

CHAIRMAN'S INTRODUCTION ON GOVERNANCE



DURING 2019, THE BOARD OVERSAW THE SUCCESSFUL TRANSITION TO OUR NEW EXECUTIVE TEAM



Dear Shareholder

The Group has delivered a strong operational performance in 2019, with volume share and value share and revenue growing on the back of our combustibles business and continued progress in New Categories.

During 2019, the Board oversaw the successful transition to our new executive team, with Jack Bowles taking over from Nicandro Durante as Chief Executive in April, and Tadeu Marroco succeeding Ben Stevens as Finance Director in August. Jack's immediate drive to embed a stronger, simpler and faster business culture, with revisions to our governance framework facilitating this, has been endorsed by the Board.

Our focus on culture and governance this year has also been guided by the revised UK Corporate Governance Code, with its emphasis on aligning business culture with purpose, strategy and values. The Board has carefully considered the revised Code, in letter and spirit. This year we are reporting to you on our application of its principles and our compliance with its provisions.

In relation to our strategy, Jack and his management team have devoted significant attention in 2019 to developing plans to accelerate progress already made in our New Categories business and the Board has given its full endorsement to the evolution of our Group strategy presented in the Strategic Report.

Stakeholder engagement, and our broader sustainability agenda, has been to the fore this year. The Board assessed how it engages with, and understands the views of, our shareholders, our people, and wider stakeholders to inform our decision-making, strategy development and risk assessment.

The Board has also reinforced how our people should approach external engagement with stakeholders across our business by adopting a new Lobbying and Engagement Policy. It emphasises our values of openness and transparency, and comprises part of our revised Group Standards of Business Conduct (SoBC).

Board composition and succession

Effective succession planning by the Board is essential to our long-term sustainable success. In our Nominations Committee report on page 79, you can read more about the selection process conducted by the Committee leading to Tadeu's appointment as Finance Director. The Board is pleased at the speed with which both Jack and Tadeu have taken up the reins in their respective roles.

Having overseen a successful transition of the executive team, the Nominations Committee has turned its focus to the process for identifying a successor for my own role as Chairman, mindful of the provisions of the revised Code. Details of the process for identifying my successor are set out in the Nominations Committee report on page 80.

The Board welcomed Jerry Fowden as a new Non-Executive Director in September. Jerry's experience with strategic corporate transformations and FMCG operations in the US will augment the expertise of the Board in these strategic focus areas.

Promoting diversity in our senior management pipeline has long been the Board's aim. I was delighted to see the Group noted as a Diversity Leader in 2019 by the UK Financial Times in its inaugural Diversity Leaders report, highlighting progress in promoting diversity broadly across our organisation. The Board will continue its commitment to realising our ambitions in this area, in line with our Board Diversity Policy and Group Employment Principles.

The objectives of our Board Diversity Policy and our progress against these are set out on page 82.

Culture and values

The Board recognises its role in shaping and overseeing the Group's culture and values, and has been proactive in supporting our Chief Executive to create a stronger, simpler, more agile organisation through a programme of restructuring and simplification. In 2019, the Board adopted a revised Group Statement of Delegated Authorities aimed at empowering people at the right level of our organisation, and enhancing accountability and ownership. This is discussed further on page 70.

We are equally focused on ensuring that integrity remains paramount. The revised version of our SoBC, approved by the Board in 2019, emphasises that every line manager across our business must act as a role model for high standards of behaviour. You can read more about our Delivery with Integrity programme on pages 31 to 32.

Our Board does not tolerate any failure to comply with our legal obligations or with our SoBC. Through external legal advisers, we are rigorously investigating allegations of misconduct and we continue to cooperate with relevant authorities.

Stakeholder engagement

Our Directors understand the importance of effective engagement with our shareholders, our people and our wider stakeholders. In 2019, the Board completed a thorough review of how we engage with all key stakeholders, how the Board is kept informed of stakeholder perspectives, and the impact of engagement. This review is discussed on page 72.

One of the outcomes from the review was to establish Non-Executive Directors' attendance at our external Sustainability Stakeholder Panel, which I attended in November, to discuss the Group's sustainability initiatives directly with key opinion leaders. Our Sustainability Stakeholder Panel is discussed further on page 73.

CHAIRMAN'S INTRODUCTION ON GOVERNANCE CONTINUED

The Executive Directors and I regularly update the Board on our own dialogue with shareholders to ensure the whole Board understands their perspectives. In 2019, key topics raised by shareholders and discussed by the Board included US regulatory developments, our New Categories strategy and performance, our leverage and our Quantum transformation project. Our Remuneration Committee Chairman also engaged extensively with shareholders on our new Directors' Remuneration Policy, approved at our 2019 AGM.

My fellow Board members and I look forward to meeting further with shareholders in the lead up to, and at, our 2020 AGM in April.

Engagement with our people

As reported in our Annual Report and Form 20-F for 2018, from January 2019 we adopted an enhanced approach to engaging with our people worldwide to ensure the Board maintains meaningful and regular dialogue with them, in view of the geographical span, scale and diversity of our organisation. Our approach builds on the range of well-established workforce engagement channels already in place across the Group, augmented by new organisational reporting structures.

During 2019, the Board reviewed and gave feedback on outcomes from the Group's range of workforce engagement channels, including the 2019 'Your Voice' global employee survey. Our new Executive Directors presented several global webcasts in the year, including discussion of strategy, performance and culture with live Q&A. Our Directors also took the opportunity to engage directly with employees on market and site visits, and as part of specific events. You can read more about the Board's workforce engagement activities on page 72.

Board effectiveness

Board effectiveness is evaluated in detail annually. This year, the evaluation of the Board, its Committees and each individual Director was externally facilitated by Independent Audit Limited.

Having considered the output of this year's evaluation discussed on page 78, the Board considers that it continues to function effectively and its working relationships with its Committees continue to be sound.

Internal controls

The Group is subject to US compliance obligations under NYSE rules and US securities laws as the Company is a 'foreign private issuer'. In 2019, our Audit Committee played a key role in monitoring the Group's compliance with the Sarbanes-Oxley Act of 2002 (SOx) and had oversight of the management assessment of the effectiveness of our internal controls over financial reporting.

We explain our internal controls framework and SOx compliance programme on pages 87 to 88.

Looking ahead

Following the Remuneration Committee's review of our management compensation structures in 2019, and to enhance alignment of management incentive schemes with our strategy and values, the Board will present scheme rules for a new restricted stock long-term incentive plan for consideration at our 2020 AGM.

On the external front, increased public awareness of climate change and its impacts means that our shareholders and wider stakeholders are understandably keen to know how we as a business are responding to climate change. The Board has been briefed on the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and has endorsed the Group's full alignment with those recommendations by 2022.

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

Richard Burrows
Chairman

GOVERNANCE

Throughout the year ended 31 December 2019, we applied the Principles of the July 2018 version of the UK Corporate Governance Code (the Code). The Company was compliant with all provisions of the Code during the year.

The Board considers that this Annual Report and Form 20-F, and notably this Governance section, provides the information shareholders need to evaluate how we have complied with our obligations under the Code.

Board leadership and Company purpose

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Disclosure guidance and transparency rules

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

For ease of reference, we prepare a separate voluntary annual compliance report by reference to each Principle and Provision of the Code, available at www.bat.com/governance

The Code is available at www.frc.org.uk

US corporate governance

As a result of the listing of the Company's American Depositary Shares (ADSs) on the NYSE, the Company is required to meet certain NYSE requirements relating to corporate governance matters.

Certain exceptions to these requirements apply to the Company as a foreign private issuer. For a discussion of the significant differences between the NYSE requirements and the Company's practices, please see page 295.

BOARD OF DIRECTORS

AS AT 17 MARCH 2020

**Richard Burrows**

Chairman (74)

Nationality: Irish

Position: Chairman since November 2009; Non-Executive Director since September 2009.

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

Other appointments: Supervisory Board member and Chairman of the Remuneration Committee at Carlsberg A/S.

**Jack Bowles**

Chief Executive (56)

Nationality: French

Position: Chief Executive since 1 April 2019; Executive Director since 1 January 2019.

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

Other appointments: No external appointments.

**Tadeu Marroco**

Finance Director (53)

Nationality: Brazilian

Position: Finance Director since 5 August 2019.

Skills, experience and contributions: Tadeu brings broad experience gained in various national, regional and global finance and general leadership roles, having joined the Group in Brazil in 1992. These experiences make Tadeu particularly well-placed to contribute to the Group's transformation and broader strategic agenda. He joined the Management Board as Director, Business Development in 2014, becoming Regional Director, Western Europe in 2016, then Regional Director, Europe and North Africa in January 2018. He was appointed Director, Group Transformation in January 2019 and, in addition to this role, he was appointed Deputy Finance Director in March 2019, before joining the Board as Finance Director in August 2019.

Other appointments: No external appointments.

**Sue Farr**

Non-Executive Director (64)

Nationality: British

Position: Non-Executive Director since February 2015.

Skills, experience and contributions: Sue contributes considerable expertise in relation to marketing, branding and consumer issues, which are key areas of focus for the Board. Prior to joining the Chime Group in 2003, where she was Director, Strategic and Business Development until 2015, Sue held a number of senior marketing and communications positions, including: Director of Marketing BBC, Corporate Affairs Director of Thames Television and Director of Communications of Vauxhall Motors. Sue is a former Chairwoman of both the Marketing Society and the Marketing Group of Great Britain.

Other appointments: Special Adviser, Chime Group; Non-Executive Director and Chair of the Remuneration Committee of Accsys Technologies PLC; Non-Executive Director of Helical plc; Non-Executive Director and Chair of the Remuneration Committee of DNEG Limited.

**Jerry Fowden**

Non-Executive Director (63)

Nationality: British

Position: Non-Executive Director since 1 September 2019.

Skills, experience and contributions: Jerry brings extensive experience in leadership and strategic transformation to the Board and contributes considerable insight in relation to US operational issues, an important market for the Group. He is Chairman of Primo Water Corporation ('Primo') (formerly Cott Corporation), a US pure-play water solutions provider, having been CEO from 2009 until December 2018. Prior to joining Primo, Jerry held a variety of executive roles, including: CEO of Auto Trader Group; a number of roles at AB InBev, including CEO of Bass Breweries in the UK, Global Chief Operating Officer and European President; Executive Director of The Rank Group; and CEO of the Beverage Division at the Hero Group.

Other appointments: Chairman of Primo; Non-Executive Director and Chair of the Compensation and Human Resources Committee of Constellation Brands, Inc.

**Dr Marion Helmes**

Non-Executive Director (54)

Nationality: German

Position: Non-Executive Director since August 2016.

Skills, experience and contributions: Marion brings significant financial expertise and operational experience gained at an international level, having spent her working life managing businesses across Europe, the Americas and Asia. Her extensive career includes Chief Financial Officer positions at Celesio, Q-Cells and ThyssenKrupp Elevator Technology and, more recently, as a member of a variety of supervisory boards, which enables Marion to bring a range of insights to the Board's discussions.

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

**Luc Jobin**

Non-Executive Director (60)

Nationality: Canadian

Position: Non-Executive Director since July 2017.

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

Other appointments: Independent Director of Hydro-Quebec and Gildan Activewear Inc.; Independent Consultant providing executive leadership advisory services to corporate clients.

**Holly Keller Koepfel**

Non-Executive Director (61)

Nationality: American

Position: Non-Executive Director since July 2017.

Skills, experience and contributions: Holly's extensive international operational and financial management experience in a range of industry sectors enables her to make important contributions to the Board. Holly served as an independent director on the Board of RAI from 2008 until the acquisition in 2017. From 2010 until her retirement in 2017, she was Managing Partner and Head of Citigroup's Infrastructure Investor Fund (CII and its successor, Gateway Infrastructure) with operations on three continents. Prior to 2010, she held a number of global operational positions with Consolidated Natural Gas Company and American Electric Power Company, Inc. (AEP), ultimately serving as Chief Financial Officer of AEP.

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



**Savio Kwan**

Non-Executive Director (72)

**Nationality:** British**Position:** Non-Executive Director since January 2014.

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

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

**Dimitri Panayotopoulos**

Non-Executive Director (68)

**Nationality:** Greek/British

Position: Non-Executive Director since February 2015. Dimitri will become Senior Independent Director at the conclusion of the AGM on 30 April 2020.

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

Other appointments: Senior Adviser at The Boston Consulting Group; Advisory Board member of JBS USA; Board Member of IRI.

**Kieran Poynter**

Senior Independent Director (69)

**Nationality:** British

Position: Senior Independent Director since October 2016; Non-Executive Director since July 2010. Kieran will retire at the conclusion of the AGM on 30 April 2020.

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

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

- Audit Committee
- Nominations Committee
- Remuneration Committee
- Committee Chairman
- Executive Director
- Non-Executive Director

Attendance at Board meetings in 2019¹

Name	Director since	Attended/Eligible to attend	
		Scheduled ⁴	Ad hoc
Richard Burrows	2009	6/6	2/2
Jack Bowles ^{3(b)}	2019	6/6	2/2
Nicandro Durante ^{3(e)}	2008-2019	1/1	2/2
Tadeu Marroco ^{3(c)}	2019	2/2	0/0
Ben Stevens ^{3(f)}	2008-2019	4/4	2/2
Sue Farr ^{2(a)}	2015	6/6	1/2
Jerry Fowden ^{3(d)}	2019	2/2	0/0
Dr Marion Helmes ^{2(c)}	2016	6/6	2/2
Luc Jobin ^{2(b)}	2017	6/6	1/2
Holly Keller Koeppl	2017	6/6	2/2
Savio Kwan	2014	6/6	2/2
Dimitri Panayotopoulos	2015	6/6	2/2
Kieran Poynter	2010	6/6	2/2

Notes:

- Number of meetings in 2019: The Board held eight meetings in 2019, two of which were ad hoc and convened at short notice, one to discuss Board Committee appointments and one to discuss the status of litigation in Quebec province. Part of the October Board meeting was held off-site at the Group's R&D facilities in Southampton, UK, to review Group strategy and product portfolios.
- (a) Sue Farr did not attend the ad hoc Board meeting in January due to prior commitments; (b) Luc Jobin did not attend the ad hoc Board meeting in January due to prior commitments; and (c) Marion Helmes did not attend the 2019 AGM due to prior commitments.
- Composition: (a) the Board of Directors is shown as at the date of this Annual Report and Form 20-F; (b) Jack Bowles joined the Board on his appointment as an Executive Director on 1 January 2019; (c) Tadeu Marroco joined the Board on his appointment as Finance Director on 5 August 2019; (d) Jerry Fowden joined the Board on his appointment as a Non-Executive Director on 1 September 2019; (e) Nicandro Durante retired from the Board on his retirement as Chief Executive on 1 April 2019; and (f) Ben Stevens retired from the Board on his retirement as Finance Director on 5 August 2019.
- Number of meetings in 2020: Six Board meetings are scheduled for 2020.

MANAGEMENT BOARD

AS AT 17 MARCH 2020



Jerome Abelman

Director, Legal & External Affairs and General Counsel (56)

Nationality: American

Jerry was appointed Director, Legal & External Affairs and General Counsel in May 2015, having joined the Management Board as Group Corporate & Regulatory Affairs Director in January 2015. Jerry was Regional General Counsel, Asia-Pacific from 2010 to 2014, before becoming Assistant General Counsel – Corporate & Commercial. He was a member of the Board of RAI from February 2016 until July 2017.



Marina Bellini

Director, Digital and Information (46)

Nationality: Italian/Brazilian

Marina joined the Management Board as Director, Digital and Information in January 2019. She joined the Group as Chief Information Officer (CIO) in 2018, having previously served as Global CIO and Global Business Services SVP at Anheuser-Busch InBev, where she was responsible for information technology transformation, including consumer digital marketing.



Luciano Comin

Regional Director, Americas and Sub-Saharan Africa (51)

Nationality: Italian/Argentinian

Luciano joined the Management Board as Regional Director, Americas and Sub-Saharan Africa in January 2019. He joined the Group in 1992 and has held a wide range of roles, including Marketing Director in Venezuela, Marketing Director in Mexico and General Manager of BAT Mexico. Luciano was also Regional Marketing Manager for Western Europe and then Regional Head of Marketing, Americas and Sub-Saharan Africa before his appointment to the Management Board.



Alan Davy

Director, Operations (56)

Nationality: British

Alan joined the Management Board as Group Operations Director in March 2013. He joined the Group in 1988 and has held various roles in manufacturing, supply chain and general management. Alan previously held the position of Group Head of Supply Chain.



Hae In Kim

Director, Talent and Culture (46)

Nationality: Korean

Hae In joined the Management Board as Director, Talent and Culture Designate in January 2019 and became Director, Talent and Culture in April 2019. She was previously Group Head of Talent and Organisational Effectiveness and has held several other senior HR roles in the Group, including Regional HR Director, Asia-Pacific, and HR Director, Japan and North Asia. Prior to joining the Group in 2008, she gained experience at Samsung, IBM Consulting Services and PricewaterhouseCoopers.



Paul Lageweg

Director, New Categories (51)

Nationality: Dutch

Paul joined the Management Board as Director, New Categories in January 2019. He has been with the Group for 14 years in various senior roles, including Regional Marketing Manager, Asia-Pacific and Middle East, Area Director, East Asia and Global Head of Marketing Futures.



Guy Meldrum

Regional Director, Asia-Pacific and Middle East (48)

Nationality: New Zealand

Guy joined the Management Board as Regional Director, Asia-Pacific and Middle East in January 2019. Previously he was Area Director, Australasia Area. Guy joined BAT in 1993 and has held several senior roles in the Group including Area Director, North Asia Area and Marketing Director, Russia.



Dr David O'Reilly

Director, Research and Science (53)

Nationality: British

David was appointed Director, Research and Science in January 2019, having joined the Management Board as Group Scientific Director in 2012, leading R&D's focus on potentially reduced-risk products. He has been with the Group for more than 20 years and was previously Head of International Public Health and Scientific Affairs, responsible for engagement with scientific, medical and public health communities.



Ricardo Oberlander

President and CEO, Reynolds American Inc. (56)

Nationality: Brazilian

Ricardo was appointed President and CEO of RAI in January 2018, having joined the Management Board as Regional Director for the Americas in 2013. He has held various senior marketing roles in the Group and was General Manager in France. He was Chairman of Souza Cruz S.A. from 2013 until 2016 and a RAI Board member from 2014 until July 2017. Ricardo is a member of the Chief Marketing Officer Council North America Advisory Board and an Advisory Board member of Coast Capital LLC.



Johan Vandermeulen

Regional Director, Europe and North Africa (52)

Nationality: Belgian

Johan was appointed Regional Director, Europe and North Africa in January 2019. He joined the Management Board in 2014 as Regional Director for Eastern Europe, Middle East and Africa, then became Regional Director, Asia-Pacific and Middle East in January 2018. He has been with the Group for more than 25 years and his previous roles include General Manager in Russia, General Manager in Turkey and Global Brand Director for the Kent brand.



Kingsley Wheaton

Chief Marketing Officer (47)

Nationality: British

Kingsley was appointed Chief Marketing Officer in January 2019. He joined the Group in 1996 and held various senior marketing positions, prior to being General Manager in Russia. He was appointed to the Management Board as Corporate and Regulatory Affairs Director in 2012. In January 2015, he was appointed Managing Director, Next Generation Products and then as Regional Director, Americas and Sub-Saharan Africa in January 2018.


LEADERSHIP AND PURPOSE

Our Board

Our Board is collectively responsible to our shareholders for the long-term sustainable success of the Company and for the Group's strategic direction, purpose, values and governance. Our Board provides the leadership necessary for the Group to meet its business objectives within a robust framework of internal controls.

Primary Board responsibilities include:

- Group strategy and ensuring resources are in place to meet objectives
- Setting Group performance objectives and monitoring performance
- Significant corporate activities
- Group budget
- Risk management and internal control
- Board, Management Board and Company Secretary appointments and succession
- Periodic financial reporting
- Annual Report & 20-F approval
- Dividend policy
- Corporate governance
- Group policies
- Effective engagement with shareholders, our workforce and wider stakeholders
- Assessing and monitoring culture and its alignment with Group purpose, values and strategy
- Ensuring workplace policies and practices align with values and support sustainable success
- Review of Speak Up channels and reports arising therefrom

 The statement of matters reserved for the Board is available at bat.com/governance

Board programme and activities

The Board has a comprehensive annual programme of meetings to monitor and review the Group's strategy across all the elements of the Group's business model. The Chairman sets a carefully structured agenda for each meeting in consultation with the Chief Executive and Company Secretary.

The key activities of the Board in 2019 are detailed on pages 74 and 75. These activities are discussed under the strategy pillars of Sustainability, Growth, Productivity and Winning Organisation. The Board's strategic priorities for 2019 are identified within the key performance indicators set out on pages 18 and 19.

During the year, the Board also devotes considerable attention to Group corporate governance, including internal control and compliance matters.

The Board considers stakeholder interests in its decision-making on an ongoing basis. Examples of the Board considering the long-term consequences of decisions, stakeholder interests, the impact of our operations on the environment and corporate reputation (amongst other factors) are discussed on pages 74 and 75.

Collective decision-making

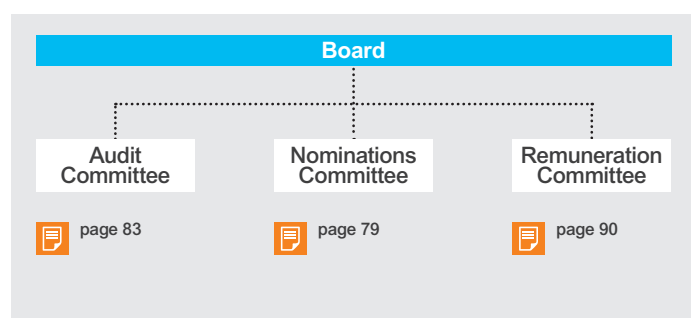
The Chairman seeks a consensus at Board meetings but, if necessary, decisions are taken by majority. If any Director has concerns on any issues that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2019.

How our governance framework supports our strategy

As part of our internal controls framework, the Board has delegated certain authorities to executive management through our Group Statement of Delegated Authorities to enable effective delivery of Group strategy. The Board's approach to delegation of authorities is discussed further on page 70.

Board Committees

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



The Chairman of each Committee provides updates to the Board, including on decisions made and key matters discussed, following each Committee meeting. Copies of the minutes of all Committees are circulated to all Board members to the extent appropriate.

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

Management Board

The Management Board is responsible for overseeing the implementation of Group strategy and policies set by the Board, and creating the framework for Group subsidiaries' day-to-day operations.

The Management Board is chaired by the Chief Executive and comprises the Executive Directors and 11 senior Group executives whose names and roles are described on page 68.

Giovanni Giordano and Naresh Sethi stepped down from the Management Board with effect from 31 March 2019.

Primary Management Board responsibilities include:

- Developing Group strategy for the Group's product portfolio for approval by the Board
- Monitoring Group operating performance
- Ensuring Group, regional and functional strategies and resources are effective and aligned
- Managing the central functions
- Overseeing the management and development of Group talent

OUR CULTURE AND VALUES

Shaping and overseeing culture

Our Board shapes and oversees not just Group strategy, but also its culture and ethos. Since becoming Chief Executive in April, Jack Bowles has focused on creating a stronger, simpler, faster business, with a culture reflecting our ethos, set out on page 11. Our ethos is the thread that must run through everything we do and how we do it, and we believe it empowers our people, fosters a vibrant and rewarding work place, and promotes sustainable long-term value. Our Board is therefore committed to supporting Jack and our Management Board to drive our ethos in every area of our business.

The Board leads by example, establishing revised governance structures across the organisation which took effect in January 2020. Our revised Group Statement of Delegated Authorities (SoDA) aims to empower people at the right level of our organisation with an enhanced degree of accountability and ownership. These changes support our Quantum transformation project, to reduce management layers, speed up and enhance decision-making, and create a more focused Group.

Overseeing the implementation of Group strategy through the SoDA is one of the ways that the Board promotes good corporate governance, risk management and internal control across our Group. The SoDA supports our Board members in managing their responsibility for promoting the success of the Company, in line with their directors' duties. Where the Board delegates authority for decision-making to management, the SoDA mandates regard for the likely long-term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with our wider stakeholders, the impact of our operations on the environment and communities in which we operate, and other relevant factors.

Delivery with integrity

How we execute our strategy is as important as its successful delivery, and our Board is focused on ensuring that in every aspect of our business we deliver with integrity. In an organisation as diverse as ours, it is essential to the Group's continued success that all our people act with consistently high standards of behaviour. We articulate this through our Group Standards of Business Conduct (SoBC). Compliance with our SoBC, in letter and spirit, is mandatory for all our people worldwide.

We keep our SoBC under regular review to maintain best practice and to take employee and stakeholder feedback into account. The Board approved a revised version of our SoBC in 2019, which came into effect in January 2020, supported by a global awareness campaign.

Our revised SoBC emphasises that every line manager across our business must act as a role model for high standards of behaviour and includes a refreshed Speak Up policy, reflecting the range of Speak Up channels through which any concerns may be raised in confidence (anonymously if preferred) and without fear of reprisal. Our revised SoBC includes our Lobbying and Engagement Policy (replacing our Group Principles for Engagement), reinforcing the requirement for all our engagement activities with governments, regulators and other external stakeholders to be conducted with transparency, openness and integrity.

Our Audit Committee is regularly updated on SoBC incidents. The Committee reports to the Board to enable Board oversight of behaviour falling short of our standards and the corrective action taken, particularly where relevant to culture and values.

 Read more about our commitment to delivery with integrity and our Group Standards of Business Conduct on pages 31 to 32

Monitoring culture

Our Board is satisfied that the culture of the Group is aligned with its purpose, values and strategy and that workplace policies and practices are consistent with those.

Our Board looks at organisational culture in a variety of contexts during the year, and examples of this in 2019 are highlighted below. During 2019, Board oversight and monitoring of culture has been supported by the introduction of a Group culture dashboard review, which our Board will now monitor annually. The dashboard draws together a range of focused insights that can be measured over time, including employee engagement, leadership stability, employee retention and turnover, diversity balance across the organisation, business conduct, Speak Up reporting, and workplace health & safety.

Outside of the boardroom, the Directors regularly participate in market and site visits during the year, providing them with direct experience of our organisational culture in context.

Examples of the Board's focus on culture in 2019

Board review: Digital strategy

Supporting enhanced engagement with consumers and customers and developing a digitally literate organisation ('Digital in our DNA').

Non-Executive Director visit: Denmark and Sweden

Meeting representatives from regional and local management teams, visiting local Trade Marketing and Distribution operations in Copenhagen, and touring factory operations in Malmö.

Board strategy sessions: Culture and talent

In-depth review of Group culture, culture dashboard insights, alignment of Group workplace policies and practices with Group purpose, strategy and values; and talent strategy for accelerating Group transformation, including building diverse talent pipelines.

Board review: Quantum project

Oversight of project objectives, including enhancing employee empowerment and transformation of organisational ways of working, with due regard to employee interests in project design and implementation.

Board review: Standards of Business Conduct

Approving a revised version of the SoBC emphasising line manager responsibility for role-modelling high standards of behaviour, a refreshed Speak Up policy, and new Lobbying and Engagement Policy.

Board review: Group workforce engagement

Review of Group workforce engagement channels, feedback from the 2019 Your Voice global employee survey and other channels, and considering areas for future focus or action in light of these insights.

Board strategy sessions: Global R&D Centre, UK

Meeting representatives from our New Categories and Research & Science teams in Southampton, UK to discuss technologies and insights underpinning pipeline development.

Non-Executive Director visit: Japan

Understanding consumer perspectives on New Categories products, meeting representatives from the regional and local management teams and visiting local Trade Marketing and Distribution operations in Tokyo.

Board and Committee evaluations

This review considered management engagement with the Board, monitoring wider business culture, supporting the executive team, collaborative ways of working and opportunities to enhance effectiveness further.

BOARD ENGAGEMENT WITH STAKEHOLDERS

Our Directors value all engagement with our shareholders and wider stakeholders to understand their views and inform the Board's decision-making, strategy development and risk assessment. Our key stakeholders are set out on pages 26 to 27, with an overview of why they are important to our long-term, sustainable success, what matters to them, and how we engage and respond to their views.

Shareholder and investor engagement

Dialogue with our shareholders

The Board is committed to open and transparent dialogue with shareholders to ensure their views are understood and considered. The Chairman and Executive Directors' annual engagement programme is discussed below. The Senior Independent Director and other Non-Executive Directors are also available to meet with major shareholders on request. Our AGM is an opportunity for further shareholder engagement and for the Chairman to explain the Company's progress and, with other members of the Board, answer questions. All Directors attend our AGM, unless illness or pressing commitments prevent them. All Directors attended our AGM in 2019, except Dr Marion Helmes due to a prior commitment. Details of our 2020 AGM are set out on page 323.

Annual investor relations programme

A global engagement programme is conducted annually with shareholders, potential investors and analysts. This is led by the Chairman and the Executive Directors, with our Head of Investor Relations. The Chairman and the Executive Directors met with shareholders throughout the year. Prior to his appointment as Finance Director, Tadeu Marroco also attended shareholder meetings as Deputy Finance Director.

As part of the investor relations programme in 2019, meetings were held with institutional shareholders representing the majority of the Company's issued share capital, primarily in the UK, US and South Africa. A wide range of topics were discussed, including Group strategy, performance, corporate governance and sustainability. In the past year, over 465 investor engagement activities took place, primarily through face-to-face meetings and calls. The Executive Directors also presented regular investor updates, which are published on bat.com with all results presentations. Results presentations are also available to all our shareholders by webcast.

The development of the new Directors' Remuneration Policy was an area of focus for our investor relations programme in advance of the Company's 2019 AGM. The Remuneration Committee Chairman led engagement on the policy proposals, supported by the Chairman, including dialogue on the development of policy proposals to take into account shareholder feedback.

An Investor Day was held in London in March 2019, with the Management Board in attendance. Jack Bowles led the event, setting out a comprehensive overview and outlook for the business. The event featured presentations by a number of Management Board members and senior leaders. Around 200 delegates attended, representing our key investors and market analysts. The content covered objectives to accelerate delivery of our 'transforming tobacco' agenda, with clear targets attached to New Category growth and performance of the business over the next two to three years.

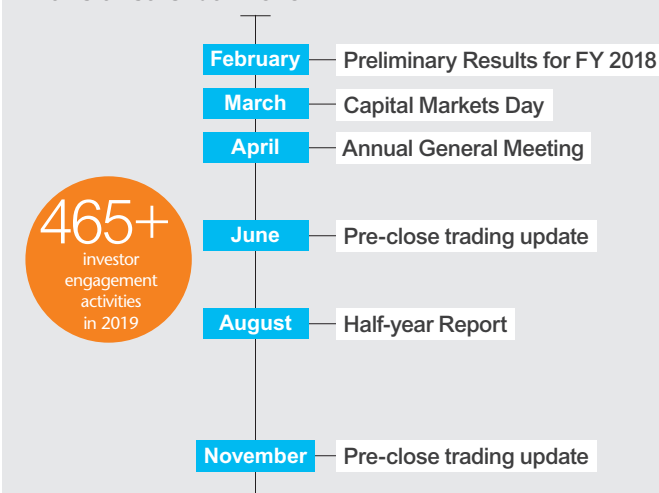
For debt investors, there is a microsite on bat.com with comprehensive bondholder information on credit ratings, debt facilities, outstanding bonds and maturity profiles.

How the Board considers shareholder views

The Chairman and the Executive Directors regularly update the Board on their dialogue with shareholders. The Board also receives regular updates from the Head of Investor Relations and our brokers on key issues raised by shareholders, and on the Company's share price performance. Shareholder perspectives considered by the Board during 2019 included, amongst others, regulatory developments in the US market, the Group's New Categories strategy and performance, Group debt and business transformation. The Board discusses key issues raised and takes shareholder feedback into account in developing Group strategy.

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

Financial calendar 2019



Update on 2019 AGM voting results

All resolutions were passed at the Company's AGM held on 25 April 2019 with the requisite majority of votes. However, we acknowledge that a significant minority of our shareholders did not support the resolution to renew the Directors' authority to allot shares.

We appreciate that some shareholders are unable to support an allotment authority at the level sought, and the reasons why. During 2019, we engaged with a range of shareholders that voted against this resolution and the Board considered their views.

The Board fully understands the difference in approach between prevailing UK market practice (to retain an authority to allot in line with the UK Investment Association's share capital management guidelines) and governance policies maintained by those shareholders voting against. This includes shareholders in South Africa, who either do not support a general allotment authority or only support a general authority at lower levels.

This level of authority continues to be supported by the majority of our shareholders and the level of authority maintained is in line with prevailing UK market practice. Although there is no present intention to exercise this authority, the Board considers that this level of authority is appropriate to maintain flexibility for the Company.

We will maintain dialogue with shareholders for which this authority continues to present concerns and keep best practice under review.

BOARD ENGAGEMENT WITH STAKEHOLDERS CONTINUED

Wider stakeholder engagement

Our Board conducted a review of key business stakeholders in 2019. A broad range of stakeholders are important to the Group at local, regional and functional levels. Key stakeholders that are essential to our ability to generate long-term, sustainable value are identified by applying an established stakeholder engagement framework. This takes into account Group strategic objectives, risks to the Group and emerging risks.

The 2019 stakeholder review included how engagement is conducted across the Group, stakeholders' primary concerns and how the Board is kept informed of those where engagement is not conducted at Board level.

Following the review, the Board decided to establish Non-Executive Director participation in meetings with our independent Sustainability Stakeholder Panel to enhance their understanding of evolving issues for our stakeholders and obtain more detailed insight on how they are addressed and communicated in our annual Sustainability Report.

Our Board is satisfied that there is effective and well-established engagement with the Group's key stakeholders. The Board will conduct a stakeholder review annually and monitor the continued effectiveness of engagement.

Day-to-day engagement with our key stakeholders, and other local stakeholder groups, is conducted at the level and in a format best suited to the context. This may be locally, regionally or functionally, or by the Board or senior management, depending on the stakeholder. Our Group governance framework, including our Group Standards of Business Conduct and specific frameworks for stakeholder engagement, mandate openness, transparency and integrity, and define requirements for appropriate management oversight.

 [Read more about our key business stakeholders and how we engage](#)
Pages 26 to 27

Where the Board does not engage directly with our stakeholders, it is kept updated so Directors maintain an effective understanding of what matters to our stakeholders and can draw on these perspectives in Board decision-making and strategy development. Examples of how the Board engaged with wider key stakeholders and maintained its understanding of their interests during the year include:

Consumers

Our consumers are at the core of everything we do, and over 150 million consumers interact with Group products every day.

The Board is regularly briefed by the Executive Directors and senior management on how we are developing our product portfolio to satisfy an increasingly varied set of adult consumer preferences across our traditional and New Categories businesses.

Through strategy and product portfolio 'deep dives' in 2019, the Board devoted significant time to considering how consumer insights, product preferences, longer-term trends and the Group's approach to product stewardship can help deliver a step-change by offering innovative products that will recapture consumer moments lost to shifting trends.

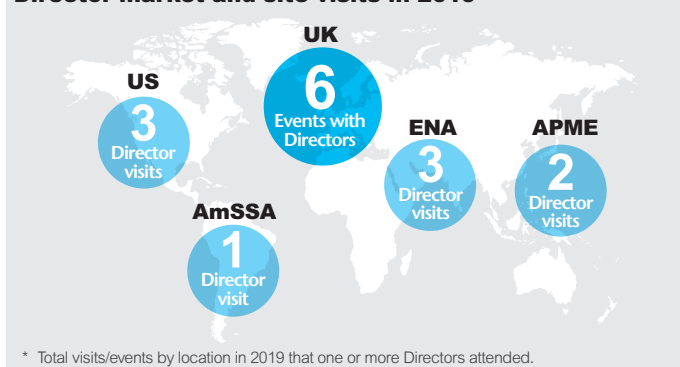
The Board sees this for themselves through their review of evolving consumer spaces, participation in product 'look and feel' exploration sessions, and by speaking directly to product developers to understand how they integrate in-depth scientific knowledge with consumer insights to build a superior product pipeline.

 [Read more about our approach to engaging with consumers](#)
Page 26

Our People

The Board absorbs the views of our workforce through a combination of engagement methods, across multiple channels at different levels of our organisation. These include Board market and site visits, town halls, works councils, global webcasts, and our 'Your Voice' global employee survey. These are discussed further on pages 41 to 42.

Director market and site visits in 2019*



The Board has taken account of the requirements of the UK Corporate Governance Code in its approach to engagement with the workforce and has adopted a combination of methods as permitted by the Code. Given the spread, scale and diversity of the Group's workforce, the Board considers it effective to use the established channels referred to above, and has augmented these from January 2019 by introducing Group-wide reporting structures to capture feedback from engagement forums covering all Group company employees and individuals contracted on a fixed-term basis to undertake permanent roles worldwide.

The Board now reviews these engagement channels and consolidated feedback from them annually. In 2019, this also included review of insights from our 2019 Your Voice global employee survey. Focus and action areas reviewed by the Board are then cascaded to our workforce. Key areas of feedback from engagement channels reviewed by the Board during 2019 focused on business transformation, product innovation and ways of working, and the BAT ethos has been developed with significant workforce input.

Directors attended market and site visits, including to Denmark (Copenhagen), Japan (Tokyo), Sweden (Malmö factory) and UK (Global R&D facilities in Southampton) to meet local management and representatives from marketing and operations. Our Executive Directors presented several global webcasts following their appointments to the Board which included discussions on strategy, business outlook, performance, culture and the Quantum transformation project, including live Q&A. Our Directors take other opportunities to engage directly with employees to support the Group's diversity and inclusion. In 2019, examples include Director participation in our global webcast campaign #BalanceForBetter on International Women's Day and our annual event for 'B United', the Group's LGBT+ network.

The statement of matters reserved for the Board reflects the Board's responsibility to understand the views of our global workforce, and to keep effectiveness of mechanisms for engagement with the workforce under review, in accordance with the UK Corporate Governance Code.

 [Read more about workforce engagement across our Group](#)
Pages 26, 41 and 42

UK Companies Act: Employee engagement

This section summarises the Directors' approach to engaging with the Group's workforce, including employees of UK Group companies, and how the Directors have regard to their interests. Further information is provided on pages 26 to 27 and 41 to 42. Information regarding the effect of that regard is provided on pages 74 and 75.

Suppliers

Our relationships with suppliers and farmers are managed day-to-day by the Group's Operations function and at local market level. The Board periodically reviews the Group's supply chain strategies, supplier footprint and progress of sustainable agriculture and farmer livelihoods programmes, in particular the industry-wide Sustainable Tobacco Programme, and the Group's THRIVE programme which takes into account insights from supplier and farmer engagement.

In 2019, updates to the Board included the Group's combustibles supply chain strategy and the Group's approach to building strategic relationships with research partners to support New Categories development. The Board also discussed new ways of working to build relationships with corporate venturing partners to foster innovation and build capabilities in New Categories.


As part of the Board's review of our annual Modern Slavery Statement, it discussed actions being taken by the Group to address the risk of human rights issues across our business and supply chains. In the context of the Board's review of the revised SoBC in 2019, it was briefed on enhanced alignment of our Human Rights policy with the ILO Declaration on fundamental principles and rights at work and UK modern slavery legislation.

 [Read more about how we engage with our suppliers and farmers](#)
Pages 27, 31 and 39

Customers

Whilst retailer, wholesaler and distributor relationships are managed at local market and business unit levels, the Board is regularly briefed on the Group's retail footprint, route to market strategies and developments in the global retail environment.

In 2019, this was primarily achieved through regular updates from the Chief Executive on product roll-out plans and the Board's annual product portfolio 'deep dives'. Focus areas for Board discussions included US wholesaler and retailer approaches to preventing youth access to vapour products and the Group's actions to ensure responsible partnerships with trade customers. The Audit Committee also regularly reviews the Group's Youth Access Prevention activities and action plans.

 [Read more about how we engage with our customers](#)
Page 27

Governments and wider society

At every regular Board meeting, the Board reviews a report from our Legal & External Affairs Director covering regulatory engagement, progress in anti-illicit trade initiatives, litigation, compliance and other legal matters across the Group. The Board is briefed on evolving product regulation through its annual product portfolio 'deep dives' with senior management.

The Audit Committee is regularly updated on the status of engagement with tax authorities on material Group tax matters. The Non-Executive Directors regularly attend meetings of the Group's Corporate Audit Committee and Regional Audit & CSR Committees, where societal and community perspectives on various topics at regional and local levels are discussed further. Feedback from those Committees is reviewed by the Audit Committee.

The Chairman participates in the Confederation of British Industry, the Multinational Chairman Group and the Whitehall & Industry Group; these are all forums enabling engagement with the UK Government on topics such as global trade, Brexit and cyber security.

The Audit Committee reviews the Group's sustainability performance annually, including our investment in community and charitable initiatives under the Group's strategic framework for corporate social investment.

The Chairman also participates in the annual meeting of the Global Leadership Foundation (GLF), a network of government and NGO stakeholders helping developing countries improve governance.

The Board is briefed on scientific engagement with public health bodies, scientific communities and the media. In 2019, this included the launch of the new BAT-science website.

As part of the Board's review of the Group's new environmental targets and environmental reporting, the Board was briefed on stakeholder expectations in relation to carbon emissions commitments and alignment to Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

 [Read more about our engagement with governments and wider society](#)
Pages 27 and 32

UK Companies Act: Business relationships

This section summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders. Further information is provided on pages 26 and 27. Information regarding the effect of that regard is provided on pages 74 and 75.

Sustainability Stakeholder Panel

To enhance its understanding of what matters to our stakeholders, the Board established Non-Executive Director participation in meetings with our Sustainability Stakeholder Panel in 2019.

The Panel is formed of key opinion leaders in the areas of harm reduction, environment, human rights and business ethics. It was established in 2016 to provide independent and objective feedback on our sustainability agenda, priorities and our Sustainability Report.

In November 2019, Richard Burrows and Sue Farr, with members of senior management, met the Panel to review developments in sustainability initiatives, evolving sustainability issues that could impact our wider stakeholders, and Group sustainability performance. Feedback was provided to the Board and Non-Executive Director participation in meetings with the Panel will continue in 2020.



BOARD ACTIVITIES IN 2019



Sustainability

The Board emphasises the need for our business, strategy and product portfolio to be sustainable for the long term and meet stakeholder expectations.

Activities in 2019

- reviewing the Group Risk Register, Group risk appetite in the context of its strategic objectives, emerging risks to the Group, and Group insurance coverage;
- determining Group viability for reporting purposes taking into account current position and principal risks;
- reviewing Group stakeholders, methods of engagement, issues that matter to those stakeholders and how the Group responds;
- reviewing the Group's approach to product stewardship and the science underpinning development of New Category products;
- reviewing Group regulatory engagement activities and evolving global product regulation;
- reviewing New Category products environment, with particular focus on the US vapour environment and the status of FDA proposals to regulate flavours in vapour products;
- approving revised versions of the International Marketing Principles and Group Standards of Business Conduct (including the Speak Up and Lobbying and Engagement policies);
- reviewing the status of litigation proceedings involving Group companies, including updates on the class-actions in Quebec Province against Group subsidiary Imperial Tobacco Canada and associated CCAA filing, the Fox River and Kalamazoo River proceedings, and claims brought by RAI dissenting shareholders following acquisition of the remaining shares in RAI;
- reviewing updates on compliance matters, including allegations of misconduct, reports from Speak Up channels, and progress of the Group's 'Delivery with Integrity' compliance programme;
- reviewing health and safety performance for the preceding year, targets for the coming year and action plans;
- reviewing performance against environmental targets set for the preceding year, approving revised long-term targets and endorsing plans for enhanced climate change reporting; and
- reviewing the Group's annual Modern Slavery Act statement and approving it for adoption by the Company.



Growth

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

Activities in 2019

- reviewing Group strategy and its implementation across the Group's regions;
- review of the evolution of the Group's strategy to accelerate New Category growth;
- approval of Group budget and oversight of resource allocation activities, including for combustible product portfolios, to support strategy execution;
- reviewing Group financial performance against the key performance metrics, current outlook throughout the year, key challenges faced and opportunities for growth in each region;
- reviewing Group half-year results, year-end results and the Annual Report and Form 20-F;
- reviewing New Category product portfolios, innovation pipeline, roll-out plans and Group strategy for developing intellectual property;
- reviewing Group product portfolio performance in the context of strategic focus areas and the competitor landscape;
- reviewing the Group's information and digital technology (IDT) strategy, including progress of the Group's digital transformation agenda, risk management and cyber security;
- oversight of establishment of the Group's corporate venture capital unit, 'Better Tomorrow Ventures', and approval of specific delegated authorities to support the unit in creating innovative and agile strategic relationships with venture capital partners;
- reviewing the Company's share price performance, investor and broker perspectives, and analysis of factors impacting share price performance;
- reviewing the impact of foreign exchange rates on Group financial performance, including measures taken by management to mitigate foreign exchange risks; and
- reviewing financial performance of the associates of the Group periodically.

Examples of how the Board considered stakeholders, the environment, corporate reputation, and the long-term impact of decisions

Environmental targets and climate change reporting

The Board approved new environmental targets aimed at significantly reducing the greenhouse gas emissions of the Group and its supply chain. The targets were based on the most up-to-date climate science and were formally endorsed by the Science-Based Targets initiative, reflecting the Board's commitment to reducing the impact of our operations in the long term and working with external stakeholders to achieve this. Building on this initiative, the Board has also endorsed the Group's alignment with the TCFD reporting recommendations on the financial impacts of climate change by 2022.

Key stakeholders

- Shareholders/Bondholders
- Consumers
- Our people
- Suppliers
- Customers
- Governments and wider society

Budget and resource allocation

The Board approved the 2020 budget, weighing the balance between the long-term corporate and consumer benefits of New Categories investment and continued portfolio and geographic expansion with our commitment to significant deleveraging. The budget reflects our considerable work to better understand and anticipate evolving consumer preferences at a transformational time for our sector, and factors in our commitment to strong product stewardship, research and collaborative innovation to meet those needs.

Key stakeholders

- Shareholders/Bondholders
- Consumers
- Our people
- Suppliers
- Customers
- Governments and wider society

Productivity

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

Activities in 2019

- reviewing operating performance on a Group, regional and key market level across the product portfolio, including combustibles and New Categories;
- reviewing Group cash flow performance, including monitoring the progress to realise opportunities and optimise the balance sheet, to ensure the Group can invest for the future while reducing the carrying value of debt;
- reviewing the SEC-registered shelf programme for US debt issuance, summarised on page 48, and approving the transaction documentation to establish the programme;
- reviewing the Quantum transformation project and its objectives, and approving changes to the Group's delegated authorities to implement organisational change;
- reviewing Group compliance with its financing principles, including in relation to Group liquidity, capital allocation, adjusted net debt/EBITDA, the Group's revolving credit facilities, planned refinancing and other treasury activities;
- reviewing US business performance following the acquisition of RAI, progress in achieving anticipated synergies discussed further at page 39, implementation of operational integration, and outlook for the US business;
- reviewing Group supply chain strategy and optimisation programmes; and
- reviewing other business transformation programmes relating to finance, human resources and global business services to implement operational efficiencies.

Winning organisation

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

Activities in 2019

- approving the appointment of Tadeu Marroco and Jerry Fowden to the Board and revising the composition of Board Committees on the recommendation of the Nominations Committee;
- determining the independence of Non-Executive Directors prior to proposing them for re-appointment (or appointment for the first time) at the Company's AGM;
- reviewing feedback from the Remuneration Committee on development of the new Directors' Remuneration Policy and shareholder perspectives, and adopting the new policy for proposal to shareholders at the Company's 2019 AGM;
- monitoring corporate culture and its alignment with the Group's purpose, strategy and values;
- reviewing the Group's talent, diversity and inclusion strategies and the progress of initiatives supporting their objectives;
- reviewing the BAT ethos, an evolution of the Group's Guiding Principles, developed with significant input from Group company employees;
- considering feedback from the range of workforce engagement mechanisms in place across the Group, including outcomes from the 'Your Voice' global 2019 employee survey, discussing plans for implementing feedback and attending market and site visits;
- reviewing Speak Up mechanisms and the reports arising from them;
- approving changes to the Group's existing short-term and long-term management incentive schemes (below Executive Director level) to enhance alignment with Group strategy and values, and adopting rules for a new employee restricted share long-term incentive plan for proposal to shareholders at the Company's 2020 AGM;
- reviewing the funding positions relating to the Group's retirement benefit schemes; and
- review and discussion of the outcomes from the evaluation of the effectiveness of the Board and its Committees in 2019.

Business transformation

The Board reviewed the Quantum transformation project and its objectives and approved changes to the Group's governance framework to support project delivery and realise its benefits. The project, while creating a leaner organisation, was conceived with due regard to employee interests and is ultimately designed to empower our people going forward, promote agility in their decision-making, and support funding for future growth. A consumer-centric approach is at the heart of this, reflecting the Group's strategy.

Key stakeholders

- Shareholders/
Bondholders
- Consumers
- Our people

Group incentive schemes

The Remuneration Committee reviewed the Group's wider reward strategy (below Executive Director level), leading to a simplified annual salary review process and revised management incentive scheme structures. As competition for talented employees intensifies and we build our capabilities to succeed in New Categories and growth markets, the Committee endorsed these changes to better align incentive schemes below Executive Director level with the Group's strategy and values, enhance talent acquisition and retention and take into account employee feedback.

Key stakeholders

- Shareholders/
Bondholders
- Consumers

DIVISION OF RESPONSIBILITIES

Introduction

This section sets out the roles, and effective division of responsibilities, between the Chairman, Chief Executive and Non-Executive Directors, and outlines the support the Directors receive to assist them in meeting their responsibilities under the UK Corporate Governance Code and discharging their directors' duties, both individually and collectively.

Leadership

Chairman

- Leadership of the Board
- Ensures Board effectiveness
- Facilitates the productive contribution of the Directors
- Sets the Board agenda
- Interfaces with shareholders
- Ensures effective shareholder engagement
- Representational duties on behalf of the Company

Chief Executive

- Overall responsibility for Group performance
- Leadership of the Group
- Enables planning and execution of Group objectives and strategies
- Stewardship of Group assets
- Drives the cultural tone of the organisation



The responsibilities of the Chairman, Chief Executive, Senior Independent Director are available at www.bat.com

Oversight

Non-Executive Directors

- Oversee Group strategy
- Scrutinise and hold to account performance against objectives
- Monitor Group performance
- Review management proposals and provide strategic guidance
- Bring external perspective and effective challenge to management

Senior Independent Director (SID)

- Leads review of the Chairman's performance
- Presides at Board meetings in the Chairman's absence
- Chairs the Nominations Committee when Chairman succession considered
- Sounding board for the Chairman
- Intermediary for other Directors
- Available for meet with shareholders

Non-Executive Director meetings

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

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

Independence

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

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

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

Directors information and advice

- Directors receive papers for review in good time ahead of each Board and Committee meeting.
- Papers and presentations to the Board and its Committees include discussion of specific stakeholder considerations as applicable
- The Company Secretary ensures effective information flow within and between the Board and its Committees, and between the Non-Executive Directors and senior management.
- The Company Secretary, in conjunction with external advisers where appropriate, advises the Board on all governance matters.
- All Directors have access to the advice and services of the Company Secretary. The appointment and replacement of the Company Secretary is a matter for the Board.
- A procedure is in place for all Directors to take independent professional advice at the Company's expense if required.
- Each of the three principal Committees of the Board may obtain independent legal or other professional advice, at the Company's expense, and secure attendance at meetings of outsiders if needed.

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

Commitment

Before appointing prospective Directors, the Board takes into account their other commitments and significant time commitments are disclosed prior to appointment. The letters of appointment for the Chairman and Non-Executive Directors set out their expected time commitment to the Company. Any additional external appointments following appointment to the Board require prior approval by the Board in accordance with the UK Corporate Governance Code 2018. The Board assesses the significance of any additional external appointment notified by a Director, supported by the Company Secretary.

During 2019, the Board considered and gave approval to the new external appointments of the Non-Executive Directors. Sue Farr's appointment as a non-executive director of Helical plc with effect from 5 June 2019 was considered by the Board to be a significant additional appointment. Such appointment was, however, not considered to impair her ability to serve as a Director of the Company in view of the anticipated time commitment and as Ms Farr ceased to be a non-executive director of Dairy Crest Group plc on 15 April 2019. Including the Company, Sue Farr is a non-executive director of a total of three listed companies.

In 2019, the Board also considered and gave approval to Luc Jobin's proposed appointment as an independent director of Gildan Activewear Inc., effective from 18 February 2020. The Board considered the appointment to be a significant additional appointment, however it was not considered to impair Mr Jobin's ability to serve as a Director of the Company in view of Mr Jobin's total of two listed company mandates which is within the voting guidelines of leading corporate governance agencies. Following this appointment, Mr Jobin is a Non-Executive Director of two listed companies, including the Company.

Conflicts of interests

The Board has formal procedures for managing conflicts of interest. Directors are required to give advance notice of any conflict issues to the Company Secretary. These are considered either at the next Board meeting or, if the timing requires it, at a meeting of the Board's Conflicts Committee.

Each year, the Board also considers afresh all previously authorised situational conflicts. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest.

Professional development

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

Focus areas in 2019 included a recap on directors' duties under Section 172 of the UK Companies Act 2006, and new corporate reporting requirements introduced in 2018 associated with the discharge of those duties. These briefings were provided in the context of the Board's review of key business stakeholders. The Board was also updated on the implementation of revisions to the Group's governance framework to align with the UK Corporate Governance Code, following the Board's approval of those revisions in 2018.

During the year, the Audit Committee has been updated on the progress of UK government reviews and consultations in relation to the UK audit market and proposed reform of the UK Financial Reporting Council.

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

Non-Executive Directors also attend by rotation an annual meeting of our Sustainability Stakeholder Panel to enhance their understanding of wider stakeholder considerations.

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

All Directors receive a thorough and personalised induction upon joining the Board. Individual inductions conducted in 2019 are highlighted below.

Board induction

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

Finance Director induction 2019

Tadeu Marroco completed his Executive Director induction programme in preparation for his appointment to the Board on 5 August 2019.

Mr Marroco's induction included in-depth briefings from senior management, the external auditors and external advisers.

These briefings covered a range of topics, including the Company's corporate governance structures, responsibilities as Finance Director and directors' duties more generally, Board and Committee processes, UK and US regulatory frameworks applicable to listed issuers, shareholder and wider stakeholder engagement programmes and stakeholder perspectives, external audit procedures and legal matters.

Non-Executive Director induction 2019

Jerry Fowden completed his Non-Executive Director induction programme in 2019 following his appointment to the Board on 1 September 2019.

Mr Fowden's induction included a series of briefings from senior management, the external auditors and external advisers on the Group's strategy, business regions, product portfolios, corporate governance, directors' duties, the Group's shareholder and wider stakeholder engagement programmes and stakeholder perspectives, evolving regulation impacting the Group's business, and treasury, risk and legal matters.

Mr Fowden also visited our Global R&D Centre in Southampton to gain insight into the Group's product innovation pipeline and science supporting it directly from our scientists and product developers.

BOARD EVALUATION

Review process

The performance and effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman were evaluated externally in 2019, facilitated by Independent Audit Limited ('Independent Audit'). Independent Audit has no connections with the Company or its Directors other than in respect of facilitation of Board evaluation.

Independent Audit undertook the evaluations through a series of detailed questionnaires, observation of meetings of the Board and Audit and Remuneration Committees, and review of Board and Committee papers for the previous 12 months. The Chairman is responsible for the overall evaluation process and each Committee Chair is responsible for the evaluation of the performance and effectiveness of their Committee.

All Directors (except for Jerry Fowden, who had just joined the Board) participated in the evaluation process, assessing the Board, the Committees of which they were a member or regularly attended in 2019, and each of the Directors individually.

In addition, several members of the Management Board and other senior management participated in elements of the evaluation.

Anonymised reports specifying the findings of the evaluations were prepared by Independent Audit for the Board and each Committee. The Board and Committees then reviewed and discussed their respective reports and identified action areas for 2020 taking into account the evaluation findings. Discussions of evaluation findings were facilitated by Independent Audit.

The Chairman received reports from Independent Audit on the performance and effectiveness of all Executive and Non-Executive Directors (other than himself) in 2019 and he provided individual feedback to each Director.

The Senior Independent Director received a report from Independent Audit on the Chairman's performance and effectiveness, and led a discussion reviewing the Chairman's effectiveness with the other Directors (without the Chairman present). The Senior Independent Director then provided feedback to the Chairman.

2019 evaluation: outcomes and actions

The Board considers that it, and its Committees, continue to function effectively and that the working relationships between the Board and its Committees continue to be sound.

Leadership and culture

Positive feedback was provided on management's degree of engagement with the Board, linked with an open dynamic with the new Chief Executive and Finance Director.

Leveraging the collective knowledge and experience of the Board to best effect was also discussed, with the openness of the new executive team's interaction with the Board and the inclusiveness of the Board's strategy sessions cited as positive factors.

Oversight of organisational culture was identified to be an area for continued focus for the Board, particularly in light of the Quantum transformation project. Director market and site visits were identified as a useful means of achieving this, and positive feedback was provided by Directors on market visits in 2019.

Actions for 2020

- review sources of insight provided to the Board on culture to ensure this supports Board oversight in the most effective manner
- develop the programme of market and site visits for Non-Executive Directors to continue to spend time in the business

Strategy

The good start made by the new Chief Executive and Finance Director in articulating and communicating strategy was noted. The Non-Executive Directors welcomed their increased level of involvement in strategic planning. The Board's approach to monitoring the organisation's financial health is well regarded.

The strategic opportunities and risks associated with big trends driving the industry, including new technology, were areas identified for focus for the Board, as was continued review of reward strategy by the Remuneration Committee.

Actions for 2020

- review of industry trends on a macro-level, including technology
- continuing review by the Remuneration Committee of the Group's reward strategy in 2020 to ensure ongoing effectiveness

Risk management

Oversight of risk management is viewed to be handled well. Stress-testing of scenario analysis and crisis preparation, and insight on management's response plans and backup systems, were identified as focus areas. Cyber and IT security risk are areas where crisis management is felt to be key. Continued engagement with management and experts was considered essential to the Board's understanding and oversight.

Actions for 2020

- targeted assessment of crisis scenarios and mitigation plans
- Audit Committee deep dive on information, technology and cyber risks

Dynamics and information

Board and Committee meetings are considered to be chaired effectively, with effective support from the Company Secretariat. Opportunities were identified to enhance meeting effectiveness through more focused presentations. There is also opportunity to enhance the effectiveness of Board and Committee papers by including clear linkage to strategy and reducing operational detail.

Actions for 2020

- maintain balance between presentation and discussion in meetings
- additional guidance to management on preparation of Board and Committee papers to enhance effectiveness of pre-read

Composition and succession

Executive succession was unanimously agreed to be an area of strength and the Nominations Committee was praised for its handling of executive transition. Executive talent management was also well regarded. Areas for refining the Non-Executive Director appointments process were identified, including continued focus on Board diversity.

Actions for 2020

- develop profile of Non-Executive Directors needed for the future, for Nominations Committee reference in Board succession planning

Independent Audit has reviewed this section and has confirmed it presents a fair summary of the review process.

NOMINATIONS COMMITTEE



Richard Burrows
Chairman of
the Nominations
Committee

Nominations Committee current members

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

Attendance at meetings in 2019^{1(a)}

Name	Member since	Attended/Eligible to attend	
		Scheduled	Ad hoc
Richard Burrows ^{1(b)}	2009	2/2	3/3
Sue Farr ^{1(c)}	2015	2/2	3/4
Jerry Fowden ^{2(b)}	2019	0/0	2/2
Dr Marion Helmes	2016	2/2	4/4
Luc Jobin ^{1(d)}	2017	2/2	3/4
Holly Keller Koepfel	2017	2/2	4/4
Savio Kwan ^{1(e)}	2014	2/2	3/4
Dimitri Panayotopoulos	2015	2/2	4/4
Kieran Poynter	2010	2/2	4/4

Notes:

1. Number of meetings in 2019: (a) the Committee held six meetings, four of which were ad hoc and convened at short notice; (b) Richard Burrows was recused from the ad hoc meeting in November which discussed succession planning for the role of Chairman; (c) Sue Farr did not attend the ad hoc meeting in January due to prior commitments; (d) Luc Jobin did not attend the ad hoc meeting in January due to prior commitments; and (e) Savio Kwan did not attend the ad hoc meeting in November due to prior commitments.

2. Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with UK Corporate Governance Code 2018 Provisions 10 and 17, applicable US federal securities laws and NYSE listing standards; and (b) Jerry Fowden became a member of the Committee on 1 September 2019 on his appointment as a Non-Executive Director.

3. Other attendees: the Chief Executive, the Director, Talent and Culture, and Group Head of Talent & Organisation Effectiveness regularly attend meetings by invitation but are not members.

Nominations Committee terms of reference

Revised Nominations Committee terms of reference have been adopted by the Board to align with the requirements of the UK Corporate Governance Code 2018.

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

Role

As set out in the Terms of Reference, the Nominations Committee is responsible for:

- reviewing the structure, size and composition of the Board and Management Board on a regular basis to ensure both have an appropriate balance of skills, expertise, knowledge and Board independence;
- reviewing the succession plans for appointments to the Board, the Management Board and Company Secretary to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of both the Board and the Management Board;
- making recommendations to the Board on suitable candidates for appointments to the Board, the Management Board and Company Secretary, and ensuring that the procedure for those appointments is rigorous, transparent, objective and merit-based and has regard for diversity;
- assessing the time needed to fulfil the roles of Chairman, Senior Independent Director and Non-Executive Director, and ensuring Non-Executive Directors have sufficient time to fulfil their duties;
- overseeing the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers; and
- implementing the Board Diversity Policy and monitoring progress towards the achievement of its objectives, summarised on page 82.

Key activities in 2019

- Identifying a successor to the Finance Director and recommending to the Board the appointment of Tadeu Marroco as Deputy Finance Director from 1 March 2019 and then as Finance Director from 5 August 2019, discussed further on page 80.
- Making recommendations to the Board in respect of Board and Committee appointments, including to appoint Jerry Fowden as a Non-Executive Director and to the Audit and Nominations Committees from 1 September 2019.
- Succession planning for the role of Chairman, discussed further on page 80.
- Making recommendations to the Board in relation to Directors' annual appointment and re-election at the AGM, discussed further on page 80.
- Reviewing the Executive Directors' and Management Board members' annual performance assessments.
- Succession planning for the Board and for the Management Board, having regard to the Board Diversity Policy.
- Reviewing the Group talent strategy, talent development priorities and the programmes underpinning the Group's commitment to investment in engaging, developing and retaining talent.
- Reviewing the Group's Diversity & Inclusion strategy, specific diversity initiatives to further develop a diverse and gender-balanced work place, and progress made in the development of a diverse senior management succession pipeline.
- Assessing the progress of development plans for candidates for Management Board roles.
- Assessing the Committee's effectiveness in 2019, following the externally facilitated evaluation of the Committee, discussed further on page 78.

NOMINATIONS COMMITTEE

CONTINUED

Board appointments

The Committee is responsible for identifying candidates for Board positions, taking into account the Board Diversity Policy discussed on page 82. This includes a full evaluation of candidates' attributes to ensure the Board maintains an appropriate balance of skills, expertise and knowledge, and generally involves interviews with several candidates, supported by independent, specialist external search firms where applicable, to shortlist appropriate candidates.

The Committee identified the successor to Ben Stevens as Finance Director, taking into account potential candidates' skills, experience and diversity of attributes. The Board approved the Committee's recommendation to appoint Tadeu Marroco as Deputy Finance Director with effect from 1 March 2019 and as Finance Director with effect from 5 August 2019.

The Committee also led the selection process leading to the appointment of Jerry Fowden as a Non-Executive Director on 1 September 2019. This selection process was supported by Heidrick & Struggles (UK) Limited¹, an independent executive search consultancy compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms. The selection process for this role included careful consideration of candidates' skills, expertise, knowledge and diversity of attributes, and a specific requirement for candidates to have strong US market experience to enhance the Board's US expertise.

Terms of appointment to the Board

Details of the Directors' terms of appointment to the Board and the Company's policy on payments for loss of office are contained in the Directors' Remuneration Policy, which is set out in full in the Remuneration Report 2018, contained in the Company's Annual Report and Form 20-F for 2018 available at bat.com

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

Board retirements

Nicandro Durante retired from the Board with effect from 1 April 2019, on his retirement as Chief Executive. Ben Stevens retired from the Board with effect from 5 August 2019, on his retirement as Finance Director.

Kieran Poynter will retire from the Board with effect from the conclusion of the Company's AGM on 30 April 2020.

Board succession planning

The Board considers the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time. Non-Executive succession planning remains a priority for the Committee in 2020.

The Chairman will have served as a Director for just over 10 years at the time of the 2020 AGM. The Committee has given careful consideration to Director transitions to ensure orderly Board succession.

During 2018 and 2019, the Nominations Committee prioritised effective succession planning for the Chief Executive and the Finance Director. Having overseen the orderly transition for both those roles, the Nominations Committee has focused on succession planning for the role of Chairman, mindful of the provisions of the UK Corporate Governance Code (the Code) and that Richard Burrows has served as a Director for just over 10 years.

While recognising that the Code generally limits the tenure of the Chairman to nine years from first appointment, the Code permits extension of the Chairman's tenure for a limited time to facilitate effective succession planning. In the context of the recent transitions for both the Chief Executive and the Finance Director, and to enable effective succession planning for the Chairman, the Board considers the interests of the Company's shareholders to be best served by Mr Burrows continuing as Chairman for a limited time.

It is intended that Mr Burrows will retire from the Board at or prior to the AGM in 2021 and that he will continue to lead the Board in the interim. Accordingly, the Board will be proposing Mr Burrows for re-election as Chairman at the forthcoming 2020 AGM.

In relation to the role of Senior Independent Director, the Board accepted the recommendation of the Nominations Committee to appoint Dimitri Panayotopoulos to succeed Mr Poynter as the Company's Senior Independent Director on Mr Poynter's retirement from the Board with effect from the conclusion of the Company's forthcoming AGM. To ensure an effective transition in the leadership of succession planning for the role of Chairman, Mr Panayotopoulos has taken over responsibility from Mr Poynter for leading this process.

Spencer Stuart & Associates Limited² and Korn Ferry (UK) Limited³ have been engaged to support the succession planning process for the role of Chairman. Both Spencer Stuart and Korn Ferry are independent executive search consultancies compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms. The Senior Independent Director chairs the Nominations Committee when dealing with discussions relating to the appointment of a successor to the Chairman.

The Committee's approach to succession planning for the Executive Directors and other members of senior management is set out further on page 81.

Annual General Meeting 2020

With the exception of Mr Poynter, the Company will be submitting all eligible Directors for re-election and, in the case of Jerry Fowden, election for the first time.

Prior to making recommendations to the Board in respect of Directors' submissions for election or re-election (as applicable), the Committee carried out an assessment of each Director, including their performance, contribution to the long-term sustainable success of the Company and, in respect of each of the Non-Executive Directors, their continued independence.

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

Notes:

1. Heidrick & Struggles has no connections with the Company or its Directors other than in respect of provision of executive search services.
2. Spencer Stuart has no connections with the Company or its Directors other than in respect of provision of executive search services.
3. Korn Ferry has no connections with the Company or its Directors, other than in respect of the provision of executive search and other human resources advisory and consulting services.

Balance and diversity

The Board appreciates the benefits of diversity in all of its forms, within its own membership and at all levels across the Group. Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Short biographies of the Directors are set out on pages 66 and 67.

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

The Hampton-Alexander Review set recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 Boards by 2020. Women currently represent 27.3% of our Board and 15.4% of our Management Board. Our Board Diversity Policy, discussed on page 82, sets out the Board's ambition to progress towards further gender diversity.

The Parker Review Committee published its final report on ethnic diversity in UK boards in 2017, recommending there be at least one director from a Black, Asian and Minority Ethnic (BAME) background on every FTSE 100 company board by 2021.

Applying the Parker Review assessment guidelines, currently one of our Directors is from a BAME background.

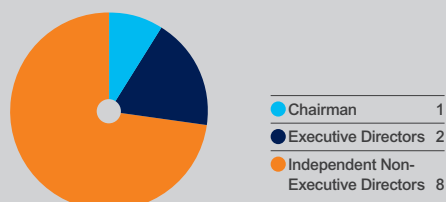
The Nominations Committee reviews the succession plans and talent pool at short and longer-term time horizons for the Executive Directors, other Management Board members, and certain other members of senior management. In 2019, particular emphasis was placed on the talent pipeline for senior management over the next two years and the importance of maintaining gender diversity within the succession pipeline. Progress in 2019 against our objective to develop a pipeline of diverse, high-performing senior managers is set out on page 82.

More broadly, and recognising the need for diverse talent to be developed at all levels across the Group, the Board regularly reviews the progress of our Group diversity and inclusion initiatives. In 2019, this included a review of our Women in STEM programme launched in 2019 (to attract, develop and retain more women in our R&D, Operations and Information & Digital Technology functions), our IGNITE initiative planned for 2020 (to support professionals to re-enter the workforce after career breaks), and an update on the Group's recognition as a Diversity Leader by the UK Financial Times in its inaugural Diversity Leaders report 2019.

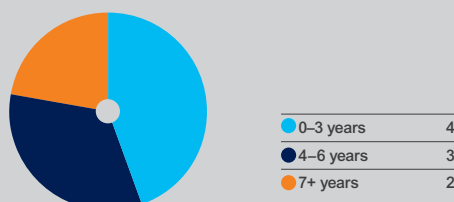
Our Strategic Report discusses our Diversity & Inclusion strategy and Group diversity initiatives further, and provides details of the representation of women in our total workforce and in our senior manager population on pages 40 and 41.

Balance at 31 December 2019

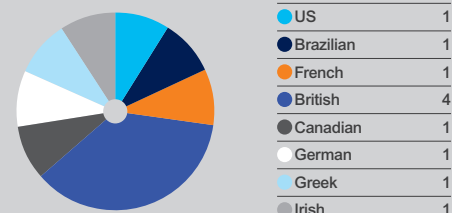
Balance of Non-Executive Directors and Executive Directors



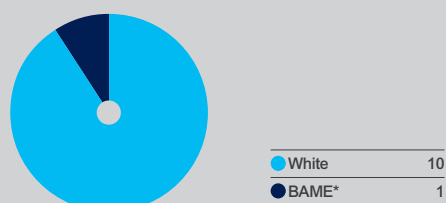
Length of tenure of Non-Executive Directors



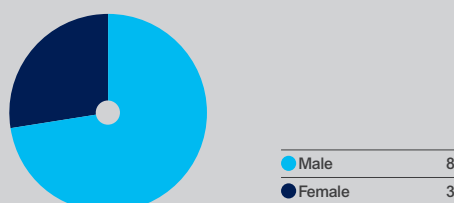
Nationality of Directors



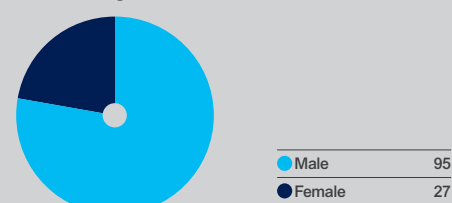
Directors: Ethnicity balance



Directors: Gender balance



Senior Management† and their direct reports: Gender balance



* Applying the Parker Report guidance.

† Senior Management comprises the Management Board and Company Secretary in accordance with the Code.

NOMINATIONS COMMITTEE

CONTINUED

Board Diversity Policy

Our commitment to promoting diversity is reflected in our Group Employment Principles discussed further on pages 41 to 42, and diversity is taken into consideration in determining the composition of our Board and Management Board.

We believe that talent is our competitive advantage and diversity is a critical component of our success. 'We are diverse' is one of the five core values of the BAT ethos, set out on page 11.

Our Board Diversity Policy is aligned with our Group ethos. Our Board Diversity Policy expresses how we think of diversity in its widest sense, as those attributes that make each of us unique. These include our race, ethnicity, cultural and social backgrounds, geographical origin, gender, age, any disability, sexual orientation, religion, skills, experience, education and professional background, perspectives and thinking styles.

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

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

Progress against these objectives in 2019 is set out below.

Board Diversity Policy progress update

Objective	Progress in 2019
Considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board.	– The Nominations Committee has regard to diversity in its broadest sense, including gender, social and ethnic background, and cognitive and personal strengths, when undertaking these activities.
Considering a wider pool of candidates of both genders for appointment to the Board.	– Executive search firms are engaged to support Board and Management Board succession planning where applicable and are required to provide gender-balanced shortlists of candidates. Succession planning for Executive Directors and Management Board members takes into account potential internal candidates from across the Group and potential external candidates.
Maintaining at least 30% female Board representation, with the ambition of progressing towards further gender balance.	– The representation of women on the Board was 27.3% as at 31 December 2019 and remains so currently. Non-Executive Director succession planning has close regard to the Board's ambition to progress towards further gender diversity.
Giving preference, where appropriate, to engagement of executive search firms accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms, including on gender diversity.	– Only executive search firms accredited under the Standard and Enhanced Code of Conduct for Executive Search Firms were engaged to provide executive search services to support Board and Management Board succession planning in 2019.
Oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.	<ul style="list-style-type: none"> – The representation of women on the Management Board was 15.4% as at 31 December 2019 and remains so currently. – Emphasis is placed on building diverse talent pools at all levels of the organisation through recruiting, developing and retaining high-performing female talent. – In 2019, 45% of the Group's external recruits were women, including 24% into senior leadership roles, helping to bring new skills and capabilities to drive business transformation. The Women in Leadership programme has been supporting the development of female employees across the Group for the last six years. The Group also participates in various external initiatives to support high-potential female employees. – Please refer to pages 40 to 41 for further information about the Group's Diversity & Inclusion strategy.

AUDIT COMMITTEE



**Holly Keller
Koepfel**
Chairman of the
Audit Committee

Audit Committee current members

Holly Keller Koepfel (Chairman from 14 January 2019)

Luc Jobin (from 14 January 2019)

Jerry Fowden (from 1 September 2019)

Kieran Poynter (Chairman to 14 January 2019)

Attendance at meetings in 2019²

Name	Member since	Attended/Eligible to attend	
		Scheduled	Ad hoc
Holly Keller Koepfel ¹	2017	5/5	0/0
Jerry Fowden ^{1, 3(b)}	2019	2/2	0/0
Dr Marion Helmes ^{3(c)}	2016–2019	0/0	0/0
Luc Jobin ^{1, 3(d)}	2019	5/5	0/0
Kieran Poynter ¹	2012	5/5	0/0

Notes:

- Holly Keller Koepfel, Luc Jobin and Kieran Poynter each have recent and relevant financial experience in accordance with the UK Corporate Governance Code 2018. Holly Keller Koepfel, Luc Jobin and Kieran Poynter are each designated as an audit committee financial expert in accordance with applicable US federal securities laws and NYSE listing standards. Each Committee member has been determined to meet the financial literacy requirements applicable under NYSE listing standards. The members of the Committee as a whole have competence relevant to the sectors in which the Group operates.
- Number of meetings in 2019: the Committee held five meetings in 2019.
- Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2018 Provisions 10 and 24, applicable US federal securities laws and NYSE listing standards; (b) Jerry Fowden became a member of the Committee on 1 September 2019 on his appointment as a Non-Executive Director; (c) Dr Marion Helmes ceased to be a member of the Committee with effect from 14 January 2019; and (d) Luc Jobin became a member of the Committee on 14 January 2019.
- The Finance Director attends all meetings of the Committee but is not a member. Other Directors may attend by invitation. The Director, Legal & External Affairs and General Counsel, the Group Head of Internal Audit and the external auditors also attend meetings on a regular basis.
- The Committee meets alone with the external auditors and, separately, with the Group Head of Internal Audit at the end of every Committee meeting. The Committee also meets periodically with management.

Audit Committee terms of reference

Revised Audit Committee terms of reference have been adopted by the Board to align with the requirements of the UK Corporate Governance Code 2018.

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

Introduction

I am pleased to present the 2019 Audit Committee report, setting out our role and work this year. I took over as Chair in January 2019, and in September 2019 we welcomed Jerry Fowden to the Committee.

We looked at a number of important topics this year, most significantly the impact of implementing IFRS 16 (*Leases*) from January 2019, the carrying value of goodwill and intangibles particularly in the context of potential US regulatory changes relating to flavours, the appeal court judgment in the Quebec Class Action lawsuits against Group subsidiary Imperial Tobacco Canada and accounting treatment impacts, and assessment of risks associated with the Group's New Category product portfolio and digital strategies.

We robustly reviewed the effectiveness of both our external auditors and Internal Audit function, the latter being supported by an External Quality Assurance review.

The Committee has approved the internal audit plan for 2020 and fully endorses its sharper focus on transformation projects, digital risks and New Categories. These are areas that will continue to be scrutinised by the Committee in 2020, and beyond.

You can find more detail on each of these areas, and our other activities, further below.

Role

As set out in the Terms of Reference, the Audit Committee monitors and reviews the:

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

Key activities in 2019

Regular work programme – reviewing:

- the Group's annual results, half-year results, the application of accounting standards, and the external auditors' reports where results are audited;
- the Group's external auditors' year-end audit, including the key audit matters, critical audit matters, materiality assessments and the Group's control environment, and confirming the independence of the Group's external auditors;
- the basis of preparation and accounting judgements;
- adjusting items, applicable accounting treatment and the use of alternative performance measures;
- the annual assessment of goodwill impairment;
- the accounting applicable to retirement benefits liabilities and assets;
- the Group's liquidity position, current facilities and financing needs;
- the steps taken to validate the Group's 'going concern' assessment at half-year and year-end and agreeing on the process and steps taken to determine the Group's viability statement at year-end;

AUDIT COMMITTEE

CONTINUED

- the Group's Risk Register, including prioritisation and categorisation of, and mitigating factors in respect of, Group risks;
- specific risks, and their mitigations, arising from major change initiatives including those related to IT systems and the Quantum transformation project;
- the internal processes followed for the preparation of the Annual Report and Form 20-F and confirming that the processes appropriately facilitated the preparation of an Annual Report and Form 20-F that is "fair, balanced and understandable";
- regular reports from the Group Head of Internal Audit on internal audits of markets, processes and operations, management responses to internal audit findings and action plans put in place to address any issues raised;
- the 2020 internal audit plan and progress against the 2019 plan;
- the Group's sustainability performance on an annual basis, including the Group's Youth Access Prevention activities and the Group's corporate social contributions in the focus areas of empowerment, civic life, and sustainable agriculture and environment, in countries and communities in which the Group operates;
- periodic reports from the Group's Corporate Audit Committee and Regional Audit and Corporate Social Responsibility Committees;
- annual and interim reports on the Group Business Conduct & Compliance programme, Speak Up channels and compliance with the Group Standards of Business Conduct (SoBC);
- the annual report from the Group Head of Security on security risks, losses and fraud arising during the preceding year;
- half-year and year-end reports on political contributions; and
- the Committee's effectiveness, following the annual evaluation of the Committee discussed further at page 78.

FRC Review of 2018 Report & Accounts

During the year, as an outcome of the Financial Reporting Council's (FRC's) review of the Group's 2018 Annual Report and Accounts, the Group received correspondence related to a number of areas, including the accounting treatment for interim dividends, the Group's assessment of goodwill and intangible values and certain other observations with regards to disclosures. As discussed in note 18 in the Notes on the Accounts, Capital and reserves, it was agreed that the recognition of an accrual at the year-end in respect of the dividend paid in February 2018 and February 2019 was incorrect. Accordingly, the Group has changed the accounting treatment. The Group has also enhanced a number of other disclosures, including those related to goodwill to provide the users greater insight as to the sensitivities required prior to impairment of certain investments.

The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

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

- impact of implementing IFRS 16 (*Leases*) to Group accounting with effect from 1 January 2019: review of the methodology for the Group's implementation of IFRS 16 (*Leases*), the revisions to the Group's accounting policies (as shown in note 1 in the Notes on the Accounts), and the impact on the Group's financial statements; and
- **revenue reporting:** disaggregation of revenue by product type (combustibles; New Categories; Traditional Oral; other) at Group and regional levels for 2019.

Significant accounting judgements considered by the Committee in relation to the 2019 financial statements:

- **the Group's significant tax exposures:** updates on corporate tax matters and reports from the Group Head of Tax on the status of the Franked Income Investment Group Litigation Order (FII GLO) and issues in various markets. These included tax disputes in Brazil, South Africa, Russia and the Netherlands. The Committee agreed with management's assessments and disclosures in respect of these (see note 27 in the Notes on the Accounts);

- **contingent liabilities, provisions and deposits in connection with ongoing litigation:**

Quebec: the Committee concurred with management's judgement that no provision is currently required in respect of all other ongoing tobacco-related litigation to which Group subsidiary Imperial Tobacco Canada (ITCAN) is a defendant, as it is not possible to reasonably estimate the amount of any potential settlement (see note 27 in the Notes on the Accounts) and that, whilst ITCAN is subject to the Canadian Companies' Creditors Arrangement Act ('CCAA') proceedings, it remains appropriate to consolidate ITCAN's financial results in the Group financial statements;

Fox and Kalamazoo rivers: the Committee reassessed the provision in respect of the Fox River clean-up costs and related legal expenses and confirmed that the provision would be retained at the prior year level (see note 3 in the Notes on the Accounts), although inherent uncertainties remain (see note 27 in the Notes on the Accounts). The Committee reviewed the position in respect of the Kalamazoo River claim and agreed with management's assessment that no provision should be recognised on the basis set out at note 27 in the Notes on the Accounts;

Impact of Russian tax assessment: the Committee considered the impact of an excise and VAT assessment in relation to Group operations in Russia during 2015 to 2017 for additional production volumes that took place prior to local excise tax increases. The Committee assessed and concurred with management's treatment of the assessment as a charge in the 2019 Accounts, to be treated as an adjusting item (see note 3 in the Notes on the Accounts); and

RAI group companies: the Committee considered and supported management's approach to accounting for the Master Settlement Agreement, the Engle class-action and progeny cases and claims brought by RAI dissenting shareholders seeking determination of 'fair value' for their shares following acquisition of the remaining shares in RAI (see note 27 in the Notes on the Accounts);

- **foreign exchange:** as the Group has operations in certain jurisdictions with severe currency restrictions where foreign currency is not readily available, including in Venezuela and Zimbabwe, the Committee assessed management's approach to applicable accounting treatment and confirmed that methodologies used to determine relevant exchange rates for accounting purposes were appropriate;

- **goodwill and intangibles impairment review:** the Committee reviewed management's assessment of the carrying value of intangibles, including goodwill. The Committee specifically considered potential regulatory changes in the US in relation to flavours (including flavourings in vapour products and menthol in cigarettes) and age restrictions, and agreed that the performance of the US business was sufficient at this time to more than offset the risks associated with such changes, concluding no impairment to goodwill or the value of the Newport brand was required. The Committee also agreed that, despite the ongoing proceedings (including the CCAA process) in respect of Group subsidiary ITCAN in Canada, there was no indication of impairment to goodwill at this time. Finally, the Committee concurred with management's assessment regarding the impairment of Indonesia (£172 million)

following a substantial change in excise and the impairment of acquired brands (including VapeWild) following the Group's announcements to rationalise certain brands within New Categories (see note 3 in the Notes on the Accounts)


- **Quantum transformation project:** impact of staff redundancies associated with implementation of the project with a charge of £264 million recognised in 2019 and treated as an adjusting item (see note 3 in the Notes on the Accounts; and
- **Prior period error in respect of interim dividend accrual:** as discussed on page 84, following a review by the FRC, a prior period error was identified related to the accrual of interim dividends. The Committee concurred with the management's assessment that, after considering IAS 1 and IAS 8, the impact of the error, while over the Group's materiality threshold (£330 million in 2017 and £420 million in 2018), would not influence the economic decisions of the users of the financial statements and would be corrected only on a prospective basis.

Other specific matters considered by the Committee:

- review of the Company's status as a Foreign Private Issuer for the purposes of US securities laws;
- progress on the Group's 'Delivery with Integrity' compliance programme (discussed further on pages 31 to 32) and monitoring SoBC incident reporting and the effectiveness of 'Speak Up' channels, prior to review by the Board; and
- review of the outcomes from the 2019 assessments of key countries of concern to the Group from a human rights perspective, including local compliance with Group policies and standards and details of local measures in place to enhance human rights management.

Risk topics considered by the Committee included:

- oversight of the programme established to ensure ongoing SOx compliance (discussed further at page 88);
- the judgment of the Quebec Court of Appeal in the Quebec Class Action lawsuits against Group subsidiary ITCAN and the status of the Canadian CCAA proceedings under which ITCAN filed for protection in March 2019 (see note 27 in the Notes on the Accounts);
- assessing current and emerging risks in the context of the Group's digital strategy, technology architecture and data management, including the threat of cyber-attack and the Group's implementation of enhanced defence capabilities to protect its information systems and data;
- revisions to the Group's risk appetite framework as it relates to the Group's strategic objectives and regular review of emerging risks to the Group prior to Board consideration;
- the report on the effectiveness of the Company's risk management system;
- risks associated with the Group's New Categories business and the integration of those risks into the Group Risk Register;
- risks associated with increased exposure to interest rate changes on net finance costs, arising from existing and future refinanced debt;
- periodic reassessment of the risks faced by the Group as a consequence of the UK's exit from the EU ('Brexit') in the context of the Group Risk Register, which include risks relating to increased costs of capital, foreign exchange rate exposures, supply chain continuity, taxation and changes in customs duty, and talent acquisition and retention;
- Group anti-bribery and anti-corruption controls and compliance programme; and
- review of the Group-wide programme established to support EU General Data Protection Regulation (GDPR) compliance and oversight of completion of programme implementation.

 For further information please refer to the Principal Group risks on pages 58 to 62 and the Group risk factors on pages 272 to 286

External auditors

KPMG LLP (KPMG) were appointed as the Company's auditors with effect from 23 March 2015, following a competitive tender process carried out in 2015. The Committee continually reviews its relationship with the auditors, including consideration as to when it next intends to complete a competitive tender process for the Company's external audit.

The Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness.

In view of this, and having considered the continued independence and objectivity of the auditors, the Committee does not currently anticipate that it will conduct an audit tender before it is required to do so, in accordance with applicable law and regulations, in respect of the 2025 financial year.

The Committee considers this to be in the best interests of the Company's shareholders for the reasons outlined above and will continue to monitor this annually to ensure timing for the audit tender remains appropriate, taking into account the effectiveness and independence of the auditors.

UK Competition and Markets Authority Audit Order

The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2019.

Group Auditor Independence Policy (AIP)

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

The key principle of the AIP is that the Group's external auditors may only be engaged to provide services in cases where the provision of those services does not impair auditor independence and objectivity. The Committee recognises that using the external auditors to provide services can be beneficial given their detailed knowledge of our business.

However, the AIP does not permit the Committee to delegate its responsibilities to the external auditors and the external auditors are only permitted to provide audit, audit-related and non-audit services in accordance with the AIP.

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

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

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

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

AUDIT COMMITTEE

CONTINUED

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

The AIP:

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

External audit fees

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

A breakdown of audit, audit-related, tax and other non-audit fees paid to KPMG firms and associates in 2019 is provided in note 3(c) in the Notes on the Accounts and is summarised as follows:

Services provided by KPMG firms and associates 2019

	2019 £m	2018 £m
Audit services	15.8	15.1
Audit of defined benefit schemes	0.4	0.4
Audit-related assurance services	8.5	9.4
Total audit and audit-related services	24.7	24.9
Other assurance services	0.5	0.3
Tax advisory services	–	–
Tax compliance	–	–
Other non-audit services	–	–
Total non-audit services	0.5	0.3

Notes: In 2019, non-audit fees paid to KPMG amounted to 2.0% of the audit and audit-related assurance fees paid to them (2018: 1.2%). All audit and non-audit services provided by the external auditors in 2019 were pre-approved by the Committee.

External auditor effectiveness

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

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

The Committee's assessment is also informed by an external audit satisfaction survey completed by members of the Group's senior management. No material issues were identified during the external auditor assessment in 2019. The Committee is satisfied with the qualification, expertise and resources of its external auditors, and that the objectivity and independence of its external auditors, are not in any way impaired by the non-audit services which they provide. The Committee has recommended to the Board the proposed re-appointment of KPMG at the 2020 AGM.

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

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

Risk management and internal control

Overview

The Company maintains its system of risk management and internal control with a view to safeguarding shareholders' investment and the Company's assets. It is designed to identify, evaluate and manage risks that may impede the Company's objectives. It cannot, and is not designed to, eliminate them entirely. The system therefore provides a reasonable, not absolute, assurance against material misstatement or loss. A description of the principal risks that may affect the Group's business is provided in our Strategic Report on pages 58 to 62.

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

Board oversight

During the year, the Board considered the nature and extent of the principal risks that the Group is willing to take to achieve its strategic objectives (its 'risk appetite') and for maintaining sound risk management and internal control systems. Risk appetite is reviewed annually by the Board to ensure that it is appropriate. Alongside the principal risks, the Board also considers the emerging risks which may challenge the Group's ability to achieve its strategic objectives in the future. Each emerging risk is assessed by the Board on its potential impact and relevance and, where applicable, incorporated into the Group's Risk Register with appropriate mitigating activities. Emerging risks are otherwise kept under regular review by the Committee, prior to Board consideration.

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

Audit and CSR Committee framework

The Group's Regional Audit and CSR Committee framework underpins the Board's Audit Committee. It provides a flexible channel for the structured flow of information through the Group, with committees for each of the three Group regions, for the US business, and for locally-listed Group entities and specific markets where considered appropriate. The Regional Audit and CSR Committees are supported by Risk and Control Committees established at business unit level, and within certain Group functions where considered appropriate. This framework ensures that significant financial, social, environmental and reputational risks faced by the Group are appropriately managed and that any failings or weaknesses are identified so that remedial action may be taken.

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

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


Risk management

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

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

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

The Board noted that the Group's principal risks remained broadly unaltered during 2019.

 The Board also considered the Group Viability Statement see page 58 of the Strategic Report®

 For more information on risks see the Principal Group risks on pages 58 to 62 and the Group risk factors on pages 272 to 286

Internal control

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

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

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

AUDIT COMMITTEE

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Internal Audit function

The Group's Internal Audit function is responsible for carrying out risk-based audits of Group companies, other business units, and in relation to global processes. There is a separate Business Controls Team which provides advice and guidance to the Group's businesses on best practices in controls systems.

The Group's Internal Audit function maintains a rolling 18-month audit plan, which is reviewed by the Committee on an annual basis. The Internal Audit plan is aligned to the Group's Risk Register and prioritises principal risk areas in relation to the Group's business.

In 2019, internal audits covered various markets, Group manufacturing facilities, functional transformation programmes (including the Quantum transformation project), IT infrastructure and cyber security and supply network and retail operations. The Committee considered internal audit findings and action plans established to address any issues identified. The Committee has approved the Internal Audit plan for 2020, which emphasises audits relating to New Categories and the ways in which Internal Audit will respond, evolve and innovate to remain effective. It retains thorough coverage of core business activities, lines of defence and IT controls. The Committee has assessed the alignment of the Internal Audit plan with the Group's Risk Register. The scope of each internal audit is assessed for SOx impact and audit of applicable SOx controls is included where relevant. Reviews of SOx controls and their effectiveness are primarily conducted by the Group's Business Controls Team and assurance is also undertaken by the Group's external auditors, as referred to below.

The Committee reviews the effectiveness of the Group's internal audit function annually. In 2019, the Committee did so through an external quality assessment conducted by PwC LLP. This assessment was carried out against the Institute of Internal Audit (IIA) standards, using interviews, analysis and peer benchmarking. It concluded that the Internal Audit function performs well, is highly regarded by key stakeholders, and generally meets their expectations to provide an independent view of the Group's control environment. It noted recommendations to ensure that Internal Audit remains relevant and valuable to BAT, a number of which are already being addressed by Internal Audit with a plan to address the remaining recommendations.

Financial reporting controls

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

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

Fair: Consistency of reporting between the financial statements and narrative reporting of Group performance and coverage of an overall picture of the Group's performance;

Balanced: Consistency of narrative reporting of significant accounting judgements and key matters considered by the Committee with disclosures of material judgements and uncertainties noted in the financial statements; appropriate prominence and explanation of primary and adjusted measures; and

Understandable: Clarity and structure of the Annual Report and Form 20-F and financial statements, appropriate emphasis of key messages, and use of succinct and focused narrative with strong linkage throughout the report, to provide shareholders with the information needed to assess the Group's business, performance, strategy and financial position.

The Group Manual of Accounting Policies and Procedures sets out the Group accounting policies, its treatment of transactions and its internal reporting requirements.

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

The Committee Chairman participated in the 2019 Annual Report and Form 20-F drafting and review processes, and engaged with the Finance Director and the Group Head of Internal Audit during the drafting process.

SOx compliance oversight

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

The Committee has oversight of processes established to ensure full and ongoing compliance with applicable US securities laws, including SOx. Two committees provided assurance during 2019 with regard to applicable SOx certifications. The Disclosure Committee reviews the Company's financial statements for appropriate disclosure and designs and maintains DCPs and reports to, and is subject to the oversight of, the Chief Executive and the Finance Director. A sub-committee of the Disclosure Committee, the SOx Steering Committee, provides assurance that ICFR have been designed, and are being implemented, evaluated and disclosed appropriately, in accordance with applicable requirements and subject to the oversight of the Chief Executive and Finance Director. The activities of this sub-committee are directly reported to the Disclosure Committee.

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

In 2019, the Committee also reviewed the scope of the external auditors' SOx procedures, and received reports on their progress with their independent assessment of ICFR across the Group.

Code of Ethics for the Chief Executive and Senior Financial Officers

The Company has adopted a Code of Ethics applicable to the Chief Executive, the Finance Director, and other senior financial officers, as required by US securities laws and NYSE listing standards. No waivers or exceptions to the Code of Ethics were granted in 2019.

Strategic Report		Governance	Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration Responsibility of Directors

Annual review

The Financial Reporting Council's 'Guidance on Risk Management and Internal Control and Related Business Reporting' provides guidance in relation to issues of risk and internal control management and related financial and business reporting.

The processes described above, and the reports that they give rise to, enable the Board and the Committee to monitor risk and internal control management on a continuing basis throughout the year and to review its effectiveness at the year-end. The Board, with advice from the Committee, has completed its annual review of the effectiveness of that system for 2019.

The Board is satisfied that the system of risk and internal control management accords with the UK Corporate Governance Code 2018 and satisfies the requirements for internal controls over financial reporting.

Group Standards of Business Conduct

The Committee is responsible for monitoring compliance with the SoBC, and reports on this to the Board. The SoBC requires all staff to act with a high degree of business integrity, comply with applicable laws and regulations, and ensure that standards are never compromised for the sake of results. Every Group company and all staff worldwide, including senior management and the Board, are expected to adhere to the SoBC. The SoBC and the Group's 'Delivery with Integrity' programme are discussed further on pages 30 to 32.

All Group companies have adopted the SoBC or local equivalent. Information on compliance with the SoBC is gathered at a regional and global level and SoBC incidents reports, including details of the channels through which incidents are reported, are provided on a regular basis to the Regional Audit and CSR Committees, Corporate Audit Committee, and to the Committee. A breakdown of SoBC contacts and SoBC allegations reported across the Group in 2019 is set out at page 32.

The SoBC and information on the total number of SoBC contacts and SoBC allegations reported in 2019 (including established breaches) is available at bat.com/sobc

Speak Up

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

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

 Further information about the Group's Speak Up channels and Speak Up reports in 2019 is provided at page 32

Political contributions

The Group does not make contributions to UK or European Union (EU) political organisations or incur UK or EU political expenditure. The total amount of political contributions made to non-UK and non-EU political parties in 2019 was £4,466,171 (2018: £3,718,540) as follows:

RAI Companies reported political contributions totalling £4,466,171 (US\$5,703,300) for the full year 2019 to US political organisations and to non-federal-level political party and candidate committees, in accordance with their contributions programme. No corporate contributions were made to federal candidates or party committees and all contributions were made in accordance with applicable laws.

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

In accordance with the US Federal Election Campaign Act, RAI Companies continue to support an employee-operated Political Action Committee (PAC), a non-partisan committee registered with the US Federal Election Commission that facilitates voluntary political donations by eligible employees of RAI Companies. According to US federal finance laws, the PAC is a separate segregated fund and is controlled by a governing board of individual employee-members of the PAC. In 2019, RAI Companies incurred expenses, as authorised by US law, in providing administrative support to the PAC.

No other political contributions were reported.

ANNUAL STATEMENT ON REMUNERATION



Dimitri Panayotopoulos
Chairman of the
Remuneration
Committee

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Policy Report

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

Introduction

I am pleased to present to you the Directors' Remuneration Report for the year ended 31 December 2019. The report contains:

- a summary of the current Directors' Remuneration Policy, approved at the 2019 AGM; and
- the Annual Remuneration Report, explaining how the policy has been implemented during 2019, and how it will be implemented in 2020.

Remuneration and strategy

The Directors' Remuneration Policy was approved in April 2019 with significant support from our shareholders. The Remuneration Committee has primarily focused this year on ensuring that the new policy is fully implemented together with reviewing the links to the Company's long-term strategy delivery through our incentive schemes.

Our focus is to ensure that the Directors' Remuneration Policy enables the Company to:

- attract and retain top quality talent in the global marketplace;
- reward high levels of sustainable long-term performance in both an appropriate and competitive manner to the benefit of shareholders and wider stakeholders;
- create close long-term links between the Company's senior management and its shareholders; and

- incorporate best practice policy features into the remuneration strategy while maintaining policy elements which remain appropriate for the Company.

The Remuneration Committee considers these objectives carefully when deciding on executive and Group-wide remuneration matters, to ensure there is an appropriate balance between competitiveness, fairness, sustainability and pay for performance.

The Remuneration Committee looks to ensure that the performance metrics within the short and long-term incentive schemes continue to be aligned to objectives integral to the Company's long-term strategy. Performance measures are reviewed every year to ensure the Company is providing focus, incentivising the right behaviours and creating value. To that end, the Remuneration Committee has decided to make some important changes to the performance metrics for the 2020 short-term incentive scheme:

- The introduction of a new metric 'Deleveraging excluding foreign exchange', with a 30% weighting attached to it. This metric will provide a more holistic approach to cash management and capital allocation, which underpins the Group's commitment to drive performance in this area following the acquisition of RAI in 2017. Further details are provided on page 50.
- The new metric will replace the 'adjusted cash generated from operations' metric.
- The Group share of key markets metric is retained with the current weighting of 10%. The 'adjusted revenue growth from the strategic portfolio' metric and the 'adjusted profit from operations' metric are both retained with their current weightings of 30%.

These changes to the performance metrics will apply to the short-term incentive scheme in operation for the Executive Directors and the Group's wider senior management population, covering approximately 1,200 employees. This will ensure the Group has a consistent, aligned short-term incentive footprint globally to provide focus, alignment with Group strategy and to promote effective engagement and collaboration across its global management population. These changes are set out in full on page 104.

Stakeholder engagement

The Board takes its corporate responsibilities very seriously. Our programme of shareholder and wider stakeholder engagement in 2019 helped re-shape our Directors' Remuneration Policy. Our Directors' Remuneration Policy is strongly aligned with shareholder interests and is reflective of best practice in the marketplace across key policy areas such as pension alignment with the wider workforce, shareholding requirements both during employment and post cessation, malus and clawback provisions in our incentive plans and the transparency of remuneration disclosures. We have continued our programme of engagement into 2020 regarding the remuneration of the Finance Director and I would like to thank our shareholders and wider stakeholders for their feedback.

We value dialogue and diversity of opinion. This year, the Directors have engaged our global workforce through a variety of channels including our global Your Voice survey, which has again provided a rich body of feedback capturing employees' opinions on a broad range of topics including the Company's performance, strategy, culture and remuneration. Our approach to workforce engagement is explained in the Strategic Report, on pages 26 and 41.

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

Strategic Report		Governance	Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration
						Responsibility of Directors

Group performance

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

The Group has once again delivered an excellent operational performance in 2019, building on the long-term strategic growth agenda and surpassing the stretching targets set by the Remuneration Committee. In 2019, the Group exceeded performance expectations, with volume share gains in the Asia-Pacific Middle East and Europe North Africa regions together with increases in adjusted revenue growth from the Strategic Portfolio, adjusted profit from operations and adjusted cash generated from operations (at constant rates of exchange) on a Group basis. In addition, the Group delivered a very strong set of results with growth in adjusted, diluted EPS, revenue growth and a strong cash flow conversion rate.

These results are reflected positively in the outcomes for the Group's Short-Term Incentive Scheme (STI), the International Executive Incentive Scheme (IEIS), for which the corporate result across the four measures (adjusted profit from operations, Group's share of key markets, adjusted revenue growth from the Strategic Portfolio and adjusted cash generated from operations) was 96%.

The 2017 Long-Term Incentive Plan (LTIP) award, based on results across adjusted diluted EPS, relative TSR, adjusted revenue growth and the operating cash flow conversion ratio, will vest in March 2020 at 69.3%. The Remuneration Committee has considered the vesting result and concluded that this is an accurate reflection of the strong, sustained underlying performance of the Company in challenging and volatile market conditions. It is also reflective, through the relative TSR measure, of the movement in the Group's share price during the performance period. Consequently, the absolute value attached to the awards at the close of the three-year performance period is circa 55% lower than the face value of the 2017 awards at grant.

Following the determination of the outcomes for both the 2019 IEIS and 2017 LTIP, the Remuneration Committee considered the results against the underlying performance of the Group, and whether the movements in the Group's share price across the preceding three-year period should be reflected in the IEIS and LTIP outcomes for Directors. The Remuneration Committee considered that further adjustment to the IEIS and LTIP outcomes was not appropriate, in recognition of:

- the strong underlying performance of the Group;
- the structure of the LTIP being already designed to ensure that the value delivered to Directors is affected by share price movements, through fixing the maximum number of shares at the time of grant; and
- share price movements are also reflected in the three tranches of deferred bonus held by each of the Directors.

The performance of our key metrics that delivered the remuneration outcomes is summarised on page 97.

Executive Director remuneration

For 2020, the Remuneration Committee considered salary increases for the Executive Directors in the context of their current positions relative to the market, their development in their roles, their individual performance and the level of pay increases for UK employees (which ranged between 0% and 6.5%, based on performance in the prior year, with an average increase of 2.5%).

At the time of Jack Bowles' and Tadeu Marroco's appointments, the Remuneration Committee set remuneration at a level to reflect the fact that these were their first Executive Director appointments and significantly below the levels for previous incumbents in both roles and in the wider market.

Jack Bowles has now been in his role for a year and in the Board's view has made an excellent start. He has led the Group to deliver a very strong operational performance in 2019, exceeding the stretching performance expectations set by the Remuneration Committee which translated into the performance delivery against key financial and strategic metrics. Further, he has successfully initiated and delivered a strategic review of the Group's global operating model and organisation, re-purposing the business both in terms of its commercial focus and driving cultural change across the Group while accelerating the development of new, strategic capabilities for the future. The view of the Board is that Jack Bowles has established himself successfully and is already demonstrating a track record of delivering strongly against his priorities for the business.

In recognition of these points we believe it is the right time to ensure that this continued development and performance is reflected appropriately in his remuneration. The Remuneration Committee has decided that the salary increase for Jack Bowles should be 9.5%. Whilst this exceeds the top of the range of the salary increases for UK-based employees, this approach is in line with our approved Policy in respect of recently appointed Executive Directors. Consequently, with effect from 1 April 2020 Jack Bowles' salary will be £1,287,000.

Upon appointment to the role of Finance Director on 5 August 2019, Tadeu Marroco's salary was set at £750,000. In reviewing the remuneration for Tadeu Marroco, the Remuneration Committee has considered both salary and the composition of the total remuneration package. Tadeu Marroco has now been in his role for eight months and in the Board's view has made an immediate and material contribution to the delivery of Group results and performance against key financial metrics. In addition, he has played a key role in overseeing the Group's transformation agenda while bringing fresh impetus to the Group's approach to stakeholder engagement.

Following engagement with shareholders in the first quarter of the year, the Remuneration Committee has decided to adjust the LTIP award level for the Finance Director from 350% of annual basic salary to 400% of annual basic salary, from 2020 onwards. The adjustment in award level is commensurate with the responsibilities for the Finance Director role and will enable a more appropriate balance between the fixed and variable elements of remuneration in the future. During engagement with shareholders on the Directors' Remuneration Policy in 2019 we discussed our intent to maintain an appropriate level of differentiation with award levels between the Chief Executive and the Finance Director and this very much remains our intention and is reflected in the proposed change to the LTIP award level. The Remuneration Committee is satisfied that the new award level is set appropriately, in particular relative to the Chief Executive, and does not intend to review the award level again while the current Directors' Remuneration Policy is in place.

ANNUAL STATEMENT ON REMUNERATION

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Consequently, the shareholding requirements for the Finance Director will be increased as follows:

- During service as a Director, the shareholding requirement will be increased to 400% of salary (from 350% of salary); and
- This requirement will also apply in full after ceasing service as a Director until the second anniversary of cessation of employment.

In this context, the Remuneration Committee decided that the salary increase for Tadeu Marroco should be 3%. Consequently, with effect from 1 April 2020, Tadeu Marroco's salary will be £772,500.

In its annual appraisal of the remuneration of Executive Directors, the Remuneration Committee intends to keep their salaries under review, to ensure they progress in line with development and performance such that remuneration may be brought more closely into line with the market over time. The Remuneration Committee may award increases above the average for UK employees over the next two years, while remaining within the range of increases available for the wider UK population, subject to the performance and development of the Executive Directors in their roles and with consideration of pay matters among our wider workforce. This approach is consistent with how the Company reviews the remuneration of all its employees as they develop and progress in their roles.

Incentive plan awards from 2020

Following the downward adjustment to the 2019 LTIP award, the basis for awards made under the LTIP in 2020 will return to the Company's usual practice where the share price for new awards is an average of the mid-market price across the three trading days prior to the award being made. The Remuneration Committee is satisfied that this return to the Group's established practice will result in awards which are in proportion with previous awards made to the Directors. The Remuneration Committee retains discretion to review the formulaic LTIP outcome at vesting.

Pay and transparency

The Remuneration Committee is very aware of the continued debate on executive remuneration and corporate governance, the emphasis on long-term alignment with shareholder interests and the importance of considering executive compensation in the broader context of the Group's employees.

In March 2020, we will be publishing data relating to UK Gender Pay in line with the statutory requirements. Upon reviewing the data prior to publication, the Remuneration Committee noted that while men and women are rewarded equally for similar roles, the Group does have a 'gender pay gap' as defined by the UK legislation. The pay gap is largely a reflection of having more men than women in senior roles and the Group has a comprehensive set of diversity initiatives in place to drive progress on this issue. These are explained further on pages 41 and 81 and in our Gender Pay Report. As a result of our continued focus we have seen an increase in the proportion of women in our upper pay quartile in 2019, from 24% to 27%, contributing towards reducing our median pay gap from 35% to 33%, and we will continue our efforts in this area.

This year we are publishing for the first time our CEO to employee pay ratio for the 2019 financial year. We have adopted calculation method A which we believe to be the most robust and comprehensive means of assessment and is also reflective of shareholder preferences. For the 2019 period, the CEO single figure used in the calculation is a combination of remuneration data for both Nicandro Durante and Jack Bowles, recognising the transition in the Group's leadership which took place in 2019. Consequently, the Group's CEO to employee pay ratio for 2019 was 86:1 at the median level, reflecting the diversity of our business footprint and employee population across the UK. Further details can be found on page 103.

Other initiatives in 2019

The Remuneration Committee has devoted a considerable amount of time in 2019 to reviewing the Group's remuneration strategy and related policies for its wider workforce. The Remuneration Committee has focused on ensuring there is an appropriate degree of alignment between Group workforce remuneration and the Directors' Remuneration Policy, to make sure the Group's remuneration agenda, practices and policies are both relevant across our markets and supportive of Group strategy and ethos.

An important area of focus has been our competitive position across key markets. The Company sources talent globally and remuneration is a critical part of attracting and retaining the best people to lead our business in an increasingly competitive global marketplace. In this context, the significant pay differential between the US and the UK continues to be challenging considering the international mobility of the senior talent pool. Geographic differences in pay levels present challenges for the Group as a substantial part of our business is based in the United States, which we will keep under close review.

The Remuneration Committee has reviewed both the short and Long-Term Incentive Plan arrangements below the Executive Director level during 2019. As part of this review, the Remuneration Committee considered it appropriate to establish a new Restricted Share Plan which will better align the remuneration strategy with our Group strategy and ethos and recognises employee feedback in this area. The Group will put forward a resolution for shareholder approval at its forthcoming AGM to establish the new Restricted Share Plan for its senior management population, excluding the Executive Directors.

During 2019, the Remuneration Committee conducted a detailed review of the Group's legacy defined benefit pension arrangements in the UK and the Company is now consulting with employees in the UK concerning proposals to close defined benefit arrangements to future accrual during 2020.

In 2019, the Company initiated a competitive tender exercise for the provision of remuneration advisory services to the Remuneration Committee. Following the tender process, the Remuneration Committee has appointed PwC LLP as the adviser to the Remuneration Committee from 15 January 2020. In addition, Meridian Compensation Partners LLC will be appointed to provide specific advice and expertise in relation to the US market.

Our focus in 2020

On behalf of the Remuneration Committee, I acknowledge the scope of the tasks for the year ahead as we continue to embed our new Remuneration Policy and we continue our work to ensure the policy remains strongly aligned with the Company's long-term strategy and shareholder interests. We were very pleased to receive a strong vote in favour of our Directors' Remuneration Policy last year and this year's Annual Remuneration Report will be put forward for your consideration and approval by an advisory vote at the AGM on 30 April 2020. The Board places great value on the direct engagement and feedback from our shareholders and advisory bodies on our remuneration policy and practices and I look forward to continuing this dialogue in 2020.

Dimitri Panayotopoulos
Chairman, Remuneration Committee
17 March 2020

ANNUAL REPORT ON REMUNERATION

1 Summary of our Directors' Remuneration Policy

The Remuneration Policy for the Executive Directors and the Non-Executive Directors was approved by shareholders at the AGM on 25 April 2019.

The full Directors' Remuneration Policy is set out in the Remuneration Report 2018 contained in the Annual Report for the year ended 31 December 2018, which is available at bat.com

To assist in reviewing our Annual Report on Remuneration, we have summarised the key elements of the Directors' Remuneration Policy as it principally applies to remuneration paid during 2019.

Directors' Remuneration Policy summary: our remuneration strategy

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

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

In applying these principles, the Remuneration Committee maintains an appropriate balance between fixed pay and the opportunity to earn performance-related remuneration with the performance-based elements forming, at maximum opportunity, between 80% and 90% of the Executive Directors' total remuneration. An annual review is conducted to ensure application and alignment of the Directors' Remuneration Policy with the business needs to promote the long-term success of the Group.

Strategic Purpose

Key Features

Salary

To attract and retain high-calibre individuals to deliver the Group's long-term strategy and to offer market-competitive levels of guaranteed cash to reflect an individual's skills, experience and role within the Group.

- Normally paid in 12 equal monthly instalments during the year;
- Reviewed annually in February (changes effective from April) or subject to ad-hoc review on significant change of responsibilities;
- Reviewed taking into account the factors including individual performance and appropriate market data based on a Pay Comparator Group;
- Annual increases will generally be in the range of the increases in the base pay of other UK-based employees in the Group and will not exceed 10% per annum; and
- Recently appointed Executive Directors' base salaries may exceed the top of the range of the salary increases for UK-based employees where the Remuneration Committee considers it appropriate to reflect the accrual of experience.

Benefits

To provide market-competitive benefits consistent with the role which:

- attract and retain high calibre individuals to deliver the Group's long-term strategic plans; and
- recognise that such talent is global in source and that the availability of certain benefits (e.g. relocation, repatriation, taxation compliance advice) will from time to time be necessary to avoid such factors being an inhibitor to accepting the role.

The Company offers the following contractual benefits to Executive Directors:

- A car or car allowance (maximum annual value £20,000);
- Use of a car and driver for personal and business use;
- Employment tax advice (as required but not exceeding £30,000 per annum);
- Tax equalisation payments (where appropriate);
- Private medical insurance, including general practitioner 'walk in' medical services;
- Personal life and accident insurance (designed to pay out at a multiple of four and five times base salary, respectively);
- Housing, education allowances or similar arrangements as appropriate to family circumstances; and
- Other benefits may include Executive Directors and their partners' attendance at hospitality or similar functions, and the provision of benefits which may be treated as benefits for tax purposes, such as the provision of home security and reimbursement of expenses incurred in connection with their duties.

Pension

To provide competitive post-retirement benefit arrangements which recognise the external environment in the context of attracting and retaining senior high calibre individuals to deliver the Group's long-term strategy.

- Only base salary is pensionable; and
- Defined contribution benefits – Executive Directors are eligible to receive a pension benefit equivalent to 15% of base salary as a contribution into the defined contribution section of the British American Tobacco UK Pension Fund or as a gross cash sum paid in lieu thereof. The contribution rates are aligned with those available to our wider UK population.

ANNUAL REPORT ON REMUNERATION

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Short-term incentives (STI)

- To incentivise the attainment of corporate targets aligned to the Group's strategic objectives on an annual basis, with a deferred element to ensure alignment with shareholders' interests.
- To ensure, overall, a market-competitive package to attract and retain high calibre individuals to deliver the Group's long-term strategy.

Opportunity

- Chief Executive – Maximum 250%; on-target 125%.
- Finance Director – Maximum 190%; on-target 95%.

Operation

- 50% of the incentive delivered as cash; 50% as deferred shares (DSBS) which vest after three years. Deferred shares attract a dividend equivalent which is delivered in additional quarterly interim dividend equivalent shares;
- The Remuneration Committee sets the performance targets each year at the beginning of the performance period and is able to vary the exact measures and the weighting of them from year to year;
- Performance measures for 2019 can be found on page 99 and for 2020 on page 104;
- The Remuneration Committee has discretion to adjust outcomes in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company;
- In cases of identified poor individual performance, the corporate result may be reduced by up to 50%; and
- Clawback and malus provisions are in place.

Long-term incentives (LTIP)

To put in place a combination of measures with appropriately stretching targets around the long-term plan that provides a balance relevant to the Company's business and market conditions as well as alignment between Executive Directors' and shareholders' interests. To facilitate the appointment of senior high calibre individuals required to deliver the Group's long-term strategy, and to promote the long-term success of the Company.

Opportunity

- Maximum annual award of shares of 500% of salary for all Executive Directors.
- Normal annual grants of 500% of salary for the Chief Executive and 400% of salary for the Finance Director.

Operation

- LTIP awards vest only to the extent that:
 - the performance conditions are satisfied at the end of the three-year performance period; and
 - an additional vesting period of two years from the third anniversary of the date of grant has been completed;
- Dividend equivalent shares are awarded at the end of the extended vesting period to the extent that the awards vest;
- The Remuneration Committee sets the performance targets for the applicable performance period each year;
- Vesting levels are based on the achievement of appropriately stretching targets against performance measures aligned to the Group's long-term strategy;
- Performance measures for the 2017-2019 performance period are detailed on page 100 and for the awards to be granted in 2020 are detailed on page 104;
- The Remuneration Committee has discretion to adjust the level of vesting in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company; and
- Clawback and malus provisions are in place.

Shareholding requirements

- To strengthen the alignment between the interests of the Executive Directors and those of shareholders by requiring Executive Directors to build up a high level of personal shareholding in the Company.
- To ensure long-term alignment between the interests of the Executive Directors and those of shareholders through the operation of post-employment shareholding requirements.

Executive Directors are required to hold shares in the Company:

- during service as a Director, equal to the value of the same multiple of salary at which LTIP awards are made to that Director (currently, 500% for the Chief Executive and 400% for the Finance Director from 2020 onwards); and
- after ceasing service as a Director, equal to the value of 100% of the shareholding requirement that applied while a Director for a period until the second anniversary of cessation of employment with the Group.

All-employee share plans

Executive Directors are eligible to participate in the Company's all-employee share schemes which are designed to incentivise employees by giving them an opportunity to build shareholdings in the Company.

- All-employee share schemes are the Sharesave Scheme and the Share Incentive Plan (SIP); and
- Executive Directors are subject to the same limits on participation as other employees, as defined by the applicable statutory provisions.

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose Division of responsibilities	Composition, succession, evaluation Audit, risk, internal control	Remuneration Responsibility of Directors

How the policy addresses the factors set out in the UK Corporate Governance Code 2018:

The summary of our remuneration principles and the key elements of the Directors' Remuneration Policy align with the UK Corporate Governance Code 2018 factors as follows:

Clarity and simplicity

Our policy provides an overall remuneration package that is transparent for our Executive Directors and shareholders alike; its simple structure has a clear and straightforward link to the delivery of the Group's long-term strategy. Principles driving fixed remuneration (salary, benefits, pension) are closely aligned with the wider workforce and variable remuneration (STI and LTI) rewards delivery of financial and strategic objectives both in the short and long-term.

Risk

The combination of performance target setting for the STI and LTI, the inclusion of provisions for discretionary adjustments and malus and clawback provisions ensure that we reward our Executive Directors in accordance with high standards of governance while mitigating, as far as possible, reputational and other risks arising from reward packages that are not proportionate to outcomes.

Predictability and proportionality

There is a clear link between the operation of our short and long-term incentive plan awards and the delivery of our strategy and long-term performance. Variable remuneration at the Company accounts for between 80%-90% of an Executive Director's total remuneration package, ensuring that poor performance is not rewarded. Further detail on short and long-term incentive plan awards are detailed on pages 99 and 100.

Alignment to culture

The Remuneration Committee has worked extensively to develop a policy that aligns the Executive Directors closely to the wider workforce and rewards long-term sustainable performance. The Remuneration Committee continually reviews the Policy, taking into account any feedback received from engagement with the wider workforce and shareholders, to ensure it is aligned to the Company's purpose and values, and promotes the long-term success of the Company.

Summary of all-employee rewards at BAT: Principles of remuneration for wider workforce

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

The Remuneration Committee is regularly updated on the pay principles and practices in operation across the Group, and considers them in relation to the implementation of the Directors' Remuneration Policy, and in ensuring there is an appropriate degree of alignment throughout the Group. The Board's approach to engagement with the Group's workforce worldwide is set out on pages 26 and 41. Engagement methods available to the Group's workforce include mechanisms for feedback and dialogue on the Group's pay policies and practices. The Remuneration Committee receives updates from management on feedback received during the year where relevant to remuneration matters considered by the Remuneration Committee, and the Remuneration Committee takes feedback into account as applicable in determining executive remuneration.

The reward strategy for all employees is built around the following four strategic pillars and comprises fixed and variable remuneration elements:

Competitive yet sustainable

- Competitive package, able to attract and retain talent.
- Agility to meet changing generational needs.
- Responsible cost structure to support profit delivery.

Transparent

- Clear policies, openly communicated.
- Individual total reward package statements form part of regular annual cycle.

Equitably differentiated

- Differentiated on clear and objective criteria – level, performance and experience.
- Supported by unbiased processes and tools.

Aligned to shareholder interests

- Competitive employment cost base and incentives that align the interests of employees with those of shareholders.

ANNUAL REPORT ON REMUNERATION

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Fixed remuneration

Salary

- Salary is a key element of the total remuneration for all employees.
 - Salary ranges for each grade are set by reference to external market data, and individual positioning within the set salary ranges will depend on level of experience, responsibility and individual performance.
 - Annual salary reviews typically take place in April each year.
- In several markets Collective Labour Agreements (CLAs) exist covering some employees, therefore, some of the above principles may not apply.

Benefits and recognition

- Benefits provided to employees reflect local market practice and legislative requirements.
- The benefits architecture for the Group includes core benefits (such as medical insurance and life insurance) and local statutory benefits and may be delivered as a combination of benefits in kind, cash allowance and flexible benefits.
- Additional financial and non-financial rewards can be made for outstanding contributions to the business in exceptional circumstances.

Pension

- Retirement benefits, typically in the form of a pension, are provided to employees based on local market practice.
- Under the UK Defined Contribution arrangements, the Company contributions for all employees is 10% of base salary rising to a maximum of 15% on a matching basis. The total contribution to the defined contribution section of the British American Tobacco UK Pension Fund is restricted to £10,000 per annum in line with the Tapered Annual Allowance with the balance of any contributions due above this paid as a cash allowance or, alternatively, paid into the Defined Contribution Unapproved Unfunded Retirement Benefits Scheme.

Variable remuneration

Short-term incentives

Short-term incentive schemes are designed to reward employees across the business for the delivery of financial, strategic and operational targets. The Group operates various short-term incentive arrangements, as set out below, with participation dependent on role.

International Executive Incentive Scheme (IEIS) – globally aligned scheme for all managers in senior management roles (c. 1,200 employees), including Executive Directors.

- Incentive opportunities for IEIS participants are defined globally for each eligible grade.
- A portion of any award receivable is deferred in BAT shares for three years, with the remaining portion paid in cash following year-end.
- Dividend-equivalent payments on all unvested deferred shares are paid quarterly in cash via payroll.

Corporate annual bonus plans – in operation for employees in corporate functions who are not eligible to participate in the IEIS.

- Designed to mirror the basic construct of the IEIS with opportunity levels set locally.
- Performance metrics aligned to those of the IEIS, however, not all are measured on a Group-wide basis but instead linked to the relevant business unit.

Functional incentive schemes – in operation for non-corporate employees, examples include trade marketing or factory incentive schemes.

- Opportunity levels are set locally and vary by grade.
- Functional performance measures are incorporated into each scheme to ensure line of sight for participants.

Long-term incentives

- Senior managers are eligible to participate in the long-term incentive programme (LTIP), which rewards their contribution to the long-term global performance of the Company aligned with Executive Directors.
- Opportunity levels are defined globally for each eligible grade.
- Awards are typically granted in March of each year, and vest following the end of a three-year performance period.
- Dividend-equivalent payments are paid on any shares vesting.

All-employee share schemes

- In the UK, all employees are eligible to participate in the Company's all-employee share schemes – the Sharesave Scheme and the Share Incentive Plan – both of which are HMRC-approved plans, which are designed to incentivise employees by giving them an opportunity to build shareholdings in the Company.

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

2 Overview of what our Executive Directors earned in 2019 and why

What our Executive Directors earned in 2019 – audited[@]

Single figure for Executive Directors	Salary £'000		Taxable benefits £'000		Short-term incentives £'000		Long-term incentives £'000		Pension £'000		Other emoluments £'000		Total £'000	
	2019	2018	2019	2018	2019	2018	2019 ¹	2018 ²	2019	2018	2019	2018	2019	2018
Nicandro Durante ³	328	1,295	160	295	408	3,275	2,059	3,324	197	430	12	32	3,164	8,651
Jack Bowles ⁴	1,175	–	262	–	2,824	–	642	–	216	–	19	–	5,138	–
Ben Stevens ⁵	551	916	107	132	999	1,756	1,206	1,694	227	491	17	18	3,107	5,007
Tadeu Marroco ⁶	301	–	79	–	560	–	512	–	46	–	1	–	1,499	–
Total	2,355	2,211	608	427	4,791	5,031	4,419	5,018	686	921	49	50	12,908	13,658

Notes:

- The 2017 LTIP award is due to vest on 27 March 2022 for Nicandro Durante and Ben Stevens and on 27 March 2020 for Jack Bowles and Tadeu Marroco based on completion of the three-year performance period on 31 December 2019 and completion of the extended vesting period, as applicable. The value shown is based on the average share price for the three-month period ended 31 December 2019 of 2,920p. Given the share price performance since the date of grant of awards, none of the value shown in the table above is attributable to share price appreciation.
- Long-term incentives shown for 2018: in accordance with the UK Directors' Remuneration Report Regulations, estimates for the values of the vesting 2016 LTIP awards were given in the Annual Report on Remuneration 2018; these amounts have been re-presented to show the actual market value on the date of vesting in 2019.
- Nicandro Durante retired as an Executive Director on 1 April 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Jack Bowles was appointed Chief Executive Designate on 1 November 2018 and was appointed as an Executive Director on 1 January 2019, before being appointed as Chief Executive effective 1 April 2019. The values shown for his LTIP are based on a share award granted prior to his appointment as an Executive Director with no apportionment having been applied to the LTIP value.
- Ben Stevens ceased to be an Executive Director on 5 August 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Tadeu Marroco was appointed Finance Director on 5 August 2019 and was appointed as an Executive Director on the same date. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company. The values shown for his LTIP are based on a share award granted prior to his appointment as an Executive Director with no apportionment having been applied to the LTIP value.

Further information in respect of this remuneration can be found in Section 3 on page 98.

How this aligns to performance

Short-term incentives for the performance period ended in 2019

Vesting at:

Chief Executive: corporate performance – 240.3% of salary

Finance Director: corporate performance – 182.6% of salary

Adjusted profit from operations (APFO)
at constant rates of exchange +6.6% growth

Adjusted revenue growth from the Strategic Portfolio at constant rates of exchange
+7.3% growth

Group share of Key Markets
+20 bps growth over 2018

Adjusted cash generated from operations (Adjusted CGFO)
at constant rates of exchange
Exceeded the maximum performance level set by the Remuneration Committee (equivalent to 96.2% operating cash flow conversion)

Long-term incentives for the three-year performance period ended in 2019

Vesting at 69.3%

Total shareholder return (TSR)
21 out of 23 in FMCG comparator group 2017–2019

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

Adjusted diluted earnings per share (EPS) growth
9.4% CAGR at current rates of exchange

90% achievement
(17.9% of award vesting out of possible 20%)

Adjusted diluted earnings per share (EPS) growth
10% CAGR at constant rates of exchange

100% achievement
(20% of award vesting out of possible 20%)

Adjusted revenue growth
4% CAGR at constant rates of exchange

57% achievement
(11.4% of award vesting out of possible 20%)

Adjusted operating cash flow conversion ratio
101.8% ratio over the performance period

100% achievement
(20% of award vesting out of possible 20%)

Non-GAAP measures

Adjusted profit from operations (APFO), adjusted cash generated from operations (Adjusted CGFO), adjusted diluted EPS, adjusted revenue and operating cash flow conversion ratio are non-GAAP measures used by the Remuneration Committee to assess performance. Please refer to pages 259 to 268 for definitions of these measures[@] and a reconciliation of these measures to the most directly comparable IFRS measure where applicable.[@]

ANNUAL REPORT ON REMUNERATION

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3 Executive Directors' remuneration for the year ended 31 December 2019

Total remuneration for the year ended 31 December 2019 – audited[®]

	Nicandro Durante ¹		Jack Bowles ²		Ben Stevens ³		Tadeu Marroco ⁴
	2019 £'000	2018 £'000	2019 £'000	2019 £'000	2018 £'000	2019 £'000	2019 £'000
Salary	328	1,295	1,175	551	916		301
Taxable benefits⁵							
– car allowance	4	16	20	8	14		8
– health insurance	2	7	13	9	10		5
– tax advice	38	62	30	–	–		34
– use of Company driver	25	83	61	78	100		30
– home and personal security	–	121	6	4	6		–
– relocation	58	–	–	–	–		–
– tax & social security ⁶	–	–	122	–	–		–
– other expenses related to individual and/or accompanied attendance at Company functions/events	33	6	10	8	2		2
Total taxable benefits	160	295	262	107	132		79
Short-term incentives							
STI vesting percentage (% of maximum)	50%	100%	96%	96%	100%		96%
STI: cash – Group performance cash element	408	1,637.5	1,412	999	877.8		280
STI: DSBS – Group performance deferred element	–	1,637.5	1,412	–	877.8		280
Total short-term incentives (page 99)	408	3,275	2,824	999	1,756		560
Long-term incentives^{7,8}							
LTIP vesting percentage (% of maximum)	69.3%	70.5%	69.9%	69.3%	70.5%		69.9%
LTIP value to vest	1,733	2,813	540	1,015	1,434		431
Dividend equivalent ⁹	326	511	102	191	260		81
Total long-term incentives (page 100)	2,059	3,324	642	1,206	1,694		512
Total pension-related benefits (page 101)	197	430	216	227	491		46
Other emoluments							
Life insurance	8	29	15	13	15		1
Share Reward Scheme (value of ordinary shares awarded)	4	3	4	4	3		–
Sharesave Scheme (face value of discount on options granted)	–	–	–	–	–		–
Total other emoluments	12	32	19	17	18		1
Total remuneration	3,164	8,651	5,138	3,107	5,007		1,499

Notes:

- Nicandro Durante retired as an Executive Director on 1 April 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Jack Bowles was appointed Chief Executive Designate on 1 November 2018 and was appointed as an Executive Director on 1 January 2019, before being appointed as Chief Executive effective 1 April 2019.
- Ben Stevens retired as an Executive Director on 5 August 2019. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Tadeu Marroco was appointed Finance Director on 5 August 2019 and was appointed as an Executive Director on the same date. The amounts shown in the table above reflect remuneration received while an Executive Director of the Company.
- Taxable benefits: the figures shown are gross amounts as, in line with the UK market, it is the normal practice for the Company to pay the tax which may be due on any benefits, with the exception of the car or car allowance. The numbers presented above for tax advice are inclusive of applicable VAT and income tax.
- Amount for Jack Bowles relates to tax equalisation and social security payments made during the year ended 31 December 2019.
- The 2017 LTIP award is due to vest on 27 March 2022 for Nicandro Durante and Ben Stevens and on 27 March 2020 for Jack Bowles and Tadeu Marroco based on completion of the three-year performance period on 31 December 2019 and completion of the extended vesting period, as applicable. The value shown is based on the average share price for the three-month period ended 31 December 2019 of 2,920p.
- LTIP award shown for 2018: the values disclosed in the Annual Report on Remuneration for the year ended 31 December 2018 were estimated values as the award had not vested by the date of that report; these amounts have been re-presented based on the actual market value on the date of vesting of 12 May 2019 of 2,839p.
- LTIP dividend equivalent payments: the dividend equivalent payment that will attach to the LTIP award that is included in the Single Figure Table is reported. The values for the year ended 31 December 2018 have been restated on this basis.

	Strategic Report	Governance	Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration
						Responsibility of Directors

Short-term incentives for the year ended 31 December 2019

STI performance measures, weightings and results for year ended 31 December 2019 – audited®

STI: performance measure and target 2019	Description of measure 2019	Actual performance 2019
Adjusted profit from operations (APFO) (growth over prior year) Weighting: 30% Threshold: 3.3% growth over 2018 Maximum: 7.1% growth over 2018	APFO is the adjusted profit from operations at constant rates of exchange for the year ended 31 December 2019. Please refer to page 262 for the detailed description of APFO.	APFO growth over the prior year of 6.6%. Strategic Report: Delivering our strategy – Productivity
Group's share of Key Markets (growth over prior year) Weighting: 10% Threshold: 5 bps growth over 2018 Maximum: 15 bps growth over 2018	The Group's retail volume share in its Key Markets accounts for around 80% of the volumes of the Group's subsidiaries. The Group's share is calculated from data supplied by retail audit service providers and is re-based as and when the Group's Key Markets change. When re-basing does occur, the Company will also restate historical data and provide fresh comparative data on the markets.	Global volume share in key markets grew by 20 bps. Strategic Report: Delivering our strategy – Growth
Adjusted revenue growth from the Strategic Portfolio (growth over prior year) Weighting: 30% Threshold: 2% growth over 2018 Maximum: 6% growth over 2018	The Strategic Portfolio reflects the focus of the Group's investment activity, and is defined as Strategic Combustibles and Strategic Traditional Oral products, and New Category products. This measure is assessed at constant rates of exchange. Please refer to page 261 for the detailed description of the Strategic Portfolio.	Adjusted revenue from the Strategic Portfolio grew by 7.3%. Strategic Report: Delivering our strategy – Growth
Adjusted cash generated from operations (Adjusted CGFO) (as against adjusted budget) Weighting: 30% Threshold: Equivalent to 91% operating cash flow conversion Maximum: Equivalent to 96% operating cash flow conversion	Adjusted CGFO is defined as the net cash generated from operating activities, before the impact of adjusting items, dividends paid to non-controlling interests and received from associates, net interest paid and net capital expenditure. Adjusted CGFO is measured at constant rates of exchange.	Adjusted CGFO exceeded the maximum performance level set by the Remuneration Committee (equivalent to 96.2% operating cash flow conversion). Strategic Report: Delivering our strategy – Productivity

STI outcome for year ended 31 December 2019

	Available STI award as % of base salary	Group % result	STI award achieved % of base salary	STI award achieved £'000 (Value shown in Single Figure Table) ⁴
Nicandro Durante ^{1,2}	250%	50%	125%	408
Jack Bowles ³	250%	96%	240.3%	2,824
Ben Stevens ^{1,5}	190%	96%	182.6%	999
Tadeu Marroco ^{1,3}	190%	96%	182.6%	560

Notes:

- The STI awards for Nicandro Durante, Ben Stevens and Tadeu Marroco have been calculated on a pro rata basis for their time spent as Executive Directors during 2019.
- Nicandro Durante retired as an Executive Director on 1 April 2019. In line with our Directors' Remuneration Policy in operation at the time, his Group result was based on an 'on-target' level of performance, apportioned for the period he was an Executive Director and payment was made fully in cash in April 2019.
- For Jack Bowles and Tadeu Marroco, 50% of the STI award will be paid in cash and 50% as an award under the DSBS. Awards made under the DSBS are in the form of free ordinary shares in the Company that normally vest after three years and no further performance conditions apply in that period. In certain circumstances, such as resigning before the end of the three-year period, participants may forfeit all of the shares.
- Malus and clawback provisions apply.
- In line with the current Directors' Remuneration Policy, the STI payment to Ben Stevens will be made based on actual results, pro-rated and paid fully in cash in March 2020.

ANNUAL REPORT ON REMUNERATION

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Long-term incentives (LTIP) for the year ended 31 December 2019

LTIP performance measures, weightings and results for the year ended 31 December 2019 – audited 3[@]

LTIP: performance measure	Description of measure and target for 2017 LTIP Performance period 1 January 2017 – 31 December 2019		Result achieved	Vesting percentage
Relative TSR¹			Ranked 21 out of 23	0%
Relative to a peer group of international FMCG companies	2017–2019 LTIP target			(out of maximum of 20%)
	Threshold	At median, 3% vests		
Weighting: 20%	Maximum	At upper quartile, 20% vests		
EPS growth at current exchange rates			9.4% CAGR	17.9%
Compound annual growth in adjusted diluted EPS measured at current rates of exchange	2017–2019 LTIP target			(out of maximum of 20%)
	Threshold	At CAGR of 5%, 3% vests		
	Maximum	At CAGR of 10%, 20% vests		
Weighting: 20%				
EPS growth at constant exchange rates			10% CAGR	20%
Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	2017–2019 LTIP target			(out of maximum of 20%)
	Threshold	At CAGR of 5%, 3% vests		
	Maximum	At CAGR of 10%, 20% vests		
Weighting: 20%				
Adjusted revenue²			4% CAGR	11.4%
Compound annual growth measured at constant rates of exchange	2017–2019 LTIP target			(out of maximum of 20%)
	Threshold	At CAGR of 3%, 3% vests		
	Maximum	At CAGR of 5%, 20% vests		
Weighting: 20%				
Adjusted Operating cash flow conversion ratio			101.8% ratio	20%
Ratio over the performance period at current exchange rates	2017–2019 LTIP target			(out of maximum of 20%)
	Threshold	Ratio of 85%, 3% vests		
	Maximum	Ratio of 95%, 20% vests		
Weighting: 20%				
Total vesting level				69.3% vesting

Notes:

1. **Relative TSR:** the constituents of the FMCG peer group are listed on page 104.

2. **The underpin for adjusted revenue growth measure:** the adjusted revenue growth measure can only vest provided the corresponding three-year CAGR of APFO exceeds the CAGR of the threshold performance level for APFO as approved annually in the STI and approved by the Board. The underpin was exceeded with reference to the APFO STI outcomes for 2017, 2018 and 2019.

3. The above figures account for the adjustment made in respect of the impact of the acquisition of RAI on the 2017 performance year within the 2017 LTIP awards. Further detail on the adjustment for the 2017 performance year was provided on page 94 of the 2018 Annual Report for the 2016 LTIP awards and the same will apply in respect of the 2017 LTIP awards.

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

LTIP outcome for year ended 31 December 2019

	Number of ordinary shares subject to award	Vesting % achieved (based on 2017–2019 performance period)	Number of ordinary shares to vest	Value of ordinary shares to vest ¹ £'000	Dividend equivalent payment on vesting ² £'000	Total value to vest £'000 (Value shown in Single Figure Table)
Nicandro Durante ³	114,181	69.3%	59,346	1,733	326	2,059
Jack Bowles ⁴	26,463	69.9%	18,497	540	102	642
Ben Stevens ³	58,232	69.3%	34,750	1,015	191	1,206
Tadeu Marroco ⁴	21,109	69.9%	14,755	431	81	512

The 2017 LTIP awards granted to Nicandro Durante and Ben Stevens are subject to the LTIP extended vesting period and are therefore due to vest on 27 March 2022, and will become exercisable on that same date. For Jack Bowles and Tadeu Marroco, the 2017 LTIP awards were made prior to their appointments as Executive Directors, therefore the vesting date is 27 March 2020 and the shares will become exercisable on that same date.

Notes:

1. The value of ordinary shares to vest shown above is based on the average share price for the three-month period ended 31 December 2019 of 2,920p.

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

3. The number of shares to vest for Nicandro Durante and Ben Stevens is calculated on a pro rata basis to reflect their total time as Executive Directors during the performance period of the awards.

4. The number of shares subject to awards made to Jack Bowles and Tadeu Marroco reflect the award opportunities available to them at the time of the award, prior to being appointed as Executive Directors.

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

Executive Directors' pension entitlements and accruals for the year ended 31 December 2019 – audited[®]

Pension values	Accrued pension at year-end 31 December 2019 £'000		Total Defined Contribution (DC) fund value as at year-end 31 December 2019 £'000	
	Defined Benefits (DB) Unapproved Unfunded Retirement Benefit Scheme (UURBS)	British American Tobacco UK Pension Fund	Defined Contribution (DC) Unapproved Unfunded Retirement Benefit Scheme (UURBS) ¹	British American Tobacco UK Pension Fund
Nicandro Durante (up to 1 April 2019)	182	–	n/a	n/a
Jack Bowles	n/a	n/a	669	318
Ben Stevens (up to 5 August 2019)	366	102	n/a	n/a
Tadeu Marroco (from 5 August 2019)	n/a	n/a	502	165
Total	548	102	1,171	683

Note
1. The DC UURBS credit accrued over the year is increased in line with the Company's Weighted Average Cost of Debt (WACD) over the year. For the year ended 31 December 2019, a provisional WACD of 3.3% has been used but this may be subject to change.

Nicandro Durante

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

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

The normal retirement date for Mr Durante was 13 September 2016.

The pension-related benefits disclosed in the single figures for Executive Directors' remuneration represent Nicandro Durante's net accrual for the period, being the differential between his total pension entitlements as at 31 December 2018 (adjusted for inflation) and as at 1 April 2019, multiplied by 20 in accordance with the UK Directors' Remuneration Report Regulations.

Nicandro Durante receives a pension in payment from the Fundação Albino Souza Cruz (FASC) from Souza Cruz S.A., a Brazilian registered wholly-owned subsidiary of the Group. This pension benefit has been in payment since April 2012 and for the period from 1 January 2019 to 31 March 2019 has amounted to approximately £90,169 (after adjusting for currency exchange).

Ben Stevens

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

The normal retirement date for Mr Stevens was 27 July 2019.

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

The pension-related benefits disclosed in the single figures for Executive Directors' remuneration represent Ben Stevens' net accrual for the period, being the differential between his total pension entitlements as at 31 December 2018 (adjusted for inflation) and as at 5 August 2019, multiplied by 20 in accordance with the UK Directors' Remuneration Report Regulations.

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

Jack Bowles

Jack Bowles became an Executive Director with effect from 1 January 2019 and is a member of the Company's Defined Contribution (DC) arrangements. The total Company contribution to the DC arrangements over the period 1 January to 31 December 2019 was £215,750. Of this, £7,583 was paid to the funded British American Tobacco UK DC schemes and £208,167 was credited to the DC UURBS. These total amounts are based on a Company contribution rate of 25% per annum of salary over the period 1 January 2019 to 30 April 2019 reducing to a rate of 15% per annum of salary over the period 1 May 2019 to 31 December 2019.

Tadeu Marroco

Tadeu Marroco became an Executive Director with effect from 5 August 2019 and is a member of the Company's Defined Contribution (DC) arrangements. The total Company contribution paid to the DC arrangements over the period 5 August to 31 December 2019 was £45,882. Of this, £3,160 was paid to the funded British American Tobacco UK DC schemes and £42,722 was credited to the DC UURBS. These total amounts are based on a Company contribution rate of 15% per annum of salary over the period 5 August 2019 to 31 December 2019.

Notes:

1. **UK Pension Fund:** this is non-contributory. Voluntary contributions paid by an Executive Director and resulting benefits are not shown. No excess retirement benefits have been paid to or are receivable by an Executive Director or past Executive Director.

2. Revised pension arrangements apply from May 2019 for new Executive Directors as detailed in the revised Directors' Remuneration Policy on page 78 of the 2018 Annual Report.

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Other information relating to Chief Executives' remuneration for the year ended 31 December 2019

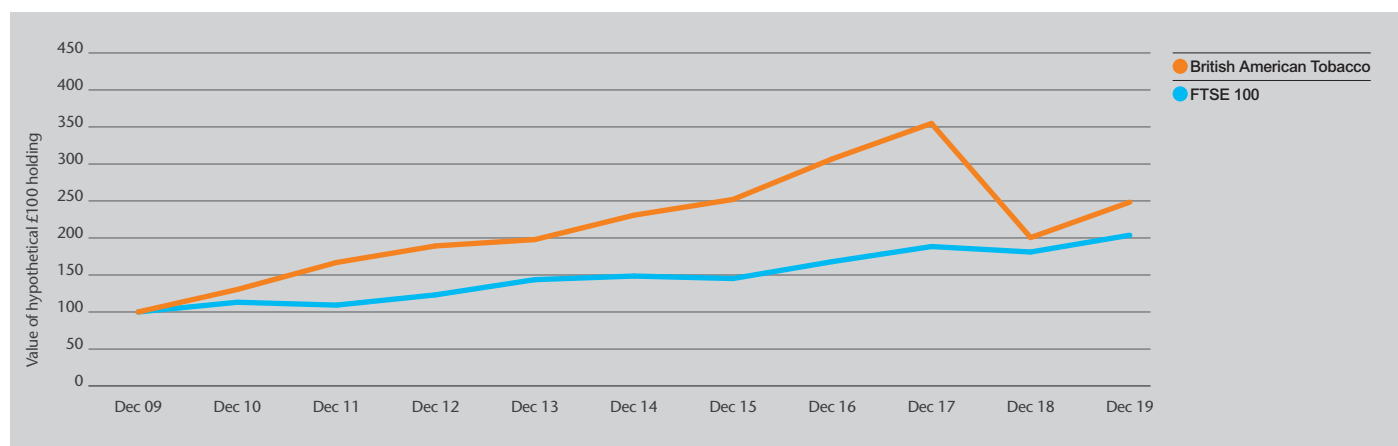
Chief Executives' pay – comparative figures 2010 to 2019

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Chief Executives' 'single figure' of total remuneration (£'000)										
Paul Adams ¹ (to 28 February 2011)	8,858	5,961	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (to 1 April 2019)	n/a	5,589	6,340	6,674	3,617	4,543	8,313	10,244	8,651	3,164
Jack Bowles ³ (from 1 April 2019)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,512
Annual bonus (STI) paid against maximum opportunity (%)										
Paul Adams ¹ (to 28 February 2011)	87.0	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (to 1 April 2019)	n/a	100	85.0	81.3	73.2	100	100	97.2	100	50
Jack Bowles ³ (from 1 April 2019)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	96
Long-term incentive (LTIP) paid against maximum opportunity (%)										
Paul Adams ¹ (to 28 February 2011)	100	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (to 1 April 2019)	n/a	100	87.1	49.2	0.0	8.7	46.0	96.1	70.5	69.3
Jack Bowles ³ (from 1 April 2019)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	69.9

Notes:

1. Paul Adams retired as Chief Executive on 28 February 2011. Historical data are taken from the Directors' Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the UK Directors' Remuneration Report Regulations.
2. Nicandro Durante retired as Chief Executive on 1 April 2019. Historical data are taken from the Directors' Remuneration Reports for the relevant years and is recast (as appropriate) on the basis of the 'single figure' calculation as prescribed in the UK Directors' Remuneration Report Regulations. His 'single figure' remuneration for the years ended 31 December 2011 and 31 December 2019 have been time-apportioned to reflect the period he was Chief Executive.
3. Jack Bowles was appointed Chief Executive with effect from 1 April 2019. His 'single figure' remuneration for the year ended 31 December 2019 has been time-apportioned to reflect the period he was Chief Executive.

Total shareholder return (TSR) performance:¹ 1 January 2010 to 31 December 2019



Note:

1. **Performance and pay chart:** this shows the performance of a hypothetical investment of £100 in ordinary shares (as measured by the TSR for the Company) against a broad equity market index (the FTSE 100 Index) over a period of 10 financial years starting from 1 January 2010 through to 31 December 2019 based on 30-trading-day average values. A local currency basis is used for the purposes of the TSR calculation making it consistent with the approach to TSR measurement for the LTIP.

	Strategic Report	Governance	Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration
						Responsibility of Directors

Percentage change in the Chief Executive's remuneration

The following table shows the percentage change in the Chief Executive's remuneration measured against a comparator group comprising the UK employee population on UK employment contracts (2019: 2,980 individuals; 2018: 2,097 individuals). This comparator group is considered to be the most appropriate group as Executive Directors are employed on UK contracts. Using a more widely-drawn group encompassing the worldwide nature of the Group's business would also present practical difficulties in collation and a less relevant comparator, given the significant variations in employee pay across the Group, the differing economic conditions and wide variations in gross domestic product per capita.

	Base salary			Taxable benefits			Short-term incentives		
	2019 £'000	2018 £'000	Percentage change %	2019 £'000	2018 £'000	Percentage change %	2019 £'000	2018 £'000	Percentage change %
Chief Executive	1,209	1,295	-6.7	357	295	21	2,526	3,275	-23
UK-based employees	71	75	-4.6	7	7	-	38	49	-23.5

Notes: UK-based employees:

- The data for the UK-based employees comparator group are made up as follows as at 31 December 2019: (1) the weighted average base salaries; (2) the average taxable benefits per grade; and (3) the weighted average bonus result based on that population as at that date.
- The data for the UK-based employees for 2019 include non-management employees from an acquisition.
- The data for the UK-based employees for 2018 for taxable benefits and short-term incentives have been restated. Taxable benefits data have been adjusted to reflect a change in calculation of the car benefit and short-term incentives data have been adjusted to reflect actual results rather than on-target as reported in the 2018 Annual Report.
- The Chief Executive figures for base salary, taxable benefits and short-term incentives for 2019 are calculated based on Nicandro Durante's remuneration for the period 1 January to 31 March 2019 and Jack Bowles' remuneration for the period 1 April to 31 December 2019.

CEO Pay Ratio Disclosure

In line with the new disclosure requirement, the below table reflects the CEO pay ratio when compared to the employees at the 25th, median and 75th percentile of the Group's UK workforce.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	144:1	86:1	36:1

Notes:

- Option A has been used to calculate the ratio as this has been viewed to be the most robust and comprehensive means of assessment and is also reflective of shareholder preferences.
- Total pay and benefits are based on the workforce as at 1 December 2019 and include the annualised income for the earnings period 1 January 2019 to 31 December 2019.
- Total pay and benefits for the CEO are based on the single figure calculation on page 97. The CEO single figure used in the calculation is a combination of remuneration data for both Nicandro Durante and Jack Bowles, recognising the transition in the Group's leadership which took place in 2019.
- Total pay and benefits for the workforce is calculated as far as possible on the same basis as the CEO single figure calculation. This includes salary, taxable benefits, short-term incentive, long-term incentive, dividends, pension benefits and any other remuneration receivable. For the purposes of this analysis, the following has been assumed:
 - For all employees that are eligible for a car benefit, the applicable car allowance amounts have been used,
 - For all employees that participate in the global International Executive Incentive Scheme or equivalent corporate incentive scheme, incentive pay-outs are calculated based on the same metrics; and
 - For all employees that participate in the UK DC scheme, Company contributions of 15% of salary have been used.
- For the calculation of the total pay and benefits for employees, employees on international assignment into and out of the UK have been included; however, assignment benefits, such as housing support, education support, home leave allowance or relocation costs, have not been included as these are not consistent with the benefits included in the CEO single figure calculation.
- For hourly paid employees who are not full time, total pay and benefits have been pro-rated based on full-time employee hours.
- For employees who have joined part way through the year, pro rata income has been used to provide a full year figure.

The table below includes details of the total pay and benefits, as well as the salary component of remuneration for the employees identified as being P25, P50 and P75.

	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£31,253	£52,235	£91,756
Total Remuneration	£46,216	£77,754	£183,179

The Company believes the median pay ratio for 2019 reflects the diversity of our business footprint and employee population across the UK. The Group's remuneration policies and practices are founded on a high degree of alignment and consistency, with total remuneration at all levels providing a competitive package that enables the attraction and retention of talent while also providing equitable differentiated remuneration based on grade, performance and experience. Further details on all-employee rewards at BAT can be found on pages 95 and 96.

ANNUAL REPORT ON REMUNERATION

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4 Executive Directors' remuneration for the upcoming year

Base salary for 2020

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

Executive Directors – salaries	Base salary from 1 Apr 2020 £	Percentage change %	Base salary from 1 Apr 2019 £
Jack Bowles	1,287,000	9.5%	1,175,000
Tadeu Marroco ¹	772,500	3%	750,000

Notes:

1. 2019 Base salary for Tadeu Marroco reflects terms of his appointment as Finance Director effective from 5 August 2019.

Benefits and pension

No changes have been made to the provision of benefits or pension for 2020.

Short-term incentives for 2020 onwards

STI opportunity levels for Executive Directors will be in line with those set out in our Directors' Remuneration Policy. STI metrics and weightings are as follows:

2020 STI metrics & weightings

Group share of key markets	10%
Adjusted revenue growth from the Strategic Portfolio ¹	30%
Adjusted profit from operations	30%
Deleveraging excluding foreign exchange ²	30%
Total	100%

Notes:

1. The Strategic Portfolio is comprised of Strategic Combustibles, Strategic Traditional Oral products and New Category products. Please refer to page 261 for further details.

2. Description of the metric can be found on page 267.

Further detail is included in the description of the STI measures for the year ended 31 December 2019 on page 99.

Long-term incentives for 2020 onwards

The Chief Executive and Finance Director will be granted an LTIP award equal to 500% of salary and 400% of salary, respectively.

The performance measures and weightings for the LTIP award to be granted in 2020 will remain unchanged from those for 2019 awards. The measures and targets for 2020 LTIP awards are set out below.

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

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

5 Chairman and Non-Executive Directors' remuneration for the year ended 31 December 2019 – audited®

The following table shows a single figure of remuneration for the Chairman and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2019 together with comparative figures for 2018.

	Base fee ⁵ £'000		Chair/Committee membership fees ⁵ £'000		Taxable benefits ¹ £'000		Total remuneration £'000	
	2019	2018	2019	2018	2019	2018	2019	2018
Chairman								
Richard Burrows	695	680	–	–	137	116	832	796
Non-Executive Directors								
Sue Farr	94	93	26	24	4	2	124	119
Dr Marion Helmes	94	93	26	24	13	12	133	129
Jerry Fowden (from 1 September 2019)	32	–	9	–	5	–	46	–
Luc Jobin ²	94	93	26	24	77	41	197	158
Holly Keller Koeppel ³	94	93	51	24	125	94	270	211
Savio Kwan	94	93	26	24	61	42	181	159
Dimitri Panayotopoulos	94	93	52	50	24	17	170	160
Kieran Poynter	94	93	64	86	1	–	159	179
Retired Non-Executive Directors								
Ann Godbehere (to 25 April 2018)	–	30	–	7	–	1	–	38
Pedro Malan (to 25 April 2018)	–	30	–	7	–	15	–	52
Lionel Nowell, III (to 12 December 2018)	–	88	–	23	–	79	–	190
Total	1,385	1,479	280	293	447	419	2,112	2,191

Notes:

- Benefits:** the Chairman's benefits in 2019 comprised: health insurance and 'walk-in' medical services £15,000 (2018: £15,000); the use of a Company driver £81,000 (2018: £81,000); home and personal security in the UK and Ireland £14,000 (2018: £4,000); hotel accommodation and related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or corporate events £4,000 (2018: £3,000); and commuting flights to London £23,000 (2018: £13,000). The benefits for the other Non-Executive Directors principally comprised travel-related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or events and 'walk-in' medical services. The figures shown are grossed-up amounts (as appropriate) as, in line with the UK market, it is the normal practice for the Company to pay the tax that may be due on any benefits.
- Pension:** Luc Jobin receives a pension in respect of prior service to Imasco Limited (acquired in 2000 by the Group) and Imperial Tobacco Canada Limited, a subsidiary of BAT. In 2019 this amount was CAD\$150,228.96 (£87,450.72) (2018: CAD\$150,228.96 (£86,849.10)).
- Deferred Compensation Plan for Directors of RAI (DCP):** as a former outside director of RAI, Holly Keller Koeppel participated in the DCP under which she elected to defer payment of a portion of her RAI retainers and meeting attendance fees to an RAI stock account. Following the acquisition of RAI by BAT, amounts deferred to a stock account (Deferred Stock Units or DSUs) mirror the performance of, and receive dividend equivalents based on, BAT American Depository Shares (ADSs). The DSUs of Holly Keller Koeppel are disclosed as a note to 'Summary of Directors' share interests' below. DSUs deferred under the DCP will be paid in accordance with the terms of the DCP, section 409A of the US Internal Revenue Code of 1986, as amended, and the Director's existing deferral elections.
- Committee memberships:** are shown, together with changes during the year, in the reports of the respective committees in the Governance sections of the Directors' Report.
- Non-Executive Directors' fees structure 2019:** is set out in the table below.

	Fees from 1 May 2019 £	Fees to 30 April 2019 £
Base fee	94,500	92,700
Senior Independent Director – supplement	37,800	37,100
Audit Committee: Chairman	39,950	39,200
Audit Committee: Member	13,750	13,500
Nominations Committee: Chairman	–	–
Nominations Committee: Member	12,200	12,000
Remuneration Committee: Chairman	39,950	39,200
Remuneration Committee: Member	13,750	13,500

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

As described in the Annual Report on Remuneration for the year ended 31 December 2018, the Chairman's fee was increased from £685,000 to £698,000 from 1 April 2019. In keeping with the level of pay awards granted to UK employees based on a 2.5% increase in budget, the Remuneration Committee determined the Chairman's fee will be £718,940 with effect from 1 April 2020 (+3%).

The fees for Non-Executive Directors are scheduled to be reviewed in April 2020 with any changes being effective from 1 May 2020.

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6 Directors' share interests

Summary of Directors' share interests – audited[@]

	Outstanding scheme interests 31 Dec 2019					
	Ordinary shares held at 31 Dec 2019	Unvested awards subject to performance measures and continued employment (LTIP)	Unvested awards subject to continued employment only (DSBS)	Unvested interests (Sharesave)	Total ordinary shares subject to outstanding scheme interests	Total of all interests in ordinary shares at 31 Dec 2019
Executive Directors						
Jack Bowles ^{1,3}	181,774	246,780	47,253	–	294,033	475,807
Tadeu Marroco ^{2,3}	39,033	85,414	28,193	761	114,368	153,401
Chairman						
Richard Burrows	19,000					19,000
Non-Executive Directors						
Sue Farr	–					–
Jerry Fowden ⁴	2,000					2,000
Dr Marion Helmes	4,500					4,500
Luc Jobin ⁴	45,236					45,236
Holly Keller Koeppel ^{4,5}	8,416					8,416
Savio Kwan ³	7,082					7,082
Dimitri Panayotopoulos	3,300					3,300
Kieran Poynter	5,000					5,000
Former Directors⁶						
Nicandro Durante (retirement date 1 April 2019)	367,094	415,213	114,175	912	530,300	897,394
Ben Stevens (retirement date 5 August 2019)	137,208	286,197	61,932	1,038	349,167	486,375

Notes:

1. **Jack Bowles:** ordinary shares held include 566 held by the trustees of the BAT Share Incentive Plan (SIP).

2. **Tadeu Marroco:** ordinary shares held include 828 held by the trustees of the SIP.

3. **Changes from 31 December 2019:** (a) Jack Bowles: acquisition of seven ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the SIP; acquisition of 1,172 ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the Vested Share Account (VSA); and acquisition of 130 ordinary shares on 13 February 2020 as a result of reinvestment of dividend income under the Deferred Shares Bonus Scheme (DSBS). (b) Tadeu Marroco: purchases of five ordinary shares on 2 January 2020, four ordinary shares on 5 February 2020 and five ordinary shares on 4 March 2020 under the SIP; acquisition of 12 ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the SIP; acquisition of 432 ordinary shares on 6 February 2020 as a result of reinvestment of dividend income under the VSA; and acquisition of 54 ordinary shares on 13 February 2020 as a result of reinvestment of dividend income under the DSBS. (c) Savio Kwan: acquisition of 103 ordinary shares on 13 February 2020 as a result of reinvestment of dividend income. There were no changes in the interests of the Chairman and the other Non-Executive Directors.

4. **American Depositary Shares (ADSs):** each of the interests in ordinary shares held by Jerry Fowden, Luc Jobin and Holly Keller Koeppel consists of an equivalent number of BAT ADSs each of which represents one ordinary share in the Company.

5. **Deferred Stock Units (DSUs):** at the date of this report Holly Keller Koeppel, being a former director of RAI and a participant in the Deferred Compensation Plan for Directors of RAI (DCP), holds DSUs which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment upon ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs increases on each dividend date by reference to the value of dividends declared on the ADSs underlying the DSUs. Ms Koeppel currently holds 23,333.51 DSUs (31 December 2019: 22,996.63 DSUs).

6. **Former Directors:** Nicandro Durante and Ben Stevens retired on 1 April 2019 and 5 August 2019, respectively. Ordinary shares held and outstanding share interests, included in the table above, are as at their respective date of retirement.

	Strategic Report	Governance	Financial Statements		Other Information	
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation	Audit, risk, internal control	Remuneration
						Responsibility of Directors

Executive Directors' shareholding guidelines

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

As part of last year's Directors' Remuneration Policy review, in accordance with the UK Corporate Governance Code 2018, the Remuneration Committee introduced a new post-employment shareholding policy; Executive Directors are required to hold shares equivalent to 100% of current shareholding requirements for two full years following the date of their departure. The Directors' Remuneration Policy came into effect on 26 April 2019, following approval by shareholders at our AGM, and therefore this new requirement applies to Ben Stevens who retired after this date.

	No. of eligible ordinary shares held at 31 Dec 2019	Value of eligible ordinary shares held at 31 Dec 2019 ¹ £m	Actual percentage (%) of base salary at 31 Dec 2019	Shareholding requirements (% of base salary 31 Dec 2019)	Compliant with shareholding requirement
Jack Bowles	206,252	6.7	567.2	500%	Yes
Tadeu Marroco	53,147	1.7	229.0	350% ⁵	See note 5
	No. of eligible ordinary shares held at retirement date	Value of eligible ordinary shares held at retirement date ⁴ £m	Actual percentage (%) of base salary at retirement date	Post-employment shareholding requirements (% of base salary at retirement date)	Compliant with shareholding requirement
Nicandro Durante (retirement date 1 April 2019)	425,120	13.3	1,017.4	N/A ⁶	N/A
Ben Stevens (retirement date 5 August 2019)	195,968	5.8	632.0	350%	Yes

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

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

Notes:

- Value of ordinary shares shown above:** this is based on the closing mid-market share price on 31 December 2019 of 3,231.5p.
- Meeting the guidelines:** if an Executive Director does not, at any time, meet the requirements of the shareholding guidelines, the individual may, generally, only sell a maximum of up to 50% of any ordinary shares vesting (after tax) under the Company share plans until the threshold required under the shareholding guidelines has been met.
- Waiver of compliance with guidelines:** this is permitted with the approval of the Remuneration Committee in circumstances where a restriction on a requested share sale could cause undue hardship. No such applications were received from the Executive Directors during 2019.
- Value of ordinary shares shown above:** this is based on the closing mid-market share price on 1 April 2019 of 3,135p for Nicandro Durante and the closing mid-market share price on 5 August 2019 of 2,980p for Ben Stevens.
- Tadeu Marroco was appointed as an Executive Director on 5 August 2019, prior to which the shareholding requirement for Mr Marroco was set at a lower percentage of salary with Mr Marroco being compliant with required percentage. Under the Directors' Remuneration Policy, Executive Directors may generally sell a maximum of up to 50% of any shares vesting (after tax) under the Company's share plans until the threshold for shareholding requirements has been met and Mr Marroco is compliant with this policy requirement. In line with the Directors' Remuneration Policy, the shareholding requirement is equal to the value of the same multiple of salary at which LTIP awards are made to that Director, as such the shareholding requirement for Mr Marroco will increase to 400% in 2020.
- Nicandro Durante is not subject to post-employment shareholding requirements due to his retirement and subsequent departure from the Company taking place prior to the approval of the Directors' Remuneration Policy, effective 26 April 2019, which introduced the post-employment shareholding requirement.

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Executive Directors' outstanding scheme interests – audited[@]

	Plan	At 1 Jan 2019	Awarded in 2019	Lapsed in 2019	Exercised/ released in 2019	At 31 Dec 2019	Exercise price (p)	End of performance period	Date from which exercisable or shares released
Nicandro Durante	LTIP ¹	140,529	–	41,457	–	99,072	–	31 Dec 18	12 May 21
	LTIP ²	114,181	–	–	–	114,181	–	31 Dec 19	27 Mar 22
	LTIP ³	160,503	–	–	–	160,503	–	31 Dec 20	26 Mar 23
	DSBS	29,690	–	–	29,690	–	–	31 Dec 18	29 Mar 19
	DSBS	28,545	–	–	28,545	–	–	31 Dec 19	2 Apr 19
	DSBS	32,517	–	–	32,517	–	–	31 Dec 20	2 Apr 19
	DSBS	–	53,113	–	53,113	–	–	31 Dec 21	2 Apr 19
	Sharesave	543	–	50	493	–	3,091.50	–	2 Apr 19
	Sharesave	369	–	369	–	–	–	–	–
Jack Bowles	LTIP ¹	31,943	–	9,232	22,711	–	2,947.00	31 Dec 18	12 May 19
	LTIP ²	26,463	–	–	–	26,463	–	31 Dec 19	27 Mar 20
	LTIP ³	43,785	–	–	–	43,785	–	31 Dec 20	26 Mar 21
	LTIP ³	–	176,532	–	–	176,532	–	31 Dec 21	28 Mar 24
	DSBS	11,473	–	–	11,473	–	–	31 Dec 18	29 Mar 19
	DSBS	8,997	–	–	–	8,997	–	31 Dec 19	27 Mar 20
	DSBS	12,064	–	–	–	12,064	–	31 Dec 20	26 Mar 21
	DSBS	–	26,192	–	–	26,192	–	31 Dec 21	28 Mar 22
	Sharesave	–	–	–	–	–	–	–	–
	Sharesave	–	–	–	–	–	–	–	–
Ben Stevens	LTIP ¹	71,669	–	21,143	–	50,526	–	31 Dec 18	12 May 21
	LTIP ²	58,232	–	–	–	58,232	–	31 Dec 19	27 Mar 22
	LTIP ³	80,264	–	–	–	80,264	–	31 Dec 20	26 Mar 23
	LTIP ³	–	97,175	–	–	97,175	–	31 Dec 21	28 Mar 24
	DSBS	19,468	–	–	19,468	–	–	31 Dec 18	29 Mar 19
	DSBS	15,805	–	–	15,805	–	–	31 Dec 19	1 Oct 19
	DSBS	17,655	–	–	17,655	–	–	31 Dec 20	1 Oct 19
	DSBS	–	28,472	–	28,472	–	–	31 Dec 21	1 Oct 19
	Sharesave	543	–	–	543	–	–	–	1 Oct 19
	Sharesave	495	–	495	–	–	–	–	–
Tadeu Marroco	LTIP ¹	21,315	–	6,161	15,154	–	2,753.75	31 Dec 18	12 May 19
	LTIP ²	21,109	–	–	–	21,109	–	31 Dec 19	27 Mar 20
	LTIP ³	28,248	–	–	–	28,248	–	31 Dec 20	26 Mar 21
	LTIP ³	–	36,057	–	–	36,057	–	31 Dec 21	28 Mar 22
	DSBS	7,655	–	–	7,655	–	–	31 Dec 18	29 Mar 19
	DSBS	7,177	–	–	–	7,177	–	31 Dec 19	27 Mar 20
	DSBS	7,783	–	–	–	7,783	–	31 Dec 20	26 Mar 21
	DSBS	–	13,233	–	–	13,233	–	31 Dec 21	28 Mar 22
	Sharesave	495	–	–	–	495	–	1 May 20	1 May 20
	Sharesave	266	–	–	–	266	–	1 May 21	1 May 21

Notes:

- Details of the performance condition for the LTIP awards granted in 2016 (which vested during 2019), and of achievement against that condition in the period to 31 December 2018, were set out in the Annual Report on Remuneration for the year ended 31 December 2018.
- Details of the performance condition attached to 2017 LTIP awards, and of achievement against that condition in the period to 31 December 2019, are set out on page 100.
- Details of the performance condition attached to 2018 and 2019 LTIP awards are set out on page 109.

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

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

Further details in relation to scheme interests granted during the year ended 31 December 2019

	Plan	Ordinary shares awarded	Price per ordinary share at award ¹	Face value of award £'000	Exercise price	Proportion of award vesting for threshold performance (%)	Performance period	Date from which exercisable or shares released
Nicandro Durante	DSBS	53,113			n/a	n/a	n/a	2 April 2019
Jack Bowles	LTIP ²	176,532	3,328p	5,875	n/a	15	2019–2021	28 Mar 24
	DSBS	26,192			n/a	n/a	n/a	28 Mar 22
Ben Stevens ³	LTIP ²	97,175	3,328p	3,234	n/a	15	2019–2021	28 Mar 24
	DSBS	28,472			n/a	n/a	n/a	1 Oct 19
Tadeu Marroco	LTIP ²	36,057	3,328p	1,200	n/a	20	2019–2021	28 Mar 22
	DSBS	13,233			n/a	n/a	n/a	28 Mar 22

Notes:

1. The 2019 LTIP award was made on the basis of the Group's closing share price on 25 February 2019, increased by 15%, with a resulting share price of £33.28.

2. Details of the performance condition attached to these LTIP awards are set out below.

3. Any LTIP award vesting for Ben Stevens will be pro rata based on the period he was employed during the three-year performance period.

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

	LTIP awards granted in 2018			LTIP awards granted in 2019		
	1 January 2018–31 December 2020			1 January 2019–31 December 2021		
	Weighting	Threshold	Maximum	Weighting	Threshold	Maximum
Relative TSR Ranking against a peer group of international FMCG companies	20%	At median, 3% of award vests	At upper quartile, 20% of award vests	20%	At median, 3% of award vests	At upper quartile, 20% of award vests
EPS growth at current exchange rates Compound annual growth in adjusted diluted EPS measured at current rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
EPS growth at constant exchange rates Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
Adjusted revenue growth Compound annual growth measured at constant rates of exchange	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests
Adjusted operating cash flow conversion ratio Measured at current rates of exchange, as a percentage of APFO	20%	At 85%, 3% of award vests	At 95%, 20% of award vests	20%	At 85%, 3% of award vests	At 95%, 20% of award vests

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

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7 Other disclosures

Retirement of Nicandro Durante and Ben Stevens – audited®

Both Nicandro Durante and Ben Stevens retired as Executive Directors during 2019. The terms and conditions of their retirement were determined by the Remuneration Committee in accordance with the Company's shareholder-approved Directors' Remuneration Policy in place at the time of their respective retirements. They did not receive any additional payments during their time as Executive Directors outside of the normal approach to executives who are departing by reason of retirement.

Details of remuneration paid to Nicandro Durante and Ben Stevens in respect of their services as Executive Directors in 2019 are set out in the single figure table on page 97 and accompanying notes. Further details on their remuneration arrangements on retirement are provided below.

	Nicandro Durante	Ben Stevens
Date of retirement	Retired as Chief Executive and from the Board of the Company with effect from 1 April 2019.	Stepped down as Finance Director and from the Board of the Company with effect from 5 August 2019. He remained an employee of the Company until his retirement on 30 September 2019. Accordingly, Ben Stevens' entitlement to salary and all other contractual benefits associated with his employment continued until 30 September 2019.
STI for 2019	Both Nicandro Durante and Ben Stevens were eligible to participate in the STI for 2019 pro-rated for the period they were employed during the year. STI outcomes are set out on page 99 relating to the periods as Executive Directors in 2019. The STI outcome for the period during which Mr Stevens remained an employee but was no longer an Executive Director is £263,500 and will be paid fully in cash in March 2020.	
LTI for 2019	Not eligible to receive an LTIP grant in 2019.	Granted an LTIP award with a face value equal to 350% of salary.
Treatment of outstanding DSBS and LTIP awards	<p>For the purposes of outstanding DSBS and LTIP awards, the Remuneration Committee determined that both Nicandro Durante and Ben Stevens would be classified 'good leavers'. They therefore received full and immediate vesting of all outstanding DSBS awards in line with the Directors' Remuneration Policy and rules of the DSBS.</p> <p>– For Nicandro Durante this amounted to 114,175 ordinary shares.</p> <p>– For Ben Stevens this amounted to 61,932 ordinary shares.</p> <p>Outstanding LTIP awards will only vest following completion of the three-year performance period and the additional two-year extended vesting period, and will remain subject to the achievement of the relevant performance conditions and any shares vesting will be time pro-rated based on the number of months worked in each performance period. In Ben Stevens' Single Figure information on page 97 the shares vesting from the 2017 LTIP award relate to his period as an Executive Director in the performance period. The number of shares vesting from the 2017 LTIP award that relate to the period from 5 August 2019 to 30 September 2019, the period during which Mr Stevens remained an employee but was no longer an Executive Director, within the performance period is 2,242.</p>	
Dividend equivalent payments	Both Nicandro Durante and Ben Stevens remain eligible to receive dividend equivalent payments in respect of any shares vesting from LTIP awards.	
	For Nicandro Durante these payments will be made in cash. For the DSBS awards vesting in 2019, this amounted to a cash sum of £25,330.	For Ben Stevens these payments will be made in cash for awards granted prior to 2019 and in shares for awards granted in 2019. For the DSBS awards vesting in 2019, this amounted to a cash sum of £9,340 and 132 shares.
Pension arrangements	Following his retirement, Nicandro Durante received a pension in accordance with the provisions of the UK UURBS, which generates an initial annual pension (before any commutation) of approximately £181,693. This will increase in future years in line with the provisions of the UK UURBS.	Following his retirement, Ben Stevens received a pension in accordance with the provisions of the BATUKPF and UK UURBS arrangements. The indicative total pension entitlement as at the 30 September 2019 is £467,745 per annum.
	As set out on page 101, Nicandro Durante will also continue to receive his pension payment from Fundação Albino Souza Cruz (FASC) S.A., a Brazilian registered wholly-owned subsidiary.	
Other emoluments	Eligible to be reimbursed for: – Reasonable relocation and shipment costs (up to £200,000) to assist with his move back to Brazil following his retirement; and – Any tax advice (up to £30,000) received in relation to his retirement. These costs amounted to a total of £96,000, including where relevant any tax payable on such reimbursement.	Eligible to be reimbursed for: – Any tax advice (up to £30,000) received in relation to his retirement. There were no actual costs incurred for tax advice.
All-employee share schemes	Share interests held under the Company's all-employee share plans were treated in accordance with the terms of the plans and the applicable HMRC requirements.	
	As at 1 April 2019, Nicandro Durante was eligible to receive all 2,486 shares he held in the SIP and had six months within which to exercise a maximum of 625 options held under the Sharesave Scheme.	As at 30 September 2019, Ben Stevens was eligible to receive all 842 shares he held in the SIP and had six months within which to exercise a maximum of 1,030 options held under the Sharesave Scheme.

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

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose Division of responsibilities	Composition, succession, evaluation Audit, risk, internal control	Remuneration Responsibility of Directors

Payments to former Directors and payments for loss of office: All payments made to Nicandro Durante and Ben Stevens were in accordance with the Directors' Remuneration Policy and have been reported in the appropriate section of this report.

Relative importance of spend on pay

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

Item	2019 £m	2018 £m	% change
Remuneration of Group employees ¹	3,221	3,005	7.2
Remuneration of Executive Directors	13	14	-5.5
Remuneration of Chairman and Non-Executive Directors	2	2	-3.7
Total dividends ²	4,598	4,347	5.8

Notes:

- Total remuneration of Group employees:** this represents the total employee benefit costs for the Group, set out on page 140 within note 3(a) in the Notes on the Accounts.
- Total dividends:** this represents the total dividends paid in 2019. The figure for 2018 has been restated from that reported in the 2018 Directors' Remuneration Report so that it reflects dividends paid in the year rather than dividends declared in the year as was reported in the 2018 Directors' Remuneration Report. For further details please refer to page 47.

Shareholder dilution – options and awards outstanding

Satisfaction of Company share plan awards in accordance with the Investment Association's Principles of Remuneration	New ordinary shares issued by the Company during the year ended 31 December 2019
<ul style="list-style-type: none"> – by the issue of new ordinary shares; – ordinary shares issued from treasury only up to a maximum of 10% of the Company's issued share capital in a rolling 10-year period; – within this 10% limit, the Company can only issue (as newly issued ordinary shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans; and – the rules of the Company's Deferred Share Bonus Scheme do not allow for the satisfaction of awards by the issue of new ordinary shares. 	<ul style="list-style-type: none"> – 104,854 ordinary shares issued by the Company in relation to the Sharesave Scheme; – a total of 1,035,438 Sharesave Scheme options over ordinary shares in the Company were outstanding at 31 December 2019, representing 0.05% of the Company's issued share capital (excluding shares held in treasury); and – options outstanding under the Sharesave Scheme are exercisable until the end of October 2023 at option prices ranging from 2,600p to 4,056p.

8 The Remuneration Committee and shareholder engagement

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

Role

As set out in the Terms of Reference, the Remuneration Committee is responsible for:

- determining and proposing the Directors' Remuneration Policy (covering salary, benefits, performance-based variable rewards and retirement benefits) for shareholder approval;
- determining, within the terms of the approved Directors' Remuneration Policy, the specific remuneration packages for the Chairman and the Executive Directors, on appointment, on review and, if appropriate, any compensation payment due on termination of appointment;
- the setting of targets applicable for the Company's performance-based variable reward scheme and determining achievement against those targets, exercising discretion where appropriate and as provided by the applicable scheme rules and the Directors' Remuneration Policy;
- reviewing Group workforce remuneration and related policies, and the alignment of incentives and rewards with Group culture, taking these into account when setting the policy for Executive Director remuneration. Providing feedback to the Board on workforce reward, incentives and conditions applicable across the Group and supporting the Board's monitoring of the Group's culture and its alignment with the Group's purpose, values and strategy;
- setting remuneration for members of the Management Board and the Company Secretary; and
- monitoring and advising the Board on any major changes to the policy on employee benefit structures for the Group.

Remuneration Committee terms of reference

Revised Remuneration Committee terms of reference have been adopted by the Board to reflect revisions to internal governance processes to align with the requirements of the UK Corporate Governance Code 2018. Further detail on the revisions can be found in the Annual Report on Remuneration for the year ended 31 December 2018.

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

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Attendance at meetings in 2019¹

Name	Member since	Attendance/ Eligible to attend Scheduled	Attendance/ Eligible to attend Ad Hoc
Dimitri Panayotopoulos	2015	4/4	2/2
Sue Farr	2016	4/4	2/2
Marion Helmes ^{2(b)}	2019	4/4	2/2
Luc Jobin ^{2(c)}	2017–2019	0/0	0/0
Savio Kwan	2016	4/4	2/2

Notes:

1. **Number of meetings in 2019:** the Committee held six meetings in 2019, two of which were ad hoc.

2. **Membership:** (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2018 Provisions 10 and 32 and applicable NYSE listing standards; (b) Marion Helmes was appointed as a member of the Committee with effect from 14 January 2019; and (c) Luc Jobin ceased to be a member of the Committee with effect from 14 January 2019.

3. **Other attendees:** the Chairman, the Chief Executive, the Director, Talent and Culture, the Group Head of Reward and other senior management, including the Company Secretary, may be consulted and provide advice, guidance and assistance to the Remuneration Committee. They may also attend Committee meetings (or parts thereof) by invitation. Neither the Chairman, any Executive Director nor member of senior management plays any part in determining their own respective remuneration.

4. **Deloitte LLP:** as the Remuneration Committee's remuneration consultants during 2019, they attended meetings of the Remuneration Committee in 2019. As a member of the Remuneration Consultants Group (RCG), Deloitte agrees to the RCG Code of Conduct which seeks to clarify the scope and conduct of the role of executive remuneration consultants when advising UK-listed companies.

Remuneration Committee advisers during 2019

Independent external advisers	Services provided to the Remuneration Committee	Fees	Other services provided to the Company
Deloitte LLP	General advice on remuneration matters including: market trends and comparator group analysis; policy review and shareholder engagement perspectives; and independent measurement of the relative TSR performance conditions.	2019: £76,000 2018: £136,700	Tax, corporate finance and consulting services to Group companies worldwide.
Herbert Smith Freehills LLP	Advice in respect of share plan regulations is provided to the Company and is available to the Remuneration Committee.	Fees relate to advice given to the Company.	General corporate legal and tax advice principally in the UK.
Ernst & Young LLP	Provision of employment tax advice regarding Executive Directors' international pension planning.	Fees relate to advice given to the Company.	Tax, corporate finance and consulting services to Group companies worldwide.
KPMG LLP	Specified procedures to assist in the assessment of the calculations of the STI bonus outcomes and future targets.	2019: £28,000 2018: £18,000	Audit and tax services and other non-audit services.

Regular work programme 2019

The Remuneration Committee:

- reviewed the Chairman's fee from 1 April 2019 with specific reference to the level of salary increases granted to UK employees;
- reviewed salaries for members of the Management Board and the Company Secretary from 1 April 2019, taking into account market positioning and the level of salary increases granted to UK employees;
- assessed the achievement against the targets for the 2018 STI award and set the STI targets for 2019;
- assessed the achievement against the performance conditions for the vesting of the LTIP 2016 award, determined the contingent level of LTIP awards for March 2019 and reviewed the associated performance conditions;
- assessed the achievement against the targets for the 2018 Share Reward Scheme and set the targets for the 2019 award;
- monitored the continued application of the Company's shareholding guidelines for the Executive Directors and members of the Management Board;
- reviewed the Annual Statement and the Annual Report on Remuneration for the year ended 31 December 2018 prior to its approval by the Board and subsequent proposal to shareholders at the Company's AGM on 25 April 2019;
- analysed the 2019 AGM voting results relating to remuneration resolutions and reviewed market trends in the context of that annual general meeting season;
- reviewed updates on achievement against the performance measures for the six months ended 30 June 2019 for the STI 2019 and outstanding LTIP awards; and
- reviewed the Remuneration Committee's effectiveness following the externally-facilitated evaluation process, discussed further on page 78.

Directors' Remuneration Policy

Prior to the Company's AGM on 25 April 2019, the Remuneration Committee concluded its review of the Directors' Remuneration Policy, taking into account shareholder feedback and the requirements of the UK Corporate Governance Code 2018, and determined the new Directors' Remuneration Policy proposed for shareholder approval at the 2019 AGM.

	Strategic Report	Governance	Financial Statements	Other Information
		Leadership and purpose	Division of responsibilities	Composition, succession, evaluation
			Audit, risk, internal control	Remuneration
				Responsibility of Directors

Other matters 2019

The Remuneration Committee:

- approved the remuneration package in respect of the appointment of Tadeu Marroco as the Finance Director from 5 August 2019 and increase in LTIP award level applicable to awards from 1 January 2020. The Remuneration Committee Chairman has led a programme of shareholder engagement in relation to this matter;
- approved the arrangements applicable to the retirement of Nicandro Durante as Chief Executive from 1 April 2019 and the arrangements applicable to the retirement of Ben Stevens as Finance Director from 5 August 2019;
- conducted a detailed review of the Group's legacy defined pension arrangements in the UK. Consultation with impacted employees is now in progress in respect of proposals to close defined benefit arrangements to future accrual during 2020;
- reviewed the Group's workforce remuneration strategy and related policies and their alignment with Executive Directors' remuneration and, more broadly, their alignment with the Group's culture. As part of this review, the Remuneration Committee endorsed changes to the Group's remuneration strategy and policies for the Group's management population to enhance alignment with Group strategy and culture, including proposals to introduce a restricted share plan;
- approved changes to the constituents for the STI volume share metrics, based on market changes and reporting capabilities;
- reviewed the UK gender pay report for 2018 for applicable UK Group companies prior to publication in March 2019;
- reviewed indicative Chief Executive pay ratio analysis prior to inclusion in the Annual Report on Remuneration for the year ended 31 December 2019; and
- conducted a competitive tender exercise to select new remuneration advisers to the Remuneration Committee, prior to the appointment of PwC LLP from 15 January 2020. In addition, Meridian Compensation Partners LLP will be appointed to provide specific advice and expertise in relation to the US market.

Voting on the Remuneration Report at the 2019 AGM and engagement with shareholders

At the AGM on 25 April 2019, the shareholders considered and voted on the 2018 Directors' Remuneration Report as set out on the table below. The Directors' Remuneration Policy was approved by shareholders at the AGM on 25 April 2019. A summary of this Policy is on pages 93 to 94. No other resolutions in respect of Directors' remuneration or incentives were considered at the 2019 AGM. Further information regarding shareholder engagement in relation to remuneration matters is set out in the Annual Statement on Remuneration on page 90.

	Approval of Directors' Remuneration Policy ¹ 2019	Approval of Directors' Remuneration Report ² 2019
Percentage for	92.63	87.71
Votes for (including discretionary)	1,641,331,721	1,554,311,783
Percentage against	7.37	12.29
Votes against	130,661,885	217,722,528
Total votes cast excluding votes withheld	1,771,993,606	1,772,034,311
Votes withheld ³	1,820,757	1,780,043
Total votes cast including votes withheld	1,773,814,363	1,773,814,354

Notes:

1. **Directors' Remuneration Policy:** was approved by shareholders at the AGM on 25 April 2019 and is set out in full in the 2018 Annual Report on Remuneration. A summary of this Policy is on pages 93 to 94 of this Remuneration Report 2019.
2. **Directors' Remuneration Report:** does not include the part of the Remuneration Report containing the Remuneration Policy (see note 1 above).
3. **Votes withheld:** these are not included in the final proxy figures as they are not recognised as a vote in law.

The Directors' Remuneration Report has been approved by the Board on 17 March 2020 and signed on its behalf by:

Dimitri Panayotopoulos
Chairman, Remuneration Committee
17 March 2020

RESPONSIBILITY OF DIRECTORS

Leadership and purpose

Division of responsibilities

Composition, succession, evaluation

Audit, risk, internal control

Remuneration

Responsibility of Directors

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements[@]

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

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

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

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

Richard Burrows
Chairman

17 March 2020

British American Tobacco p.l.c.

Registered in England and Wales No. 3407696

Tadeu Marroco
Finance Director

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