 Dec 2018	Unvested awards subject to performance measures and continued employment (LTIP)	Unvested awards subject to continued employment only (DSBS)	Unvested interests (Sharesave)	Total ordinary shares subject to outstanding scheme interests	
Executive Directors						
Nicandro Durante ^{1,3}	345,201	415,213	90,752	912	506,877	852,078
Ben Stevens ^{2,3}	126,032	210,165	52,928	1,038	264,131	390,163
Chairman						
Richard Burrows	19,000					19,000
Non-Executive Directors						
Sue Farr	–					–
Dr Marion Helmes	4,500					4,500
Luc Jobin ⁴	45,236					45,236
Holly Keller Koeppel ^{4,5}	8,416					8,416
Savio Kwan ³	6,616					6,616
Dimitri Panayotopoulos	3,300					3,300
Kieran Poynter	5,000					5,000

Notes:

- Nicandro Durante:** ordinary shares held include 2,316 held by the trustees of the BAT Share Incentive Plan (SIP).
- Ben Stevens:** ordinary shares held include 669 held by the trustees of the SIP.
- Changes from 31 December 2018:** (a) Nicandro Durante: purchases of six ordinary shares on 2 January 2019 and six ordinary shares on 6 February 2019 under the SIP; acquisition of 41 ordinary shares on 7 February 2019 as a result of reinvestment of dividend income under the SIP; acquisition of 3,250 ordinary shares on 12 February 2019 as a result of reinvestment of dividend income; and acquisition of 2,741 ordinary shares on 12 February 2019 as a result of reinvestment of dividend income by Mrs Durante. (b) Ben Stevens: purchases of six ordinary shares on 2 January 2019 and six ordinary shares on 6 February 2019 under the SIP; and acquisition of 12 ordinary shares on 7 February 2019 as a result of reinvestment of dividend income under the SIP. (c) Savio Kwan: purchase of 115 ordinary shares as a result of the reinvestment of dividend income on 14 February 2019. There were no changes in the interests of the Chairman and the other Non-Executive Directors.
- American Depositary Shares (ADSs):** each of the interests in ordinary shares held by Luc Jobin and Holly Keller Koeppel consist of an equivalent number of BAT ADSs each of which represents one ordinary share in the Company.
- Deferred Stock Units (DSUs):** at the date of this report Holly Keller Koeppel, being a former director of RAI and a participant in the Deferred Compensation Plan for Directors of RAI (DCP), holds DSUs which were granted prior to becoming a Director of BAT – 21,842.98 DSUs (31 December 2018: 21,456.34 DSUs). Each DSU entitles the holder to receive a cash payment upon ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs will increase on each dividend date by reference to the value of dividends declared on the ADSs underlying the DSUs. Lionel Nowell, III held 38,941.32 DSUs as at 12 December 2018.
- Director changes during 2018:** Ann Godbehere and Dr Pedro Malan retired on 25 April 2018; Lionel Nowell, III retired on 12 December 2018. Shares held at the date of retirement: (a) Ann Godbehere held 3,100 ADSs, each of which represented one ordinary share in the Company; (b) Dr Pedro Malan did not hold any shares in the Company; and (c) Lionel Nowell, III held 17,436 ADSs, each of which represented one ordinary share in the Company.

Executive Directors' shareholding guidelines

Executive Directors are encouraged to build up a high level of personal shareholding to ensure a continuing alignment of interests with shareholders. The shareholding guidelines require Executive Directors to hold ordinary shares equal to the value of a percentage of salary as set out in the table below.

	Shareholding requirements (% of base salary 31 Dec 2018)	No. of eligible ordinary shares held at 31 Dec 2018	Value of eligible ordinary shares held at 31 Dec 2018 ¹ £m	Actual percentage (%) of base salary at 31 Dec 2018
Nicandro Durante	500	433,637	10.8	827.6
Ben Stevens	350	178,291	4.5	482.4

Eligibility of shares: (a) unvested ordinary shares under the DSBS, which represent deferral of earned bonus, are eligible and count towards the requirement; (b) unvested ordinary shares under the LTIP are not eligible and do not count towards the requirement during the performance period, but the estimated notional net number of ordinary shares held during the LTIP Extended Vesting Period are eligible and will count towards the requirement; and (c) ordinary shares held in trust under the all-employee share ownership plan (SIP) are not eligible and do not count towards the shareholding requirement.

Notes:

- Value of ordinary shares shown above:** this is based on the closing mid-market share price on 31 December 2018 of 2,500p.
- Meeting the guidelines:** if an Executive Director does not, at any time, meet the requirements of the shareholding guidelines, the individual may, generally, only sell a maximum of up to 50% of any ordinary shares vesting (after tax) under the Company share plans until the threshold required under the shareholding guidelines has been met.
- Waiver of compliance with guidelines:** this is permitted with the approval of the Remuneration Committee in circumstances where a restriction on a requested share sale could cause undue hardship. No such applications were received from the Executive Directors during 2018.

Non-Executive Directors are not subject to any formal shareholding requirements although they are encouraged to build a small interest in ordinary shares during the term of their appointment.

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

Annual Report on Remuneration continued

Executive Directors' outstanding scheme interests – audited[@]

	Plan	At 1 Jan 2018	Awarded in 2018	Lapsed in 2018	Exercised/ released in 2018	At 31 Dec 2018	Exercise price (p)	End of performance period	Date from which exercisable or shares released
Nicandro Durante	LTIP ¹	127,448		4,971	122,477	–		31 Dec 17	27 Mar 18
	LTIP ²	140,529				140,529		31 Dec 18	12 May 21
	LTIP ³	114,181				114,181		31 Dec 19	27 Mar 22
	LTIP ³		160,503			160,503		31 Dec 20	26 Mar 23
	DSBS	19,419			19,419	–			27 Mar 18
	DSBS	29,690				29,690			29 Mar 19
	DSBS	28,545				28,545			27 Mar 20
	DSBS		32,517			32,517			26 Mar 21
	Sharesave	543				543	2,787		1 Oct 19
Ben Stevens	Sharesave	369				369	4,056		1 May 22
	LTIP ¹	69,641		2,716	66,925	–		31 Dec 17	27 Mar 18
	LTIP ²	71,669				71,669		31 Dec 18	12 May 21
	LTIP ³	58,232				58,232		31 Dec 19	27 Mar 22
	LTIP ³		80,264			80,264		31 Dec 20	26 Mar 23
	DSBS	12,732			12,732	–			27 Mar 18
	DSBS	19,468				19,468			29 Mar 19
	DSBS	15,805				15,805			27 Mar 20
	DSBS		17,655			17,655			26 Mar 21
	Sharesave	543				543	2,787		1 Oct 19
	Sharesave	495				495	3,026		1 May 20

Notes:

1. Details of the performance condition for the LTIP awards granted in 2015 (which vested during 2018), and of achievement against that condition in the period to 31 December 2017, was set out in the Annual Report on Remuneration for the year ended 31 December 2017.
2. Details of the performance condition attached to 2016 LTIP awards, and of achievement against that condition in the period to 31 December 2018, are set out on page 94.
3. Details of the performance condition attached to 2017 and 2018 LTIP awards are set out on page 103.

Further details in relation to scheme interests granted during the year ended 31 December 2018

	Plan	Ordinary shares awarded	Price per ordinary share at award ¹	Face value of award £'000	Exercise price	Proportion of award vesting for threshold performance (%)	Performance period	Date from which exercisable or shares released
Nicandro Durante	LTIP ²	160,503	3,894p	6,250	n/a	15	2018–2020	26 Mar 23
	DSBS ³	32,517			n/a	n/a	n/a	26 Mar 21
Ben Stevens	LTIP ²	80,264	3,894p	3,125	n/a	15	2018–2020	26 Mar 23
	DSBS ³	17,655			n/a	n/a	n/a	26 Mar 21

Notes:

1. The price per ordinary share is the price used to determine the number of ordinary shares subject to the awards, which is calculated as the average of the closing mid-market price of an ordinary share over the three dealing days preceding the date of grant.
2. Details of the performance condition attached to these LTIP awards are set out on page 103.
3. These DSBS awards were granted to deliver 50% of the annual bonus earned for the year ended 31 December 2017, details of which are set out on page 104.

Further details in relation to performance conditions attaching to outstanding scheme interests

	LTIP awards granted in 2017			LTIP awards granted in 2018		
	1 January 2017–31 December 2019			1 January 2018–31 December 2020		
	Weighting	Threshold	Maximum	Weighting	Threshold	Maximum
Relative TSR Ranking against a peer group of international FMCG companies	20%	At median, 3% of award vests	At upper quartile, 20% of award vests	20%	At median, 3% of award vests	At upper quartile, 20% of award vests
EPS growth at current exchange rates Compound annual growth in adjusted diluted EPS measured at current rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
EPS growth at constant exchange rates Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
Adjusted revenue growth Compound annual growth measured at constant rates of exchange	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests
Adjusted operating cash flow conversion ratio Measured at current rates of exchange, as a percentage of APFO	20%	At 85%, 3% of award vests	At 95%, 20% of award vests	20%	At 85%, 3% of award vests	At 95%, 20% of award vests

For LTIP awards granted from 2016 onwards, an additional vesting period of two years applies from the third anniversary of the date of grant.

Impact of the RAI acquisition on 2017 and 2018 LTIP awards

The Committee has taken time to consider how the impact of the RAI acquisition should be treated for the purposes of the 2017 and 2018 performance years. As a result of this review, the following treatments will apply:

- relative TSR and EPS growth – no further adjustments are needed as the incremental costs and benefits associated with the acquisition are already factored into performance;
- adjusted revenue growth – the 2017 performance year has been measured based on organic BAT performance versus the 2016 base year to allow for a like-for-like comparison. The contribution of RAI (and other 2017 acquisitions) has been included from 2018 onwards, with the growth against 2017 being on a representative basis; and
- operating cash flow conversion ratio – the 2017 performance year has been measured based on organic BAT performance, excluding RAI profit and cash, and any additional costs related to the acquisition. The contribution of RAI (and other 2017 acquisitions) has been included on a representative basis for the 2018 performance year.

The Committee believes this is the correct, fair and appropriate way to treat the acquisition of RAI.

Annual Report on Remuneration continued

6 Other disclosures

STI targets and outcome for the year ended 31 December 2017

As explained on page 92, in previous years, publication of the STI targets has been deferred for one year on the basis of the commercially sensitive nature of those targets. Notwithstanding that the Remuneration Committee continues to consider that STI targets remain commercially sensitive, the Remuneration Committee has, on balance, decided that publication of STI targets will in future be published in the remuneration report following the end of the relevant performance year. Consequently, this year's remuneration report sets out the targets relating to both the 2017 and 2018 performance years.

STI: performance measure	Description of measure and target 2017	Result achieved	Vesting percentage
Adjusted profit from operations (APFO) (growth over prior year)	APFO is the adjusted profit from operations at constant rates of exchange for the year ended 31 December 2017 and is assessed on an organic basis.	Growth over 2016 of 4% on an organic basis	21% (out of maximum of 40%)
Weighting: 40%	STI target 2017		
	Threshold	2% growth over 2016	
	Maximum	5% growth over 2016	
Group's share of Key Markets (growth over prior year)	The Group's retail market share in its Key Markets accounts for around 80% of the volumes of the Group's subsidiaries. The Group's share is calculated from data supplied by retail audit service providers and is rebased as and when the Group's Key Markets change. When rebasing does occur, the Company will also restate history and provide fresh comparative data on the markets.	Global market share in key markets grew over 2016 by 40 bps.	20% (out of maximum of 20%)
Weighting: 20%	STI target 2017		
	Threshold	5 bps growth over 2016	
	Maximum	15 bps growth over 2016	
Global Drive Brands (GDB) and Key Strategic Brands (KSB) volumes (growth over prior year)	GDB volumes comprise the cigarette volumes of Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans, and include volumes of the Fine Cut variants of those brands sold in Western Europe. KSB volumes comprise the cigarette volumes of State Express 555 and Shuang Xi associated with the joint venture with China National Tobacco Corporation in China. GDB and KSB volumes are assessed on an organic basis.	GDB and KSB volumes grew over 2016 by 7.5% on an organic basis.	20% (out of maximum of 20%)
Weighting: 20%	STI target 2017		
	Threshold	1% growth over 2016	
	Maximum	3% growth over 2016	
Adjusted cash generated from operations (Adjusted CGFO) (as against adjusted budget)	Adjusted CGFO is defined as net cash generated from operating activities, before the impact of adjusting items, dividends paid to non-controlling interests and received from associates, net interest paid and net capital expenditure. Adjusted CGFO is measured at constant rates of exchange.	Adjusted CGFO exceeded 2017 budget by 11% (equivalent to 94% operating cash flow conversion ¹)	20% (out of maximum of 20%)
Weighting: 20%	STI target 2017		
	Threshold	Equivalent to 85% operating cash flow conversion	
	Maximum	Equivalent to 95% operating cash flow conversion	

	Available STI award as % of base salary	Corporate result %	Individual performance adjustment factor %	STI award achieved % of base salary	STI award achieved £'000 (Value shown in Single Figure Table for 2017)
Nicandro Durante	250	81%	20%	243.1%	3,039
Ben Stevens	190	81%	20%	184.8%	1,650

The STI awards shown above were paid as 50% in cash and 50% as an award under the DSBS granted in March 2018, the details of which are set out on page 102 above.

Note:

1. In 2017 the operating cash flow conversion ratio is affected by the exclusion of results from RAI, post acquisition. The conversion ratio is also impacted by the application of IFRS 15 as detailed on page 264 which reduces the ratio from 96% (as reported in 2017) to 94%.

Payments to former Directors and payments for loss of office: the Company did not make: (1) any payments of money or other assets to former Directors; or (2) any payments to Directors for loss of office during the year ended 31 December 2018.

External directorships: Nicandro Durante is a non-executive director of Reckitt Benckiser Group and he retains the fees for this appointment; 2018: £122,000 (2017: £120,000). Ben Stevens is a non-executive director of ISS A/S and he retains the fees for this appointment; 2018: DKK896,250 (£106,373) (2017: DKK892,500 (£105,080)).

Relative importance of spend on pay

To illustrate the relative importance of the remuneration of the Directors in the context of the Group's finances overall, the Remuneration Committee makes the following disclosure:

Item	2018 £m	2017 £m	% change
Remuneration of Group employees ¹	3,005	2,679	12.2
Remuneration of Executive Directors	14	16	-14.1
Remuneration of Chairman and Non-Executive Directors	2	2	8.1
Total dividends ²	4,463	4,465	–

Notes:

1. **Total remuneration of Group employees:** this represents the total employee benefit costs for the Group, set out on page 138 within note 3a in the Notes on the Accounts.
2. **Total dividends:** this represents the total dividend declared in 2018, set out on page 247 within the Statement of Changes in Equity.

Shareholder dilution – options and awards outstanding

Satisfaction of Company share plan awards in accordance with the Investment Association's Principles of Remuneration	New ordinary shares issued by the Company during the year ended 31 December 2018
<ul style="list-style-type: none"> – by the issue of new ordinary shares; – ordinary shares issued from treasury only up to a maximum of 10% of the Company's issued share capital in a rolling 10-year period; – within this 10% limit, the Company can only issue (as newly issued ordinary shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans; and – the rules of the Company's Deferred Share Bonus Scheme (DSBS) do not allow for the satisfaction of awards by the issue of new ordinary shares. 	<ul style="list-style-type: none"> – 137,470 ordinary shares issued by the Company in relation to the Sharesave Scheme; – a total of 765,277 Sharesave Scheme options over ordinary shares in the Company were outstanding at 31 December 2018, representing 0.03% of the Company's issued share capital (excluding shares held in treasury); and – options outstanding under the Sharesave Scheme are exercisable until the end of October 2023 at option prices ranging from 2,600p to 4,056p.

Annual Report on Remuneration continued

7 The Remuneration Committee and shareholder engagement

Remuneration Committee current members

Dimitri Panayotopoulos (Chairman)
Sue Farr
Dr Marion Helmes (from 14 January 2019)
Savio Kwan

Role

The Remuneration Committee is responsible for:

- determining and proposing the Directors' Remuneration Policy (covering salary, benefits, performance-based variable rewards and pensions) for shareholder approval;
- determining, within the terms of the approved Directors' Remuneration Policy, the specific remuneration packages for the Chairman and the Executive Directors, on appointment, on review and, if appropriate, any compensation payment due on termination of appointment;
- the setting of targets applicable for the Company's performance-based variable reward scheme and determining achievement against those targets, exercising discretion where appropriate and as provided by the applicable scheme rules and the Directors' Remuneration Policy;
- setting remuneration for members of the Management Board and the Company Secretary; and
- monitoring and advising the Board on any major changes to the policy on employee benefit structures for the Group.

Remuneration Committee terms of reference

Revised Remuneration Committee terms of reference have been adopted by the Board to reflect revisions to internal governance processes to align with the requirements of the UK Corporate Governance Code 2018. The revised Remuneration Committee terms of reference incorporate:

- a requirement for any appointee as Committee Chairman to have served on a remuneration committee for at least 12 months prior to appointment;
- the Committee's responsibility for reviewing workforce remuneration and related policies, and the alignment of incentives and rewards with culture, and to take these into account when setting the policy for Executive Director remuneration;
- the requirement for the Committee to maintain a formal policy for post-employment shareholding requirements for Executive Directors, encompassing both unvested and vested shares; and
- responsibility for the Committee to determine the remuneration package for the Company Secretary (in addition to Management Board members) on appointment, review and termination.

Attendance at meetings in 2018

Name	Member since	Attendance/ Eligible to attend Scheduled	Attendance/ Eligible to attend Ad Hoc
Dimitri Panayotopoulos	2015	4/4	3/3
Sue Farr ^{1(b)}	2016	4/4	1/3
Ann Godbehere ^{2(b)}	2011–2018	1/1	0/0
Luc Jobin ^{1(c), 2(c)}	2017–2019	4/4	2/3
Savio Kwan	2016	4/4	3/3

Notes:

- Number of meetings in 2018: (a) the Committee held seven meetings in 2018, three of which were ad hoc and convened at short notice; (b) Sue Farr did not attend the ad hoc meetings in October and November due to prior commitments; and (c) Luc Jobin did not attend the ad hoc meeting in November due to prior commitments.
- Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2016 Provision D.2.1. and applicable NYSE listing standards; (b) Ann Godbehere ceased to be a member of the Committee upon her retirement as a Non-Executive Director on 25 April 2018; and (c) Luc Jobin ceased to be a member of the Committee with effect from 14 January 2019.
- Other attendees: the Chairman, the Chief Executive, the Chief Executive Designate, the Group Human Resources Director, the Talent and Culture Director Designate, the Group Head of Reward and other senior management, including the Company Secretary, may be consulted and provide advice, guidance and assistance to the Remuneration Committee. They may also attend Committee meetings (or parts thereof) by invitation. Neither the Chairman nor any Executive Director plays any part in determining their own respective remuneration.
- Deloitte LLP: as the Remuneration Committee's remuneration consultants, they may attend meetings of the Remuneration Committee. As a member of the Remuneration Consultants Group (RCG), Deloitte agrees to the RCG Code of Conduct which seeks to clarify the scope and conduct of the role of executive remuneration consultants when advising UK-listed companies.



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

Remuneration Committee advisers during 2018

Independent external advisers	Services provided to the Remuneration Committee	Fees	Other services provided to the Company
Deloitte LLP	General advice on remuneration matters including: market trends and comparator group analysis; policy review and shareholder engagement perspectives; and independent measurement of the relative TSR performance conditions.	2018: £136,700 2017: £86,000	Tax, corporate finance and consulting services to Group companies worldwide.
Herbert Smith Freehills LLP	Advice in respect of share plan regulations is provided to the Company and is available to the Remuneration Committee.	Fees relate to advice given to the Company	General corporate legal and tax advice principally in the UK.
Ernst & Young LLP	Provision of personal tax advice regarding Executive Directors' international pension planning.	Fees relate to advice given to the Company	Tax, corporate finance and consulting services to Group companies worldwide.
KPMG LLP	Specified procedures to assist in the assessment of the calculations of the STI bonus outcomes and future targets.	2018: £18,000 2017: £15,000	Audit and tax services and other non-audit services.

Regular work programme 2018

The Committee:

- reviewed salaries for the Executive Directors from 1 April 2018 taking into account both the Pay Comparator Group positioning and the pay and employment conditions elsewhere in the Group, particularly in the UK;
- reviewed the Chairman's fee from 1 April 2018 with specific reference to the level of pay awards granted to UK employees;
- assessed the achievement against the targets for the 2017 STI award and set the STI targets for 2018;
- assessed, and agreed to apply, an individual adjustment factor to the 2017 STI outcomes for Executive Directors;
- assessed the achievement against the performance conditions for the vesting of the LTIP 2015 award, determined the contingent level of LTIP awards for May 2018 and confirmed the associated performance conditions;
- assessed the achievement against the targets for the 2017 Share Reward Scheme and set the targets for the 2018 award;
- monitored the continued application of the Company's shareholding guidelines for the Executive Directors;
- reviewed the Annual Statement and the Annual Report on Remuneration for the year ended 31 December 2017 prior to its approval by the Board and subsequent shareholder submission to the Company's AGM on 25 April 2018;
- analysed the 2018 AGM results on remuneration voting and reviewed market trends in the context of that annual general meeting season together with ongoing corporate governance trends;
- reviewed the achievement against the performance measures for the six months to 30 June 2018 for the STI 2018 and the outstanding LTIP awards; and
- reviewed the Remuneration Committee's effectiveness following the Board evaluation process.

Directors' Remuneration Policy

The Committee considered amendments to the current Directors' Remuneration Policy, taking into account shareholder feedback and the requirements of the UK Corporate Governance Code 2018 and applicable regulations, and determined the revised Directors' Remuneration Policy to be proposed for shareholder approval at the Company's AGM on 25 April 2019.

Other incentive matters 2018

The Committee:

- approved the remuneration package in respect of the appointment of Jack Bowles as an Executive Director with effect from 1 January 2019;
- reviewed the terms of appointment and associated remuneration, and terms of termination of employment, in connection with Management Board changes during the year;
- reviewed the alignment of Group workforce remuneration and related policies with the Directors' Remuneration Policy;
- approved changes to the constituents for the STI volume share metrics, based on market changes and reporting capabilities;
- reviewed post-employment benefits arrangements across the Group; and
- noted preliminary insights on UK gender pay reporting for 2018.

Annual Report on Remuneration continued

Voting on the Remuneration Report at the 2018 AGM and engagement with shareholders

At the 2018 AGM on 25 April, the shareholders considered and voted on the 2017 Directors' Remuneration Report as set out on the table below. No other resolutions in respect of Directors' remuneration and incentives were considered at the 2018 AGM. The Directors' Remuneration Policy was approved by shareholders at the AGM on 27 April 2016. A summary of this Policy is on pages 109 to 113.

	Approval of Directors' Remuneration Report 2017	Approval of Directors' Remuneration Report 2018
Percentage for	92.05	75.68
Votes for (including discretionary)	1,346,502,332	1,326,830,858
Percentage against	7.95	24.32
Votes against	116,220,156	426,315,629
Total votes cast excluding votes withheld	1,462,722,488	1,753,146,487
Votes withheld ¹	13,100,905	30,934,018
Total votes cast including votes withheld	1,475,823,393	1,784,080,505

Note:

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

The Company acknowledges that a number of shareholders did not support the resolution regarding the 2017 Directors' Remuneration Report. Following the Company's 2018 AGM, the Company has undertaken an extensive programme of engagement with shareholders as part of a full review of the Company's Directors' Remuneration Policy to understand shareholder perspectives in depth. The Committee has carefully considered the feedback received and has taken this into account in revising the Company's Directors' Remuneration Policy, presented for shareholders' consideration at pages 76 to 89.

8 Summary of our Directors' Remuneration Policy

The Remuneration Policy, that sets the basis for remuneration in 2018, for the Executive Directors and the Non-Executive Directors was approved by shareholders at the AGM on 27 April 2016.

The full Directors' Remuneration Policy is set out in the Remuneration Report 2015 contained in the Annual Report for the year ended 2015, which is available at www.bat.com.

To assist in reviewing our Annual Report on Remuneration, we have summarised the key elements of the Directors' Remuneration Policy as it principally applies to remuneration paid during 2018.

Directors' Remuneration Policy summary: our remuneration strategy

Our principles of remuneration – summary

The Remuneration Committee's remuneration principles seek to reward the delivery of the Group's strategy in a simple and straightforward manner which is aligned to shareholders' long-term sustainable interests.

The remuneration structure comprises fixed and variable elements. These rewards are structured and designed to be both transparent and stretching while recognising the skills and experience of the Executive Directors and ensuring a market competitiveness for talent. The fixed elements comprise base salary, pension and other benefits. The variable elements are provided via two performance-based incentive schemes (a single short-term cash and share incentive annual bonus plan (STI), and a single long-term incentive plan (LTIP)).

In applying these principles, the Remuneration Committee maintains an appropriate balance between fixed pay and the opportunity to earn performance-related remuneration with the performance-based elements forming, at maximum opportunity, between 75% and 85% of the Executive Directors' total remuneration. An annual review is conducted to ensure application and alignment of the Directors' Remuneration Policy with the business needs to promote the long-term success of the Company.

How each key element of our remuneration supports the strategic priorities

Fixed remuneration: base salary pension benefits	<ul style="list-style-type: none"> – attract and retain high calibre individuals to deliver the Company's strategic plans by offering market-competitive levels of guaranteed cash to reflect an individual's skills, experience and role within the Company; – provide competitive post-retirement benefit arrangements which recognise both the individual's length of tenure with the Group and the external environment in the context of attracting and retaining senior high calibre individuals to deliver the Group's strategy; and – provide market-competitive benefits consistent with the role which: (1) help to facilitate the attraction and retention of high calibre, senior individuals to deliver the Company's strategic plans; and (2) recognise that such talent is global in source and that the availability of certain benefits (e.g. relocation, repatriation, taxation compliance advice) will from time to time be necessary to avoid such factors being an inhibitor to accepting the role.
Variable remuneration: short-term incentives	<ul style="list-style-type: none"> – incentivise the attainment of corporate targets aligned to the strategic objectives of the Company on an annual basis; – performance-based award in the form of cash and deferred ordinary shares, so that the latter element ensures alignment with shareholders' long-term interests; – strong alignment and linkage between individual and corporate annual objectives via the application of an individual performance adjustment factor to the corporate result; and – ensure, overall, a market-competitive package to attract and retain high calibre individuals to deliver the Group's strategy.
Variable remuneration: long-term incentives	<ul style="list-style-type: none"> – incentivise long-term sustainable growth in total shareholder return (TSR), adjusted diluted earnings per share (EPS) and adjusted revenue growth, together with the achievement of a consistently high measure of operating profit conversion ratio over a three-year period; to facilitate the appointment of high calibre, senior individuals required to deliver the Company's strategic plans; and to promote the long-term success of the Company; and – to put in place a combination of measures with appropriately stretching targets around the long-term plan that provides a balance relevant to the Group's business and market conditions, as well as providing alignment between Executive Directors and shareholders. In setting performance criteria and thresholds/targets, the Remuneration Committee takes account of the Group's long-term plans and market expectations.

Annual Report on Remuneration continued

Directors' Remuneration Policy summary: elements of pay for the current Executive Directors

Base salary

Normally paid in 12 equal monthly instalments during the year and is pensionable.

Normally reviewed annually in February (with salary changes effective from April) or subject to an ad hoc review on a significant change of responsibilities.

Salaries are reviewed against appropriate market data, including general UK pay trends and a company size and complexity model based on UK companies, as well as a Pay Comparator Group.

Increases in salary will generally be in the range of the increases in the base pay of other UK-based employees in the Group.

Year-on-year increases for Executive Directors, currently in role, will not exceed 10% per annum during the policy period.

A significant change in responsibilities may be reflected in an above-average increase (which may exceed 10%) of salary.

Pensions

Pension Fund: non-contributory defined benefit section

Accrual rates differ according to individual circumstances but do not exceed 1/40th of pensionable salary for each year of pensionable service.

Retains a scheme-specific salary cap (currently £160,800 effective 1 April 2018).

Benefits in excess of the cap are accrued in the UURBS.

Pension Fund: defined contribution section

In place since April 2005.

Annual contribution up to the equivalent of 35% of base salary would be made.

Actual level of contribution paid to the Pension Fund is restricted to take account of the annual allowance and lifetime allowance.

Balance of contribution payable as a gross cash allowance or accumulated in the UURBS.

UURBS

Accrued defined benefits in the UURBS may be received on retirement either as a single lump sum or as an ongoing pension payment.

Pension accrual in the UURBS is at the same rate as in the Pension Fund (1/40th per annum).

Benefits

The Company currently offers the following range of contractual benefits to Executive Directors (on an individually specific basis) with maximum annual values (subject to periodic inflation-related increases where applicable):

- **car or car allowance:** £20,000;
- **use of a Company driver:** variable maxima as the actual cost is dependent on the miles driven in any year;
- variable maxima will apply to the cost of **private medical insurance** which is dependent on an individual's circumstances and is provided on a family basis;
- **GP 'walk-in' medical services located close to the Group's headquarters in London:** £5,000;
- **personal life and accident insurance** designed to pay out at a multiple of four and five times base salary respectively;
- **employment tax advice** as required, but not exceeding £30,000 and tax equalisation payments as agreed by the Remuneration Committee from time to time; and
- **relocation and shipment expenses** at the beginning and end of service as an Executive Director up to £200,000 and, in addition, **housing and education allowances** or other similar arrangements, as appropriate to the individual's family circumstances.

With the exception of the car or car allowance, in line with the UK market and the practice followed for all the Group's other UK employees, it is also practice to pay the tax that may be due on these benefits.

Short-term incentives – STI

	Chief Executive		Finance Director	
	Maximum	On-target	Maximum	On-target
STI opportunity (Group outcome delivered 50% cash; 50% deferred ordinary shares, individual performance adjustment factor delivered in cash)	250%	125%	190%	95%
Performance adjustment and clawback and malus	<p>Individual performance adjustment factor: up to 20% uplift possible if individual performance is assessed as outstanding (up to the maximum opportunity) and paid in cash. Up to 50% reduction possible if individual performance is assessed as poor.</p> <p>Clawback and malus: provisions are in place.</p>			
Performance measures and weightings	<p>The Remuneration Committee sets the performance targets each year at the beginning of the performance period and is able to vary the exact measures and the weighting of them from year to year.</p> <p>The performance measures are detailed for 2018 on page 92 and for 2019 and on page 98.</p>			

Long-term incentives – LTIP

	Chief Executive	Finance Director
LTIP opportunity	Maximum 500%	Maximum 350%
Performance measures and weightings	The Remuneration Committee may make revisions to the performance measures, their weightings, thresholds and target levels as permitted under the LTIP rules. The performance measures are detailed for the 2016 – 2018 performance period on page 94 and for the award to be granted in 2019 on page 99.	
Dividend equivalent payment and clawback and malus	Dividend equivalent payment: on all vesting ordinary shares. Clawback and malus: provisions are in place.	
LTIP extended vesting period	For awards granted in 2016 and subsequently, an additional vesting period of two years applies from the third anniversary of the date of grant. Where this applies, LTIP awards vest only to the extent that: – the performance conditions are satisfied at the end of the three-year performance period; and – an additional vesting period of two years from the third anniversary of grant is completed.	

Other elements of remuneration for the Executive Directors

All-employee share plans

Executive Directors are eligible to participate in the Company's all-employee share schemes:

- **Sharesave Scheme:** a UK tax-advantaged approved scheme where eligible employees are granted savings-related share options to subscribe for ordinary shares in the Company.
- **Share Incentive Plan (SIP):** a UK tax-advantaged plan incorporating: (1) Partnership Scheme; and (2) Share Reward Scheme.

Shareholding requirements

Chief Executive	Finance Director	
% of salary	% of salary	Ordinary shares awarded but not yet vested and for which performance conditions have already been met under the DSBS element of the STI are included in the calculation of the threshold for the shareholding guidelines for the Executive Directors.
500%	350%	The estimated notional net number of ordinary shares held by an Executive Director in the LTIP Extended Vesting Period will also count towards the respective shareholding requirements.

External Board appointments

Each Executive Director is limited to one external appointment, with the permission of the Board. Any fees from such appointments are retained by the individual in recognition of the increased level of personal commitment required.

Annual Report on Remuneration continued

Directors' Remuneration Policy summary: other policy provisions in relation to Executive Directors

Service contracts

The current Executive Directors are employed on a one-year rolling contract, executed at the time of the original appointment.

The Remuneration Committee may exercise its discretion to award two- or three-year contracts in the event that the Executive Director is recruited externally or from overseas.

Contracts with an initial period of longer than one year will then reduce to a one-year rolling contract after the expiry of the initial period.

Policy on payment for loss of office

Principles

The principles on which the Remuneration Committee will approach the determination for payments on termination are as follows:

- compensation for loss of office in service contracts is limited to no more than 12 months' salary and benefits excluding pension;
- in the event that the contract is terminated for cause (such as gross misconduct), the Company may terminate the contract with immediate effect and no compensation would be payable; and
- the service contracts of the Executive Directors are terminable on the expiry of 12 months' notice from either the Director or the Company which means that, where an internal successor has not been identified, the Company would have sufficient time to replace the Executive Director through an orderly external recruitment process and ideally have a period of handover.

Treatment of awards under the share incentive schemes: STI/DSBS and LTIP; All-employee scheme: SRS

Executive Directors do not have contractual rights to the value inherent in any awards held under the share incentive schemes. The release of awards is dependent on 'leaver' status and is at the discretion of the Remuneration Committee.

The Remuneration Committee retains discretion in deciding 'good leaver' status other than in cases of automatic 'good leavers' as set out in the applicable provisions of the DSBS and LTIP rules. The discretionary powers are intended to provide flexibility as Executive Directors may leave employment for a broad variety of reasons which may not necessarily fall within the prescribed category of 'good leaver'. The Remuneration Committee exercises its discretion by reference to guidelines which set out its agreed relevant factors to assist in the determination of a leaver's status.

In exercising its discretion, the Remuneration Committee will also take into account the individual's overall performance as well as their contribution to the Company during their total period of employment.

Details of how leavers are assessed as 'good leavers' are set out in the Remuneration Policy.

Directors' Remuneration Policy summary: elements of pay for the current Chairman and Non-Executive Directors

Fees – Chairman

Considered annually by the Remuneration Committee using data from the FTSE 30 companies and taking into account the breadth of that role, coupled with its associated levels of personal commitment and expertise in the overall context of international reach and the 'ambassadorial' aspect of the role. The Chairman does not participate in discussions on his level of remuneration.

It is anticipated that any future aggregate increase to any of the fees for the Chairman and Non-Executive Directors will be within the salary range which governs the Company's annual salary reviews for UK-based staff and will not exceed the equivalent of 10% per annum in aggregate.

Benefits, travel and related expenses – Chairman

Reimbursed for the cost of travel and related expenses incurred by him in respect of attendance at Board, Committee and General Meetings including the cost of return airline tickets to London from his home in Ireland in connection with his duties as Chairman.

Entitled to: the use of a Company driver; private medical insurance and personal accident insurance benefits; the provision of home and personal security; and general practitioner 'walk-in' medical services based a short distance from the Company's headquarters in London.

Richard Burrows' spouse may, from time to time, accompany him to participate in a partners' programme occasionally organised in conjunction with overseas or UK-based Board meetings and otherwise at hospitality functions during the year.

In instances where any reimbursements or expenses are classified by HMRC as a benefit to the Chairman, it is also the practice of the Company to pay any tax due on any such benefits.

Fees – Non-Executive Directors

Non-Executive Directors receive a base fee and an appropriate Board Committee Membership Fee.

The Chairs of the Audit and Remuneration Committees receive an additional supplement and an additional supplement is also paid to the Senior Independent Director.

The quantum and structure of Non-Executive Directors' remuneration primarily are assessed against the same Pay Comparator Group of companies used for setting the remuneration of Executive Directors. The Board may also make reference to and take account of relevant research and analysis on Non-Executive Directors' fees in FTSE 100 companies published by remuneration consultants from time to time.

Fees for the Non-Executive Directors are reviewed annually, usually in April. The review does not always result in an increase in the Board fees or Committee fees.

The Board as a whole considers the policy and structure for the Non-Executive Directors' fees on the recommendation of the Chairman and the Chief Executive. Non-Executive Directors do not participate in discussions on their specific levels of remuneration.

It is anticipated that any future aggregate increase to any of the fees for the Chairman and Non-Executive Directors will be within the salary range which governs the Company's annual salary reviews for UK-based staff and will not exceed the equivalent of 10% per annum in aggregate.

Benefits, travel and related expenses – Non-Executive Directors

Non-Executive Directors are generally reimbursed for the cost of travel and related expenses incurred by them in respect of attendance at Board, Committee and General Meetings.

It is Board policy that the partners of the Non-Executive Directors may, from time to time, accompany the Directors to participate in a partners' programme occasionally organised in conjunction with overseas or UK-based Board meetings and otherwise at hospitality functions during the year.

Non-Executive Directors are also eligible for general practitioner 'walk-in' medical services based a short distance from the Company's headquarters in London; Non-Executive Directors receive no other benefits.

In instances where any reimbursements or expenses are classified by HMRC as a benefit to the Director, it is also the practice of the Company to pay any tax due on any such benefits.

The Directors' Remuneration Report has been approved by the Board on 27 February 2019 and signed on its behalf by:

Dimitri Panayotopoulos

Chairman, Remuneration Committee

27 February 2019

Responsibility of Directors

Introduction & Board	Audit Committee	Nominations Committee	Remuneration Committee	Responsibility of Directors
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Statement of Directors' responsibilities in respect of the Annual Report and the financial statements[@]

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework. In preparing these Group financial statements, the Directors have also elected to comply with IFRS as issued by the International Accounting Standards Board (IFRS as issued by the IASB).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the Annual Report included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' declaration in relation to relevant audit information[@]

Having made appropriate enquiries, each of the Directors who held office at the date of approval of this Annual Report confirms that:

- to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Responsibility statement of the Directors in respect of the annual financial report[@]

We confirm that to the best of our knowledge:

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

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement has been approved and is signed by order of the Board by:

Richard Burrows
Chairman

Ben Stevens
Finance Director

27 February 2019

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

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