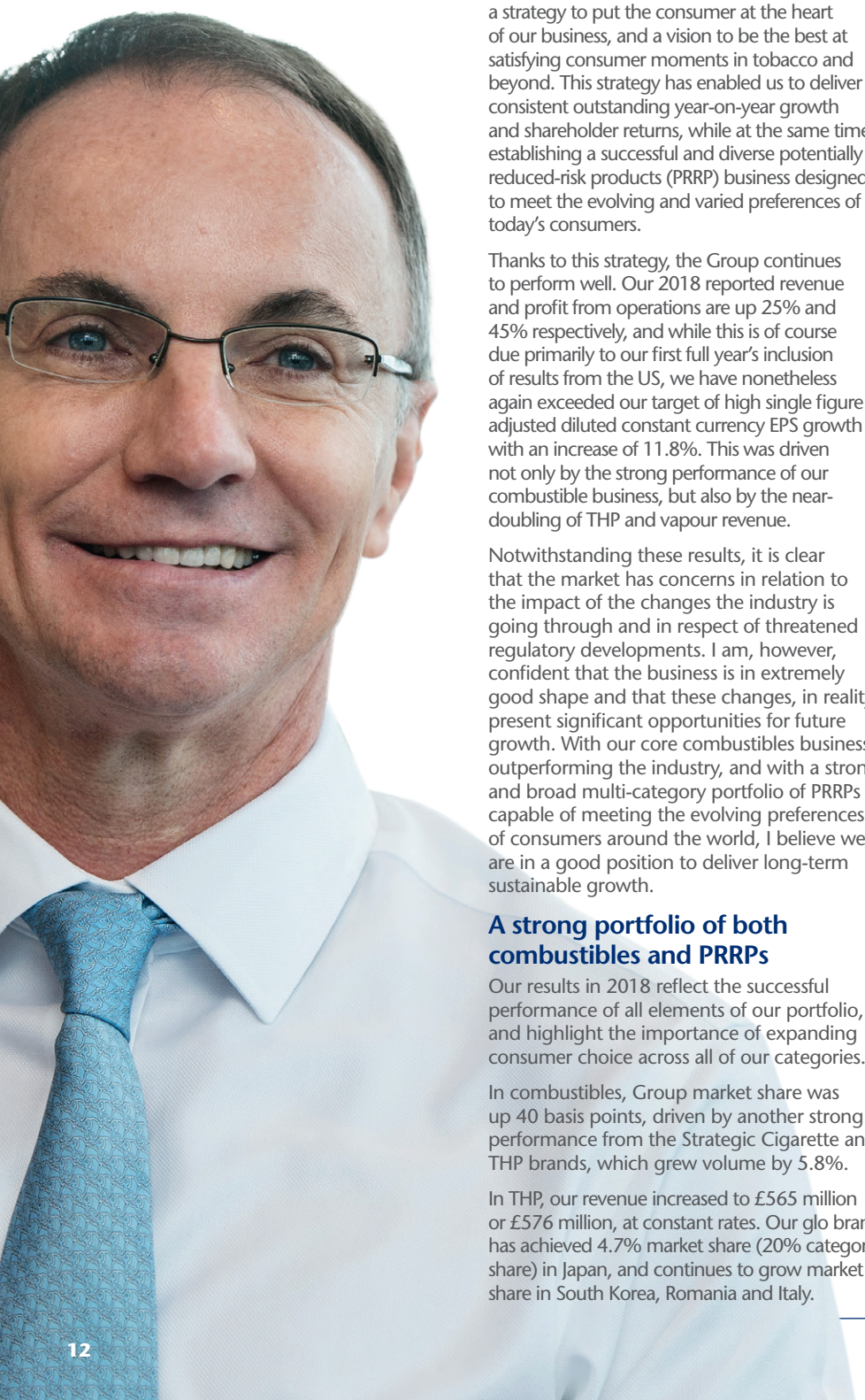
Chief Executive's review



Nicandro Durante
Chief Executive

A winning strategy

After 37 years at BAT, eight of them as CEO, I will retire in April 2019. I have seen BAT evolve and grow throughout my career, and am confident that this will continue during the dynamic period of change the industry is going through today.

When I became CEO in 2011, we articulated a strategy to put the consumer at the heart of our business, and a vision to be the best at satisfying consumer moments in tobacco and beyond. This strategy has enabled us to deliver consistent outstanding year-on-year growth and shareholder returns, while at the same time establishing a successful and diverse potentially reduced-risk products (PRRP) business designed to meet the evolving and varied preferences of today's consumers.

Thanks to this strategy, the Group continues to perform well. Our 2018 reported revenue and profit from operations are up 25% and 45% respectively, and while this is of course due primarily to our first full year's inclusion of results from the US, we have nonetheless again exceeded our target of high single figure adjusted diluted constant currency EPS growth with an increase of 11.8%. This was driven not only by the strong performance of our combustible business, but also by the near-doubling of THP and vapour revenue.

Notwithstanding these results, it is clear that the market has concerns in relation to the impact of the changes the industry is going through and in respect of threatened regulatory developments. I am, however, confident that the business is in extremely good shape and that these changes, in reality, present significant opportunities for future growth. With our core combustibles business outperforming the industry, and with a strong and broad multi-category portfolio of PRRPs capable of meeting the evolving preferences of consumers around the world, I believe we are in a good position to deliver long-term sustainable growth.

A strong portfolio of both combustibles and PRRPs

Our results in 2018 reflect the successful performance of all elements of our portfolio, and highlight the importance of expanding consumer choice across all of our categories.

In combustibles, Group market share was up 40 basis points, driven by another strong performance from the Strategic Cigarette and THP brands, which grew volume by 5.8%.

In THP, our revenue increased to £565 million or £576 million, at constant rates. Our glo brand has achieved 4.7% market share (20% category share) in Japan, and continues to grow market share in South Korea, Romania and Italy.

The Group's vapour portfolio performed strongly with significant growth in both volume and revenue across our 15 vapour markets. Momentum increased, with growth weighted towards the second half of the year driven by new market and product launches. Total vapour volume was up by 35% on a representative basis with good performances in the world's three largest vapour markets – the US, the UK and France.

In oral tobacco we continue to grow value with strong performances from modern oral products such as Epok in Sweden, Norway and Switzerland, as well as traditional products such as Grizzly in the US, where revenues were £931 million, an increase of 3.1% on an adjusted representative basis.

Reynolds American Inc. (RAI)

RAI is delivering strong financial results for the Group. In 2018, revenue was up 128% (as a result of the full year effect). This was an increase of 1.5% on a representative constant currency basis, and was driven by robust price mix and a 25 basis points growth in value share, despite a decline in total volume. With adjusted operating margin up 180 bps, adjusted profit from operations was up 5.8% on a representative, constant rate basis. Annualised cost savings resulting from the acquisition are now running at over US$300 million per year, and we are on track to deliver at least US$400 million per year in cost synergies by the end of 2020.

While FDA regulatory proposals have driven some uncertainty in the US operating environment, our long track record of success in the face of regulatory change and our strong portfolio of brands give us confidence that we will be able to manage these issues. We are additionally reassured by the fact that, in order to withstand judicial review, any regulation of menthol in cigarettes must be developed through a comprehensive rule-making process, be based on a thorough scientific review and consider all unintended consequences.

Handing over

I am extremely pleased that the Board has chosen Jack Bowles as my successor. I have no doubt that his broad-ranging experience and expertise, combined with his energy, passion and drive for success, will help ensure the future growth of the Company.

I am tremendously proud of what we have achieved in the last eight years, and would like to thank all of my colleagues across the Group for their part in this.

Jack Bowles
Chief Executive Designate

An exciting time for BAT

It is an exciting time for me to take over as CEO. Our industry is evolving and with this comes great opportunity.

With our depth of talent, our iconic brands and our range and pipeline of PRRPs, I am confident that we will take full advantage of these opportunities as we accelerate the transformation of BAT into a stronger multi-category tobacco and nicotine products company.

Strong foundations

It gives me great comfort to know that the fundamentals of our business are in such good shape. Our combustible business continues to deliver strong year-on-year growth. Our acquisition of RAI has made us a truly international tobacco and nicotine products business, and our PRRP business is firmly established and growing.

Our current strategy, with its aim of being the world's best at satisfying consumer moments in tobacco and beyond, remains as relevant today as it was when it was first rolled out in 2012. The consumer is, and will continue to be, at the heart of everything we do. We know that our consumers' tastes and preferences are evolving and fragmenting, and it is to satisfy these varied preferences that we have developed a broad range of different products with the potential to provide lower risks than combustible cigarettes.

Accelerating the delivery of our strategy

With confidence in our multi-category approach, we are now focused on our need to accelerate the delivery of our transforming tobacco ambition. Notwithstanding our great success to date in establishing our PRRP business, we acknowledge that we are at the start of a long journey. As the number of our consumers grows, our focus will be on accelerating our strategy to ensure that our products are able to satisfy the preferences of those many millions of adult smokers who are still looking for a satisfying but less risky alternative to their current products.

In order to further enhance the focus on our consumers we have created two new Management Board roles. Our new Director of New Categories will have end-to-end accountability for driving growth, innovation, world-class brand building and consumer insights for our PRRPs, while our new Director of Digital and Information is tasked with responsibility for enhancing our digital consumer capabilities.

Vision for success

I am excited about the challenges and opportunities that lie ahead for us. We have the right strategy, the right foundations, the right vision, and, most importantly, employees with the right skills and attitude to enable us to keep growing the Company for many years to come.

Finance Director's overview

"The Group again delivered growth across all key performance indicators"

Ben Stevens
Finance Director

Strong performance across all measures

Despite external challenges, translational foreign exchange headwinds of approximately 6% on revenue and profit from operations, and further investment in PRRPs, the Group again delivered growth across all key performance indicators in 2018.

Since the Group's 2018 results are, on a reported basis, influenced by the full year inclusion of RAI (compared against five months in 2017), the results are also provided with a comparison on a representative basis, as though the Group had owned RAI and other acquisitions for the whole of the 2017 comparator period. This will provide readers with an understanding of the Group's performance inclusive of RAI and other acquisitions in both 2017 and 2018.

Increase revenue and profit from operations

Revenue grew by 25.2% in 2018 to £24,492 million (2017 was up 38.5% at £19,564 million) largely due to the acquisition of RAI, concluded in July 2017. Adjusting for the impact of acquisitions, excise on bought-in goods and the impact of currency, adjusted revenue grew by 3.5% in 2018 on a representative constant rate basis, while 2017 had seen an increase of 2.9% (on an organic basis). This 2018 growth was driven by price mix (6% on combustibles) and the growth of vapour, THPs and modern oral, which more than offset a decline in combustible volume.

Profit from operations was up 45.2% (2017: up 38%), as the inclusion of 12 months of results from RAI and growth in revenue more than offset the ongoing investments in THP and vapour, the amortisation of acquired brands and the costs incurred as part of the Group's restructuring programme.

Adjusted profit from operations grew by 4.0% on a constant currency representative basis (2017: up 3.7% organic, at constant rates).

A full reconciliation of our results under IFRS to adjusted revenue and adjusted profit from operations is provided on pages 258 to 261.

Against a backdrop of challenging conditions, notably the foreign exchange headwind, all regions performed well (as described on pages 43 to 47), growing adjusted profit from operations at constant rates of exchange on a representative basis, while investing in THP and vapour. This continues to demonstrate the ability of the Group, due to its geographic diversity, to offset the challenging environment in a number of markets.

Our operating margin increased by over 500 bps. This was driven by the positive mix effect from the consolidation of a full year's results from RAI, while certain purchase price accounting adjustments that affected 2017 did not repeat. On an adjusted, representative basis, operating margin increased by 40 bps, as the Group continued to drive margin improvements while investing in the roll-out of PRRPs.

EPS movements reflect strong fundamentals

Net finance costs increased by £287 million to £1,381 million driven by the full year interest charge incurred in the year on borrowings of £47,509 million. Our banking facilities require a gross interest cover of at least 4.5 times. In 2018, our gross interest cover was 7.2 times (2017: 7.8 times, 2016: 12.2 times).

On a reported basis, basic EPS was 86% lower than 2017 at 264.0p, as the prior period (up 633% against 2016 at 1,833.9p) was materially affected by a deemed gain (£23.3 billion) on the disposal of the Group's holding in RAI, required as part of the acquisition accounting. In 2017, the Group also recognised a deferred tax credit (£9.6 billion) related to the tax reforms in the US. Excluding these and other adjusting items, including those related to the acquisition of RAI, and the effect of foreign exchange on the Group's results, adjusted diluted earnings per share, at constant rates, increased by 11.8% to 315.5p, with 2017 ahead of 2016 by 9.1%.

Cash flow generation drives deleveraging

In 2018, net cash generated from operating activities grew by 93% to £10,295 million. This was principally due to the inclusion of a full year's cash flow from RAI, the timing of payments related to the Master Settlement Agreement (MSA) in the US, the cessation in 2017 of payments in relation to the Quebec Class Action and the ongoing cash generation in the rest of the Group.

Adjusted cash generated from operations (as defined on page 264) was £8,071 million, which represents an increase of 146% over 2017, or 158% on a constant rate basis. Excluding the timing of the early payment of the 2017 MSA liability, paid in 2017 and tax deductible at 2017 tax rates, adjusted cash generated from operations would have increased by over 43%.

Based upon net cash generated from operating activities, the Group's cash conversion ratio increased from 83% in 2017 to 111% in 2018. @Excluding the MSA timing impact, operating cash flow conversion ratio (as defined on page 263) increased from 97% to 100%.

Adjusted net debt to adjusted EBITDA, as defined on page 266 provides a measure to assess the Group's ability to meet its borrowing obligations. The Group continues to focus on a balanced approach of deleveraging, while investing for the future and providing a return via dividends to shareholders. In 2018, the adjusted net debt to adjusted EBITDA ratio improved from 5.3 times to 4.0 times. Excluding the effect of currency, this would have been a improvement to approximately 3.6 times.

Delivering today and investing in the future

The Group continues to deliver against the financial imperatives, which supports the growth in dividends while deleveraging and investing in PRRPs for tomorrow's success.

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

Global market overview*

Today's total tobacco and nicotine market comprises a growing user pool of over one billion individual adult consumers.

While the decline in combustible cigarette consumption is expected to continue, it is predicted to be, at least partially, offset by the increasing consumption of PRRPs, in particular vapour, tobacco heating and modern oral products.

Global potentially reduced-risk products (PRRP) market

The global tobacco and nicotine market is increasingly diversifying beyond traditional combustible tobacco with the growth of vapour and tobacco heating products (THPs), as well as the oral tobacco and nicotine market. The latest global figures (2017) suggest that the THP and vapour market is worth an estimated US$18 billion, while the oral tobacco and nicotine market is worth an estimated US$12.5 billion.

Vapour products have developed quickly across the world, with particularly strong growth in the US, France and the UK. While the overall prevalence of THPs is less than that of vapour, these products have emerged strongly in Japan and South Korea.

While traditional oral products show steady incremental growth, the modern oral category is quickly establishing itself and is expected to show accelerated volume expansion.

PRRP regulation

The THP and vapour market is relatively nascent, and regulation is in its early stages. Globally, there is a mix of attitudes between regulators who aim to encourage THPs and vapour as products that are potentially lower risk for smokers and those who view them with greater scepticism – including some countries where they are banned.

Although many jurisdictions have yet to implement clear regulations concerning PRRPs, an increasing number of governments are passing laws that allow and encourage the growth of these categories. As the science continues to move in the direction of confirming the potential of these products to offer lower risk, more permissive regulations are expected to follow.

see pages 48 to 52 to learn more about our Principal Group risks

for further discussion regarding the regulation of our business, please see pages 274 to 279

The UK is an example of what can happen with the support of regulators and public health bodies. Driven by influential reports from Public Health England and the Royal College of Physicians on the reduced risk of vapour products, the UK Government has implemented a supportive regulatory regime which is a contributing factor to category growth in the country.

Global combustible market

The most recent estimates for the global tobacco market (2017) indicate it is worth approximately US$785 billion (excluding China). More than US$700 billion of this comes from the sale of conventional cigarettes, with over 5,400 billion cigarettes consumed per year.

While combustible cigarettes remains the largest category, their volumes have seen a gradual fall over many years driven by increased regulation and changing societal attitudes. Although this is a trend which is predicted to continue, the growth of new categories of potentially reduced-risk tobacco and nicotine products is expected to, at least partially, offset this decline in combustible tobacco products.

Illicit tobacco

A contributing factor to the decline of legal tobacco volumes is the rise in the consumption of illicit products. Cigarettes are a reliable source of tax revenue for governments worldwide, and price differentials between markets, regulatory changes and broader macroeconomic pressures have driven the establishment of a significant illicit cigarette trade. The World Health Organization (WHO) estimates that one in every ten cigarettes and tobacco products consumed globally is illicit, with the market supported by various players, ranging from individuals to organised criminal networks involved in arms and human trafficking.

It is generally accepted that there is a direct correlation between steep and ad hoc increases in taxes and an increase in illicit sales, with the current sanctions doing little to deter criminals for whom profits from the illegal sale of tobacco remain an appealing prospect. For example, following successive excise increases, the Australasia region has seen legal volumes decline substantially. However, in markets where effective action has reduced the prevalence of illegal tobacco, legal volumes have been restored.

Combustible regulation

Tobacco is one of the world's most regulated and most taxed industries. Manufacturers are required to comply with a swath of regulations that vary considerably across markets.

Legislation and subsequent regulation is focused mainly on the introduction of plain packaging, product-specific regulation, graphic health warnings on packs, tougher restrictions on smoking in enclosed public places and bans on shops displaying tobacco products at the point of sale.

In more recent years, governments have begun considering and adopting regulations aimed at menthol flavourings, as well as environmental concerns resulting from the litter associated with cigarette consumption.

Litigation

Legal and regulatory court proceedings continue in a number of forms against the tobacco industry, with the most common being third-party reimbursement cases, class actions and individual lawsuits.

Special factors that led to product liability litigation in the US and Canada are not typically replicated in other countries, which is why large volume and high-value litigation has not generally spread to other parts of the globe. The industry has a proven track record of defending its rights and managing risks such as these.

* All data sources on this page are from Euromonitor International unless otherwise stated.

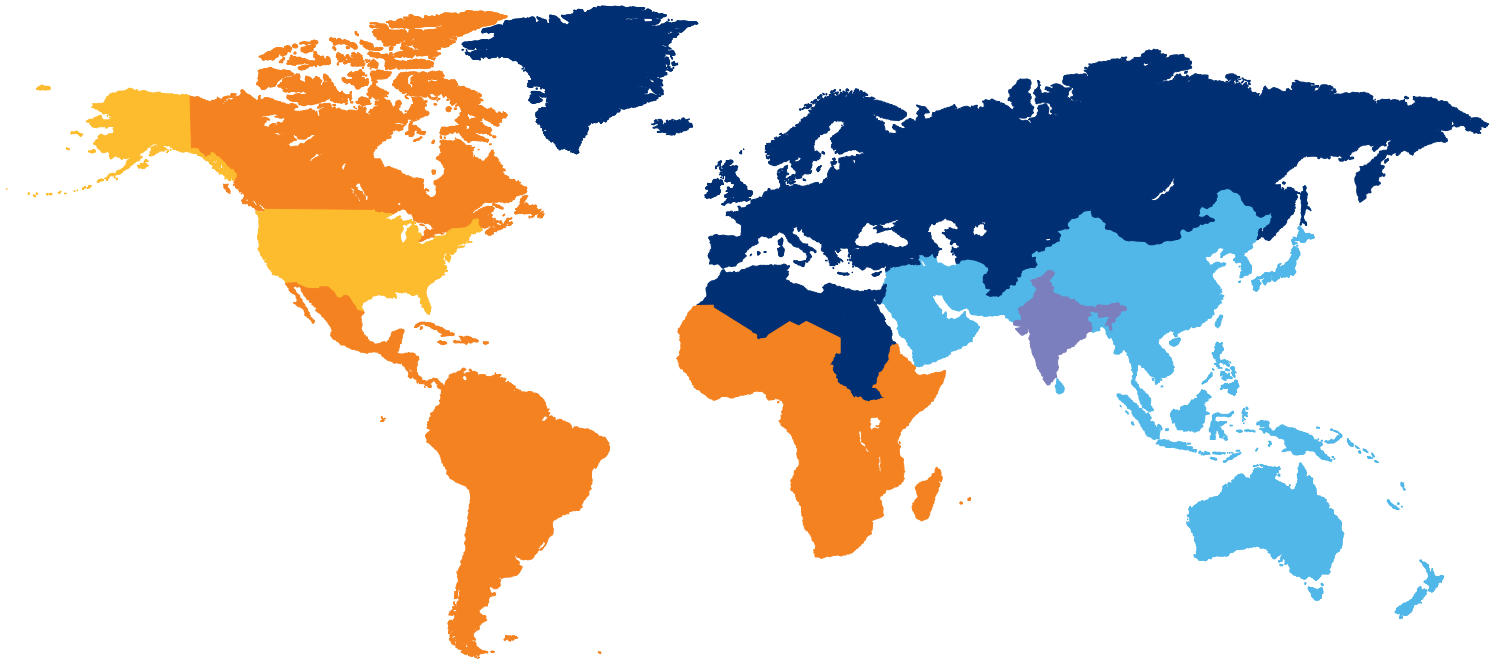
Our global business

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

Our portfolio reflects our commitment to meeting the preferences of today's adult smokers while transforming tobacco with a choice of potentially reduced-risk products.

These include vapour, tobacco heating products, modern oral products including tobacco-free nicotine pouches, as well as traditional oral products such as snus and moist snuff.

Our products are sold in over 200 markets with a balanced presence in high-growth emerging markets and highly profitable developed markets. Our business is divided into four regions across six continents.



United States of America

Americas and Sub-Saharan Africa

Europe and North Africa

Asia-Pacific and Middle East

Our Strategic Portfolio comprises our key brands in both the combustible and PRRP categories. This drives focus and investment on the brands and categories that will underpin the Group's future growth.

We also have a portfolio of international and local brands which, while not the focus of our investment, contribute valuable returns across several key markets.

Strategic Portfolio

Combustible tobacco products

Potentially reduced-risk products

Vapour products

Tobacco heating products

Modern oral products

Traditional oral products

International and local cigarette brands

* Our vapour product Vuse, and oral products Grizzly, Camel Snus and Kodiak, which are only sold in the US, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

Our business model

At the centre of our global business, operating in over 200 markets, is the manufacture and marketing of superior combustible tobacco products and potentially reduced-risk products (PRRPs).

These include vapour, tobacco heating products (THPs), modern oral as well as traditional oral products, such as moist snuff and traditional snus.

Our sustainable approach to sourcing, production, distribution and marketing helps us to create value for a wide group of stakeholders, from farmers to consumers.

We use our unique strengths and employ our resources and relationships to deliver sustainable growth in earnings for our shareholders.

For more information on the structure of the Group, see page 254

Non-financial information

Our people and culture: pages 24 to 27

Respect for human rights: pages 28 to 32

Anti-corruption and anti-bribery: pages 30 and 31

Environmental matters: page 32

Community and social matters: page 32

Our people and relationships

We employ over 60,000 people worldwide, with a workforce that is diverse and multicultural.

We have a devolved structure, with each local company having responsibility for its operations.

The quality of our people is a major reason why the Group continues to perform well. In return, we commit to investing in our people as we do in our brands.

We encourage a culture of personal ownership and we value our employees' talents and abilities. Their diverse perspectives help us to succeed.

We also have excellent relationships with a range of stakeholders, including farmers, suppliers, retailers and distributors.

We engage with regulators around the world to support regulation that is based on robust evidence and thorough research, that respects legal rights and livelihoods and delivers on the intended policy aims while recognising unintended consequences.

You can learn more about our work in supporting farmers in our leaf supply chain at www.bat.com/farmervideo or www.youtube.com/welcometobat

see pages 24 to 32 for more information

Source

What we do

While the Group does not own tobacco farms or directly employ farmers, we buy more than 400,000 tonnes of tobacco leaf each year for our combustible tobacco products, our oral tobacco products and our THPs.

What makes us different

- We provide on-the-ground support and advice to over 90,000 contracted farmers to help ensure consistency and quality of supply.
- We invest over £60 million each year in our Leaf Research & Development and support farmers through our Extension Services.
- Our leaf operations are managed globally to ensure that the Group works with reliable, efficient and responsible farmers in our source countries.
- The e-liquids used in our vapour products are made from medical grade nicotine sourced internally or from high-quality third-party manufacturers.

see pages 28 to 30 for more details

Market

What we do

We offer adult consumers a range of products including cigarettes, vapour, tobacco heating products, and oral products in a number of markets around the world. Our range of high-quality products covers all segments, from value-for-money to premium.

What makes us different

- Our successful portfolio of international, regional and local brands across four product categories continues to meet a broad array of adult consumer preferences, including those seeking potentially lower-risk alternatives to traditional cigarettes.
- Our Strategic Portfolio accounts for over 60% of the cigarettes we sell and is a significant driver of growth.
- We ensure that all our products are marketed responsibly; as such, our marketing initiatives and activities are governed by our International Marketing Principles, which often go beyond local legal requirements.

see pages 20 to 21 for more details

Consumers

We place consumers at the centre of our business. We invest in world-class research to understand changing consumer preferences and buying behaviour. This drives our leaf sourcing, product development, innovations, brands and trade activities.

We aim to satisfy consumers with a range of inspiring products across the risk spectrum and address expectations about how we should market them.

Produce

What we do

We manufacture high-quality cigarettes, THP consumables and oral products in facilities all over the world. We also ensure that these products and the tobacco leaf we purchase are in the right place at the right time. Our vapour and tobacco heating product devices are manufactured in a mix of our own and third-party factories. We work to ensure that our costs are globally competitive and that we use our resources as effectively as possible.

What makes us different

- In 2018, we had 55 factories, 47 of which produce cigarettes. These strategically placed factories enable us to maximise efficiency and ensure products are where they need to be at the right time.
- Our production facilities producing cigarettes and the consumables for our THPs are designed to meet the needs of an agile and flexible supply chain, providing a world-class operational base that is fit for the future.
- For our vapour and tobacco heating product devices, we expect our contract manufacturers to comply with the same high standards that exist on our own sites.

see pages 22 and 23 for more details

Distribute

What we do

We distribute our products around the globe effectively and efficiently using a variety of different distribution models suited to local circumstances and conditions. Around half of our global cigarette volume is sold by retailers, supplied through our direct distribution capability or exclusive distributors. We continuously review our route to market for both combustible and PRRPs, including our relationships with wholesalers, distributors and logistics providers.

What makes us different

- Our relationships with, and efficient distribution to, retailers worldwide ensure we can offer the products our adult consumers wish to buy, where and when they want them.
- Our global footprint and direct distribution capabilities enable new product innovations to be distributed to markets quickly and efficiently.

see pages 22 and 23 for more details

Resources for success

Innovation

We make significant investments in research and development to deliver innovations that satisfy or anticipate consumer preferences and generate growth for the business across all categories. The main focus of this investment is in our PRRPs. We continue to invest in the development and commercialisation of potentially lower-risk alternatives to smoking. We also conduct R&D into our conventional cigarette innovations such as capsule products, additive-free products, slimmer products, tube filters and Reloc, our resealable pack technology.

World-class science

We have an extensive scientific research programme in a broad spectrum of scientific fields including molecular biology, toxicology and chemistry. We are transparent about our science and publish details of our research programmes on our dedicated website, www.bat-science.com, and the results of our studies in peer-reviewed journals.

You can take a video tour inside our state-of-the-art plant biotechnology labs and meet some of the scientists behind the science at www.bat.com/labtour or at www.youtube.com/welcometobat

see pages 21, 22 and 28 for more information

Delivering our strategy

Growth

Our multi-category portfolio of brands continued to deliver in 2018, driven by our Strategic Portfolio.

Highlights during the year

- Group revenue grew by 25% at current rates of exchange, 3.5% adjusted representative at constant rates;
- Group market share in Key Markets up by 40 bps;
- Strategic Portfolio cigarette and THP volume grew 17.9% (+5.8% representative).

Business performance

Group cigarette and THP volume from subsidiaries was 708 billion, an increase of 3.3%, with revenue up 25.2% at £24,492 million against the previous year due to the inclusion of a full year's volume from RAI. On a representative basis, volume was 3.5% lower as growth in Pakistan, Japan (driven by THP), Turkey, Poland, Romania and Egypt was more than offset by declines in the GCC, US, Russia and Brazil.

Adjusted revenue, on a constant rate representative basis grew 3.5%, as pricing and the growth in PRRPs more than offset the decline in volume.

The Group's cigarette and THP market share in its Key Markets continued to grow, up 40 basis points (bps). This was driven by another excellent performance by our Strategic Cigarette and THP portfolio with volume up 5.8% on a representative basis.

The Group's THP and vapour portfolio contributed £883 million of revenue, or £901 million at constant rates of exchange, due to the expansion in the geographic footprint and the inclusion of a full year's revenue from the acquired RAI portfolio. On a representative, constant rate basis the increase was over 95%, demonstrating the strong underlying growth in the year.

Strategic Portfolio

Our Strategic Portfolio comprises leading brands across the combustible and PRRP categories. This drives focus and investment on the brands and categories that will underpin the Group's future growth.

Strategic Cigarette and THP brands

Our eight Strategic Combustible Brands account for over 60% of the cigarettes we sell and play a key role in our growth strategy.

Dunhill: Market share was stable as strong performances in Indonesia, Brazil and South Africa were offset by the effect of down-trading in Saudi Arabia and South Korea. Volume was 6.1% lower as the continued growth in Indonesia was more than offset by the effect of the down-trading noted above and market size contraction in Brazil, South Africa and Malaysia.

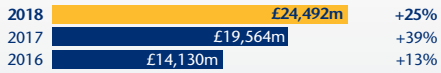
Kent: Market share was up 50 bps, with volume increasing 1.7%, driven by Japan (including Kent Neo Sticks for glo), Turkey, Brazil and Ukraine. This more than offset lower volume in the Middle East and Russia (despite an increase in market share as volume was affected by trade inventory movements).

Lucky Strike: Market share grew 20 bps, which was driven by Indonesia, Japan, Colombia, Spain, France, Argentina and Mexico. Volume was 1.0% down as growth in Germany, Colombia, Japan and Argentina was more than offset by declines due to industry contraction in Indonesia and France.

Pall Mall: Market share grew 10 bps, with volume up 20.4% partly due to the inclusion of Pall Mall in the US following the acquisition of RAI. This was an increase of 9.9% on a representative basis, partly due to the strong volume and market share growth in Saudi Arabia that followed the market down-trading arising from the excise-led price increases in 2017. Pakistan continued to grow volume and market share after the revision to excise, with higher volume and market share also achieved in Mexico, Egypt and Australia.

Revenue (£m)

£24,492m
+25.2%



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

In 2018, revenue includes £17,257 million of revenue from the Strategic Portfolio, an increase of 49% on 2017 (on a reported and representative basis).

Change in adjusted revenue at constant rates (%)

+33.4%

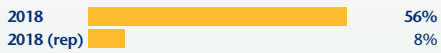
KPI
Non-GAAP

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

Change in adjusted revenue from the Strategic Portfolio at constant rates (%)

+56.1%

KPI
Non-GAAP



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

This measure was introduced in 2018, with no comparators provided.

Strategic Cigarette and THP volume

451bn
+17.9% (+5.8% representative)

2017: +17.9% (+7.6% organic)
2016: +7.5%

Group market share of key markets

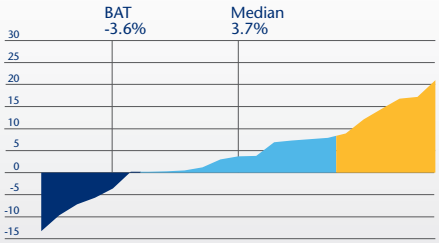
+40 bps

KPI

2017: +40 bps
2016: +50 bps

Total shareholder return (TSR) of the FMCG group – 1 January 2016 to 31 December 2018 (%)

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



Lower quartile Upper quartile

KPI

Rothmans: Market share continued to grow, increasing a further 110 bps with volume up 19.7% driven by Ukraine, Russia, Nigeria, Bulgaria and migrations in Poland, Brazil and Colombia.

Newport: Market share grew 10 bps in the US. Volume declined 4.6%, on a representative basis, partly due to inventory movements within the supply chain, with the US market down 4.5-5.0% due to higher gasoline prices, 2017 excise-led price increase in California and the growth of vapour.

Camel: Market share was flat in the US. Volume was lower by 4.4%, on a representative basis, partly due to a strong comparator period.

Natural American Spirit: Share momentum continued in the US, up 20 bps, with volume higher by 3.5% on a representative basis, outperforming the market (estimated to be 4.5-5.0% down) due to a strong performance in the premium segment.

Potentially reduced-risk products (PRRPs)

A key component of our Strategic Portfolio are our PRRPs, which comprise vapour, THPs, and modern white oral products as well as traditional oral products such as moist snuff and snus. We are seeking to lead the entire category and have a suite of products to cater to consumers' many and varying preferences.

Vapour products

The Group's vapour portfolio performed strongly with significant growth in both volume and revenue across our 15 vapour markets. Momentum increased throughout 2018, with much of the growth weighted towards the second half of the year driven by new market and new product launches.

Total vapour volume was up by 100%, partly due to the acquisition of RAI. On a representative basis this was an increase of 35% with good performances in the world's three largest vapour markets – the US, the UK and France.

More specifically, US vapour volume of consumables grew by 36%, on a representative basis, with the market rapidly expanding (up 120% in volume terms). This was driven by the expansion of Vuse following the expansion of Alto and re-launch of Vibe.

Vype and the Group's other vapour brands in the rest of world (including Ten Motives and VIP in the UK) grew volume by 34%, driven by market-leading performances in the UK and France.

Our new Vype ePen3 is performing extremely well in launch markets such as Canada and the UK, where it was voted Vapour Product of the Year in the UK's largest consumer survey of product innovation, and is indicative of the strong product pipeline we have in place to cater to changing preferences in this category.

Tobacco heating products (THPs)

The Group delivered significant growth in the THP category in 2018. In Japan, which accounts for 70% of global industry volume, our launch of neosticks returned us to growth, reaching a total market share of 4.7% in December 2018 and a 20% share of the category.

Across our 15 THP markets, we have grown total THP revenue, at constant rates, by over 180% to £576 million, and have increased consumables volumes by 217% to 7 billion sticks. While the majority of growth has been in Japan, glo is increasing market share in roll-out markets including South Korea, Romania and Italy, and is showing good initial results in recent launch markets including Croatia.

Modern oral products

Our modern oral category comprises the brands EPOK and Lyft, which both experienced significant growth in 2018. Total revenue grew 127% to £34 million, a 140% increase on a representative, constant rate basis.

EPOK performed well, achieving, in December 2018, 8% and 17% share of the total oral market in Norway and Switzerland respectively, being the fastest growing brand in the category.

Lyft, the Group's tobacco-free product, was launched in Sweden, achieving 4.5% total oral market share in handlers.

Traditional oral products

Our traditional oral category, comprising snus and moist snuff, grew revenue from the Strategic Brands by 128% in 2018, a representative constant rate increase of 9%. While US volumes were down 2.3%, on a representative basis, in part due to a decline in the total market and a reduction in Grizzly market share over the year of 40 bps as the brand lapped a tough comparator which benefited from a competitor's product recall, returning to growth in the final quarter of 2018. This was more than offset by total pricing and a 40 bps increase in total value share, with revenue from the strategic portfolio growing 8% to £893 million, on a constant rate, representative basis.

Local and international cigarette brands

In addition to the brands comprising our Strategic Portfolio, we have many other international and local cigarette brands including Vogue, Viceroy, Kool, Peter Stuyvesant, Craven A, Benson & Hedges, John Player Gold Leaf, State Express 555 and Shuang Xi.

In addition to revenue and the other measures discussed in this Annual Report and Form 20-F, BAT management focuses on volume as a key measure to evaluate performance. Volume is an unaudited operating measure and is calculated as the total global cigarette, THP, vapour or oral volume of the Group's brands sold by its subsidiaries. The Group believes that volume is a measure commonly used by analysts and investors in the industry. Accordingly, this information has been disclosed to permit a more complete analysis of the Group's operating performance.

The Group also uses market share to evaluate its performance. The Group evaluates changes in its key market offtake share (as measured by retail audit agencies (including Nielsen), shipment share estimates and share of retail for the US business) for tobacco products, based on the latest available data from a number of internal and external sources. Key markets consist of approximately 40 territories across all geographical segments, and represent approximately 80% of the Group's global volume. Growth in these markets is largely driven by the Strategic Portfolio. The Group also highlights drivers for change in specific markets (e.g., volume, market share or value share (being the customer sales price earned as a proportion of the industry total customer sales price)). For PRRPs, the Group monitors its performance in select countries (e.g., UK, France, Germany, Italy) based upon category retail market share, based on the latest available data from a number of internal and external sources.

In addition, the Group's performance is affected by global pricing, which is impacted by discounts, terms of credit with customers, excise taxes and other competitive, market-driven and regulatory factors. In certain markets, the Group has experienced increases or decreases in average prices resulting from changes in product mix, also referred to as price mix. The Group believes that pricing and market share are measures commonly used by analysts and investors in the industry.

Delivering our strategy continued

Productivity

We have continued our drive towards a more effective and efficient globally-integrated organisation by leveraging global systems and new ways of working. This global integration allows for the lowest possible overheads cost, the most cost-effective and responsive supply chain and that productivity opportunities are fully exploited.

Highlights during the year

– Another year of substantial productivity savings and RAI acquisition savings on track;

– Consolidation of our Global Supply Chain Service Centre;

– Vapour and THP operations integration completed.

Globalising operations and improving efficiency

Global systems and ways of working across the Group are utilised to minimise our cost base and maximise expertise. Furthermore, by ensuring back-office activities are carried out efficiently and effectively, the end markets are free to focus their efforts on consumer-focused activities. This drive to a globally-integrated enterprise is most apparent in our Supply Chain, Talent and Culture, Finance, Procurement and Information Technology functions.

In line with this strategy, in 2017 the Group undertook a migration to a single Enterprise Resource Planning system, and in 2018 focused on delivering data and analytic capabilities globally to identify new sources of productivity savings, while also making progress on our complexity-reduction agenda.

Additionally, the implementation of Integrated Working Systems across our factories has generated important efficiency gains, reducing waste and loss in our manufacturing processes and enabling better service levels. This has been complemented by important manufacturing footprint reviews across our regions, which have optimised asset utilisation.

The completion of our Global Supply Chain Service Centre has resulted in the synchronisation of our end-to-end supply network, which now operates as a demand-driven enterprise. This, along with significant improvements in the efficiency of equipment and machinery, has improved the reliability of our supply network and has released cash by reducing our inventory of leaf, materials and finished goods.

This investment in machinery has also led to capital expenditure being targeted to the areas of the business with the greatest return on the investment. This global view also enhances our ability to react quickly, particularly within the PRRP space. Supply Chain integration also better allows the Group to leverage capabilities and scale to improve speed-to-market, which in turn generates savings and supports the rapid deployment of cutting-edge innovations.

These continued strategic investments in new machinery in 2018, supported by our global planning systems and integrated business model, enable us to deliver 'on time and in full' in all our Key Markets at optimal cost, with speed and scale.

With the RAI integration complete we have established a best-practice sharing model that is performing above expectations, with futher savings being delivered in procurement, manufacturing and supply chain.

On the PRRP front, the revision of supplier contracts has led to significant savings, as has integrating the growth of our vapour, tobacco heating and oral product portfolios, which has allowed the Group to both leverage economies of scale and reduce complexity.

As a result, annualised cost savings from the acquisition are now totalling over US$300 million per year, and we are on track to deliver at least US$400 million per year in cost synergies by the end of 2020.

Profit from operations (£m)

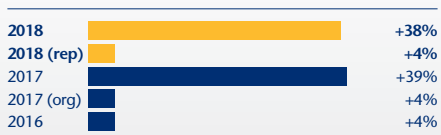
£9,313m
+45.2%

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

Change in adjusted profit from operations at constant rates (%)

+37.8%

KPI
Non-GAAP



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

Operating cash flow conversion ratio@ (%)

113%

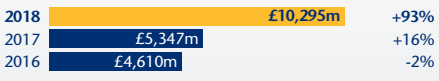
KPI
Non-GAAP

Definition: Operating cash flow, as defined on page 263 as a percentage of adjusted profit from operations. Operating cash flow is not a measure defined by IFRS.

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

Net cash generated from operating activities (£m)

£10,295m
+93%

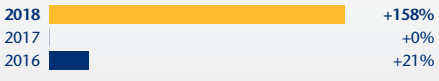


Definition: Movement in net cash and cash equivalents before the impact of net cash used in financing activities, net cash used in investing activities and differences on exchange.

Change in adjusted cash generated from operations at constant rates@ (%)

+158%

KPI
Non-GAAP



Definition: Change in adjusted cash generated from operations, as defined on page 264, before the impact of fluctuations in foreign exchange rates.

Operating margin (%)

38.0%

Definition: Profit from operations as a percentage of revenue.

Adjusted operating margin (%)

42.6%

Non-GAAP

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

Continued optimisation of manufacturing locations and leaf growing

In 2018, we continued to optimise our manufacturing footprint and at the end of the year had 55 factories in 48 countries.

This includes two new factories, one in Zambia and one in Malaysia.

The German factory's refocus on Other Tobacco Products (OTP), Dry Ice Expanded Tobacco (DIET) and Casing/Flavours Manufacture was completed in 2018, which marks the end of its manufacture of cigarettes. Additionally, it was announced in October 2018 that the Russian factory (Saratov) will close in Q4 2019.

We are continually looking to improve the efficiency of our entire supply chain with opportunities to improve our manufacturing operations being a particular focus. We are realising the benefits of our Integrated Work Systems, a programme that is designed to maximise equipment efficiency while ensuring we maintain high standards of product quality.

The improved equipment efficiency is delivering real benefits through improved productivity and lower maintenance costs together with reduced waste. An additional positive by-product is the release of capital expenditure which can be used to invest in further innovation.

While the Group does not own tobacco farms or directly employ farmers, it sources over 400,000 tonnes of tobacco leaf each year directly from over 90,000 contracted farmers and through third-party suppliers mainly in developing countries and emerging markets.

We continually strive to improve farmer sustainability and viability with a focus on improved quality, reduced costs of production and increased yield. As a result, we review our contracts on an annual basis to ensure that production is aligned to the needs of both the farmer and the Group.

The Group also purchases a small amount of tobacco leaf from India where the tobacco is bought over an auction floor. The price of tobacco in US dollars varies from year-to-year driven by domestic inflationary pressures, supply, demand and quality. The Group believes there is an adequate supply of tobacco leaf in the world markets to satisfy its current and anticipated production requirements.

Ongoing productivity savings

By operating globally, exploiting our systems and striving for results, the Group delivered substantial productivity savings in 2018, supported in large part by the acquisition of Reynolds American which will continue to provide further opportunities for productivity savings.

These savings are returned to the business for re-investment and to increase shareholder return. The following examples show how the Group considers all opportunities in the supply chain, including procurement, international logistics and leaf operations:

Procurement

Global visibility of forward demand and product specifications in one system has delivered significant benefits with the tender at a global level of print materials and tow being notable examples. In addition to the benefits of lower product cost, the development of long-term supplier relationships with key suppliers has improved security of supply and enabled higher flexibility in the supply chain.

International logistics

Whether by road, air or sea, our logistics are organised and controlled centrally. This facilitates opportunities to negotiate globally with third-party providers and allows us to benefit from our scale. Furthermore, this maximises the use of return shipments and economic order quantities to allow for maximum efficiency while maintaining the flexibility for fast response to market opportunities.

Leaf operations

These are similarly managed globally to ensure that the Group works with reliable, efficient and responsible farmers in our source countries. Our Global Leaf Pool operation aggregates demand to meet supply across all internationally traded tobacco. This approach balances the lowest possible working capital investment while reducing our exposure to crop failure (from changes in climate) and guaranteeing the best quality leaf to meet consumer demands.

In 2018, while transactional foreign exchange rates again had a negative effect on our cost base, we continued to improve our productivity in all areas of our supply chain and elsewhere in the Group. As a result, we have increased our profitability and continue to deliver returns to our shareholders today and invest in the future.

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

Delivering our strategy continued

Winning organisation

We enable growth by having a winning organisation: by investing in our people, by attracting the best, and by developing high-performing leaders who inspire diverse teams of committed and engaged people in a fulfilling, rewarding and responsible work environment.

Highlights during the year

- Accelerated talent development and attraction in growth markets and growth categories including tobacco heating products, vapour and modern oral;
- Launched Parents@BAT: a Group-wide pay and benefits programme for new parents;
- Top Employer recognition in Europe, Africa, and Asia-Pacific.

Investing in leaders

The quality of our people is a key contributing factor to the Group's performance. As a result, we commit to investing in our people as much as we do in our brands, and continuing to attract and retain the best people remains a key priority.

The long-term culture of the Group has been about developing talent from within, stretching and supporting high-performing managers who will lead the delivery of our strategy. This year, over 92% of our senior appointments, including our CEO Designate, were drawn from people already within the business – moves that have helped to deliver stronger and more diverse leadership teams and succession plans.

We continually update our capability frameworks and learning portfolio to enable development of new skills and knowledge to drive business performance. In June 2018, we offered our employees access to a new e-learning platform – Lynda.com – which provides a video library with over 6,500 courses on a variety of topics including leadership and core business skills, taught by well-known business leaders. Currently, Lynda is available to BAT employees worldwide in English, French, Spanish and German. More languages are in the pipeline for next year.

To improve understanding of our new and growing portfolio of potentially reduced-risk products, we launched a microlearning initiative that has been utilised by over 2,000 members of our sales force teams since its launch in 2018.

You can read about our Group risk factor related to talent on page 272

Attracting the best talent

When we do recruit externally, we actively seek those who will provide additional knowledge and skills that will strengthen our teams and ultimately make us a stronger business. In 2018, we continued to enhance our internal capabilities to engage and recruit those people who will help us succeed in growth markets and growth categories, including potentially reduced-risk products.

We also continued the digital growth of our employer brand – 'Bring your Difference' – across core social media channels, where we are now an industry leader with over 600,000 followers on LinkedIn (a 45% increase from 2017).

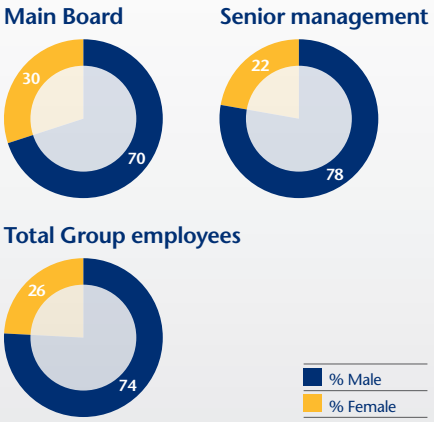
As competition for talented employees intensifies, people increasingly want to work for businesses with a good corporate reputation. We are proud to have been ranked among the top employers around the world and have been named as a Top Employer for Europe, Africa, Middle East, Latin America, and Asia-Pacific by the Top Employer Institute, an independent global certification company. We also received similar accolades in many of the countries in which we operate including 'Great Place to Work' in the US and Brazil.

In 2018, we hosted the largest-ever Global Graduate Academy, with over 200 participants gathering in London for an interactive learning experience supported by senior business leaders. Also during 2018, we held the Group's first global graduate competition, which saw people compete to win a London internship, and received a global social media reach of 35 million people.

You can learn more about our Global Graduate Programme at www.bat-careers.com/graduates

Group diversity as at 31 December 2018

	Total	Male	Female
Main Board	10	7	3
Senior management	629	491	138
Total Group employees	56,710	41,842	14,868



Nationalities represented

	Total
Main Board	7
Global headquarters	83
Management level globally	147

Senior managers: Companies Act 2006

For the purposes of disclosure under section 414C(8) of the Companies Act 2006, the Group had 205 male and 26 female senior managers as at 31 December 2018. Senior managers are defined here as the members of the Management Board (excluding the Executive Directors) and the directors of the Group's principal subsidiary undertakings. The principal subsidiary undertakings, as set out in the Financial Statements, represented approximately 72% of the Group's employees and contributed over 76% of Group revenue and 95% of profit from operations in 2018.

Growth through diversity

Diversity matters to the Group because it makes good commercial sense – having a diverse workforce means we are better able to understand and meet the varied preferences of our global consumers.

We are proud of our Diversity and Inclusion Strategy, which is built on the three pillars of:

1. driving ownership and accountability,

2. building diverse talent pools, and

3. creating enablers,

all of which are underpinned by an inclusive culture.

1. Driving ownership and accountability

Ensuring ownership of and accountability for our Diversity and Inclusion Strategy across all business areas and levels of the Group is key to driving progress.

This is why all of our regions and all functions worldwide have a Diversity Champion, who is a member of the applicable Leadership Team. They are responsible for driving the agenda, including ensuring that agreed-upon diversity action plans are implemented and that development and retention plans for high-potential employees are executed with a strong focus on gender and nationality diversity.

For example, our IT Function is partnering with our major IT suppliers to provide cross-company mentoring for women in technology. Additionally, our Operations Function has identified a number of global 'location agnostic roles', that would previously have required relocating but can instead be carried out from the employee's home country.

This approach helps ensure that diversity is embedded across the Group and that our pipeline of diverse talent is strong and healthy.

The Director, Group Human Resources, has overall responsibility for all employee and human resources (HR) matters, while our Management Board oversees the development and management of talent within the Group's regions and functions, and monitors progress against our key objectives and performance indicators.

Our Main Board reviews progress on our diversity activity and performance twice a year, and diversity reporting forms a key part of all Functional and Regional Leadership Team meetings, with quarterly reviews.

2. Building diverse talent pools

We are a diverse employer. There are 147 nationalities represented at management level within our Group, and we are pleased with the continuous progress we are making and the sustainable pipeline we are building in terms of nationality diversity.

We are also continuing to work hard to improve gender diversity within the Group. Women represent 30% of our Board, and in 2018 we increased female representation in senior management to 22%.

In 2019, two of our five new Management Board members are women. We also have female executives on all our senior functional and geographical leadership teams, and 46% of our 2018 graduate intake were women, ensuring a sustainable pipeline of women for senior management roles. These women have the opportunity to participate in our Global Graduate Academy: an intensive two-week programme focusing on accelerating the development of the Group's next generation of leaders.

We require all recruitment agencies we work with to provide gender-balanced shortlists of candidates. We also focus on developing talent from within and one of the ways we are supporting women's development into senior roles is through our Women in Leadership programme.

This provides training, mentoring and other types of career support for high-potential female employees and, over the last two years, has supported over 250 delegates. For the last four years, our most senior women have taken part in the Women Leaders Programme, run in conjunction with INSEAD business school.

We also provide mentoring, coaching and sponsorship programmes and have participated in the 30% Club for five years. This provides external support for our senior women, as well as mentoring women from other organisations.

In 2018, 51% of our senior recruits and 33% of internal promotions were women, moves that have helped deliver stronger and more diverse leadership teams. And we are having success in retaining our very best female talent, with turnover of senior women reducing dramatically from 15% in 2013 to just 1.7% in 2018.

3. Creating enablers

To realise our diversity ambitions, we know we must develop enablers to provide a supportive environment for people to thrive. One of the ways we do this is by providing women and other diverse groups with an opportunity to connect, engage and share experiences. At the moment we support 12 women's networks across the Group that cut across all levels of the organisation, including our Women in BAT UK network, which currently has nearly 400 members.

Complementing these networks, the 12 most senior women in the business have established a panel with the aim of developing and mentoring women, as well as to encourage and support the Group's leadership on its approach to gender diversity and the way in which talent pipelines are developed and managed.

Our policies and principles*	Summary of areas covered	Key stakeholder groups
Employment Principles	Employment practices, including commitments to diversity, reasonable working hours, family-friendly policies, employee wellbeing, talent, performance and equal opportunities, and fair, clear and competitive remuneration and benefits.	Group employees
Health and Safety Policy	Health, safety and welfare of all employees, other members of our workforce and third-party personnel.	Employees and contractors, suppliers, business partners, farmers
Standards of Business Conduct (SoBC)	Respect in the work place, including promoting equality and diversity, preventing harassment and bullying, and safeguarding employee wellbeing.	Employees and contractors
Group Data Privacy Policy	The manner in which BAT processes personal data about all individuals, including consumers, employees, contractors and employees of suppliers	Employees and contractors, suppliers, business partners, consumers

These policies and procedures are endorsed by our Board and support the effective identification, management and mitigation of risks and issues for our business in these and other areas.

* Further details of our Group policies and principles can be found at www.bat.com/principles.

Delivering our strategy continued

In 2018, we launched Parents@BAT – a range of benefits to support new parents employed by Group companies worldwide to balance their home and work lives. This offers significantly better terms than existing legal requirements for over 20,000 of our employees in 26 countries, including a minimum of 16 weeks' fully paid maternity leave for new mothers and adoptive parents as well as a return-to-work guarantee, flexible working opportunities and an online advice service offering coaching support for all parents whenever they need it.

In many countries, BAT's support for new parents already goes far beyond these minimum guidelines and local statutory requirements. For example, in the UK, we provide maternity leave with six months' full pay with a pro rata bonus, statutory pay for three months and a return-to-work guarantee.

Inclusive culture

We can only truly harness the benefits of a diverse workforce if we have an inclusive culture that enables all our employees to flourish regardless of their gender, culture or other differences.

Our Inclusive Leadership and Understanding Bias training workshop is designed to make sure managers not only recognise they may have personal or organisational bias, but that they also understand how to develop inclusive teams and harness the viewpoints of others.

In 2018, we partnered with the International Women's Day Association on the #PressforProgress campaign. Sponsored by our Management Board, the campaign focused on raising awareness and reinforcing the importance of gender parity. Activities were held across the Group, including inspirational talks from internal and external female leaders and opportunities for individuals to make their own commitments.

Equal opportunities for all

We are committed to providing equal opportunities to all employees. We do not discriminate when making decisions on hiring, promotion or retirement on the grounds of race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics or disability. We are committed to providing training and development for employees with disabilities.

Employee engagement index

83%

FMCG comparator group 71%

Definition: Results from our 'Your Voice' employee opinion survey, carried out in 2017, enabled us to calculate our employee engagement index – a measure that reflects employee satisfaction, advocacy and pride in the organisation. The Group's next employee opinion survey will take place in 2019.

Objective: To achieve a more positive score than the norm for FMCG companies in our comparator benchmark group.

Our other key performance indicators in this area include:

- Employee retention: In 2018, total turnover of management-grade employees was 1,963, representing 15% of the total management population.
- Diversity: Representation of women in senior management roles increased from 16% in 2016, and 21% in 2017, to 22% in 2018.

Workforce engagement

The Group has a range of well-established workforce engagement channels worldwide to ensure the Board, including 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, implemented at market, business unit, functional and/or regional level as appropriate for the composition of local workforce populations.

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. We also undertake a Group global employee opinion survey ('Your Voice') every two years.

From 1 January 2019, the Group has adopted an enhanced approach to workforce engagement worldwide in order to ensure meaningful and regular dialogue is maintained between the Board and our workforce given its geographical spread, scale and diversity.

In addition to this range of engagement channels, we have implemented new reporting channels to enable regular reporting to the Board on workforce views on key topics at all levels across the Group. 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. We will report on these arrangements in our 2019 Annual Report and Form 20-F.

Our Employment Principles

Our Employment Principles set out a common approach for our Group companies' policies and procedures, recognising that each Group company must take account of local labour law and practice, and the local political, economic and cultural context.

In developing our Employment Principles, we have sought the views of a cross-section of internal and external stakeholders, and have consulted with employee representatives and (where relevant) with our works councils.

All Group companies have committed to our Employment Principles and, through our internal audit processes, are required to demonstrate how these are embedded into the work place.

In addition to our Employment Principles, our Board Diversity Policy specifically applies to our Board and Management Board and is discussed further at page 60.

Rewarding people

Reward is a key pillar in ensuring that we have the right people to drive the business forward. Reward is necessarily local and we strongly support this through global frameworks to ensure leading-edge policies, processes and technology are available to all markets. Base pay rewards core competence relative to skills, experience and contribution to the Group, while annual bonuses, recognition schemes and ad hoc incentives provide the right mix to ensure that high performance is recognised and rewarded. The Long-Term Incentive Plan (LTIP) has been established to make annual awards of free shares to senior managers provided certain challenging long-term performance conditions are met. The LTIP is one element of senior executives' reward package aiming to align the interests of the Group's senior managers with those of shareholders. Further information on the Group's Remuneration Policy for the Executive Directors and the Non-Executive Directors can be found on pages 73 to 113.

We also offer our UK employees the chance to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme, and operate several similar schemes for senior management in our Group companies.

Gender pay

In 2018, we began publishing data relating to UK gender pay in line with statutory requirements.

You can learn more about our published data relating to UK gender pay in line with statutory requirements at www.bat.com/genderpayreport

Safe place to work

Operating in challenging environments

Providing a safe working environment for all our employees and contractors is paramount. As a global business, operating in diverse markets including some of the world's most volatile regions, this can also be challenging.

Safety risks vary across our business. Our manufacturing sites, for example, carry fewer risks, while the vast majority of all Group accidents are in Trade Marketing & Distribution (TM&D), which involves the distribution and sale of our products. We have close to 30,000 vehicles and motorcycles out on the road every day, often in environments with difficult social or economic conditions. Our goods have a high street value, and in a small number of markets this carries high risk of armed robbery and assault. Poor road infrastructure and wide variations in driving standards and behaviour provide further challenges.

Although these challenges will always exist, our goal is zero accidents across the Group. To help achieve this, we have a comprehensive approach based on risk management and assessments, employee training and awareness, and tailored initiatives for specific issues.

In 2017, we implemented a range of initiatives, such as ensuring drivers carry less stock, together with extra security measures for route planning and vehicle tracking. We use in-vehicle 'telematics' monitoring systems to analyse driver behaviour data, and use the insights to tailor our training programmes and improve driving skills and hazard perception.

In markets where we have recently introduced motorcycles, we provide training programmes to reduce risk. These provide practical techniques for different road conditions and types of traffic, safe speeds and distances, and how to spot a potential problem and take action to deal with it safely.

We are pleased to say that our actions are producing improvements. Vehicle-related incidents fell in 2018 from 73 to 47, primarily due to a reduction in motorcycle incidents. In particular, we saw a notable reduction in injuries reported across TM&D, down 27%.

Nevertheless, the number of fatalities remained unchanged at 12 in 2018. This was partly a result of changing local conditions, such as increased levels of violence and civil unrest in certain markets where no workforce fatalities had occurred for many years.

We deeply regret this loss of life and the suffering caused to friends, family and colleagues. We liaise closely with the relevant authorities and conduct our own detailed investigations to determine the root cause of each accident, identify any lessons that can be learned and implement action plans, the outcomes of which are reviewed at Board level.

We are making every effort to further address these challenges in 2019, notably through sharing best-practice examples across our regions.

You can read about our Principal Group risk relating to Health and Safety on page 51

Health and Safety Policy

Our Health and Safety Policy recognises the importance of the health, safety and welfare of all our employees and third-party personnel in the conduct of our business operations. We are committed to the prevention of injury and ill-health, and strive for continual improvement in health and safety management and performance. This policy is supported by our Environmental, Health and Safety (EHS) management system, outlined on page 32.

Overall responsibility for Group health and safety is held by the Director, Operations. The Director, Group Talent and Culture, has overall responsibility for all employee and human resources matters.

Our key performance indicators* in this area include:

- Lost Workday Case Incident Rate (LWCIR): There was a decrease in our LWCIR from 0.36 in 2017 to 0.27 in 2018.
- Lost workday cases (LWC): The number of work-related accidents (including assaults) resulting in injury to employees and to contractors under our direct supervision, causing absence of one shift or more, decreased from 248 in 2017 to 195 in 2018.
- Serious injuries and fatalities: The total number of serious injuries and fatalities to employees and contractors decreased from 78 in 2017 to 53 in 2018.

* 2017 data has been restated to include Health and Safety data for RAI employees and contractors under our direct supervision.

Delivering our strategy continued

Sustainability

Sustainability is a key pillar of our Group strategy and plays a fundamental role in all aspects of our business.

Our sustainability agenda was developed through a detailed assessment process that identified the three key areas that have the greatest significance to our business and our stakeholders.

- Harm reduction: we are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of potentially reduced-risk products;
- Sustainable agriculture and farmer livelihoods: we are committed to advancing sustainable agriculture and working to enable prosperous livelihoods for all farmers who supply our tobacco leaf; and
- Corporate behaviour: we are committed to operating to the highest standards of corporate conduct and transparency.

Highlights during the year

- Launch of the new global Anti-Bribery and Corruption Procedure that mandates both pre-contractual and retrospective due diligence for third-party business providers;
- Implementation of a new set of consolidated International Marketing Principles that combine our standards for all our product categories; and
- Deployment of a Farmer Sustainability Monitoring tool that identifies and addresses problems in real time.

Read more about our sustainability performance in each area at www.bat.com/sustainabilityreport

Harm reduction

Tobacco harm reduction is about encouraging adult smokers, who wish to continue using tobacco or nicotine products, to switch to potentially lower-risk sources of nicotine as compared to conventional cigarettes. We are committed to working to reduce the public health impact of smoking through offering adult consumers a range of potentially reduced-risk products (PRRPs).

Read about our progress in potentially reduced-risk products on page 21

Cutting-edge science

We are always on the lookout for the next cutting-edge technology that will enable us to provide adult smokers with more advanced, better-performing PRRPs.

We are also highly focused on testing and validating the reduced-risk potential of these products. To this aim, and to complement widely-available third-party science, we have developed a framework of scientific tests to assess the health risks of PRRPs relative to smoking cigarettes.

In 2018, we embarked on one of our most ambitious and large-scale clinical studies, examining risk indicators among adult smokers who continue smoking, switch to glo or stop completely. We expect to publish initial study results in 2019.

We openly share our scientific framework and publish peer-reviewed journal articles. To date, we have published 25 peer-reviewed articles on THPs, 23 on vapour products and six manuscripts that review them jointly. We will also continue presenting at conferences and to government technical advisory committees. In 2018, we presented at 24 scientific conferences and external meetings.

High standards and enabling responsible growth

Following high standards to ensure quality and consumer safety is at the heart of everything we do in the design, development and manufacturing of our products. We would like to see the same approach across the whole industry, so, in 2018, we continued to advocate for, and collaboratively contributed to the development of, consistent national and international standards and proportionate regulation for PRRPs.

This is essential for giving more smokers the assurances they need to support take-up of PRRPs, which can ultimately help to realise potential benefits for public health.

Marketing responsibly

As tobacco consumption presents serious health risks, and nicotine is an addictive substance, we need to ensure that our marketing is aimed only at adult consumers and is not designed to engage or appeal to youth.

To support this we have International Marketing Principles (IMP) in place that are applied consistently everywhere we operate, even when they are stricter than applicable local tobacco laws.

In light of our shift to being a multi-category business, in 2018 we compiled our responsible marketing standards for each of our product categories into one set of principles under our revised IMP, which govern all our product marketing. All Group companies are required to comply with the IMP and compliance is reported and monitored through our Control Navigator process, detailed on page 68.

In 2018, we also launched our revised Youth Access Prevention (YAP) guidelines that now cover all our product categories, and broadened their scope to also include markets where our products are distributed through third parties. It is now also mandatory for all our markets – unless there is a government ban in place – to provide retailers with point-of-sale materials with YAP messaging.

Sustainable agriculture and farmer livelihoods

Tobacco leaf remains at the core of our products, even with the growth of PRRPs, so the farmers who grow it are crucial to the continued success of our business.

We have traceability down to the farm level and centralised management of our tobacco leaf supply chain. This enables an agile, efficient and reliable supply of high-quality tobacco leaf to meet consumer demand, while also enhancing the sustainability of rural communities and agriculture.

In 2018, the Group purchased more than 400,000 tonnes of tobacco leaf:

- 68% from 18 Group leaf operations, which source from over 90,000 farmers; and
- 32% from more than 20 third-party suppliers, which source from over 260,000 farmers.

Read more about Sustainable Agriculture and Farmer Livelihoods at www.bat.com/sustainabilityreport

Supporting our farmers

Through our global leaf research and development, we develop new and innovative farming technologies and techniques, which are made available to farmers as part of comprehensive agri-support packages.

We have a network of expert field technicians who provide on-the-ground support, technical assistance and capacity building for all our 90,000+ directly contracted farmers, helping them to run successful and profitable farms. Our third-party suppliers provide their own support for all the 260,000+ farmers they source from.

By supporting farmers in this way, we can help them maximise the potential of their farms and enhance the livelihoods and resilience of rural communities.

They and future generations are then more likely to feel motivated to remain in agriculture, look after the environment and see the value of growing tobacco as part of a diverse range of crops.

Setting standards and driving change

We use the industry-wide Sustainable Tobacco Programme (STP) to conduct due diligence on 100% of our own tobacco leaf operations and third-party suppliers, which covers issues such as safe working conditions, preventing child and forced labour, and environmental protection.

We use the results of the self-assessments and on-site reviews to work with suppliers to drive corrective action and improvements. In the event of any serious or persistent issues, or where suppliers fail to demonstrate a willingness to improve performance, we reserve the right to terminate the business relationship.

We continue to collaborate with the industry to refine this programme, and in 2018 the STP Steering Committee carried out a comprehensive review of the STP's requirements and outcomes to create more effective processes.

Since implementation in 2016, three rounds of self-assessment have been completed, with 62 independent on-site reviews, covering 100% of our total supply base.

Our 'Thrive' programme is based at the farm level and takes a more holistic and collaborative approach to identifying and addressing root causes and long-term challenges, such as rural poverty. It is based on the internationally-recognised 'five capitals' framework, with strength in all five demonstrating resilience and enabling farmers and rural communities to prosper.

Since introducing Thrive, we have assessed over 280,000 farmers who supply nearly 90% of our total tobacco leaf purchases. We are now using the results to inform our approach to selecting and developing new partnerships and community-based projects that will have a demonstrably positive impact for farmers and their communities.

Respect for human rights

The Group has a long-standing commitment to respect fundamental human rights, as affirmed by the Universal Declaration of Human Rights.

The most significant challenges for human rights abuses are in our tobacco leaf supply chain which, as with the wider agricultural sector, is recognised by the International Labour Organization to be particularly vulnerable to these issues due to the sheer scale and characteristics, such as large numbers of casual and temporary workers, family labour in small-scale farming and high levels of rural poverty.

Human rights challenges in our non-agricultural supply chain depend on the nature of the sector, the type of goods and services supplied, and the country of operation.

With the majority of our employees working in business areas where we have robust oversight and control, human rights challenges in our own operations are substantially avoided. The challenges that do exist are mitigated by a suite of robust policies, practices and compliance and governance procedures that we have in place across all Group companies.

However, we recognise that we need to continually work to ensure these are effectively applied and that we carefully monitor the situation, particularly in higher-risk countries, such as where regulation or enforcement are weak, or there are high levels of corruption, criminality or unrest.

Our due diligence processes for our business operations and supply chains enable us:

- to monitor the effectiveness of, and compliance with, our Human Rights Policy commitments under our Standards of Business Conduct (SoBC) and our Supplier Code of Conduct; and
- to identify, prevent and mitigate human rights challenges, impacts and abuses.

Our key performance indicators in this area focus on the number and results of reviews and audits conducted as part of our due diligence processes for our suppliers and business operations. In 2018:

- Independent on-site reviews were conducted by an external firm on 26 of our tobacco leaf suppliers;
- Independent audits were conducted by external firm Intertek on 88 non-agricultural suppliers in 29 countries; and
- Group business operations in 26 higher-risk countries underwent enhanced due diligence to confirm compliance with applicable Group policies, standards and controls, and to provide details of any additional local measures in place to enhance human rights management.

Safeguarding human rights

With operations and supply chains in many diverse and challenging environments around the world, human rights are particularly important for our business and an area we have long focused on addressing.

In recent years, we have strengthened our approach to further align to the United Nations Guiding Principles on Business and Human Rights (UNGPs).

This began with a review of our existing policies and approach to human rights management, informed by an independently-facilitated stakeholder dialogue.

As a result, in 2014, we incorporated our Human Rights Policy into our SoBC. In early 2016, we complemented this with the introduction of our Supplier Code of Conduct, which defines the minimum standards expected of all our suppliers worldwide, including the respect of human rights.

Having established a strong policy base, we have continued to focus in 2018 on enhancing due diligence across our business and supply chains. Because of the nature of agricultural supply chains, the greatest risk of human rights abuses is within our tobacco leaf supply chain; as a result, we have extensive due diligence processes in place, as detailed on page 30.

For our non-agricultural supply chain, we have long had due diligence processes in place for strategic direct product materials suppliers.

However, to more closely align with the UNGPs and to better manage supply chain challenges and opportunities, we expanded the scope in 2016 to include all our direct materials suppliers, as well as strategic indirect suppliers.

All these suppliers are now assessed according to independent human rights indices and those with the highest risk exposure are prioritised for enhanced due diligence.

As a result, 77% of all our strategic global direct materials suppliers have been independently audited in the last three years.

In 2018, a total of 88 non-agricultural suppliers in 29 countries underwent independent on-site audits. As well as directly-contracted tier 1 direct suppliers, these also included 17 tier 2 strategic suppliers (those from whom our directly-contracted suppliers buy) for vapour and tobacco heating products, and eight strategic indirect suppliers of factory machinery and point-of-sale marketing materials in high-risk countries.

Further details of our approach to human rights and our Modern Slavery statement can be found at www.bat.com/msa

Delivering our strategy continued

Human rights in tobacco growing

Agricultural supply chains are particularly susceptible to issues relating to child labour and, in 2000, as part of our long-running commitment to end the practice within tobacco farming, we became a founding board member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation. We remain an active member today, alongside other major tobacco companies and leaf suppliers. ECLT helps to strengthen communities and bring together key stakeholders to develop and implement local and national approaches to tackle child labour.

We provide training and communications to farmers and rural community members to raise awareness of human rights issues, which reached over 134,000 beneficiaries in 2018. As discussed on page 28, we also run on-the-ground projects in farming communities to address root causes, such as rural poverty, in collaboration with local partners.

Our operational standard on child labour prevention was developed with inputs from the ECLT and the International Labour Organization. This complements our long-standing Child Labour Policy and provides detailed guidance regarding our requirements, including the provision of regular training, the conduct of farm monitoring and spot-checks, and the reporting of any incidents of child labour.

Sustainability reporting

Find out more about our focus on sustainability in our Sustainability Report 2018.

It is available on our corporate website www.bat.com/sustainabilityreport

Corporate behaviour

Our actions and behaviour impact all areas of our business – which is why corporate behaviour is such an important focus for our long-term sustainability strategy. Our commitment to good corporate behaviour is underpinned by our Group Standards of Business Conduct (SoBC), or localised equivalent, which require every Group company and all staff worldwide, including senior management and the Board, to act with a high degree of business integrity, comply with applicable laws and regulations, and ensure that our standards are not compromised for the sake of results.

Corrupt practices are illegal, cause distortion in markets and harm economic, social and political development, particularly in developing countries. Our SoBC make it clear that it is wholly unacceptable for Group companies, our employees or our business partners to be involved or implicated, in any way, in corrupt practices.

Our SoBC are continually kept under review, are fully aligned with the provisions of key corporate compliance laws including the UK Bribery Act, the US Foreign Corrupt Practices Act, the UK Criminal Finances Act, and are designed to meet the standards of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

In 2018, all employees across the Group completed their annual sign-off of the SoBC, received SoBC-related compliance training and declared any conflicts of interest. Of this, over 26,000 management-grade and office-based employees completed these steps through the online SoBC portal, including completing a tailored online training course focusing on ethical decision making and data security.

Sustainability: Our policies**	Summary of areas covered	Key stakeholder groups
Standards of Business Conduct (SoBC)	Anti-bribery and corruption, conflicts of interest, and entertainment and gifts. Respect for human rights, including prevention of child labour and exploitation of labour, and respect for freedom of association. Political contributions and charitable contributions. Financial integrity, accurate accounting and record-keeping, and information security. Anti-illicit trade, competition and anti-trust, anti-money laundering and sanctions compliance. Whistleblowing.	Employees and contractors Governments and regulators Local communities and society
Environment Policy	Our commitments to carrying out our business in an environmentally responsible and sustainable way, including agricultural, manufacturing and distribution operations.	Employees and contractors Suppliers, business partners, and farmers Local communities and society
Principles for Engagement	Our internal standards guiding all engagement activities, underpinning our commitment to corporate transparency.	Employees and contractors Governments and regulators Local communities and society
Supplier Code of Conduct	Standards required of our suppliers worldwide, including business integrity, anti-bribery and corruption, environmental sustainability and respect for human rights (covering equal opportunities and fair treatment, health and safety, prevention of harassment and bullying, child labour and exploitation of labour, and freedom of association).	Suppliers and business partners Employees and contractors Local communities and society
Strategic Framework for Corporate Social Investment	Sets out our Group corporate social investment strategy and a framework for our local operating companies to implement that strategy.	Local communities and society NGOs and development agencies
International Marketing Principles	Our internal standards guiding all marketing activities across all product categories.	Employees and contractors Distributors, retailers, customers

These policies and procedures are endorsed by our Board and support the effective identification, management and mitigation of risks and issues for our business in these and other areas.

** Further details of our Group policies and principles can be found at www.bat.com/principles
Further details of our Strategic Framework for Corporate Social Investment can be found at www.bat.com/csi

Delivery with integrity

In 2017, we introduced the Group's updated compliance programme, 'Delivery with Integrity', which focused on strengthening and driving a globally-consistent approach to compliance across the Group.

The programme is led by our Business Conduct & Compliance department, reporting directly to the Director, Legal & External Affairs and General Counsel.

In 2018, this department oversaw the successful deployment of several key initiatives to empower employees and business units across the Group to better identify and mitigate challenges related to key compliance areas such as anti-bribery and anti-corruption (ABAC) laws. To raise awareness of these issues with employees, an e-learning was delivered to a targeted cross-functional global audience selected on the basis of their potential interaction with government officials. Over 2,500 hours of mandatory ABAC training were logged as a result. To complement this, employee webcasts were also hosted for BAT managers across the world.

Additionally, to assist business units in identifying SoBC-related issues (in particular relating to bribery and corruption) in connection with third parties retained by the Group, a new Third-Party Procedure was launched in Q2 2018. This procedure mandates a consistent methodology across the Group for pre-contractual due diligence on prospective third-party business partners, and is complemented by mandatory mitigation packages (such as training and contractual clauses) for medium and high-risk third parties.

This due diligence also provides a retrospective review of third parties with which the Group did business before the Third-Party Procedure came into effect. In addition, given the challenges associated with intermediaries engaged to interface with public officials on the Group's behalf, the review for these service providers has been conducted centrally, with external input and independent oversight. By August 2019, all relevant third parties with which the Group does business globally will have been reviewed.

Read more about our Group risk factor related to corporate behaviour on page 278

Group Standards of Business Conduct (SoBC)

The SoBC require all staff to act with a high degree of integrity, comply with applicable laws and regulations, and ensure that standards are never compromised for the sake of results.

All Group companies have adopted the SoBC or local equivalent. RAI Companies adopted their localised version of the SoBC with effect from 1 January 2018, and any instances of suspected improper conduct contrary to their localised SoBC, and established breaches, have been reported on an aggregated Group basis from 2018 onwards.

Information on compliance with the SoBC is gathered at a regional and global level and reported to the Regional Audit and CSR Committees, Corporate Audit Committee and to the Audit Committee.

In the year ended 31 December 2018, 266 instances of suspected improper conduct contrary to the SoBC were reported to the Audit Committee (2017: 183).

Of the instances reported, 98 were established as breaches and appropriate action taken (2017: 78). In 99 cases, an investigation found no wrongdoing (2017: 75). In 69 cases, the investigation continued at the year-end (2017: 30), including investigation, through external legal advisers, of allegations of misconduct.

Please refer to page 70 for more information about the Audit Committee's oversight and monitoring of compliance with the SoBC in 2018.

The SoBC, and information on the total number of incidents reported under it, are available at www.bat.com/sobc.

BAT Group SoBC reported incidents
Year to 31 December 2018

Established breach of SoBC	98
No breach of SoBC	99
Ongoing investigation	69
Total	**266**

'Speak Up' channels

To increase the accessibility of, and strengthen, our long-standing whistleblowing policy and procedures, in early 2018 we launched a new third-party managed 'Speak Up' system, which followed from a review of the Group's existing whistleblowing procedures undertaken in 2017.

The system includes a website available in multiple languages, and local language hotlines for our markets, and enables improved global oversight of all reported issues in real time.

The SoBC also includes the Group's whistleblowing policy, which enables staff and others to raise concerns, including regarding accounting or auditing matters, in confidence (and anonymously where they wish), without fear of reprisal. The Group's whistleblowing policy is supplemented by local procedures throughout the Group and at the Group's London headquarters, providing staff with further guidance on reporting matters and raising concerns, and the channels through which they can do so.

Of the total number of SoBC incidents reported in 2018 set out above, 138 were brought to management's attention through whistleblowing reports from employees, ex-employees, third parties or unknown individuals reporting anonymously (2017: 131).

Our 'Speak Up' channels – www.bat.com/speakup enable anyone working for, or with, our Group to raise concerns in their local language, in confidence and without fear of reprisal.

Delivering our strategy continued

CO_2e emissions
(in '000 tonnes)

841

2.7% lower than 2017 baseline

Definition: Group Scope 1 and Scope 2 carbon dioxide equivalent (CO_2e) emissions

Target: To reduce our Scope 1 and Scope 2 CO_2e emissions by 30% by 2030 compared to our 2017 baseline.

Water use
(total water withdrawn in mn metres^3)

4.77

8.2% lower than 2017 baseline

Definition: Group water use in million cubic metres.

Objective: To reduce water use to 3.38 mn metres^3 by 2030, 35% lower than our 2017 baseline.

Recycling
(percentage of waste recycled)

90.2%

Definition: Total percentage of Group waste re-used or recycled against total waste generated.

Objective: To recycle 95% or more by 2030 in each year.

Read about our Group risk factor relating to environmental laws on page 276

Further details of our approach to our reporting methodology can be found at www.bat.com/corporatebehaviour/scope

Environment

We are committed to reducing our environmental impact across our supply chain and operations and our Director, Operations, has overall responsibility for environmental management.

Our Environment Policy applies across all our activities including our supply chain.

The Policy is supported by our comprehensive Environmental, Health and Safety (EHS) management system, which has been in place for many years and is based on international standards, including ISO 14001.

Each of our Group companies has an EHS Steering Committee, with overall environmental responsibility held by the applicable General Manager or site manager. EHS is also a standing agenda item for management meetings and governance committees at area, regional and global levels. Our governance structures raise awareness of environmental challenges across our business and our aim is to create a consistent approach across our Group to manage them.

The primary environmental focus areas for our business include energy use, carbon dioxide (CO_2) emissions, water use and availability, and waste and recycling. In our supply chain, the primary focus areas relate to the environmental impacts of tobacco farming.

Our approach to reducing the environmental impacts of our operations is long established and we have an internal reporting system in place for monitoring Group environmental performance.

During 2018 and following on from our acquisition of Reynolds American Inc. (RAI), we took the opportunity to review our long-term targets to reflect our new operations portfolio. Having undertaken a full analysis of our Scope 1, 2 and 3 carbon emissions we have now established a new 2017 baseline reflective of our enlarged operations and established new long-term targets including a commitment to setting science-based emissions targets.

Our new targets have gained Science-Based Targets initiative (SBTi) formal approval, and we join the ever-growing number of companies that have committed to making significant emissions reductions, in line with the most up-to-date climate science.

Community and social initiatives

As an international business, we play an important role in countries around the world and have built close ties with local communities. We encourage our employees to play an active role both in their local and business communities.

Our charitable contributions policy in our SoBC is supported by the Group Strategic Framework for corporate social investment (CSI), which sets out our Group CSI strategy and how we expect our local operating companies to develop, deliver and monitor community investment programmes within three themes:

– Sustainable Agriculture and Environment;

– Empowerment; and

– Civic Life.

Our Group Head of Sustainability has oversight of the Group CSI Strategy, and Board-level governance is managed through our Audit Committee, which reviews the strategy and an analysis of activities (including investment and alignment to the Group's priorities) at least once a year.

Our key performance indicator in this area relates to the total amount of money invested in charitable giving and CSI projects. In 2018, the Group invested a total of £14.4 million in cash, and a further £1.2 million in-kind charitable contributions and CSI projects, including £1.04 million given for charitable purposes in the UK. Much of this investment is delivered through partnerships with external stakeholders including communities, NGOs, governments, development agencies, academic institutions, industry associations and peer companies.

Emissions*

	2018	2017
Scope 1 CO_2e emissions ('000 tonnes)	**415**	427
Scope 2 CO_2e emissions ('000 tonnes)	**426**	438
Scope 3 CO_2e emissions ('000 tonnes)*	**n/a**	8,254
Total statutory emissions (Scope 1 and 2 in '000 tonnes)	**841**	864
Intensity (tonnes per £ million of revenue)	**32.6**	34.7

* As we have expanded our Scope 3 reporting to fully align with the Greenhouse Gas (GHG) Protocol, consolidation and verification for 2018 data is ongoing and is not practical to report at this time. The consolidated and verified data will be reported in the 2019 Annual Report and Form 20-F.