Other Information

Additional Disclosures

Additional Disclosures

Shareholder Information

Other Information

Other Information

Information on the Group

Overview

British American Tobacco p.l.c. is the parent holding company of the Group, a leading consumer-centric, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world. According to the Group's internal estimates, the BAT Group is a market leader by volume in more than 50 countries, producing the cigarette chosen by one in eight of the world's one billion smokers.

Effective 1 January 2018, the Group, excluding the Group's associated undertakings, was organised into four regions:

- the United States (US – Reynolds American Inc.);
- Asia-Pacific and the Middle East (APME);
- Americas and Sub-Saharan Africa (AmSSA); and
- Europe and North Africa (ENA).

The Group's range of combustible products covers all segments, from value-for-money to premium with a portfolio of international, regional and local tobacco brands to meet a broad array of adult tobacco consumer preferences wherever the Group operates. The Group is investing in building a portfolio of potentially less harmful tobacco and nicotine products alongside its traditional tobacco business – including vapour products, tobacco heating products (THPs) and Modern Oral products, which are collectively termed the New Categories, as well as Traditional Oral products.

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

History and development of BAT

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

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

In 1999, the Group announced a global merger with Rothmans International, at that time the fourth largest tobacco company in the world. The Group acquired Imperial Tobacco Canada in 2000, and in 2003 the Group acquired Ente Tabacchi Italiani S.p.A., Italy's state-owned tobacco company. Investments were made in Peru and Serbia in 2003, through the acquisitions of Tabacalera Nacional and Duvanska Industrija Vranje. In July 2004, the US assets, liabilities and operations, other than certain specified assets and liabilities, of BAT's wholly-owned subsidiary, B&W, were combined with RJR Tobacco Company. Reynolds American Inc. was formed as a new holding company for these combined businesses. As a result of the B&W business combination, B&W acquired beneficial ownership of approximately 42% of the Reynolds American Inc. shares.

In 2008, the BAT Group acquired Tekel, the Turkish state-owned tobacco company, as well as 100% of the cigarette and snus business of Skandinavisk Tobakskompagni A/S. Following the acquisition of its business during 2009, the Group recognised an effective 99% interest in Bentoel in Indonesia. In 2011, the Group completed the acquisition of 100% of Protabaco in Colombia.

In 2012, the Group acquired CN Creative Limited, a UK-based start-up company specialising in the development of e-cigarette technologies. During 2013, the Group entered into joint operations in China. In 2015, the Group acquired: the shares it did not already own in Souza Cruz; the CHIC Group, a vapour product business in Poland; and TDR d.o.o., a cigarette manufacturer in Central Europe. Also in 2015, in connection with Reynolds American Inc.'s purchase of Lorillard Inc., the Group invested US$4.7 billion to maintain its approximate 42% equity position in the enlarged Reynolds American Inc.

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

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

During 2017, the Group acquired certain tobacco assets from Bulgartabac Holding AD in Bulgaria and Fabrika Duhana Sarajevo (FDS) in Bosnia. The Group also acquired Winnington Holdings AB in Sweden and certain assets from Must Have Limited in the UK, including the electronic cigarette brand ViP.

In 2018, the Group acquired Quantus Beteiligungs-und Beratungsgesellschaft mbH, which houses the vapour retail business of High End Smoke in Germany.

In 2019, the Group acquired 60% of VapeWild Holdings LLC, a vertically integrated manufacturer and retailer in the US, and Twisp Propriety Limited, a South African e-cigarette/nicotine vapour company.

In 2020, the Group acquired the nicotine pouch product assets of Dryft Sciences, LLC (Dryft), a US-based Modern Oral nicotine product company. Also in 2020, the Group acquired 100% of the share capital in Eastern Tobacco Company for Trading, formerly known as Rafique Mohammed Sudki Jad Establishment for Trading when acting as the Group's distributor in Saudi Arabia.

British American Tobacco p.l.c. was incorporated in July 1997 under the laws of England and Wales as a public limited company and is domiciled in the United Kingdom.

Seasonality

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

Patents and trademarks

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

Board oversight of M&A transactions

The Company's Board has strategic oversight of significant M&A transactions (determined by value or strategic nature of transaction), which are referred to it for noting under the Group Statement of Delegated Authorities (SoDA).

Other M&A transactions are referred for strategic oversight to the Management Board or other applicable senior forum or persons, under the Group SoDA. Those referral requirements under the Group SoDA apply alongside any requirement for corporate approval of M&A transactions by or within a Group company.

Selected Financial Information

This information set out below has been derived from, in part, the audited consolidated financial statements of the Group commencing on page 150. This selected financial information should be read in conjunction with the consolidated financial statements and the Strategic Report.

	As of and for the Year Ended 31 December				
All items shown in £m except per share information	**2020**	2019	2018	2017	2016
Income statement data					
Revenue[2]	**25,776**	25,877	24,492	19,564	14,130
Raw materials and consumables used	**(4,583)**	(4,599)	(4,664)	(4,520)	(3,777)
Changes in inventories of finished goods and work in progress	**445**	162	114	(513)	44
Employee benefit costs	**(2,744)**	(3,221)	(3,005)	(2,679)	(2,274)
Depreciation, amortisation and impairment costs	**(1,450)**	(1,512)	(1,038)	(902)	(607)
Other operating income	**188**	163	85	144	176
Loss on reclassification from amortised cost to fair value	**(3)**	(3)	(3)	–	–
Other operating expenses	**(7,667)**	(7,851)	(6,668)	(4,682)	(3,037)
Profit from operations	**9,962**	9,016	9,313	6,412	4,655
Net finance costs	**(1,745)**	(1,602)	(1,381)	(1,094)	(637)
Share of post-tax results of associates and joint ventures	**455**	498	419	24,209	2,227
Profit before taxation	**8,672**	7,912	8,351	29,527	6,245
Taxation on ordinary activities	**(2,108)**	(2,063)	(2,141)	8,129	(1,406)
Profit for the year	**6,564**	5,849	6,210	37,656	4,839
Per share data					
Basic weighted average number of ordinary shares, in millions	**2,286**	2,284	2,285	2,044	1,858
Diluted weighted average number of ordinary shares, in millions	**2,295**	2,291	2,292	2,051	1,865
Earnings per share-basic (pence)	**280.0p**	249.7p	264.0p	1,833.9p	250.2p
Earnings per share-diluted (pence)	**278.9p**	249.0p	263.2p	1,827.6p	249.2p
Dividends per share (pence)[3]	**215.6p**	210.4p	203.0p	195.2p	169.4p
Dividends per share (US dollars)[3]	**$2.99**	$2.69	$2.71	$2.54	$2.30
Balance sheet data					
Assets					
Non-current assets	**124,078**	127,731	133,687	127,088	27,414
Current assets	**13,612**	13,274	12,655	13,966	12,359
Total assets	**137,690**	141,005	146,342	141,054	39,773
Liabilities					
Non-current liabilities	**59,257**	58,022	64,325	64,468	19,511
Current liabilities	**15,478**	18,823	16,329	15,605	11,856
Total borrowings	**43,968**	45,366	47,509	49,450	19,495
Equity					
Share capital	**614**	614	614	614	507
Total equity	**62,955**	64,160	65,688	60,981	8,406
Cash flow data					
Net cash generated from operating activities	**9,786**	8,996	10,295	5,347	4,610
Net cash used in investing activities	**(783)**	(639)	(1,021)	(18,544)	(640)
Net cash (used in)/generated from financing activities	**(7,897)**	(8,593)	(9,630)	14,759	(4,229)

Notes:

1. All of the information above is in respect of continuing operations, revised for the fully retrospective adoption of IFRS 15.
2. Revenue is net of duty, excise and other taxes of £39,172 million, £39,826 million, £38,553 million, £37,780 million and £32,136 million for the years ended 31 December 2020, 2019, 2018, 2017 and 2016, respectively.
3. In February 2021, the BAT Directors declared an interim dividend of 215.6 pence per share for the year ended 31 December 2020, payable in four equal instalments of 53.9 pence per ordinary share. The interim dividend will be paid to BAT shareholders in May 2021, August 2021, November 2021 and February 2022. In February 2020, the BAT directors declared an interim dividend of 210.4 pence per ordinary share of 25p, payable in four equal quarterly instalments of 52.6 pence per ordinary share. This was paid in May 2020, August 2020, November 2020 and February 2021. The equivalent quarterly dividends receivable by holders of ADSs in US dollars will be calculated based on the exchange rate on the applicable payment date.

Other Information

Non-Financial KPIs

Volume

Volume is defined as the number of units sold. Units may vary between categories. This can be summarised for the principal metrics as follows:

- Factory made cigarettes (FMC) – sticks, regardless of weight or dimensions;
- Roll-Your-Own/Make-Your-Own – kilos, converted to a stick equivalent based upon 0.8 grams (per stick equivalent) for Roll-Your-Own and between 0.5 and 0.7 grams (per stick equivalent) for Make-Your-Own;
- Traditional oral – pouches (being 1:1 conversion to stick equivalent) and kilos, converted to a stick equivalent based upon 2.8 grams (per stick equivalent) for Moist Snuff, 2.0 grams (per stick equivalent) for Dry Snuff and 7.1 grams (per stick equivalent) for other oral;
- Modern Oral – pouches, being 1:1 conversion to stick equivalent;
- Tobacco Heat sticks – sticks, being 1:1 conversion to stick equivalent; and
- Vapour - pods and 10 millilitre bottles. There is no conversion to a stick equivalent.

Volume is recognised in line with IFRS 15 *Revenue from Contracts with Customers,* based upon transfer of control. It is assumed that there is no material difference, in line with the Group's recognition of revenue, between the transfer of control and shipment date.

Volume is used by management and investors to assess the relative performance of the Group and its brands within categories, given volume is a principal determinant of revenue.

Volume Share

Volume share is the number of units bought by consumers of a specific brand or combination of brands, as a proportion of the total units bought by consumers in the industry, category or other sub-categorisation. Sub-categories include, but are not limited to, the total nicotine category, modern oral, vapour, traditional oral, total oral or cigarette.

Where possible, the Group utilises data provided by third-party organisations, including AC Nielsen, based upon retail audit of sales to consumers. In certain markets, where such data is not available, other measures are employed which assess volume share based upon other movements within the supply chain, such as sales to retailers. This may depend on the provision of data to the industry by the customers including distributors/wholesalers.

Volume share is used by management to assess the relative performance to the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates. This measure is also useful to understand the Group's performance when seeking to grow scale within a market or category from which future financial returns can be realised. The Group's management believes that this measure is useful to investors to understand the relative performance of the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates.

Volume share in each year compares the average volume share in the year with the average volume share in the prior year. This is a more robust measure of performance, removing short-term volatility that may arise at a point in time.

However, in certain circumstances, related to periods of introduction to a market, in order to illustrate the latest performance, data may be provided as at the end of the period rather than the average in that period. In these instances the Group states these are at a specific date (for instance, December 2020).

Value Share

Value share is the retail value of units bought by consumers of a particular brand or combination of brands, as a proportion of the total retail value of units bought by consumers in the industry, category or other sub-categorisation in discussion.

Where possible, the Group utilises data provided by third-party organisations, including AC Nielsen, based upon retail audit of sales to consumers. In certain markets, where such data is not available, other measures are employed which assess value share based upon other movements within the supply chain, such as sales to retailers. This may depend on the provision of data to the industry by the customers (including distributors and wholesalers).

Value share is used by management to assess the relative performance of the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates, specifically indicating the Group's ability to realise value relative to the market. The measure is particularly useful when the Group's products and/or the relevant category in the market in which they are sold has developed or achieved scale from which value can be realised. The Group's management believes that this measure is useful to investors to apprehend the relative performance of the Group and its brands against the performance of its competitors in the categories and geographies in which the Group operates, specifically indicating the Group's ability to realise value relative to the market.

Value share in each year compares the average value share in the year with the average value share in the prior period. This is a more robust measure of performance, removing short-term volatility that may arise at a point of time. However, in certain circumstances, related to periods of introduction to a market, in order to illustrate the latest performance, data may be provided that is as at the end of the period rather than the average in that period. In these instances the Group states these are at a specific date (for instance, December 2020).

Price Mix

Price mix is a term used by management and investors to explain the movement in revenue between periods. Revenue is affected by the volume (how many units are sold) and the value (how much is each unit sold for). Price mix is used to explain the value component of the sales as the Group sells each unit for a value (price) but may also achieve a movement in revenue due to the relative proportions of higher value volume sold compared to lower value volume sold (mix).

This term is used to explain the Group's relative performance between periods only. It is calculated as the difference between the movement in revenue (between periods) and volume (between periods). For instance, the growth in combustibles revenue (excluding translational foreign exchange movements) of 2.8% in 2020, with a decline in combustibles volume of 4.5% in 2020, leads to a price mix of 7.3% in 2020. No assumptions underlie this metric as it utilises the Group's own data.

Non-Combustible Consumers

The number of consumers of Non-Combustible products is defined as the estimated number of Legal Age (minimum 18 years) consumers of the Group's Non-Combustible products. In markets where regular consumer tracking is in place, this estimate is obtained from adult consumer tracking studies conducted by third parties (including Kantar). In markets where regular consumer tracking is not in place, the number of consumers of Non-Combustible products is derived from volume sales of consumables and devices in such markets, using consumption patterns obtained from other similar markets with consumer tracking (utilising studies conducted by third parties including Kantar).

The number of Non-Combustible products consumers is used by management to assess the number of consumers regularly using the Group's New Categories products as the increase in Non-Combustible products is a key pillar of the Group's ESG Ambition and is integral to the sustainability of our business.

The Group's management believes that this measure is useful to investors given the Group's ESG ambition and alignment to the sustainability of the business with respect to the Non-Combustibles portfolio.

Other Information

Non-GAAP Measures

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

Adjusted Revenue

Definition – revenue before the impact of adjusting items.

To supplement BAT's revenue presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted revenue to evaluate the underlying business performance of the Group and its geographic segments. The Group's Management Board defines adjusted revenue as revenue before the impact of adjusting items, specifically the excise on bought-in goods that the Group acquired and sold which, for the period 2017 to 2019, has been recorded in accordance with IFRS as a cost of sale and within revenue, with a dilutive effect on operating margin. In 2020, as the short-term arrangements ceased or were immaterial, the goods are manufactured by the Group, and the excise, in accordance with Group policy, is not included in cost of sales or revenue. For the 2017 to 2019 period, this excise included in revenue led to a reduction in revenue and improvement in operating margin that did not represent the underlying performance of the Group. As such, the excise on bought-in goods in 2019, 2018 and 2017 met the Group's definition of an adjusting item, as defined in note 1 in the Notes on the Accounts.

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

The table below reconciles the Group's revenue to adjusted revenue for the periods presented and to adjusted revenue at constant rates based on a re-translation of adjusted revenue for each year at the previous year's exchange rates. Refer to note 2 in the Notes on the Accounts for further discussion of the segmental results and for the reconciliation of adjusted revenue at current and constant rates of exchange to segmental revenue and to Group revenue for the years ended 31 December 2020, 2019 and 2018.

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Revenue	**25,776**	25,877	24,492	19,564	14,130
Less: Excise on goods bought-in on short-term arrangements	**–**	(50)	(180)	(258)	–
Adjusted revenue	**25,776**	25,827	24,312	19,306	14,130
Impact of translational foreign exchange	**894**	(144)	1,448	(700)	(687)
2020 adjusted revenue re-translated at 2019 exchange rates	**26,670**				
2019 adjusted revenue re-translated at 2018 exchange rates		25,683			
2018 adjusted revenue re-translated at 2017 exchange rates			25,760		
2017 adjusted revenue re-translated at 2016 exchange rates				18,606	
2016 adjusted revenue re-translated at 2015 exchange rates					13,443
Change in adjusted revenue at prior year's exchange rates (constant rates)	**+3.3%**	+5.6%	+33.4%	+31.7%	+7.2%

Adjusted Revenue by Product Category or Geographic Segment – Including Revenue From New Categories

Definition – revenue by product category, before the impact of adjusting items and at the prior year's prevailing exchange rate, derived from the principal product categories of Combustibles, New Categories (being comprised of revenue from Vapour, THP and Modern Oral), and Traditional Oral, including by the geographic segments of the United States, Europe and North Africa, Americas and Sub-Saharan Africa and Asia-Pacific and Middle East.

To supplement BAT's revenue presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted revenue growth from the principal product categories of combustibles, New Categories and Traditional Oral, including from the geographic segments of the United States, Europe and North Africa, Americas and Sub-Saharan Africa and Asia-Pacific and Middle East, to evaluate the underlying business performance of the Group reflecting the focus of the Group's investment activity. The Group's Management Board assesses adjusted revenue by product category, including by geographic segment, at constant rates of exchange, as revenue before the impact of adjusting items and translated to the Group's reporting currency at the prior period's prevailing exchange rate, derived from the Group's combustible portfolio (including but not limited to Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US), Natural American Spirit (US)), the Group's New Category portfolio (being Vapour, THP and Modern Oral) and the Group's Traditional Oral portfolio and the Group's operations in the United States, Europe and North Africa, Americas and Sub-Saharan Africa and Asia-Pacific and Middle East.

The Group's Management Board also believes that the adjusted revenue performance by product category, including by geographic segment provides information that enables investors to better compare the Group's business performance across periods and by reference to the Group's investment activity. Adjusted revenue by product category, including by geographic segment have limitations as analytical tools. The most directly comparable IFRS measure to adjusted revenue by product category, including by geographic segment, is revenue. Adjusted revenue by product category, including by geographic segment, are not presentations made in accordance with IFRS, are not measures of financial condition or liquidity and should not be considered as alternatives to revenue as determined in accordance with IFRS. Adjusted revenue by product category, including by geographic segment, are not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider these performance measures in isolation from, or as a substitute analysis for, BAT's results as determined in accordance with IFRS.

Reconciliation of revenue by product category to adjusted revenue by product category at constant rates of exchange – 2020- 2019

	2020						2019		
	Reported £m	**vs 2019 %**	**Adjusting items £m**	**Impact of exchange £m**	**Adjusted at constant £m**	**Adjusted at constant vs 2019 %**	Reported £m	Adjusting items £m	Adjusted £m
Combustible	**22,752**	**-1.1%**	**–**	**842**	**23,594**	**+2.8%**	23,001	(50)	22,951
Vapour	**611**	**+52.3%**	**–**	**4**	**615**	**+53.4%**	401	–	401
THP	**634**	**-12.9%**	**–**	**2**	**636**	**-12.7%**	728	–	728
Modern Oral	**198**	**+57.1%**	**–**	**–**	**198**	**+57.1%**	126	–	126
New Categories	**1,443**	**+14.9%**	**–**	**6**	**1,449**	**+15.4%**	1,255	–	1,255
Traditional Oral	**1,160**	**+7.2%**	**–**	**5**	**1,165**	**+7.7%**	1,081	–	1,081
Other	**421**	**-21.7%**	**–**	**41**	**462**	**-14.4%**	540	–	540
Revenue	**25,776**	**-0.4%**	**–**	**894**	**26,670**	**+3.3%**	25,877	(50)	25,827

Reconciliation of revenue by product category to adjusted revenue by product category at constant rates of exchange – 2019- 2018

	2019						2018		
	Reported £m	vs 2018 %	Adjusting items £m	Impact of exchange £m	Adjusted at constant £m	Adjusted at constant vs 2018 %	Reported £m	Adjusting items £m	Adjusted £m
Combustible	23,001	+4.2%	(50)	(59)	22,892	+4.6%	22,072	(180)	21,892
Vapour	401	+26.1%	–	(9)	392	+23.4%	318	–	318
THP	728	+28.9%	–	(35)	693	+22.7%	565	–	565
Modern Oral	126	+267%	–	3	129	+273%	34	–	34
New Categories	1,255	+36.9%	–	(41)	1,214	+32.4%	917	–	917
Traditional Oral	1,081	+15.0%	–	(45)	1,036	+10.2%	941	–	941
Other	540	-4.0%	–	1	541	-3.8%	562	–	562
Revenue	25,877	+5.7%	(50)	(144)	25,683	+5.6%	24,492	(180)	24,312

Other Information

Non-GAAP Measures
Continued

Adjusted Revenue From the Strategic Portfolio, at Constant Rates of Exchange

Definition – revenue before the impact of adjusting items and at the prior year's prevailing exchange rate, derived from Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US), Natural American Spirit (US), the Group's New Category portfolio and certain brands within Traditional Oral.

To supplement BAT's revenue presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews adjusted revenue from the Strategic Portfolio (at constant rates of exchange) to evaluate the underlying business performance of the Group reflecting the focus of the Group's investment activity. The Group's Management Board defines adjusted revenue from the Strategic Portfolio, at constant rates of exchange, as revenue before the impact of adjusting items and translated to the Group's reporting currency at the prior periods prevailing exchange rate, derived from the Group's Strategic Combustible portfolio (Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US), Natural American Spirit (US)), the Group's New Category portfolio (being vapour, THP and Modern Oral) and certain brands within Traditional Oral (particularly Grizzly).

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

Reconciliation of revenue to adjusted revenue from the Strategic Portfolio at constant rates of exchange – 2020-2019

	2020 £m	Adjusting items £m	Impact of exchange £m	Adjusted at constant 2020 £m	Adjusted at constant vs 2019 %	2019 £m	Adjusting items £m	Adjusted 2019 £m
Strategic Portfolio comprises:								
Combustible portfolio	**16,992**	**–**	**559**	**17,551**	**+6.3%**	16,515	–	16,515
New Categories products								
Vapour	**611**	**–**	**4**	**615**	**+53.4%**	401	–	401
THP	**634**	**–**	**2**	**636**	**-12.7%**	728	–	728
Modern Oral	**198**	**–**	**–**	**198**	**+57.1%**	126	–	126
New Categories	**1,443**	**–**	**6**	**1,449**	**+15.4%**	1,255	–	1,255
Traditional Oral	**1,100**	**–**	**6**	**1,106**	**+8.1%**	1,023	–	1,023
Total New Categories and Traditional Oral	**2,543**	**–**	**12**	**2,555**	**+12.2%**	2,278	–	2,278
Strategic Portfolio	**19,535**	**–**	**571**	**20,106**	**+7.0%**	18,793	–	18,793
Non-strategic	**6,241**	**–**	**323**	**6,564**	**-6.7%**	7,084	(50)	7,034
Revenue	**25,776**	**–**	**894**	**26,670**	**+3.3%**	25,877	(50)	25,827

Reconciliation of revenue to adjusted revenue from the Strategic Portfolio at constant rates of exchange – 2019-2018

	2019 £m	Adjusting items £m	Impact of exchange £m	Adjusted at constant 2019 £m	Adjusted at constant vs 2018 %	2018 £m	Adjusting items £m	Adjusted 2018 £m
Strategic Portfolio comprises:								
Combustible portfolio	16,515	–	(200)	16,315	+5.6%	15,457	–	15,457
New Categories products								
Vapour	401	–	(9)	392	+23.4%	318	–	318
THP	728	–	(35)	693	+22.7%	565	–	565
Modern Oral	126	–	3	129	+273.1%	34	–	34
New Categories	1,255	–	(41)	1,214	+32.4%	917	–	917
Traditional Oral	1,023	–	(43)	980	+11.0%	883	–	883
Total New Categories and Traditional Oral	2,278	–	(84)	2,194	+21.9%	1,800	–	1,800
Strategic Portfolio	18,793	–	(284)	18,509	+7.3%	17,257	–	17,257
Non-strategic	7,084	(50)	140	7,174	+1.7%	7,235	(180)	7,055
Revenue	25,877	(50)	(144)	25,683	+5.6%	24,492	(180)	24,312

Adjusted Profit From Operations and Adjusted Operating Margin

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

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

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

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

The table below reconciles the Group's profit from operations to adjusted profit from operations, and to adjusted profit from operations at constant rates based on a re-translation of adjusted profit from operations for each year, at the previous year's exchange rates, and presents adjusted operating margin for the periods presented. Refer to note 2 in the Notes on the Accounts for further discussion of the segmental results and for the reconciliation of adjusted profit from operations at current and constant rates of exchange to segmental profit from operations and to Group profit for the years ended 31 December 2020, 2019 and 2018.

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Profit from operations	**9,962**	9,016	9,313	6,412	4,655
Add:					
Restructuring and integration costs	**408**	565	363	600	603
Amortisation and impairment of trademarks and similar intangibles	**339**	481	377	383	149
Impairment of goodwill	**209**	194	–	–	–
(Income)/Charge in respect of an excise tax dispute in Russia	**(40)**	202	–	–	–
Charge in respect of Canada class action	**–**	436	–	–	–
Fair value movement in stock on acquisition	**–**	–	–	465	–
Fixed asset impairment (hyperinflation)	**–**	–	110	–	–
Fox River	**–**	–	–	–	20
Charge in respect of MSA liabilities related to brands sold to a third party	**400**	–	–	–	–
Other, including litigation	**87**	236	184	69	53
Adjusted profit from operations	**11,365**	11,130	10,347	7,929	5,480
Operating margin	**38.6%**	34.8%	38.0%	32.8%	32.9%
Adjusted operating margin*	**44.1%**	43.1%	42.6%	41.1%	38.8%
Impact of translational foreign exchange	**296**	(98)	577	(324)	(283)
2020 adjusted profit from operations re-translated at 2019 exchange rates	**11,661**				
2019 adjusted profit from operations re-translated at 2018 exchange rates		11,032			
2018 adjusted profit from operations re-translated at 2017 exchange rates			10,924		
2017 adjusted profit from operations re-translated at 2016 exchange rates				7,605	
2016 adjusted profit from operations re-translated at 2015 exchange rates					5,197
Change in adjusted profit from operations at prior year's exchange rates (constant rates)	**+4.8%**	+6.6%	+37.8%	+38.8%	+4.1%

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

Other Information

Non-GAAP Measures
Continued

Adjusted Share of Post-Tax Results of Associates and Joint Ventures

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

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

The most directly comparable IFRS measure to adjusted share of post-tax results of associates and joint ventures is share of post-tax results of associates and joint ventures.

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Group's share of post tax results of associates and joint ventures	**455**	498	419	24,209	2,227
Issue of shares and changes in shareholding	**(17)**	(25)	(22)	(29)	(11)
Gain on deemed divestment of Reynolds American Inc.	**–**	–	–	(23,288)	–
Gain on disposal of assets	**–**	–	–	–	(941)
Other	**4**	–	(10)	120	52
Adjusted Group's share of post tax results of associates and joint ventures	**442**	473	387	1,012	1,327

Underlying Tax Rate

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

BAT management monitors the Group's underlying tax rate to assess the tax rate applicable to the Group's underlying operations, excluding the Group's share of post-tax results of associates and joint ventures in BAT's pre-tax results and adjusting items (as defined in note 1 in the Notes on the Accounts). Underlying tax rate is not a measure defined by IFRS. The table below provides the calculation of the Group's effective tax rate as determined in accordance with IFRS with underlying tax rate for the periods presented. The Group's Management Board believes that this additional measure is useful to investors, and is used by BAT management as described above, because it excludes the contribution from the Group's associates, recognised after tax but within the Group's pre-tax profits, and adjusting items, thereby enhancing users' understanding of underlying business performance.

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

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Profit before taxation	**8,672**	7,912	8,351	29,527	6,245
Less: Share of post-tax results of associates and joint ventures	**(455)**	(498)	(419)	(24,209)	(2,227)
Adjusting items within profit from operations	**1,403**	2,114	1,034	1,517	825
Adjusting items within finance costs/(income)	**153**	80	(4)	205	108
Adjusted profit before taxation, excluding associates and joint ventures	**9,773**	9,608	8,962	7,040	4,951
Taxation on ordinary activities	**(2,108)**	(2,063)	(2,141)	8,129	(1,406)
Adjusting items in taxation	**(35)**	(65)	(24)	(9,766)	61
Taxation on adjusting items	**(287)**	(373)	(199)	(454)	(128)
Adjusted taxation	**(2,430)**	(2,501)	(2,364)	(2,091)	(1,473)
Effective tax rate	**+24.3%**	26.1%	25.6%	(27.5%)	22.5%
Underlying tax rate	**+24.9%**	26.0%	26.4%	29.7%	29.8%

Adjusted Diluted Earnings Per Share

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

BAT management monitors adjusted diluted earnings per share, a measure which removes the impact of adjusting items, (as defined in note 1 in the Notes on the Accounts), from diluted earnings per share. Adjusted diluted earnings per share is used by management within the Group's incentive schemes, as reported within the Remuneration Report beginning on page 117 and reported in note 7 in the Notes on the Accounts. The Group's Management Board believes that this additional measure is useful to investors, and is used by BAT management as described above, as an indicator of diluted earnings per share before adjusting items. Adjusted diluted earnings per share has limitations as an analytical tool and should not be used in isolation from, or as a substitute for, diluted earnings per share as determined in accordance with IFRS. The most directly comparable IFRS measure to adjusted diluted earnings per share is diluted earnings per share and a reconciliation is provided in note 7 in the Notes on the Accounts. The definition of adjusting items is provided in note 1 in the Notes on the Accounts.

Operating Cash Flow Conversion Ratio

Definition – net cash generated from operating activities before the impact of adjusting items and dividends from associates and excluding trading loans to third parties, pension short fall funding, taxes paid and net capital expenditure, as a proportion of adjusted profit from operations.

®Operating cash flow conversion ratio is a measure of operating cash flow which is used within the Group's incentive schemes as reported within the Remuneration Report beginning on page 117. Operating cash flow conversion ratio has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to measures of liquidity or financial position as determined in accordance with IFRS. Operating cash flow conversion ratio is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's results of operations or cash flows as determined in accordance with IFRS. The table below shows the computation of operating cash flow conversion ratio for the periods presented.

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Net cash generated from operating activities	**9,786**	8,996	10,295	5,347	4,610
Cash related to adjusting items	**732**	564	601	685	711
Dividends from associates	**(351)**	(252)	(214)	(903)	(962)
Tax paid	**2,132**	2,204	1,891	1,675	1,245
Net capital expenditure	**(605)**	(774)	(845)	(767)	(559)
Pension fund shortfall funding	**–**	–	75	156	78
Trading loans to third parties	**9**	4	(93)	101	–
Other	**1**	–	2	(9)	(1)
Operating cash flow	**11,704**	10,742	11,712	6,285	5,122
Exclude operating cash flow from Reynolds American Inc. post acquisition (2017 only)	**–**	–	–	(628)	–
Operating cash flow ex Reynolds American Inc. (for LTIP incentive scheme – 2017 only)	**11,704**	10,742	11,712	5,657	5,122
Adjusted profit from operations	**11,365**	11,130	10,347	7,929	5,480
Exclude adjusted profit from operations from Reynolds American Inc. post acquisition	**–**	–	–	(1,928)	–
Adjusted profit from operations ex Reynolds American Inc. (for LTIP incentive scheme – 2017 only)	**11,365**	11,130	10,347	6,001	5,480
Operating cash flow conversion ratio	**103%**	97%	113%	79%	93%
Operating cash flow conversion ratio – for LTIP	**103%**	97%	113%	94%	93%
Cash conversion ratio*	**98%**	100%	111%	83%	99%

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

In 2017, the Group brought forward the MSA payment (£1,397 million) which impacted operating cash conversion in that year. To provide a view of the operating cash conversion, without such a distortion, the Group has provided the below computation for the periods presented.

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Operating cash flow	**11,704**	10,742	11,712	6,285	5,122
Normalisation of MSA payment	**–**	–	(1,397)	1,397	–
Operating cash flow (normalised for MSA timing)	**11,704**	10,742	10,315	7,682	5,122
Adjusted profit from operations	**11,365**	11,130	10,347	7,929	5,480
Operating cash flow conversion (normalised for MSA timing)	**103%**	97%	100%	97%	93%

Other Information

Non-GAAP Measures
Continued

@Free Cash Flow – Before and After Dividends Paid to Shareholders

Definition – net cash generated from operating activities before the impact of trading loans provided to a third party and after dividends paid to non-controlling interests, net interest paid and net capital expenditure. This measure is presented before and after dividends paid to shareholders.

To supplement BAT's net cash generated from operating activities as presented in accordance with IFRS, the Group's Management Board, as the chief operating decision-maker, reviews free cash flow (before and after dividends paid to shareholders) generated by the Group to evaluate the underlying business performance of the Group and its geographic segments. This is deemed by the Group Management Board to reflect the Group's ability to pay dividends (free cash flow before dividends paid to shareholders) or invest in other investing activities (free cash flow after dividends paid to shareholders).

Free cash flow (before dividends paid to shareholders) and free cash flow (after dividends paid to shareholders) are not measures defined by IFRS. The most directly comparable IFRS measure to free cash flow (before and after dividends paid to shareholders) is net cash generated from operating activities. The Group's Management Board believes that this additional measure is useful to the users of the financial statements in helping them to see the level of cash generated by the Group prior to the payment of dividends or debt and prior to other investing activities. Free cash flow (before and after dividends paid to shareholders) has limitations as an analytical tool. They are not a presentation made in accordance with IFRS and should not be considered as an alternative to net cash generated from operating activities as determined in accordance with IFRS. Free cash flow (before and after dividends paid to shareholders) are not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. The table below shows the reconciliation from net cash generated from operating activities to free cash flow (before and after dividends paid to shareholders) for the periods presented.

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Net cash generated from operating activities	**9,786**	8,996	10,295	5,347	4,610
Dividends paid to non-controlling interests	**(136)**	(157)	(142)	(167)	(147)
Net interest paid	**(1,759)**	(1,550)	(1,533)	(1,004)	(537)
Net capital expenditure	**(605)**	(774)	(845)	(767)	(559)
Proceeds from associates' share buy-backs	**–**	–	–	–	23
Trading loans to third parties	**9**	4	(93)	101	–
Other	**–**	–	2	(10)	(1)
Free cash flow (before dividends paid to shareholders)	**7,295**	6,519	7,684	3,500	3,389
Dividends paid to shareholders	**(4,745)**	(4,598)	(4,347)	(3,465)	(2,910)
Free cash flow (after dividends paid to shareholders)	**2,550**	1,921	3,337	35	479

Net Debt

Definition – total borrowings, including related derivatives, less cash and cash equivalents and current investments held at fair value.

The Group uses net debt to assess its financial capacity. Net debt is not a measure defined by IFRS. The most directly comparable IFRS measure to net debt is total borrowings. The Group's Management Board believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how business financing has changed over the year. Net debt has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to total borrowings or total liabilities determined in accordance with IFRS. Net debt is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. A reconciliation of borrowings to net debt is provided in note 19 in the Notes on the Accounts.

@The table below reconciles the movement in net debt during each financial year:

	For the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Opening net debt	**(42,574)**	(44,351)	(45,571)	(16,767)	(14,794)
Free cash flow (before dividends paid to shareholders)	**7,295**	6,519	7,684	3,500	3,389
Other cash items, including dividends paid to owners of the parent	**(4,955)**	(4,910)	(4,688)	(23,263)	(3,552)
Acquired net debt	**95**	–	1	(9,915)	–
Other non-cash movements	**(171)**	(98)	186	(394)	(126)
Adoption of IFRS 16	–	(607)	–	–	–
Impact of foreign exchange	**69**	873	(1,963)	1,268	(1,684)
Closing net debt	**(40,241)**	(42,574)	(44,351)	(45,571)	(16,767)

Adjusted Net Debt to Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA)

Definition – net debt excluding the impact of the revaluation of Reynolds American Inc. acquired debt arising as part of the purchase price allocation process, as a proportion of profit for the year (earnings) before net finance costs/income, taxation on ordinary activities, depreciation, amortisation, impairment costs, the Group's share of post-tax results of associates and joint ventures, and other adjusting items.

@ To supplement BAT's total borrowings as presented in accordance with IFRS, the Group's Management Board, as the chief operating decision- maker, reviews adjusted net debt to adjusted EBITDA to assess its level of net debt (excluding the impact of the purchase price allocation adjustment to Reynolds American Inc. acquired debt) in comparison to the underlying earnings generated by the Group to evaluate the underlying business performance of the Group and its geographic segments. This is deemed by the Group's Management Board to reflect the Group's ability to service and repay borrowings. This is also used within the Group's incentive schemes as reported within the Remuneration Report beginning on page 117.

For the purposes of this ratio, adjusted net debt is net debt, as discussed and reconciled on page 282, adjusted for the uplift arising on the Reynolds American Inc. debt as part of the purchase price allocation, as such an uplift in value is not reflective of the repayment value of the debt.

Adjusted EBITDA is not a measure defined by IFRS. The most directly comparable IFRS measure to adjusted EBITDA is profit for the year. The Group's Management Board believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. Adjusted EBITDA has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to profit from operations as determined in accordance with IFRS.

Adjusted net debt to adjusted EBITDA is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial position or liquidity as determined in accordance with IFRS. The table below reconciles both total borrowings to adjusted net debt and profit for the year to adjusted EBITDA for the periods presented.

	As of the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Borrowings (excluding lease liabilities)	**43,493**	44,787	47,495	49,428	19,469
Lease liabilities	**475**	579	14	22	26
Derivatives in respect of net debt	**(346)**	(143)	(378)	(523)	(509)
Cash and cash equivalents	**(3,139)**	(2,526)	(2,602)	(3,291)	(2,204)
Current investments held at fair value	**(242)**	(123)	(178)	(65)	(15)
Purchase price allocation adjustment to Reynolds American Inc. debt	**(790)**	(848)	(944)	(947)	–
Adjusted net debt	**39,451**	41,726	43,407	44,624	16,767
Profit for the year	**6,564**	5,849	6,210	37,656	4,839
Taxation on ordinary activities	**2,108**	2,063	2,141	(8,129)	1,406
Net finance costs/(income)	**1,745**	1,602	1,381	1,094	637
Depreciation, amortisation and impairment costs	**1,450**	1,512	1,038	902	607
Share of post-tax results of associates and joint ventures	**(455)**	(498)	(419)	(24,209)	(2,227)
Other adjusting items (not related to depreciation, amortisation and impairment costs)	**704**	1,376	499	1,049	612
Adjusted EBITDA	**12,116**	11,904	10,850	8,363	5,874
Adjusted net debt to adjusted EBITDA	**3.3x**	3.5x	4.0x	5.3x	2.9x
Impact of translational foreign exchange on adjusted net debt	**46**	854	(1,694)		
Adjusted net debt at constant rates of exchange	**39,497**	42,580	41,713		
Impact of translational foreign exchange on adjusted EBITDA	**323**	(102)	590		
Adjusted EBITDA at constant rates of exchange	**12,439**	11,802	11,440		
Adjusted net debt to adjusted EBITDA at constant rates of exchange	**3.2x**	3.6x	3.6x		

Other Information

Non-GAAP Measures
Continued

@Adjusted Return on Capital Employed

Definition – Profit from operations, excluding adjusting items and including dividends from associates and joint ventures, as a proportion of average total assets less current liabilities in the period.

The Group provides adjusted return on capital employed (adjusted ROCE) to provide users of the financial statements with an indication of the financial return (by reference to the financial performance in a given period), with the assets less current liabilities (defined as Capital Employed) in the period.

Adjusted ROCE is not a measure defined by IFRS. The most directly comparable IFRS measure to adjusted ROCE is profit from operations as a proportion of total assets less current liabilities. The Group's Management Board believes that this additional measure is useful to the users of the financial statements in helping them to see how the Group's capital employed has generated a return in any given period, by reference to Group's performance as reported via the income statement. Adjusted ROCE has limitations as an analytical tool. It is not a presentation made in accordance with IFRS and should not be considered as an alternative to other measures that may be derived from the financial statements prepared in accordance with IFRS.

Adjusted ROCE is not necessarily comparable to similarly titled measures used by other companies. As a result, you should not consider this measure in isolation from, or as a substitute analysis for, the Group's measures of financial performance or return as determined in accordance with IFRS. The table below reconciles profit from operations to adjusted profit from operations including dividends from associated and joint ventures and provides the constituent parts of average capital employed.

	As of the year ended 31 December (£m)				
	2020	2019	2018	2017	2016
Profit from operations	**9,962**	9,016	9,313	6,412	4,655
Adjusting items	**1,403**	2,114	1,034	1,517	825
Dividends received from associates and joint ventures	**351**	252	214	903	962
Adjusted profit from operations, inclusive of dividends from associates and joint ventures	**11,716**	11,382	10,561	8,832	6,442
Total Assets	**137,690**	141,005	146,342	141,054	39,773
Current Liabilities	**15,478**	18,823	16,329	15,605	11,856
Capital employed at balance sheet date	**122,212**	122,182	130,013	125,449	27,917
Average capital	**122,197**	126,099	127,731	76,683	25,213
Adjusted ROCE	**9.6%**	9.0%	8.3%	11.5%	25.6%

Results on a Constant Translational Currency Basis

Movements in foreign exchange rates have impacted the Group's financial results. The Group's Management Board reviews certain of its results, including adjusted revenue, adjusted revenue growth from New Categories, adjusted revenue growth from the strategic portfolio, adjusted profit from operations and adjusted diluted earnings per share, at constant rates of exchange. The Group calculates these financial measures at constant rates of exchange based on a re-translation, at prior year exchange rates, of the current year's results of the Group and, where applicable, its geographic segments. The Group does not adjust for the normal transactional gains and losses in profit from operations that are generated by exchange movements. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group's Management Board does believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the Group's operating performance on a local currency basis. Accordingly, the constant rates of exchange financial measures appearing in the discussion of the Group results of operations (beginning on page 64) should be read in conjunction with the information provided in note 2 in the Notes on the Accounts.

In 2020, 2019 and 2018, results were affected by translational exchange rate movements. In 2020, at the prevailing exchange rates, adjusted revenue declined by 0.4%, adjusted profit from operations increased by 2.1%, adjusted revenue from the strategic portfolio increased by 4.0% and adjusted revenue from New Categories increased by 14.9% versus 2019. At constant rates of exchange, adjusted revenue would have increased by 3.3%, adjusted profit from operations would have increased by 4.8%, adjusted revenue from the strategic portfolio would have increased by 7.0% and adjusted revenue from New Categories would have increased by 15.4%. This lower growth rate at prevailing exchange rates reflects the negative translational impact as a result on the relative strengthening of the pound sterling. In 2019, at the prevailing exchange rates, adjusted revenue increased by 6.2%, adjusted profit from operations increased by 7.6%, adjusted revenue from the strategic portfolio increased by 8.9% and adjusted revenue from New Categories increased by 36.9% versus 2018. At constant rates of exchange, adjusted revenue would have increased by 5.6%, adjusted profit from operations would have increased by 6.6%, adjusted revenue from the strategic portfolio would have increased by 7.3% and adjusted revenue from New Categories would have increased by 32.4%. These higher rates at prevailing exchange rates reflects the translational benefit as a result of the relative weakness of the pound sterling.

In 2020, 2019 and 2018, adjusted diluted earnings per share was affected by translational exchange rate movements. In 2020, the adjusted diluted earnings per share of 331.7p, an increase of 2.4%, would, when translated at 2019 exchange rates, have been 341.4p, an increase of 5.5%. This lower growth rate, in 2020, at prevailing exchange rates, reflects the negative translational impact as a result of the relative strength of the pound sterling. In 2019, the adjusted diluted earnings per share of 323.8p, an increase of 9.1%, would, when translated at 2018 exchange rates, have been 321.6p, an increase of 8.4%. This higher growth rate, in 2019, at prevailing exchange rates, reflects the translational benefit as a result of the relative weakness of the pound sterling.

Employees

As at 31 December 2020, the number of persons employed by the Group was 55,329 worldwide. The Group believes that its labour relations are good.

Certain temporary employees are included in the below figures. The number of such temporary employees is approximately 400 in 2020 and largely relates to seasonal workers within operations.

The following table sets forth the number of Group employees by region in 2020, 2019 and 2018.

	As of 31 December		
Region (number of employees worldwide)	**2020**	2019	2018
US	**4,921**	5,020	5,019
APME	**10,750**	13,465	15,077
AmSSA	**15,873**	16,862	17,372
ENA[1]	**23,785**	24,642	26,409
Total employees	**55,329**	59,989	63,877

Note:

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

Other Information

Additional Disclosures on Liquidity and Capital Resources

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

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

In 2020, 2019 and 2018, all contractual borrowing covenants were met and none are expected to inhibit the Group's operations or funding plans. In 2020, the Group's financial covenant (interest cover) was removed from the terms of the revolving credit facility and syndicated term loan.

Capital Expenditure

Gross capital expenditures include purchases of property, plant and equipment and purchases of certain intangibles. The Group's gross capital expenditures for 2020, 2019 and 2018 were £648 million, £807 million and £883 million, respectively, representing investment in the Group's global operational infrastructure (including, but not limited to, the manufacturing network, trade marketing and IT systems). The Group expects gross capital expenditures in 2021 of approximately £700 million, representing the ongoing investment in the Group's operational infrastructure, including the continued investment into New Categories. This is expected to be funded by the Group's cash flows and existing facilities.

Hedging Instruments

As discussed in note 22 in the Notes on the Accounts, the Group hedges its exposure to interest rate movements and currency movements. BAT's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. A certain number of forward foreign currency contracts were used to manage the currency profile of external borrowings. Interest rate swaps have been used to manage the interest rate profile of external borrowings, while cross-currency swaps have been used to manage the currency profile of external borrowings.

Capital Resources

Policy

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to ensure that there is the maximum mobilisation of cash within the Group. The key objectives of treasury in respect of cash and cash equivalents are to protect the principal value of the Group's cash and cash equivalents, to concentrate cash at the centre to minimise the required long-term debt issuance and to optimise the yield earned. The amount of debt the Group issues is determined by forecasting the net debt requirement after the mobilisation of cash. Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms or through local borrowings by the subsidiaries in appropriate currencies. All contractual borrowing covenants have been met and none are expected to inhibit the Group's operations or funding plans.

Borrowings

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

				As of 31 December (£m)[1]		
	Currency	Maturity dates	Interest rates at 31 December 2020	**2020**	2019	2018
Eurobonds[2]	Euro	2021 to 2045	0.9% to 4.9%	**8,875**	7,591	8,717
	Euro	2021	3m EURIBOR +50bps	**984**	931	986
	UK pound sterling	2021 to 2055	1.8% to 7.3%	**4,590**	4,161	4,671
	US dollar	2019	Not applicable	**–**	–	512
	Swiss franc	2021 to 2026	0.6% to 1.4%	**540**	510	523
Bonds issued pursuant to rules under the US Securities Act (as amended)[2]	US dollar	2022 to 2050	1.7% to 8.1%	**25,461**	23,805	25,428
	US dollar	2022	USD 3m LIBOR + 88bps	**548**	1,325	1,381
Commercial Paper[2]				**–**	1,056	536
Other loans				**1,929**	4,624	3,859
Bank loans				**317**	293	608
Bank overdrafts				**249**	491	274
Finance leases				**475**	579	14
Total				**43,968**	45,366	47,509

Notes:

1. The financial data above has been extracted from the Group's consolidated financial statements.
2. The issuers of these debt securities are B.A.T. International Finance p.l.c., B.A.T Capital Corporation, Reynolds American Inc., or R.J. Reynolds Tobacco Company, as applicable. British American Tobacco p.l.c. is the ultimate guarantor in each case.

Off-Balance Sheet Arrangements and Contractual Obligations

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

The Group's undiscounted contractual obligations as of 31 December 2020 were as follows:

	Payments due by period (£m)				
	Total	Less than 1 Year	1–3 Years	3–5 Years	Thereafter
Long-term notes and other borrowings, exclusive of interest[1]	**42,994**	3,405	6,467	7,880	25,242
Interest payments related to long-term notes[1]	**499**	499	–	–	–
Lease liabilities	**475**	137	169	82	87
Purchase obligations[2]	**850**	773	67	10	–
Total cash obligations	**44,818**	4,814	6,703	7,972	25,329

Notes:

1. For more information about the Group's long-term debt, see note 19 in the Notes on the Accounts.
2. Purchase obligations primarily include commitments to acquire tobacco leaf. Purchase orders for the purchase of other raw materials and other goods and services are not included in the table, as the Group's operating subsidiaries are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders typically represent authorisations to purchase rather than binding agreements.

The table above does not include any amounts that the Group may pay to fund its retirement benefit plans as the timing and amount of any such future funding are unknown and dependent on, among other things, the future performance of defined benefit pension plan assets, interest rate assumptions and other factors. The net retirement benefit scheme liabilities totalled £810 million as of 31 December 2020, which is net of pension assets of £12,576 million. The Group expects to be required to contribute £81 million to its defined benefit plans during 2021. See note 11 in the Notes on the Accounts for further information.

The above table also excludes any amounts in relation to service contracts which are disclosed in note 27 in the Notes on the Accounts.

Other Information

Summary of Group Risk Factors

The following is a summary of some of the risks and uncertainties, the occurrence of any one of which, alone or in combination with other events or circumstances, may materially adversely affect the Group's results of operations and financial condition. You should read this summary together with the 'Principal Group risks' section on pages 84 to 88 and the more detailed description of each risk factor contained below.

Business execution and supply chain risks

- Competition from illicit trade.
- Geopolitical tensions that have the potential to disrupt the Group's business in multiple markets.
- Disruption to the Group's data and information technology systems, including by cyber attack or the malicious manipulation or disclosure of confidential or sensitive information.
- Failure to meet current or future New Categories demand.
- Failure of a financial counterparty.
- Exposure to unavailability of, and price volatility, in raw materials and increased costs of employment.
- Failure to retain key personnel or to attract and retain skilled talent.
- Disruption to the supply chain and distribution channels.
- Failure to deliver digital innovation and drive digital transformation.
- Exposure to product contamination.
- Inability to obtain adequate supplies of tobacco leaf.
- Failure to successfully design, implement and sustain an integrated operating model.
- Failure to uphold the high standard of ESG management.
- Impact of a pandemic on the performance of the Group.

Legal, regulatory and compliance risks

- Exposure to increasingly stringent regulatory measures affecting the manufacture, packaging, sale and marketing of the Group's products.
- Adverse implications of proposed EU legislation on single-use plastics that will result in on-pack environmental warnings and financial implications relating to the Extended Producer Responsibility (EPR).
- Exposure to litigation on tobacco, nicotine, New Categories and other issues.
- Significant and/or unexpected increases or structural changes in tobacco and nicotine-related taxes.
- Failure to comply with health and safety and environmental laws.
- Exposure to unfavourable tax rulings.
- Unexpected legislative changes to corporate income tax laws.
- Exposure to potential liability under competition or antitrust laws.
- Failure to establish and maintain adequate controls and procedures to comply with applicable securities, corporate governance and compliance regulations.
- Loss of confidential information, including through manipulation of data by employees and system failure.
- Failure to comply with product regulations due to uncertainty surrounding the proper interpretation and application of those regulations.
- Failure to uphold high standards of corporate behaviour, including under anti-bribery and anti-corruption laws.
- Imposition of sanctions under sanctions regimes or similar international, regional or national measures.
- Loss or misuse of personal data through a failure to comply with the European General Data Protection Regulation, the UK Data Protection Act 2018, e-Privacy laws and other privacy legislation governing the processing of personal data.

Economic and financial risks

- Foreign exchange rate exposures.
- Inability to obtain price increases and exposure to risks from excessive price increases and value chain erosion.
- Effects of declining consumption of legitimate tobacco products and a tough competitive environment.
- Funding, liquidity and interest rate risks.
- Failure to achieve growth through mergers, acquisitions and joint ventures.
- Unforeseen underperformance in key global markets.
- Increases in net liabilities under the Group's retirement benefit schemes.
- Adverse consequences of the UK's exit from the EU.

Product pipeline, commercialisation and Intellectual Property risks

- Inability to predict consumers' changing behaviours and launch innovative products that offer adult tobacco and nicotine consumers meaningful value-added differentiation.
- Exposure to risks associated with intellectual property rights, including the failure to identify, protect and prevent infringement of the Group's intellectual property rights and potential infringement of, or the failure to retain licences to use, third-party intellectual property rights.

Other Information

Group Risk Factors

Business Execution and Supply Chain Risks

Risk: Competition from illicit trade.

Description

Illicit trade, illegal products and tobacco trafficking in the form of counterfeit products, smuggled genuine products (product diversion), and locally manufactured products, which do not comply with applicable regulations and/or in which applicable taxes are evaded, represent a significant and growing threat to the legitimate tobacco industry and New Categories products. Factors such as increasing levels of taxation, price increases, economic downturn, lack of law enforcement, appropriate penalties and weak border control are encouraging more adult tobacco and New Categories consumers to switch to illegal cheaper tobacco and New Categories products and are providing greater rewards for counterfeiters and smugglers. Regulatory restrictions such as plain packaging or graphic health warnings, display bans, flavour or ingredient restrictions and increased compliance costs further disadvantage legitimate industry participants by providing competitive advantages to illicit manufacturers and distributors of illicit tobacco and New Categories products.

Impact

Illicit trade can have an adverse effect on the Group's overall sales volume and may restrict the ability to increase selling prices. Illicit trade can also damage brand equity and reputation, which could undermine the Group's investment in Trade Marketing and Distribution. These factors in turn could reduce profits and have an adverse effect on the Group's results of operations and financial conditions. Further, counterfeit New Categories products and other illicit products could harm consumers, damaging goodwill and/or the category (with lower volumes and reduced profits), and potentially leading to misplaced claims against BAT and further regulation. In addition, as the Group has contractual and legislative obligations to prevent the diversion of our products into illicit channels, actual and perceived breaches of the obligations to prevent product diversion into illicit channels can lead to substantial fines in the forms of seizure payments and legislative penalties, as well as the risk of reputational damage from Group products being found in illicit channels.

Risk: Geopolitical tensions that have the potential to disrupt the Group's business in multiple markets.

Description

The Group's operations and financial condition are influenced by the economic and political situations in the markets and regions in which it has operations, which are often unpredictable and outside of its control. Some markets in which the Group operates face the threat of civil unrest and can be subject to frequent changes in regime. In others, there is a risk of terrorism, conflict, global health crisis, war, organised crime or other criminal activity. The Group is also exposed to economic policy changes in jurisdictions in which it operates. In addition, some markets maintain trade barriers or adopt policies that favour domestic producers, preventing or restricting the Group's sales.

Impact

Deterioration of socio-economic or political conditions could potentially lead to loss of life, restricted mobility, loss of assets and/or denial of access to BAT sites that reduce the Group's access to particular markets or may disrupt the Group's operations, such as supply chain, or manufacturing or distribution capabilities. Such disruption may result in increased costs due to the need for more complex supply chain arrangements, to build new facilities or to maintain inefficient facilities, or in a reduction of the Group's sales volume.

Risk: Disruption to the Group's data and information technology systems, including by cyber attack or the malicious manipulation or disclosure of confidential or sensitive information.

Description

The Group increasingly relies on data and information technology systems for its daily business operations, internal communications, controls, reporting and relations with customers and suppliers. Some of these systems are managed by third-party service providers. A significant disruption of the Group's systems, including those managed by third-party service providers, due to computer viruses, cyber threats, malicious intrusions or unintended or malicious behaviour by employees, contractors or services providers could affect the Group's communications and operations. Computer viruses and cyber attacks are becoming more sophisticated and coordinated. In addition, such disruption may compromise the integrity of information and result in the inappropriate disclosure of confidential information, or may lead to false or misleading statements being made about the Group.

Impact

Any disruption to technology systems related to the Group's operations could adversely affect its business and result in financial and reputational losses. Any delays or failure to rapidly detect or respond to attempts to gain unauthorised access to the Group's information technology systems through a cyber attack can lead to a loss of access to systems or information being corrupted or lost, resulting in significantly increased costs for remediation and reputational consequences. Any delay in response will also impact the outcome.

Security breaches and the loss of data or operational capacity may disrupt relationships throughout the supply chain, expose the Group or our consumers to a risk of loss or misuse of information, which could further expose the Group to liability, impact the Group's reputation and lead to increased costs.

The disclosure of trade secrets or other commercially sensitive information may provide competitors with a competitive advantage resulting in competitive or operational damage to the Group. The disclosure of confidential and sensitive information about the Group's employees, customers, consumers, suppliers or other third parties could compromise data privacy and expose the Group to liability.

Failure to effectively prevent or respond to a major breach or cyber attack may also subject the Group to significant reputational damage.

Business Execution and Supply Chain Risks continued

Risk: Failure to meet current or future New Categories demand.

Description

The New Categories supply chain is a multi-tiered and complex environment with reliance on multiple factors, such as third-party suppliers' ability to upscale production in order to meet demand while maintaining product quality, dependency on single suppliers at various points in the chain and the Group's ability to build adequate consumables production capacity in line with product demand. The geographical spread of suppliers and customers exposes the Group to political and economic conflicts such as Brexit and trade wars which may compromise the New Categories supply chain. Given the developing nature of the New Categories portfolio, there is also an enhanced risk that some products may not meet product quality and safety standards or may be subject to regulatory changes, leading to product recalls, which we have experienced in the past, or bans of certain ingredients or products. In addition, the New Categories supply chain may be vulnerable to changes in local legislation related to liquid nicotine that could increase import duties. Furthermore, the New Categories supply chain includes the development of sensitive trade secrets jointly with external design partners, which carries the risk of exposure of innovations to competitors.

Impact

Vulnerabilities in the New Categories supply chain may impact the Group's ability to maintain supply and meet the current and future demand requirements across the New Categories portfolio, potentially resulting in significant reputational harm and financial impact that may negatively affect the Group's results of operations and financial condition. Over-forecasting may also lead to write-off and negatively impact working capital. The design of New Categories devices may also prevent the scaling of commercial manufacturing, which will either restrict supply or increase the costs of production.

In addition, changes in local legislation related to liquid nicotine import duties may increase New Categories production costs, which may increase end market pricing. Furthermore, the exposure of sensitive trade secrets can lead to competitive disadvantages and further negatively impact the Group's results of operations and financial condition.

Risk: Failure of a financial counterparty.

Description

The Group relies on transactions with a variety of financial counterparties to manage the Group's business and financial risks. In the event that any of these counterparties fails, payments due from such counterparties, such as under hedging or insurance contracts, may not be recovered. In addition, failure of a transactional banking party may lead to the loss of cash balances and disruption to payment systems involving such counterparty.

Impact

The inability to recover payments due from one or more failed financial counterparties or the loss of cash balances may cause significant financial loss and have an adverse impact on the Group's results of operations, financial condition and financial risk profile. In addition, the loss of cash balances or a disruption to payment systems may cause disruption to the Group's ongoing operations and ability to pay its creditors and suppliers.

Risk: Exposure to unavailability of, and price volatility, in raw materials and increased costs of employment.

Description

The availability and price of various commodities required in the manufacture of the Group's products fluctuate. Raw materials and other inputs used in the Group's business, such as wood pulp and energy, are commodities that are subject to price volatility caused by numerous factors, including political influence, market fluctuations and natural disasters.

Similarly, the Group is exposed to the risk of an increase above inflation in employment costs, including due to governmental action to introduce or increase minimum wages. Employment and health care law changes may also increase the cost of provided health care and other employment benefits expenses.

Impact

Restricted availability and price volatility of commodities may result in supply shortages and unexpected increases in costs for raw materials and packaging for the Group's products, which may affect the Group's results of operations and financial condition.

Similarly, the Group's profitability may be affected by increases in overall employment costs.

The Group may not be able to increase prices to offset increased costs without suffering reduced sales volume and revenue. In the absence of compensating for increased costs through pricing, significant increases in raw material, packaging and employment costs above inflation will impact product margins, leading to lower profits and negatively affecting the Group's results of operations and financial condition.

Other Information

Group Risk Factors
Continued

Risk: Failure to retain key personnel or to attract and retain skilled talent.

Description

The Group relies on a number of highly experienced employees with detailed knowledge of the tobacco industry, other areas of focus for the Group and the Group's business. Similarly, the Group is dependent on its ability to identify, attract, develop and retain such qualified personnel in the future.

Furthermore, broader economic and ESG trends may impact the Group's ability to retain key employees and may increase competition for highly talented employees, potentially resulting in the loss of experienced employees.

Impact

If the Group is unable to retain its existing key employees or to attract and retain skilled talent in the future, critical positions may be left vacant, which could adversely impact the delivery of strategic objectives, which could ultimately impact the Group's results of operations and financial condition.

High voluntary employee turnover may also reduce organisational performance and productivity, which may have a further adverse impact on the Group's results of operations and financial condition.

Risk: Disruption to the supply chain and distribution channels.

Description

The Group has an increasingly global approach to managing its supply chain and distribution channels and is exposed to the risk of disruption to any aspect of the Group's supply chain, to suppliers' operations or to distribution channels, and the deterioration in the financial condition of a trading partner.

Such disruption may be caused by a cyber event, global health crisis, major fire, violent weather conditions or other natural disasters that affect manufacturing or other facilities of the Group's operating subsidiaries or those of their suppliers and distributors. In certain geographic areas where the Group operates, insurance coverage may not be obtainable on commercially reasonable terms, if at all. Coverage may be subject to limitations or the Group may be unable to recover damages from its insurers.

Disruption may also be caused by spread of infectious disease (such as the COVID-19 pandemic) or by a deterioration in labour or union relations, disputes or work stoppages or other labour-related developments within the Group or its suppliers and distributors.

In addition, the Group's operating subsidiaries may not be able to establish or maintain relationships on favourable commercial terms with their suppliers and distributors. In some markets, distribution of the Group's products is through third-party monopoly channels, often licensed by governments. The Group may be unable to renew these third-party supplier and distribution agreements on satisfactory terms for numerous reasons, including government regulations or ESG considerations.

Furthermore, there are some product categories for which the Group does not have spare production capacity or where substitution between different production plants is very difficult. Consolidation of global suppliers and certain distributors that control large geographies may reduce the Group's availability of alternatives and negatively impact the Group's negotiating power with key suppliers and distributors.

These risks are particularly relevant in jurisdictions where the Group's manufacturing facilities are more concentrated or for certain product categories where production is more centralised.

Impact

Any disruption to the Group's supply chain and distribution channels could have an adverse effect on the results of operations and financial conditions of the Group through failures to meet shipment demand, contract disputes, increased costs and loss of market share.

Business Execution and Supply Chain Risks continued

Risk: Failure to deliver digital innovation and drive digital transformation.

Description

The Group's strategy in areas of further growth and increasing profitability depends to a large extent on digital transformation and innovation. Digital transformation and innovation are key drivers of the Group's Ethos, which includes new and modern categories of products, increased interaction with customers, data-driven decision making and cost optimisation efforts driven by automated and modernised processes. Examples of the Group's ambitions that depend on digital transformation include:

- the ability to leverage our data assets to generate insights and foresights as a key driver of revenue growth;
- the expansion and flexibility of technology solutions to streamline the market realisation of new products and marketing campaigns; and
- the ability to build new solutions and the flexibility to react to market disruptions.

The Group must effectively implement new ways of working and supporting technologies to fully develop the digital agenda defined by the Board (e.g. digital channels, data and analytics, automation, cyber, etc.).

The Group may see stalled progress in the pace of digital transformation and hampered strategy goals realisation if the necessary information and digital technology is not ready to support the business implementation of Global Functional Transformations (e.g. direct relationship with consumers, integrated planning, demand forecasting and revenue growth management). The unavailability of the necessary digital technology may be due to missing technology capabilities, lack of scalability or poor data quality. Shortage of skills and ineffective ways of working may slow down the pace of the Group's digital transformation and hamper its value realisation processes. In addition, sub-optimal design of the global digital platforms implemented by BAT may lead to the fragmentation and under-utilisation of such platforms and slow down the Group's digital transformation.

Impact

The Group's multi-category strategy requires dealing with different consumer needs and behaviours as well as complying with various regulations, which increasingly require the expansion and flexibility of technology solutions. This may lead to the fragmentation and under-utilisation of existing and future technology solutions. Similarly, increased control and centralisation of the technology solutions and delivery mechanisms may slow down the effective delivery of the Group's digital transformation and innovation.

The Group's inability to adapt to the ever-changing digital space and fully exploit the value expected from digital transformation may have an adverse impact on its competitive edge, market share and profitability, and may prevent the Group from reaching its medium and long-term financial targets.

Risk: Exposure to product contamination.

Description

The Group may experience product contamination, whether by accident or deliberate malicious intent, during supply chain or manufacturing processes, or may otherwise fail to comply with the Group's quality standards. The Group may also receive threats of malicious tampering.

Impact

Product contamination or threats of contamination may expose the Group to significant costs associated with recalling products from the market or temporarily ceasing production. In addition, adult tobacco consumers may lose confidence in the specific brand affected by the contamination, resulting in reputational damage and a loss of sales volume and market share. The Group could be subject to liability and costs associated with civil and criminal actions as well as regulatory sanctions brought in connection with a contamination of the Group's products. Each of these results may in turn have an adverse effect on the Group's results of operations and financial condition.

Risk: Inability to obtain adequate supplies of tobacco leaf.

Description

The Group purchases significant volumes of packed leaf each year. Tobacco leaf supplies are impacted by a variety of factors, including weather conditions, drought, flood and other natural disasters, growing conditions, diseases causing crop failure, climate change and local planting decisions. Tobacco production in certain countries is also subject to a variety of controls, including regulation affecting farming and production control programmes, and competition for land use from other agriculture products. Such controls and competition can further constrain the production of tobacco leaf, raising prices and reducing supply.

Human rights issues may arise in connection with our tobacco leaf supply chain. Due to the large number of casual and temporary workers, the use of family labour in small-scale farming and high levels of rural poverty, the agricultural sector as a whole is vulnerable to human rights issues. The Group recognises that child labour is a risk to our tobacco leaf supply chain.

Impact

Restricted availability of tobacco leaf may impact the quality of the Group's products to a level that may be perceptible by consumers and may impact the Group's ability to deliver on consumer needs. Accordingly, the reduction of tobacco leaf supply may impact supply and demand of the Group's products and have a negative impact on results of operations. The Group's commitment to ESG may result in higher tobacco leaf prices. Higher tobacco leaf prices may also increase the Group's costs for raw materials and have an adverse effect on its results of operations and financial condition.

Other Information

Group Risk Factors
Continued

Risk: Failure to successfully design, implement and sustain an integrated operating model.

Description

The Group aims to improve profitability and productivity through supply chain improvements and the implementation of an integrated operating model and organisational structure, including standardisation of processes, centralised back-office services and a common IT platform. The Group undertakes transformation initiatives periodically which aim to simplify the organisation and facilitate growth. The Group's efforts to achieve these goals are driven and enabled through use of our TaO (central SAP ERP system) global template - a standardised process used by all BAT entities globally with the use of a central SAP instance common for BAT subsidiaries (excluding Reynolds American Inc. and its subsidiaries). These processes include, among others, core back-office global processes, procurement, warehouse management, accounting and controlling.

Impact

Failure by the Group to successfully design, implement and sustain the integrated operating model, organisational structure and transformation initiatives could lead to the failure to realise anticipated benefits, increased costs, disruption to operations, decreased trading performance, disgruntled employees, loss of institutional knowledge and reduced market share. These results could in turn reduce profitability and funds available for investment by the Group in long-term growth opportunities. Lack of adherence to the TaO template, as well as template degradation over time, may result in the failure to maintain achieved productivity gains and capture additional productivity gains which may in turn have an adverse effect on the Group's results of operations and financial condition.

Risk: Failure to uphold the high standard of ESG management.

Description

Stakeholder and shareholder expectations of Group's ESG performance are continually evolving. The Group may fail to have the appropriate internal standards, strategic plans and governance, monitoring and reporting mechanisms in place to ensure it can identify emerging issues, meet external expectations and align with recognised international standards.

Impact

Failure to uphold high standards of ESG management could seriously impact Group reputation and reduce investor confidence. In addition, poor performance across any aspect of ESG, such as a failure to address climate change or human rights impacts across the Group's business and supply chain, could result in increased regulation, difficulty in attracting and retaining talent, criminal or civil prosecution, or decreases in consumer demand for our products.

Risk: Impact of a pandemic on the performance of the Group.

Description

The Group continues to closely monitor the development and disruption of the present coronavirus (the "COVID-19 pandemic") and second and further waves seen in some countries across the Group. The consequences of COVID-19 may include significant logistical challenges for staff and their ability to perform their duties, potential loss of lives or significant level of illness in the workforce, inability to deliver revenue stream and market share targets impacting profits and cash flows, disruption to supply chain and third parties unable to deliver contractual goods and services. In addition, some countries across the Group have adopted regulations restricting the ability to manufacture, distribute, market and sell products.

Impact

The COVID-19 pandemic on the Group's results of operations and financial condition is uncertain and cannot be predicted as the pandemic evolves.

The long-term impacts of the COVID-19 pandemic to the Group's business will depend on a range of factors which we are not able to accurately predict, including the duration and scope of the pandemic, the geographies impacted, the impact of the pandemic on economic activity and the nature and severity of measures adopted by governments. These factors include, but are not limited to:

- Reductions or volatility in consumer demand for one or more of our products due to illness, retail closures, quarantine or other travel restrictions, health consciousness (quitting use of tobacco and nicotine products), government restrictions, the deterioration of socio-economic conditions, economic hardship and customer-downtrading (switching to a cheaper brand), which may impact the Group's market share.
- Disruptions to the Group's operations, such as its supply chain, or manufacturing or distribution capabilities, which may result in increased costs due to the need for more complex supply chain arrangements, to expand existing facilities or to maintain inefficient facilities, a reduction of the Group's sales volumes or an increase in bad debts from customers.
- Disruption to the Group's operations resulting from a significant number of the Group's employees, including employees performing key functions, working remotely for extended periods of time or becoming ill, which may reduce the employees' efficiency and productivity and cause product development delays, hamper new product innovation and have other unforeseen adverse effects on the Group's business.
- Significant volatility in financial markets (including exchange rate volatility) and measures adopted by governments and central banks that further restrict liquidity, which may limit the Group's access to funds, lead to shortages of cash and cash equivalents needed to operate the Group's business, and impact the Group's ability to refinance its existing debt.
- Regulations restricting the ability to manufacture, distribute, market and sell products, and potentially increasing illicit trade.
- Governments seeking to increase revenues through increased corporate taxes and excise in combustible and/or New Category products, increasing the cost and prices of our products - which could reduce volumes and margins, and/or increase illicit trade.

All of these factors may have material adverse effects on the Group's results of operations and financial condition.

Legal, Regulatory and Compliance Risks

Risk: Exposure to increasingly stringent regulatory measures affecting the manufacture, packaging, sale and marketing of the Group's products.

Description

Tobacco control measures are in place in nearly all markets in which we operate. Such restrictions are introduced by regulations and/or voluntary agreements. Most tobacco control measures can be categorised as follows:

- Place: including regulations restricting smoking in private and public spaces (e.g., public place smoking bans, including restaurants and bars);
- Product: including regulations on the use of and/or testing for ingredients, product design and attributes (e.g., ceilings regarding tar, nicotine and carbon monoxide yields, as well as restrictions on flavours, including menthol); product safety regulations (e.g., reduced cigarette ignition propensity standards); and regulatory product disclosure requirements (e.g., ingredients and emissions reporting);
- Packaging and labelling: including regulations on health warnings and other government-mandated messages (e.g., in respect of content, positioning, size and rotation); restrictions on the use of certain descriptors and brand names; requirements on pack shape, size, weight and colour; and mandatory plain packaging;
- Sponsorship, promotion, advertising and marketing: including partial or total bans on advertising, marketing, promotions and sponsorship; restrictions on brand sharing and brand stretching (i.e., using tobacco branding on non-tobacco products); restrictive regulatory measures or principles (including our International Marketing Principles) on the marketing and sale of tobacco products to consumers such as age verification measures;
- Purchase: including regulations on where the products are sold, such as type of outlet (e.g., supermarkets and vending machines) and how they are sold (e.g., above the counter or under the counter); and
- Price: including regulations that have implications on the prices that manufacturers can charge for their tobacco products (e.g., excise taxes and minimum prices).

The Group believes that the introduction of further regulation on tobacco control is expected over the medium term in many of the Group's markets, e.g. in the US following the change of administration and other results in the 2020 elections. The actions of competitors contrary to the regulations applicable to certain markets, may cause reputational harm to the industry as a whole and may result in additional regulation or bans on certain products.

In addition, the Group may fail to implement the right level of control measures or to maintain adequate standards of compliance with the regulatory measures affecting the manufacture, packaging, sale and marketing of the Group's products. For example, the Group's marketing activities may fail to comply with the relevant law and regulations or with the Group's International Marketing Principles. Insufficient information, instruction and training in the relevant areas and a lack of knowledge of the existence and/or requirements of relevant regulations, or a failure to monitor, assess and implement the requirements of new or modified regulation, may increase these risks.

Traditional Tobacco Products

Bans or restrictions on the sale of flavoured tobacco products and menthol have been introduced, and may be introduced in the future, at a municipal, state, national or international level. Further, various national or international regulatory regimes may seek to require the reduction of nicotine levels in tobacco products. With respect to tobacco and combustible products, many of the measures outlined in the FCTC have been or are in the process of being implemented through national legislation in many markets in which the Group operates, including recommendations for plain packaging and flavour bans with menthol bans in effect in the European Union since 20 May 2020. In November 2018, the US Food and Drug Administration ("FDA") announced the acceleration of proposed rulemaking to seek a ban on menthol in combustible tobacco products. Additionally, in March 2018, the FDA published its ANPRM titled "Tobacco Product Standard for Nicotine Level of Combusted Cigarettes" and invited interested parties to submit comments on, among other issues, maximum nicotine limits and whether any maximum nicotine level should apply to combustible tobacco products.

In the US, manufacturers of all tobacco products deemed to be under the authority of the FDA as of 2016 (which includes vapour and Modern Oral products) must submit information to the FDA seeking formal marketing authorisation of such products. Several countries, including France, Belgium and Pakistan, have sought or are seeking to prohibit certain brands/brand variants or messaging on cigarette packaging that promotes a brand or usage. Finally, the FCTC COP9 and the EU Tobacco Product Directive 2, post-implementation review which is currently ongoing, are likely to result in further regulation for New Categories and traditional tobacco products.

New Categories

With respect to New Categories, although a common framework for regulation and taxation has yet to emerge, the manufacture, sale, packaging and advertising of such products are increasingly being regulated. In fact, some regulators have applied or are considering applying combustible tobacco products' restrictive regulatory framework to New Categories, such as public place vaping bans or plain packaging. Some jurisdictions have banned or are considering banning New Categories altogether.

Following reports of individuals experiencing acute respiratory injury in suspected association with vaping certain e-liquids (EVALI) and several allegations regarding vaping youth usage in the USA, regulators at the local, municipal, state, national and international levels are increasingly applying or considering applying more restrictive regulations for vapour products. This approach is publicly supported by the World Health Organization (WHO) which continues to call on countries to ban or regulate novel nicotine products as tobacco. The USA, Europe and Canada are playing a leading role across all identified regulatory risks, including: bans on flavours, sales channel bans, advertising restrictions and nicotine limits, among others. With respect to Modern Oral, regulatory frameworks currently follow divergent approaches. In certain markets, in particular where there is an absence of adequate regulation, actions of irresponsible competitors may cause reputational harm to the category and result in outright bans or adverse regulation, as has been the case in Russia with allegations regarding youth usage. In markets where there is a likelihood of tobacco, pharmaceutical or food regulatory classification, the category can be at risk of severe regulation or total ban. The Group believes that Tobacco Heated Products are likely to be regulated as traditional tobacco products, driven by the decision of WHO's 7th Conference of Parties to the Framework Convention on Tobacco Control, including recommendations for plain packaging and flavour bans.

Please refer to pages 307 to 310 for details of tobacco and nicotine regulatory regimes under which the Group's businesses operate.

Other Information

Group Risk Factors
Continued

Risk: Exposure to increasingly stringent regulatory measures affecting the manufacture, packaging, sale and marketing of the Group's products continued.

Impact

Existing and future regulatory measures impacting both New Categories and/or traditional tobacco products could adversely affect volume, revenue and profits, as a result of: restrictions on the Group's ability to sell its products or brands, reduced margins due to increased operating costs, impediments to building or maintaining brand equity and restrictions on the Group's ability to deliver, market and sell existing or new products responding to consumers' preferences. In addition, new regulation could lead to greater complexity, as well as higher production and compliance costs.

As an example, through the acquisition of Reynolds American Inc., the Group acquired the Newport brand, the leading menthol cigarette brand in the US, the Group's largest single market. The sales of Newport, together with the other menthol brands of the Group's operating subsidiaries, represent a significant portion of the Group's total net sales. Any action by the FDA or any other governmental authority banning or materially restricting the use of menthol in tobacco products could have a significant negative impact on sales volumes, which would, in turn, have an adverse effect on the results of operations and financial position of the Group. Any action by the FDA or any government authority restricting the use of New Category products could also have an adverse effect on the operation and financial position of the Group.

As a reflection of the real or perceived impact of stricter regulation in our business, the Group's share price has also experienced, and could in the future experience, shocks upon the announcement or enactment of restrictive regulation. All these effects may have an adverse effect on the Group's results of operations and financial conditions.

Similarly, regulations on nicotine levels in cigarettes and in other products that are being considered in a number of jurisdictions in which the Group operates could have a negative impact on sales volumes of the Group's products in the relevant jurisdictions.

In addition, taking into account the significant number of regulations that may apply to the Group's businesses across the world, the Group is and may in the future be subject to claims for breach of such regulations. In particular, national authorities (such as the FDA), organisations or even individuals may allege that our marketing activities do not comply with the relevant laws and regulations, or with our International Marketing Principles. As such, the Group could be subject to liability and costs associated with civil and criminal actions as well as regulatory sanctions, fines and penalties brought in connection with these allegations. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims and allegations (including potential adverse impact on the treatment by the FDA of the Group's PMTAs in the US). Each of these results may in turn have an adverse effect on the Group's results of operations and financial condition.

Risk: Adverse implications of EU legislation on single-use plastics that will result in on-pack environmental warnings and financial implications relating to the Extended Producer Responsibility (EPR).

Description

The EU adopted a Directive on single-use plastics in July 2019 which, among other products, targets tobacco products with filters containing plastic. The Cellulose Acetate in our filters is defined as a single-use plastic under the Directive and, as such, the Directive will have an impact on the Group's cigarettes, filters for other tobacco products and consumables for THPs.

Under the Directive, the Group will be subject to Extended Producer Responsibility ("EPR") schemes, requiring the Group to cover the costs of collecting, transporting, treating and cleaning-up of filters containing plastic. The Directive also imposes on tobacco manufacturers the obligation to finance consumer awareness campaigns and to place environmental markings on packs of products with filters containing plastic.

Prior to the anticipated implementation deadline for EPR schemes on 5 January 2023, the European Commission is expected to issue guidelines on the criteria for the costs of cleaning up litter in Q1 2021. In addition, in December 2020 the European Commission adopted and published an Implementing Act harmonising specifications for required product markings with a compliance deadline of July 2021. When transposing the Directive into national law, EU member states could decide to expand its scope under their respective national laws, which may expose the Group to additional regulations and financial obligations. This is already the case in France, where EPR implementation has already occurred with an expansion of the scope to include non-plastic filters for RYO products, and Sweden, where the Swedish Ministry of Environment has proposed introducing an EPR scheme for snus pouches (with Modern Oral products also likely to be included) in addition to the one for cigarette filters. A consultation on this is taking place until 15 March 2021.

It is noted that there is a growing level of scrutiny on the use of single-use plastic across the world and a number of other markets in which the Group operates are considering ways to restrict (or ban) the use of filters made of plastic and/or introduce EPR schemes covering other plastic elements in our products beyond filters for traditional products and/or New Categories products.

Impact

The financial implications of existing and future EPR schemes will increase operating costs and may have an adverse effect on the Group's results of operations and financial condition. If significant space is appropriated on the packaging of some of the Group's products, this may also be an impediment to maintaining or building brand equity of the Group's products which may, in turn, have a negative impact on the Group's sales volume.

Legal, Regulatory and Compliance Risks continued

Risk: Exposure to litigation on tobacco, nicotine, New Categories and other issues.

Description

The Group is involved in litigation related to its tobacco and nicotine products, including legal, regulatory and patent actions, proceedings and claims, brought against it in a number of jurisdictions. Claims brought against the Group may be based on personal injury (both individual claims and class actions), economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments), patent infringement (please refer to the risk factor under "Product pipeline, commercialisation and Intellectual Property risks, Exposure to risks associated with intellectual property rights, including the failure to identify, protect and prevent infringement of the Group's intellectual property rights and potential infringement of, or the failure to retain licences to use, third-party intellectual property rights" below), negligence, strict tort liability, design defect, failure to warn, fraud, misrepresentation, deceptive/unfair trade practices, conspiracy, medical monitoring and violations of antitrust/racketeering laws. Certain actions, such as those in the US and Canada, involve claims in the tens or hundreds of billions of pounds sterling. The Group is also involved in proceedings that are not directly related to its tobacco and nicotine products, including proceedings based on environmental pollution claims.

Additional legal and regulatory actions, proceedings and claims may be brought against the Group in the future.

Impact

The Group's consolidated results of operations and financial position could be materially affected by any unfavourable outcome of certain pending or future litigation. The Group could be exposed to substantial liability, which may take the form of ongoing payments. Whether successful or not, the costs of the Group's involvement in litigation could materially increase due to costs associated with bringing proceedings and defending claims, which may also cause operational and strategic disruption by diverting management time away from business matters. Liabilities and costs in connection with litigation could result in bankruptcy of one or more Group entities which, in turn, could cause a material reduction in the Group's sales volume and profits. Any negative publicity resulting from these claims may also adversely affect the Group's reputation.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

Risk: Significant and/or unexpected increases or structural changes in tobacco and nicotine-related taxes.

Description

Tobacco and nicotine products are subject to high levels of taxation, including excise taxes, sales taxes, import duties and levies in most markets in which the Group operates. In many of these markets, taxes are generally increasing, but the rate of increase varies between markets and between different types of tobacco and nicotine products. Increases in, or the introduction of new, tobacco and nicotine-related taxes may be caused by a number of factors, including fiscal pressures, health policy objectives and increased lobbying pressure from anti-tobacco advocates.

With respect to New Categories, although a common framework for regulation and taxation has yet to emerge, the manufacture, sale, packaging and advertising of such products are increasingly being regulated and taxed.

Impact

Significant or unexpected increases in, or the introduction of new, tobacco-related taxes or minimum retail selling prices, changes in relative tax rates for different tobacco and nicotine products or adjustments to excise have in the past resulted, and may in the future result in, the need for the Group to absorb such tax increases due to limits in its ability to increase prices, an alteration in the sales mix in favour of value-for-money brands or products, or growth in illicit trade, each of which could impact pricing, sales volume and profit for the Group's products.

Risk: Failure to comply with health and safety and environmental laws.

Description

The Group is subject to a variety of laws, regulations and operational standards relating to health and safety and the environment. The Group may fail to assess certain risks and implement the right level of control measures or to maintain adequate standards of health and safety or environmental compliance, which could cause injury, ill health, disability or loss of life to employees, contractors or members of the public, or harm to the natural environment and local communities in which the Group operates. Insufficient information, instruction and training in the relevant areas and a lack of knowledge of the existence and/or requirements of relevant regulations, or a failure to monitor, assess and implement the requirements of new or modified legislation, may increase these risks.

Impact

Any failure by the Group to comply with applicable health and safety or environmental laws, or the exposure to the consequences of a perceived failure, could result in business disruption, reputational damage, difficulties in recruiting and retaining staff, increased insurance costs, consequential losses, the obligation to install or upgrade costly pollution control equipment, loss of value of the Group's assets, remedial costs and damages, fines and penalties as well as civil or criminal liability. Each of these results could in turn adversely impact the Group's results of operations and financial condition.

Other Information

Group Risk Factors
Continued

Risk: Exposure to unfavourable tax rulings.

Description

The Group is subject to tax laws in a variety of jurisdictions. The Group's interpretation and application of the tax laws could differ from those of the relevant tax authority, which may subject the Group to claims for breach of such laws, including for late or incorrect filings or for misinterpretation of rules. Tax authorities in a variety of jurisdictions, such as the Netherlands and Russia, have assessed, and may in the future assess, the Group for historical tax claims, including interest and penalties, arising from disputed areas of tax law. The Group is currently party to tax disputes in a number of jurisdictions, some of which involve claims for amounts in the hundreds of millions of pounds sterling.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

Impact

The Group's failure to comply with the relevant tax authority's interpretation and application of the tax laws could result in significant financial and legal penalties, including the payment of additional taxes, fines and interest in the event of an unfavourable ruling by a tax authority in a disputed area, as well as the payment of dispute costs. Disruption to the business could occur as a result of management's time being diverted away from business matters. Each of these results could negatively affect the Group's results of operations and financial condition.

Risk: Unexpected legislative changes to corporate income tax laws.

Description

The Group is subject to corporate income tax laws in the jurisdictions in which it operates. These laws frequently change on a prospective or retroactive basis.

Impact

Legislative changes to corporate income tax laws and regulations may have an adverse impact on the Group's corporate income tax liabilities and may lead to a material increase of the Group's overall tax rate. This could, in turn, negatively affect the Group's results of operations and financial condition.

Risk: Exposure to potential liability under competition or antitrust laws.

Description

According to the Group's internal estimates, the Group is a market leader by volume in certain categories in a number of countries in which it operates and/or is one of a small number of tobacco and /or New Categories companies in certain other markets in which it operates. The Group has had antitrust infringement decisions against it in the past and is subject to ongoing investigations (please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group). The Group may fail to comply with competition or antitrust laws and may be subject to investigation and/or litigation for alleged abuse of its position in markets in which it has significant market share or for alleged collusion/anti-competitive arrangements with other market participants.

Impact

Failure by the Group to comply with competition or antitrust laws and investigations (and/or litigation) for violation of such laws may result in significant legal liability, fines, penalties and/or damages actions, criminal sanctions against the Group, its officers and employees, increased costs, prohibitions on conduct of the Group's business, forced divestment of brands and businesses (or parts of businesses) to competitors or other buyers, director disqualifications and commercial agreements being held void. The Group may face increased public scrutiny and the investigation or imposition of sanctions by antitrust regulation agencies and/or courts for violations of competition regimes which may subject the Group to reputational damage and loss of goodwill.

Risk: Failure to establish and maintain adequate controls and procedures to comply with applicable securities, corporate governance and compliance regulations.

Description

The Group's operations are subject to a range of rules and regulations around the world. These include US securities, corporate governance and compliance laws and regulations such as the Sarbanes-Oxley Act of 2002 and the US Foreign Corrupt Practices Act of 1977, which applies to the Group's worldwide activities. While the Group continuously seeks to improve its systems of internal controls and to remedy any weaknesses identified, there can be no assurance that the policies and procedures will be followed at all times or effectively detect and prevent violations of applicable laws. In addition, the Group is subject to increasingly stringent reporting obligations under UK corporate reporting regulations.

Impact

The increased scope and complexity of applicable regulations to which the Group is subject may lead to higher costs for compliance. Failure to comply with laws and regulations may result in significant legal liability, fines, penalties, and/or damages actions, criminal sanctions against the Group, its officers and employees, and damage to the Group's reputation. Non-compliance with such regulations could also lead to a loss of the Group's listing on one or more stock exchanges or a loss of investor confidence with a subsequent reduction in share price.

Legal, Regulatory and Compliance Risks continued

Risk: Loss of confidential information, including through manipulation of data by employees and system failure.

Description

Unintended or malicious behaviour by employees, contractors, service providers and others using or managing the Group's confidential information (including sensitive or confidential information of third parties) or personal data (including sensitive consumer personal data) may affect the Group's communications and operations which may result in the unauthorised disclosure of such information. Extensive remote working may periodically increase this risk (e.g. during the COVID-19 pandemic).

In addition, flaws in our IT systems, a lack of infrastructure or application resilience, slow or insufficient disaster recovery service levels or the installation of new systems may increase the possibility that data, including confidential, personal or other sensitive information, stored or communicated by IT systems may be corrupted, lost or disclosed.

Impact

The loss of confidential information may result in civil or criminal legal liability and prosecution by enforcement bodies and/or claims from third parties, which may subject the Group to the imposition of material fines, damages and/or penalties and the costs associated with defending these claims. It could also lead to a competitive disadvantage through the loss of trade secrets.

Inappropriate disclosure of confidential information or violation of the GDPR or other privacy laws (please refer to the risk factor under "Loss or misuse of personal data through a failure to comply with the European General Data Protection Regulation, the UK Data Protection Act 2018, e-Privacy Laws and other privacy legislation governing the processing of personal data" below) may also result in significant reputational harm and public scrutiny, a loss of investor confidence and reduced third-party reliance on the Group's information technology systems or other data handling practices. In addition, restoration and remediation of disclosed confidential information or personal data may be costly, difficult or even impossible. These consequences may adversely impact the Group's results of operations and financial condition.

Risk: Failure to comply with product regulations due to uncertainty surrounding the proper interpretation and application of those regulations.

Description

The interpretation and application of regulations concerning the Group's products, such as the Tobacco and Related Products Directive (TPD2), may be subject to debate and uncertainty. This includes uncertainty over product classifications and restrictions on advertising. In particular with respect to the developing category of New Categories, which has grown in size and complexity in a relatively short period of time, a consensus framework for the interpretation and application of existing regulation, such as the rules concerning nicotine-containing liquids used in vapour products, has yet to emerge.

The continuously changing and evolving landscape of regulation concerning the Group's products contributes to the uncertainty surrounding interpretation and application and creates a risk that the Group may misinterpret or fail to comply with developing regulations in the various jurisdictions in which it operates, or becomes subject to enforcement actions from regulators. With the continuous changing of product cycle plans and expansion to new markets and innovations, there is a risk that such changes and launches fail to comply with the relevant regulations, including pre-approval and/or pre-registration requirements. For example, some governments have intentionally banned or are seeking to ban novel tobacco products and products containing nicotine, while others would need to amend their existing legislation to permit their sale. Even in countries where the sale of such products is currently permitted, some governments have adopted, or are seeking to adopt, bans on New Categories or restrictions on certain flavours.

Impact

The significant number of emerging regulations and the uncertainty surrounding their interpretation and application may subject the Group to claims for breach of such regulations. Financial costs of such enforcement actions include financial penalties, product recalls and litigation costs, and entail a significant risk of adverse publicity and damage to the Group's reputation and goodwill.

Other Information

Group Risk Factors
Continued

Risk: Failure to uphold high standards of corporate behaviour, including under anti-bribery and anti-corruption laws.

Description

The Group is subject to various anti-corruption laws and regulations and other anti-financial crime laws including but not limited to failure to prevent facilitation of tax evasion (Anti-Corruption Laws). All employees of BAT, its subsidiaries and joint ventures which it controls are expected to uphold a high standard of corporate behaviour and comply with the Group Standards of Business Conduct (SoBC) which includes a requirement to comply with Anti-Corruption Laws. Employees, associates, suppliers, distributors and agents are prohibited from engaging in improper conduct to obtain or retain business or to improperly influence (directly or indirectly) a person working in an official capacity to decide in the Group's favour. The Group's employees may fail to comply with our SoBC and may violate applicable Anti-Corruption Laws.

In January 2021 the Group was informed that the investigation by UK's Serious Fraud Office into suspicions of corruption in the conduct of business by Group companies and associated persons had been closed. The SFO stated that it would continue to offer assistance to the ongoing investigations of other law enforcement partners. The potential for fines, penalties or other consequences cannot currently be assessed. As the investigations are ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

Impact

Failure of the Group to comply with Anti-Corruption Laws or to deploy and maintain robust internal policies, procedures and controls could result in significant fines and penalties, criminal sanctions against the Group and its officers and employees, increased costs, prohibitions or other limitations on the conduct of the Group's business and reputational harm and may subject the Group to claims for breach of such regulations.

Even when proven untrue, there are often financial costs, time demands and reputational impacts associated with investigating and defending against such claims.

Risk: Imposition of sanctions under sanctions regimes or similar international, regional or national measures.

Description

National and international sanctions regimes or similar international, regional or national measures may affect jurisdictions in which the Group operates or third parties with which it may have commercial relationships.

In particular, the Group has operations in a number of countries that are subject to various sanctions, including Iran and Cuba. Operations in these countries expose the Group to the risk of significant financial costs and disruption in operations that may be difficult or impossible to predict or avoid or the activities could become commercially and/or operationally unviable.

National and international sanctions regimes may also affect third parties with which the Group has commercial relationships and could lead to supply and payment chain disruptions.

For example, the Group has been investigating, and is aware of governmental authorities' investigations into, allegations of misconduct. The Group is cooperating with the authorities' investigations, including the DOJ and OFAC in the United States, which are conducting an investigation into suspicions of breach of sanctions. The potential for fines, penalties or other consequences cannot currently be assessed but may be material. As the investigations are ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

Impact

As a result of the limitations imposed by sanctions, it may become commercially and/or operationally unviable for the Group to operate in certain jurisdictions and the Group may be required to exit existing operations in such jurisdictions. The Group may also experience difficulty in sourcing materials or importing products and be exposed to increased costs. In addition, the costs of complying with sanctions may increase as a result of changes to existing sanctions regimes.

Any failure to comply with sanctions regimes or similar international, regional or national measures may result in significant legal liability, fines and/or penalties, criminal sanctions against the Group, its officers and employees, damage to commercial or banking relationships and reputational harm. Reputational harm may result regardless of whether the Group complies with imposed sanctions.

Legal, Regulatory and Compliance Risks continued

Risk: Loss or misuse of personal data through a failure to comply with the European General Data Protection Regulation, the UK Data Protection Act 2018, e-Privacy Laws and other privacy legislation governing the processing of personal data.

Description

Personal data is a subset of data (which is likely to be confidential) which attracts different risks and treatment under the law. Breaches of data privacy laws include misuse of information which may not be confidential in nature. These include, for example, unsolicited marketing calls to a publicly available number, or using an individual's personal data in a way which was not authorised or in a way that the individual did not reasonably expect through technologies such as online tracking or monitoring.

Various privacy laws, including the European General Data Protection Regulation ("GDPR"), UK Data Protection Act 2018 ("UKDPA") and e-Privacy Directive ("e-Privacy Laws") / EU Regulatory guidances, govern the way in which organisations (comprising employees, contractors, service providers and other authorised persons) handle individuals' personal data including how such organisations, including the Group, track or monitor their online behaviour.

In particular:

- in the event of:
  - an unauthorised disclosure of personal data as a result of a bad actor (e.g. cyberattack); or
  - flaws in our IT systems, or application resilience, slow or insufficient disaster recovery service levels or the installation failure of a new system (which result in personal data stored or communicated by IT systems being corrupted, lost or disclosed);

Depending on the risk to the individuals concerned, such personal data breaches (including mass personal data unavailability) must be reported to the local data protection supervisory authority which could subject Group companies to not only regulatory scrutiny but also individual claims or even class action suits; and

  - ePrivacy Laws state that any misuse of consumer personal data or lack of transparency provided to consumers on how we use their data or track their online behaviours are subject to regulatory scrutiny.

Legal requirements relating to the collection, storage, handling, and transfer of personal data continue to evolve. Following the entry into force of the GDPR in May 2018, other jurisdictions in which the Group operates have enacted similar local legislation such as the California Consumer Privacy Act US and the "LGPD" in Brazil which further increases the risks surrounding the processing of personal data especially in the consumer space.

Impact

Failure to comply with existing or future e-Privacy Laws and privacy legislation governing the processing of personal data may adversely impact the Group's results of operations and financial condition.

Loss or misuse of personal data may result in civil or criminal legal liability and prosecution by enforcement bodies, which may subject the Group to the imposition of material fines (currently up to 4% of Group worldwide turnover in the context of GDPR) and/or penalties and/or claims and costs associated with defending these claims (which could include class action suits brought by consumers). Reputational damage could also potentially cause significant harm to the Group.

Relevant data protection supervisory authority could also order certain Group legal entities to cease processing activities, which could result in a significant operational disruption.

Economic and Financial Risks

Risk: Foreign exchange rate exposures.

Description

The Group's reporting currency is the pound sterling. The Group is exposed to the risk of fluctuations in exchange rates affecting the translation of net assets and earned profits of overseas subsidiaries into the Group's reporting currency. These translational exposures are not normally hedged.

Exposures also arise from the foreign currency denominated trading transactions undertaken by subsidiaries and dividend flows. Where not offset by opposing flows, these exposures are generally hedged according to internal policies, but hedging of exposure to certain currencies might not be possible due to exchange controls, limited currency availability or prohibitive costs, and errors in hedging may occur. Fiscal policy divergence in relation to interest rates between key markets may also increase these risks.

Impact

During periods of exchange rate volatility, the impact of exchange rates on the Group's results of operations and financial condition can be significant. Fluctuations in exchange rates of key currencies against the pound sterling may result in volatility in the Group's reported earnings per share, cash flow and balance sheet. Furthermore, the dividend paid by the Group may be impacted if the payout ratio is not adjusted. Differences in translation between earnings and net debt may also affect key ratios used by credit rating agencies, which may have an adverse effect on the Group's credit ratings.

In addition, volatility and/or increased costs in the Group's business due to transactional foreign exchange rate exposures may adversely affect operating margins and profitability and attempts to increase prices to offset such increases could adversely impact sales volumes.

Other Information

Group Risk Factors
Continued

Economic and Financial Risks continued

Risk: Inability to obtain price increases and exposure to risks from excessive price increases and value chain erosion.

Description

Annual price increases by the Group are among the key drivers in increasing market profitability. However, the Group has in the past been, and may in the future be, unable to obtain such price increases as a result of increased regulation; increased competition from illicit trade; stretched consumer affordability arising from deteriorating political and economic conditions and rising prices; sharp increases or changes in excise structures; and competitors' pricing.

As the New Category market continues to develop, the Group may face erosion in the value chain for New Categories through lower market prices, excise taxes, high retail trade margins or high production costs that make New Categories less competitive versus combustible tobacco products. As an example, excise on Tobacco Heated Products in Japan is increasing and will align closer to FMC following a five year (2018-2022) phased excise plan.

In addition, the Group faces the risk that price increases it has conducted in the past, and may conduct in the future, may be excessive and not find adequate adult tobacco consumer acceptance.

Impact

If the Group is unable to obtain price increases or is adversely affected by impacts of excessive price increases, it may be unable to achieve its strategic growth metrics, have fewer funds to invest in growth opportunities, and, in the case of excessive price increases, be faced with quicker reductions in sales volumes than anticipated due to accelerated market decline, down-trading (switching to a cheaper brand) and increased illicit trade. These in turn impact the Group's market share, results of operations and financial condition.

In addition, erosion in the value chain for New Categories could have a negative impact on the Group's sales volume or pricing for these products. High excise could dampen demand for New Categories or result in lower profit margins. Lower market prices, high retail trade margins or increases in production costs could also negatively impact profit margins or lead to uncompetitive pricing.

Risk: Effects of declining consumption of legitimate tobacco products and a tough competitive environment.

Description

Evidence of market contraction and the growth of illicit trade of tobacco products is apparent in several key global markets in which the Group operates. This decline is due to multiple factors, including increases in excise taxes leading to continuous above-inflation price rises, changes in the regulatory environment, the continuing difficult economic environment in many countries impacting consumers' disposable incomes, the increase in the trade of illicit tobacco products, rising health concerns, a decline in the social acceptability of smoking and an increase in New Category uptake.

The Group competes based on the strength of its strategic brand portfolio, product quality and taste, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. The Group is subject to highly competitive environments in all aspects of its business, and its competitive position can be significantly influenced by the prevailing economic climate, consumers' disposable income, regulation, competitors' introduction of lower-price or innovative products, higher tobacco product taxes, higher absolute prices, governmental action to increase minimum wages, employment costs, interest rates and increase in raw material costs.

Furthermore, the Group is subject to substantial payment obligations under the State Settlement Agreements, which adversely affect the ability of the Group to compete in the US with manufacturers of deep-discount cigarettes that are not subject to such substantial obligations.

Impact

Any future decline in the demand for legitimate tobacco products could have an adverse effect on the Group's results of operations and financial conditions.

In a tough competitive environment, factors such as market size reduction, customer down-trading, illicit trade and competitors aggressively taking market share through price re-positioning or price wars generally reduce the overall profit pool of the market and may impact the Group's profits. These risks may also lead to a decline in sales volume of the Group, loss of market share, erosion of its portfolio mix and reduction of funds available to it for investment in growth opportunities.

Economic and Financial Risks continued

Risk: Funding, liquidity and interest rate risks.

Description

The Group cannot be certain that it will have access to bank financing or to the debt and equity capital markets at all times and is therefore subject to funding and liquidity risks. In addition, the Group's access to funding may be affected by restrictive covenants to which it is subject under some of its credit facilities. Furthermore, broader ESG trends may impact the Group's access to funding.

The Group is also exposed to increases in interest rates in connection with both existing floating rate debt and future debt refinancings. The current economic environment, with historically low interest rates, increases the likelihood of higher interest rates in the future. The phaseout of LIBOR and uncertainty regarding the appropriate benchmark replacement similarly increases uncertainty with respect to the interest rates applicable to the Group's floating rate debt.

Furthermore, the Group operates in several markets closely regulated by governmental bodies that intervene in foreign exchange markets by imposing limitations on the ability to transfer local currency into foreign currency and introducing other currency controls that expose cash balances to devaluation risks or that increase costs to obtain hard currency. As a result, the Group's operational entities in these markets may be restricted from using end-market cash resources to pay for imported goods, dividend remittances, interest payments and royalties. The inability to access end-market cash resources in certain markets contributes to the Group's funding and liquidity risks.

Impact

Adverse developments in the Group's funding, liquidity and interest rate environment may lead to shortages of cash and cash equivalents needed to operate the Group's business and to refinance its existing debt. Inability to fund the business under the Group's current capital structure, failure to access funding and foreign exchange or increases in interest rates may also have an adverse effect on the Group's credit rating, which would in turn result in further increased funding costs and may require the Group to issue equity or seek new sources of capital. Non-compliance with the Group's covenants under certain credit facilities could lead to an acceleration of its debt. The phaseout of LIBOR may result in the Group being subject to higher or uncertain interest rates with respect to outstanding future and floating rate debt.

All these factors may have material adverse effects on the Group's results of operations and financial conditions. These conditions could also lead to underperforming bond prices and increased yields.

In the case of funding or liquidity constraints, the Group may also suffer reputational damage due to its perceived failure to manage the financial risk profile of its business, which may result in an erosion of shareholder value reflected in an underperforming share price, and/or underperforming bond prices and higher yields. In addition, the Group's ability to finance strategic opportunities or respond to threats may be impacted by limited access to funds.

Risk: Failure to achieve growth through mergers, acquisitions and joint ventures.

Description

The Group's growth strategy includes a combination of organic growth as well as mergers, acquisitions and joint ventures. The Group may be unable to acquire attractive businesses on favourable terms and may inappropriately value or otherwise fail to identify or capitalise on growth opportunities. The Group may not be able to deliver strategic objectives and revenue improvements from business combinations, successfully integrate businesses it acquires or establishes, or obtain appropriate regulatory approvals for business combinations. Risks from integration of businesses also include the risk that the integration may divert the Group's focus and resources from its other strategic goals.

Additionally, the Group could be exposed to financial, legal or reputational risks if it fails to appropriately consider any compliance or antitrust aspects of a transaction. Further, the Group has certain uncapped indemnification obligations in connection with divestitures and could incur similar obligations in the future.

Impact

Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities and have an adverse effect on the Group's results of operations and financial condition, and in the case of a breach of compliance or antitrust regulation, could lead to reputational damage, fines and potentially criminal sanctions.

The Group may become liable for claims arising in respect of conduct prior to any merger or acquisition of businesses if deemed to be a successor to the liabilities of the acquired company or indemnification claims relating to divestitures, and any resulting adverse judgment against the Group may adversely affect its results of operations and financial condition.

Please refer to note 27 in the Notes on the Accounts for details of contingent liabilities applicable to the Group.

Other Information

Group Risk Factors
Continued

Risk: Unforeseen underperformance in key global markets.

Description

A substantial majority of the Group's profit from operations is based on its operations in certain key markets, including the US. A number of these markets are declining for a variety of factors, including price increases, restrictions on advertising and promotions, smoking prevention campaigns, increased pressure from anti-tobacco groups, migration to smokeless products and private businesses adopting policies that prohibit or restrict, or are intended to discourage, smoking and tobacco use.

Economic and political factors affecting the Group's key markets include the prevailing economic climate, governmental austerity measures, levels of employment, inflation, governmental action to increase minimum wages, employment costs, interest rates, raw material costs, consumer confidence and consumer pricing.

Impact

Any change to the economic and political factors in any of the key markets in which the Group operates could affect consumer behaviour and have an impact on the Group's results of operations and financial condition.

Risk: Increases in net liabilities under the Group's retirement benefit schemes.

Description

The Group currently maintains and contributes to defined benefit pension plans and other post-retirement benefit plans that cover various categories of employees and retirees worldwide. The Group's obligations to make contributions under these arrangements may increase in the case of increases in pension liabilities, decreases in asset returns, salary increases, inflation, decreases in long-term interest rates, increases in life expectancies, changes in population trends and other actuarial assumptions.

Please refer to the information under the caption 'Retirement benefit schemes' on page 188 and to note 11 in the Notes on the Accounts for details of the Group's retirement benefit schemes.

Impact

Higher contributions to the Group's retirement benefit schemes could have an adverse impact on the Group's results of operations, financial condition and ability to raise funds.

Risk: Adverse consequences of the UK's exit from the EU.

Description

The consequences of the UK's exit from the EU remain uncertain and the full extent of the impact is not expected for some time, but could include reductions in the size of the UK market, down-trading as a result of affordability pressure/weakening economy in the UK, an increased cost of doing business in the UK, higher cost of capital in the UK and both transactional and translational foreign exchange impacts, disruption to supply of materials due to changed customs procedures, rules of origin requirements or duties, increased complexity and scrutiny on tax-related activities, or other changes to UK law. In addition, the UK's exit from the EU may impose restrictions on employment and cross-border movements.

Impact

Any of the consequences of the UK's exit from the EU may have a negative effect on the Group's results of operations and financial conditions. In addition, any restrictions on employment and cross-border movements may result in additional employment and hiring costs and reduce the Group's ability to attract and retain highly talented individuals from the EU in the UK.

Product Pipeline, Commercialisation and Intellectual Property Risks

Risk: Inability to predict consumers' changing behaviours and launch innovative products that offer adult tobacco and nicotine consumers meaningful value-added differentiation.

Description

The Group focuses its research and development activities on both creating new products, including New Category product, and maintaining and improving the quality of its existing products. In a competitive market, the Group believes that innovation is key to growth. The Group considers that one of its key challenges in the medium and long term is to provide adult tobacco and nicotine consumers with high-quality products that take into account their changing preferences and expectations, including those in relation to ESG, while complying with evolving regulation.

The Group is in the early stages of development and roll-out of its New Category portfolio which requires significant initial investment. The Group may be unsuccessful in developing and launching innovative products or maintaining and improving the quality of existing products across both combustibles and New Categories that offer consumers meaningful value-added differentiation. The Group may fail to keep pace with innovation in its sector or changes in consumer expectations and is also exposed to the risk of an inability to build a strong enough brand equity through social media and other technological tools to compete with its competitors. There are potential bans and restrictions in key markets when using social media to advertise and communicate. Competitors may be more successful in predicting changing consumer behaviour, developing and rolling out consumer-relevant products and may be able to do so more quickly and at a lower cost.

In addition, the Group devotes considerable resources to the research and development of innovative products, in particular in New Categories that may have the potential to reduce the risks of smoking-related diseases. The complex nature of research and development programmes necessary to satisfy emerging regulatory and scientific requirements creates a substantial risk that these programmes will fail to demonstrate health-related claims regarding New Categories or to achieve adult tobacco consumer, regulatory and scientific acceptance.

Furthermore, the regulatory environment impacting non-combustible tobacco products, vapour products and other non-tobacco nicotine products, including classification of products for regulatory and excise purposes, is still developing and it cannot be predicted whether regulations will permit the marketing of such New Categories in any given market in the future. Categorisation as medicines, for example, and restrictions on advertising could stifle innovation, increase complexity and costs and significantly undermine the commercial viability of these products. Alternatively, categorisation of any New Categories, as tobacco products for instance, could result in the application of onerous regulation, which could further stifle uptake.

Impact

The inability to timely develop and roll out innovations or products in line with consumer demand, including any failure to predict changes in adult tobacco consumer and societal behaviour and expectations and to fill gaps in the product portfolio, as well as the risk of poor product quality, could lead to missed opportunities, under- or over-supply, loss of competitive advantage, unrecoverable costs and/or the erosion of the Group's consumer base or brand equity.

Restrictions on packaging and labelling or on promotion and advertising could impact the Group's ability to communicate its innovations and product differences to adult tobacco consumers, leading to unsuccessful product launches. An inability to provide robust scientific results sufficient to substantiate health-related product claims poses a significant threat to the ability to launch innovative products and comply with emerging regulatory and legal regimes.

The occurrence of any of the above effects could in turn have an adverse effect on the Group's results of operations and financial condition and cause the Group to fail to deliver on its strategic growth plans.

Other Information

Group Risk Factors
Continued

Risk: Exposure to risks associated with intellectual property rights, including the failure to identify, protect and prevent infringement of the Group's intellectual property rights and potential infringement of, or the failure to retain licences to use, third-party intellectual property rights.

Description

The Group relies on trademarks, patents, registered designs, copyrights and trade secrets. The brand names under which the Group's products are sold are key assets of its business. The protection and maintenance of these brand names and of the reputation of these brands is important to the Group's success. Protection of intellectual property rights is also important in connection with the Group's innovative products, including New Categories.

The Group is exposed to the risk of infringements of its intellectual property rights by third parties due to limitations in judicial protection, failure to identify, protect and register its innovations and/or inadequate enforceability of these rights in some markets in which the Group operates.

The Group currently is involved in various patent infringement litigation proceedings globally related to technology used in the Group's New Category products. This litigation involves both claims by the Group that competitors are infringing on the Group's patents and claims by competitors that the Group is infringing on competitors' patents.

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

In addition, as third-party rights are not always identifiable, the Group may be subject to claims for infringement of third-party intellectual property rights.

Impact

Any erosion in the value of the Group's brands, or failure to obtain or maintain adequate protection of intellectual property rights for any reason, or the loss of brands or trademarks under licence to Group companies, may have a material adverse effect on the Group's market share, results of operations and financial condition. Any inability to appropriately protect the Group's products and key innovations will also limit its growth and affect competitiveness and return on innovation investment.

Any infringement of third-party intellectual property rights could result in interim injunctions, product recalls, legal liability and the payment of damages, any of which may disrupt operations, negatively impact the Group's reputation and have an adverse effect on its results of operations and financial condition.

Regulation of the Group's Business

Overview

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

Regulation can typically be categorised as follows:

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

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

World Health Organization Framework Convention on Tobacco Control

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

To date, the FCTC has been ratified by 182 countries, not including the US. The FCTC has led to increased efforts by tobacco-control advocates and public health organisations to reduce the supply of, and demand for, tobacco products, and to encourage governments to further regulate the tobacco industry. As national regulations increasingly reflect global influences, the scope of areas regulated will likely further expand. The guidelines on advertising, promotion and sponsorship, for example, seek to broaden the definition of tobacco advertising to include product display, the use of vending machines as well as the design of the pack itself. Where adopted by contracting parties, a number of the measures referred to in the guidelines may result in either additional costs for the tobacco industry or restrictions on a manufacturer's ability to differentiate its products and communicate those differences to adult smokers. For example, a change in the number and size of on-pack health warnings requires new printing cylinders to be commissioned, while the implementation of new plant protection product standards, product testing and the submission of ingredients information to national governments require extensive resources, time and material.

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

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

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

TPD2 also purports to leave open to EU Member States the possibility of further standardising the packaging of tobacco products and to apply some of its provisions in different ways. For example, it provides, among other things, that the labelling, packaging and the tobacco product itself shall not include any element or feature that suggests that a particular tobacco product has vitalising, energetic, healing, rejuvenating, natural or organic properties or has other health or lifestyle benefits. On 1 February 2017, the French government applied its laws transposing these provisions into French national law to prohibit the sale of all variants of Vogue cigarettes from February 2018, as well as the use of certain other tobacco brand and brand variant names. The law was subsequently annulled, but France may seek to reintroduce it. On 26 April 2019, Belgium adopted a Royal Decree that allows the Minister of Health to establish a procedure to put brands on a prohibited list and to draw up such a list. To date, such a procedure has not yet been established by the Belgian Minister of Health.

The European Commission is required to prepare a report by no later than 20 May 2021 on the application of TPD2 and setting out, in particular, the elements of TPD2 which it believes should be reviewed or adapted based on scientific and technical developments as well as internationally agreed rules and standards on tobacco and related products.

Other Information

Regulation of the Group's Business
Continued

Single-Use Plastics

The Single Use Plastics Directive (EU) 2019/904 (the SUP Directive) entered into force on 2 July 2019. The Directive requires that EU Member States introduce Extended Producer Responsibility (EPR) schemes covering the cost to clean up litter and the application of on-pack marking requirements for tobacco product filters. Member States must transpose the SUP Directive into national law by 3 July 2021, with an implementation deadline of 3 July 2021 for pack marking requirements and of 5 January 2023 for EPR schemes. Other governments have passed or are considering similar legislation including Canada, Russia, South Korea and various levels of government in the United States.

Restrictions on Smoking in Private, Public and Workplaces

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

Regulation of Ingredients, Including Flavoured Tobacco Products

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

In Canada, the manufacture and sale of cigarettes, little cigars and blunt wraps with characterising flavours are banned, and a federal menthol ban for cigarettes is in effect across the country. In Australia, the majority of states and territories have banned flavours in cigarettes that give an 'overtly' fruit-flavoured taste and the government is reportedly considering further regulatory options. The TPD2 similarly bans the manufacture and sale of cigarettes and roll-your-own tobacco with a characterising flavour other than tobacco, subject to an exemption until May 2020 for menthol cigarettes.

An ingredients ban in Brazil, which would ban the use of certain ingredients with flavouring or aromatic properties, including menthol, is not currently in force due to ongoing legal challenges. In Turkey, a ban on the use of menthol in cigarettes has been fully implemented as of 5 January 2020. A number of the above regulations are subject to ongoing legal challenges. (See 'The US' for information pertaining to the regulation of menthol in that market).

Further legislation on ingredients is to be expected. In particular, the European Commission report on TPD2 due by 20 May 2021 is required to consider, amongst other things, the benefits of establishing a single list of permitted ingredients at EU level by reference to available scientific evidence on the toxic and addictive effects of different ingredients. Similarly, the Conference of Parties to the FCTC has tasked a working group to further elaborate the partial guidelines on the regulation of the contents of tobacco products and tobacco product disclosures.

Plain and Standardised Packaging

Plain (or 'standardised') packaging generally refers to a ban on the use of trademarks, logos and colours on packaging other than the use of a single colour and the presentation of brand name and variant in a specified font and location(s). The presentation of individual cigarettes may be similarly restricted. Plain packaging is high on the agenda of tobacco control groups, and the non-binding FCTC guidelines recommend that contracting parties consider introducing plain packaging. To date, 21 countries (including Australia, Belgium, Canada, Denmark, France, Ireland, New Zealand, the Netherlands, Saudi Arabia, Singapore, Turkey, and the UK) have adopted plain packaging legislation, with the measure being implemented in 15 of those countries. Countries, territories and states that are currently considering adopting plain packaging legislation include, but are not limited to Argentina, India, Ecuador, Panama, Sweden, Brazil, Chile, Spain and South Africa. Others, such as South Korea, Ukraine and Colombia, are considering implementing increased graphic health warnings.

Product Display Bans at Point of Sale and Licensing Regimes

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

Illicit Trade

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

Euromonitor International estimates that approximately 400 billion cigarettes per year are smuggled, manufactured illegally or counterfeited. A number of governments, regulators and organisations have or are considering adopting regulation to support anti-illicit trade activities. Among other forms, such regulation may comprise mandatory 'tracking and tracing' requirements, enabling regulators to identify the point at which any seized product left the legal supply chain, security features to combat counterfeiting and inspection and authentication obligations in respect of seized product. The TPD2, for example, requires that all unit packets of tobacco are marked with a unique and irremovable identifier, which when scanned provides various information about that product's route to market.

In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products which includes a raft of supply chain control measures, including the implementation of 'tracking and tracing' technologies. The Protocol entered into force on 25 September 2018 and was considered at the first session of the Meeting of the Parties to the Protocol in October 2018. As at 1 January 2021, 62 parties have ratified the Protocol.

In November 2012, the FCTC adopted the Protocol to Eliminate Illicit Trade in Tobacco Products which includes a raft of supply chain control measures, including the implementation of 'tracking and tracing' technologies. The Protocol entered into force on 25 September 2018 and was considered at the first session of the Meeting of the Parties to the Protocol in October 2018. As at 1 January 2020, 58 parties have ratified the Protocol.

Vapour Products

More recently, significant debate has been generated regarding the appropriate regulation of vapour products, including regulation of the nicotine liquids used in them. As the nascent vapour category has grown in size and complexity in a relatively short period of time, a consensus framework for regulation and taxation has yet to emerge. The TPD2, for example, establishes frameworks for the regulation of novel tobacco products and e-cigarettes, introducing nicotine limits, health warnings requirements, advertising bans and pre-market notification and post-market disclosure obligations. Conversely, some governments have intentionally banned or are seeking to ban novel tobacco products and products containing nicotine, while others would need to amend their existing legislation in order to permit their sale. For example, in Australia nicotine is currently classified as poison, meaning that the importation of vaping products or nicotine refill liquids is illegal in every state and territory, as is the possession and use of these products. While Australia's Therapeutic Goods Administration plans to re-classify nicotine as a prescription-only medication from 1 October 2021, the effect will be that a doctor's prescription will be required to legally access nicotine vapour products and liquid nicotine. Even in countries where the sale of vapour products is permitted, some governments have adopted, or are seeking to adopt, bans on vaping in public places, bans or restrictions on flavours or other restrictions. Recent reports in North America of individuals experiencing acute respiratory injury in suspected association with vaping certain e-liquids (EVALI) and youth usage have led to an increase in scrutiny of vapour products, especially at State and Provincial levels in the United States and Canada.

The US

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

- banning categories of tobacco products; and
- requiring the reduction of nicotine yields of a tobacco product to zero.

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

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

The Final Rule established staggered initial compliance periods based on the expected complexity of the applications to be submitted. On 28 July 2017, as part of the FDA's announcement of a comprehensive regulatory plan for nicotine and tobacco, the FDA extended the deadline for submission of PMTAs for newly deemed products by several years (for e-cigarettes, the new deadline was August 2022). However, as a result of legal action, in July 2019 a federal court ultimately brought forward the filing deadline for non-combustible products to 12 May 2020. In October 2019, R. J. Reynolds Vapour Company filed PMTAs for Vuse Solo. Based upon requirements of the FSPTCA that must be addressed in PMTAs, and the FDA's Guidance regarding the type of evidence required for such applications, the costs of preparing a PMTA are significant.

In January 2020, the FDA reinforced the filing deadline of 12 May 2020 in its Guidance related to vapour, but reversed its previous compliance policy that allowed products to remain on the market without a PMTA. The Guidance announced the agency's intent to enforce (as of February 2020) the PMTA requirements on certain products as follows: 1) Flavoured, cartridge-based vapour products except for tobacco- or menthol-flavoured products; 2) All other vapour products for which the manufacturer has failed to take (or is failing to take) adequate measures to prevent minors' access; 3) Any vapour products that targets or whose marketing is likely to promote use by minors; and 4) Any vapour product that is offered for sale in the United States after 12 May 2020, and for which the manufacturer has not submitted a premarket application. Flavoured disposable vapour products and flavoured open systems would remain available for sale unless 1) the manufacturer has failed to take adequate measures to prevent minors' access, 2) product that targets or whose marketing is likely to promote use by minors, or 3) fails to file a PMTA by 12 May 2020.

In April 2020, the federal court extended the PMTA deadline by 120 days to 9 September 2020 to address the FDA's concerns regarding delays caused by the COVID-19 pandemic. R. J. Reynolds Vapour Company filed PMTAs for the remaining Vuse products (Vibe, Ciro, and Alto) and the Velo products (pouch and lozenge) by the September 2020 deadline. Certain additional data from ongoing research relevant to the Alto and Velo applications will be submitted as amendments to the PMTAs during the FDA review process.

Comprehensive plan for tobacco and nicotine regulation

On 28 July 2017, the FDA announced its intent to develop a comprehensive plan for tobacco and nicotine regulation that recognises the continuum of risk for nicotine delivery. As part of that plan, the FDA planned to publish an Advance Notice of Proposed Rulemaking (ANPRM) to seek public input regarding the potential health benefits and possible adverse effects of lowering the level of nicotine in combustible cigarettes.

Other Information

Regulation of the Group's Business
Continued

The ANPRM would request comments from interested stakeholders regarding the potential impact of a nicotine product standard on, among other things:

- the likelihood that existing users of tobacco products will stop using cigarettes;
- the likelihood that those who do not use tobacco products will start using such products; and
- the illicit trade of cigarettes containing nicotine at levels higher than a non-addictive nicotine threshold.

In addition, the Center for Tobacco Products (CTP), which was established within the FDA in 2009, will coordinate with the FDA Center for Drug Evaluation and Research regarding medicinal nicotine and other therapeutic products as part of an agency-wide nicotine framework. As part of the comprehensive plan, the FDA also announced its intent to issue ANPRMs requesting public stakeholder input on the impact of flavours (including menthol) in increased initiation among youth and young adults as well as assisting adult smokers to switch to potentially less harmful forms of nicotine delivery, and the patterns of use and public health impact of premium cigars. This follows on from the FDA's decision to issue its own preliminary scientific evaluation regarding menthol cigarettes in 2013, which concluded that menthol cigarettes adversely affect initiation, addiction and cessation compared to non-menthol cigarettes. In 2018, the FDA took several steps to further this plan. Firstly, in January 2018, the FDA held a public hearing to obtain input from a broad group of stakeholders on ways to streamline the regulatory process for the issuance of therapeutic claims for nicotine products. Secondly, in March 2018, the agency issued three ANPRMs, seeking information on (1) the lowering of nicotine levels to non-addictive or minimally addictive levels, (2) the impact of flavours (including menthol) in increased initiation among youth and young adults as well as assisting adult smokers to switch to potentially less harmful forms of nicotine delivery, and (3) the patterns of use and public health impact of premium cigars.

Additional regulation

In addition to the ANPRMs on reduced nicotine products and flavours, the FDA, in April 2019, issued a proposed rule on the format and content of substantial equivalence applications. This follows on the FDA's previous statements regarding the development of foundational rules so as to provide clarity and predictability to the tobacco product submission process, including not only substantial equivalence applications but new product applications as well as MRTP applications. To that end, FDA, in September 2019, published a proposed rule on the format and content of Premarket Tobacco Product Applications. Under the FSPTCA, for a manufacturer to launch a new tobacco product or modify an existing tobacco product after 22 March 2011, the manufacturer must obtain an order from the FDA allowing the new or modified product to be marketed. Similarly, a manufacturer that introduced a cigarette or smokeless tobacco product between 15 February 2007 and 22 March 2011 was required to file a substantial equivalence report with the FDA demonstrating either (1) that the new or modified product had the same characteristics as a product commercially available as at 15 February 2007, referred to as a predicate product, or (2) if the new or modified product had different characteristics than the predicate product, that it did not raise different questions of public health. A product subject to such report is referred to as a provisional product. A manufacturer may continue to market a provisional product unless and until the FDA issues an order that the provisional product is not substantially equivalent (NSE), in which case the FDA could then require the manufacturer to remove the provisional product from the market. Substantially, many of the RAI subsidiaries' cigarette and smokeless tobacco products currently on the market are provisional products. At present, there is substantial uncertainty over the approaches that the FDA CTP will take in evaluating RAI subsidiaries' MRTP applications, PMTAs and substantial equivalence reports. In January 2017, the FDA issued its first proposed product standard just prior to President Trump's inauguration whereby the agency would require the reduction, over a three-year period, of the levels of N-nitrosonornicotine (NNN) contained in smokeless tobacco products. Since issuing this proposal, the agency has simply stated that it is evaluating submitted comments. The FDA's semiannual regulatory agenda, which details the regulatory activities that the FDA expects to undertake in the foreseeable future, has not listed the NNN proposal since its publication. Thus, it is not known whether or when this proposed rule will be finalised, and, if adopted, whether the final rule will be the same as or similar to the proposed rule. On 18 December 2017, the FDA accepted for review MRTP applications for six Camel Snus smokeless tobacco products. In 2018, the FDA began its review of these applications, which included facility inspections and a public meeting held 13-14 September 2018 before the Tobacco Product Scientific Advisory Committee to obtain its review and recommendation. The FDA is completing its independent review of the applications with no announced deadline for completion.

On 18 March 2020, FDA issued a rule mandating the incorporation on cigarettes packages of graphic health warnings. The rule requires eleven new textual warnings, each accompanied by a specific graphic image, on the top 50% of the front and back of all cigarette packages, on the left 50% of the front and back of cigarette cartons, and the top 20% of all cigarette advertising, beginning June 18, 2021. On 3 April 2020, RAI subsidiaries R. J. Reynolds Tobacco Company and Santa Fe Natural Tobacco Company, in conjunction with several cigarette manufacturers and retailers, filed a lawsuit seeking to permanently enjoin implementation of the rule. The court has on two occasions entered orders delaying the implementation of the rule, which is now delayed until 14 January 2022. The court is expected to issue a decision on all pending motions by March 2021 or otherwise order another delay to the implementation date while it continues its review. Irrespective of the court's decision, once issued it is expected to be appealed to the federal court of appeals, from which a determination is estimated for the fourth quarter of 2021. If the industry challenge is unsuccessful, the RAI companies are prepared to implement the rule's requirements by the January 2022 deadline, having created compliant packaging and obtained approval from the FDA for the required warning rotation plans. Cigarettes and other tobacco products are subject to substantial taxes in the US. All states and the District of Columbia currently impose cigarette excise taxes. Certain city and county governments, such as New York, Philadelphia and Chicago, also impose substantial excise taxes on cigarettes sold in those jurisdictions. Also, all states and the District of Columbia currently subject smokeless tobacco products to excise taxes. Various states and the District of Columbia impose a tax on vapour products, such as e-cigarettes, and many other states have proposed taxes on vapour products. Currently, there is no federal tax on vapour products, such as e-cigarettes.

State and local governments also consider and implement other legislation and regulation regarding the sale of tobacco products. Measures include, among others, limiting or prohibiting the sale of flavours in tobacco products, restricting where tobacco products may be sold and increasing the minimum age to purchase tobacco products. The Group believes that, as a responsible business, it can contribute through information, ideas and practical steps, to help regulators address the key issues regarding its products, including underage access, illicit trade, product information, product design, involuntary exposure to smoke and the development of potentially less harmful products, while maintaining a competitive market that accommodates the significant percentage of adults who choose to be tobacco consumers. The Group is committed to working with national governments and multilateral organisations and welcomes opportunities to participate in good faith to achieve sensible and balanced regulation of traditional tobacco and potentially reduced-risk products.

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

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

As of the date of this report, BAT is not aware of any activity, transaction or dealing by the Group or any of its affiliates during the financial year ended 31 December 2020 that is disclosable under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Exchange Act, except as set forth below. This information is to the best of BAT's knowledge.

BAT has a local operation in Iran, established on 18 October 2003, through its wholly-owned non-US subsidiary, B.A.T. Pars Company (Private Joint Stock) (BAT Pars). BAT Pars produces its products, which include Kent, Pall Mall and Montana brands, in its own factory in Eshtehard, which is in the Alborz province of Iran. BAT Pars distributes its product via 54 sub-agents with national and provincial distribution licences, who sell products to wholesalers and retailers with the support of BAT Pars' sales representatives. BAT Pars has 305 direct employees and an additional 1,172 contract workers supplied by a private company.

Concerning the business of BAT Pars, various elements such as income tax, payroll, social security, other taxes, excise, monopoly fees, duties and other fees, including for utilities, licences and judicial fees to commence litigation, are payable to the Government of Iran and affiliated entities regarding BAT Pars' operation. BAT Pars maintains bank accounts in Iran with various banks to facilitate its operations in the country and to make any required payments, as described above, to the Government of Iran and affiliated entities regarding its operations.

During the year ended 31 December 2020, BAT did not have any gross revenues or net profits derived from transactions with the Government of Iran or affiliated entities.

BAT maintains policies and procedures designed to ensure that its activities in Iran and elsewhere comply in all material aspects with the applicable and relevant trade sanctions laws and regulations, including US and other international trade sanctions and/or embargoes. BAT's sanctions policies and procedures have been designed to be as robust as possible. However, there can be no absolute assurance that these policies and procedures will be effective. Were they to be ineffective, penalties or sanctions could be imposed against BAT, which could be material. To the extent permitted under applicable law, and as long as it continues to meet BAT's risk management and operational requirements, BAT Pars' activities in Iran are expected to continue.

Other Information

Material Contracts

The Master Settlement Agreement & State Settlement Agreements

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

During 2012, R.J. Reynolds Tobacco Company, various other tobacco manufacturers, 17 states, the District of Columbia and Puerto Rico reached a final agreement related to Reynolds American's 2003 MSA activities, and three more states joined the agreement in 2013. Under this agreement, R.J. Reynolds Tobacco Company has received credits of more than US$1 billion in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits have been applied against the company's MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations. During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. R.J. Reynolds Tobacco Company received US$170 million in credits, which have been applied over a five-year period from 2014. During 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014. R.J. Reynolds Tobacco Company received US$285 million in credits, which have been applied over a four-year period from 2016. During 2016, no additional states agreed to settle NPM disputes. During 2017, two more states agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US$61 million in credits, which will be applied over a five-year period from 2017. During 2018, nine more states agreed to settle NPM disputes related to claims for the period 2004 to 2019, with an option through 2022, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US$182 million in credits for settled periods through 2017, which will be applied over a five-year period from 2018. Also in 2018, a tenth additional state agreed to settle NPM disputes related to claims for the period 2004 to 2024, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US$205 million in credits for settled periods through 2017, which will be applied over a five-year period from 2019. In the first quarter of 2020, certain conditions set forth in the 2018 agreements were met for those ten states. In addition, in August 2020, 24 states, the District of Columbia and Puerto Rico agreed to settle NPM disputes related to claims for the period 2018-2022. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjusting items. Only credits in respect of prior year payments are included as adjusting items.

The BAT Group is subject to substantial payment obligations under the MSA and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (such settlement agreements, collectively State Settlement Agreements). Reynolds American Inc.'s operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2020 amounted to US$3,572 million in respect of settlement expenses and US$2,848 million in respect of settlement cash payments. Reynolds American Inc.'s operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2019 amounted to US$2,762 million in respect of settlement expenses and US$2,918 million in respect of settlement cash payments.

R.J. Reynolds Tobacco Company divested certain brands to Imperial Tobacco Group (ITG) in 2015. In 2020, R.J. Reynolds Tobacco Company recognised additional expenses, included above, under the state settlement agreements in the states of Mississippi, Florida, Texas and Minnesota related to these divested brands. R.J. Reynolds Tobacco Company recognised US$241 million of expense for payment obligations to the State of Florida for the ITG acquired brands from the date of divestiture, June 12, 2015, as a result of an unfavourable judgment. In addition, R.J. Reynolds Tobacco Company recognised US$264 million related to the resolution of claims against it in the States of Texas, Minnesota and Mississippi for payment obligations to those states for the ITG acquired brands from the date of divestiture. Finally, R.J. Reynolds Tobacco Company settled certain related claims with Phillip Morris USA under the state settlement agreements in the states of Mississippi, Texas and Minnesota for US$8 million.

Change of Control Provisions as at 31 December 2020

Significant agreements

Nature of agreement	Key provisions
The revolving credit facilities agreement effective 12 March 2020 entered into between the Company, B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V and B.A.T Capital Corporation (as borrowers and, in the case of the Company, as a guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders), pursuant to which the lenders agreed to make available to the borrowers £6 billion for general corporate purposes (the Facility).	– should a borrower (other than the Company) cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it and shall cease to be a borrower under the Facility; and – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the Facility to be repaid.
In March and April 2020, the Group arranged short-term bilateral facilities with core relationship banks for a total amount of approximately £4.8 billion. B.A.T. International Finance p.l.c. is the borrower under these facilities and the Company the guarantor. The bilateral facilities have since been reduced to a total amount of approximately £3.4 billion and remain undrawn.	– should the borrower cease to be a direct or indirect subsidiary of the Company, the borrower shall immediately repay any outstanding advances made to it under these facilities; and – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under these facilities to be repaid.
Term loan facilities agreement dated 16 January 2017: B.A.T. International Finance p.l.c. and B.A.T Capital Corporation (as borrowers), the Company, (as guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers US$25 billion for the acquisition of Reynolds American Inc. Facilities A, B and C have been repaid and facility D, totalling the sterling equivalent of US$2.5 billion, is still outstanding.	– should a borrower cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it; and – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the term loan facilities to be repaid.
Packaging Materials Agreement dated 8 April 2015, between Souza Cruz S.A. and Amcor Group GmbH for the production and supply of packaging for a value of R$1.5 billion.	– that either party may terminate the agreement in the event of any direct or indirect acquisition of at least 25% of the voting shares of the supplier and/or its affiliates by directly or indirectly a competitor of Souza Cruz S.A., importer or distributor.
On 25 July 2017, the Company acceded as a guarantor under the indenture of its indirect, wholly-owned subsidiary Reynolds American Inc. The securities issued under the indenture include approximately US$7.7 billion aggregate principal amount of unsecured Reynolds American Inc debt securities.	– with respect to each series of debt securities issued under the indenture, upon a change of control event, combined with a credit ratings downgrade of the series to below investment-grade level (such downgrade occurring on any date from the date of the public notice of an arrangement that could result in a change of control event until the end of the 60-day period following public notice of the occurrence of a change of control event), Reynolds American Inc. is obligated to make an offer to repurchase all debt securities from each holder of debt securities. As a guarantor under the indenture, the Company guarantees such payments.

LTIPs

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

Other Information

Property, Plant and Equipment

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

BAT-owned manufacturing facilities[1]

	United States	APME	AmSSA	ENA	Total
Fully integrated cigarette manufacturing	2	16	15	12	45
Sites processing tobacco only	1	7	9	2	19
Site manufacturing other tobacco products, Snus, Modern Oral and Liquids	3	-	-	5	8
R&D facilities and Product Centres	1	1	3	2	7
Total	7	24	27	21	79

Note:
1. As of 31 December 2020.

The plants and properties owned or leased and operated by the Group's subsidiaries are maintained in good condition and are believed to be suitable and adequate for the Group's present needs.

The technology employed in the Group's factories is sophisticated, especially in the area of cigarette making and packing where throughputs can reach between 500 and 1,000 packs per minute. The Group can produce many different pack formats (e.g., the number of cigarettes per packet) and configurations (e.g., bevel edge, round corner, international) to suit marketing and consumer requirements. New technology machines are sourced from the leading machinery suppliers to the industry. Close cooperation with these organisations helps the Group support its marketing strategy by driving its product innovations, which are brought to the market on a regular basis.

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

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

In 2020, the Group manufactured cigarettes in 45 cigarette factories in 43 countries. These plants and properties are owned or leased and operated by the Group's subsidiaries. The Group's factory outputs and establishments vary significantly in size and production capacity.

In 2020, the Group used third-party manufacturers to manufacture the components required, including the devices, related to New Categories. The Group also used third-party manufacturers to supplement the Group's own production facilities in the US and Poland to bottle the liquids used in the vapour products.

For more information on property, plant and equipment, see note 9 in the Notes on the Accounts.

Raw Materials

While the Group does not own tobacco farms or directly employ farmers, it sources over 370,000 tonnes of tobacco leaf each year directly from over 84,000 contracted farmers and through third-party suppliers mainly in developing countries and emerging markets. In respect of farmers we contract, we continually strive to improve farmer sustainability and viability with a focus on improved quality and resistance of seed, tailored mechanisation to reduce costs of production and increased yield, with similar expectation on our third-party suppliers in respect of their farmer contracts. We review our contracts on an annual basis considering Group requirements over the medium term (2 - 3 years) to promote the stability of demand and supply on production volumes. The Group also purchases a small amount of tobacco leaf from India where the tobacco is bought over an auction floor. The price of tobacco in US dollars varies from year-to-year driven by domestic inflationary pressures, economic and political factors, as well as climatic conditions which impact supply, demand and quality of tobacco grown.

While COVID-19 impacted tobacco supply chains across most markets and required process enhancements to minimise transmission risks within communities, prices and availability of tobacco were not significantly impacted. The Group believes there is an adequate supply of tobacco leaf in the world markets to satisfy its current and anticipated production requirements.

We also source a number of other materials required as part of our production requirements, covering areas that include wrapping materials and filters for our combustibles business and liquids and batteries for our New Categories products. We work closely with our suppliers to ensure a robust supply chain, with contingency sourcing in place. Contracts and sourcing agreements are reviewed regularly, to ensure competitive trading terms while recognising that prices may be impacted by external factors that affect our third-party supply partners. COVID-19 has led to some short-term disruption in the supply of certain materials (due to local lockdowns and travel restrictions), yet this has been proactively managed to mitigate the impact.

Other Information

US Corporate Governance Practices

Principles

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

The Company has applied a robust set of board governance principles, which reflect the UK Corporate Governance Code 2018 and its principles-based approach to corporate governance. NYSE rules require US companies to adopt and disclose on their websites corporate governance guidelines. The Company complies with UK requirements, including a statement in this report of how the Company has applied the principles of the UK Corporate Governance Code 2018 and that the Company has complied with the provisions of the UK Corporate Governance Code 2018.

Independence

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

Committees

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

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

Each Board Committee has its own terms of reference, which prescribe the composition, main tasks and requirements of each of the Committees (see the Board Committee reports on pages 105, 110 and 117).

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

One of the NYSE's additional requirements for the audit committee states that at least one member of the audit committee is to have 'accounting or related financial management expertise'. The Board has determined that Luc Jobin, Holly Keller Koeppel, Jerry Fowden and Darrell Thomas possess such expertise and also possess the financial and audit committee experiences set forth in both the UK Corporate Governance Code 2018 and SEC rules (see the Audit Committee report on page 110). Mr Jobin, Ms Keller Koeppel and Mr Fowden have also each been designated as an Audit Committee financial expert as defined in Item 16.A. of Form 20-F. The Board has also determined that each Audit Committee member meets the financial literacy requirements applicable under NYSE listing standards.

Shareholder Approval of Equity Compensation Plans

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

Codes of Business Conduct and Ethics

The NYSE rules require US companies to adopt and disclose a code of business conduct and ethics for all directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. The Group Standards of Business Conduct (SoBC) described on pages 56 to 57 apply to all staff in the Group, including senior management and the Board, and satisfy the NYSE requirements. All Group companies have adopted the SoBC (or localised versions). The SoBC also set out the Group's whistleblowing policy, enabling staff, in confidence and anonymously, to raise concerns without fear of reprisal, including concerns regarding questionable accounting or auditing matters. The SoBC is available at bat.com/sobc.

The Company has also adopted a code of ethics for its Chief Executive, Finance Director, Group Financial Controller and Group Chief Accountant as required by the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules issued by the SEC. No waivers or exceptions to the Code of Ethics were granted in 2020. The Code of Ethics includes requirements in relation to confidentiality, conflicts of interest and corporate opportunities, and obligations for those senior financial officers to act with honesty and integrity in the performance of their duties and to promote full, fair, accurate, timely and understandable disclosures in all reports and other documents submitted to the SEC, the UK Financial Conduct Authority, and any other regulatory agency.

The Company considers that these codes and policies address the matters specified in the NYSE rules for US companies.

Independent Director Contact

Interested parties may communicate directly with the independent directors, individually or as a group, by sending written correspondence addressed to the independent director(s) to the attention of the Company Secretary at the following address: c/o Paul McCrory, Company Secretary, British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG.

Other Information

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures

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

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

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

Management's report on internal control over financial reporting

Management, under the oversight of the Chief Executive and the Finance Director, is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. The Group's internal control over financial reporting consists of processes which are designed to: provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Group's financial statements for external reporting purposes in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB; provide reasonable assurance that receipts and expenditure are made only in accordance with the authorisation of management; and provide reasonable assurance regarding the prevention or timely detection of any unauthorised acquisition, use or disposal of assets that could have a material effect on the consolidated financial statements.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of the internal control over financial reporting (as defined in Rules 13(a)-13(f) and 15(d)-15(f) under the US Securities Exchange Act of 1934) based on the updated Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) (2013). Based on that assessment, management has determined that the Group's internal control over financial reporting was effective as at 31 December 2020.

Any internal control framework, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of controls and procedures and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

»KPMG LLP, an independent registered public accounting firm, who also audit the Group's consolidated financial statements, has audited the effectiveness of the Group's internal control over financial reporting as at 31 December 2020, which is included in this document.»

Changes in internal control over financial reporting

During the period covered by this report, there were no changes in the Group's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting.

Statements Regarding Competitive Position

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

Directors' Report Information

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

Strategic Report Disclosures

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

Information required in the Directors' Report	Section in the Strategic Report
Information on dividends	Financial review
Certain risk information about the use of financial instruments	Financial review
An indication of likely future developments in the business of the Group	A strategy for accelerated growth
An indication of the activities of the Group in the field of research and development	Accelerating the Enterprise of the Future Tobacco Harm Reduction Through World-class Science
A statement describing the Group's policy regarding the hiring, continuing employment and training, career development and promotion of disabled persons	People and Culture
Details of employee engagement: information, consultation, regard to employee interests, share scheme participation and the achievement of a common awareness of the financial and economic factors affecting the performance of the Group	Engaging with our stakeholders People and Culture
Details of business relationships: Directors' regard to business relationships with customers, suppliers and other external stakeholders	Engaging with our stakeholders
Disclosures concerning greenhouse gas emissions and energy consumption	Excellence in Environmental Management

Shareholder Information Disclosures

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

Listing Rules (LRs) Disclosures

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

Directors: Interests and Indemnities

Interests
- details of Directors' remuneration and emoluments, and their interests in the Company's shares (including share options and deferred shares) as at 31 December 2020 are given in the Remuneration Report; and
- no Director had any material interest in a contract of significance (other than a service contract) with the Company or any subsidiary company during the year.

Insurance
- appropriate cover provided in the event of legal action against the Company's Directors.

Indemnities
- provision of indemnities to Directors in accordance with the Company's Articles of Association and to the maximum extent permitted by law; and
- as at the date of this report, such indemnities are in force covering any costs, charges, expenses or liabilities that they may incur in or about the execution of their duties to the Company or to any entity which is an associated company (as defined in Section 256 of the Companies Act 2006), or as a result of duties performed by them on behalf of the Company or any such associated company.

Directors' Report Approval and Signature

The Directors' Report comprises the information on pages 89 to 116@ and page 140@ and pages 271 to 343. The Directors' Report was approved by the Board of Directors on 16 February 2021 and signed on its behalf by Paul McCrory, Company Secretary.

Other Information

Cautionary Statement

This document contains certain forward-looking statements, including "forward-looking" statements made within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are often, but not always, made through the use of words or phrases such as "believe," "anticipate," "could," "may," "would," "should," "intend," "plan," "potential," "predict," "will," "expect," "estimate," "project," "positioned," "strategy," "outlook", "target" and similar expressions. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates, including the projected future financial and operating impacts of the COVID-19 pandemic.

In particular, these forward-looking statements include, among other statements, statements regarding the Group's future financial performance, planned product launches and future regulatory developments, as well as: (i) certain statements in the Overview section (pages 2 to 11, including the Chairman's introduction, Chief Executive's review and Finance Director's overview; (ii) certain statements in the Strategic Management section (pages 12 to 28), including the Global industry overview; (iii) certain statements in the Financial Review section (pages 65 to 73), including the Treasury and cash flow section and going concern discussions; and (iv) certain statements in the Other Information section (pages 271 to 348), including the Additional disclosures and Shareholder information sections.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors. It is believed that the expectations reflected in this document are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; the inability to develop, commercialise and deliver the Group's New Categories strategy; the impact of market size reduction and consumer down-trading; adverse litigation and dispute outcomes and the effect of such outcomes on the Group's financial condition; the impact of significant increases or structural changes in tobacco, nicotine and New Categories related taxes; translational and transactional foreign exchange rate exposure; changes or differences in domestic or international economic or political conditions; the ability to maintain credit ratings and to fund the business under the current capital structure; the impact of serious injury, illness or death in the workplace; adverse decisions by domestic or international regulatory bodies; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group. Further details on the principal risks that may affect the Group can be found in the 'Principal Group risks' section of the Strategic Report on pages 84 to 88 of this document. A summary of all the risk factors (including the principal risks) which are monitored by the Board through the Group's risk register is set out in the Additional Disclosures section under the heading 'Group risk factors' on pages 288 to 306.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and the Group undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.

No statement in this document is intended to be a profit forecast and no statement in this document should be interpreted to mean that earnings per share of BAT for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT.

Share Prices and Listing

Premium Listing – London Stock Exchange (LSE)

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

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

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

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

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

Share Prices

The high and low prices at which the Company's ordinary shares and ADSs are recorded as having traded during the year on each of the LSE, JSE and NYSE are as follows:

	High	Low
LSE	£35.07	£23.82
JSE	R723.34	R498.00
NYSE	US$45.48	US$27.64

Other Information

Dividends

Policy

The Group's policy is to pay dividends of 65% of long-term sustainable earnings, calculated with reference to adjusted diluted earnings per share, as defined on page 281, and reconciled from earnings per share in note 7 in the Notes on the Accounts. Please see page 69 of this Annual Report and Form 20-F 2020 for further discussion on the Group's dividend.

Currencies and Exchange Rates

Details of foreign exchange rates are set out in the Financial Review section of the Strategic Report on page 73 of this Annual Report and Form 20-F 2020. There are currently no UK foreign exchange controls or restrictions on remittance of dividends on the ordinary shares or on the conduct of the Company's operations, other than restrictions applicable to certain countries and persons subject to EU economic sanctions or those sanctions adopted by the UK Government which implement resolutions of the Security Council of the United Nations.

American Depositary Shares – Dividends

The following table shows the dividends paid by British American Tobacco p.l.c. in the years ended 31 December 2016 to 31 December 2020 inclusive.

Announcement Year	Payment	Dividend period	Dividend per BAT ordinary share GBP	Dividend per BAT ADS[1] ADS ratio 2:1 USD[2]
2016	May	Final 2015	1.046	3.0292160
	September/October	Interim 2016	0.513	1.3324660
		Total	**1.559**	**4.3616820**

Announcement Year	Payment	Dividend Period	Dividend Per BAT Ordinary Share GBP	Dividend Per BAT ADS[1] ADS ratio 1:1 USD[2]
2017	May	Final 2016	1.181	1.5239380
	September/October	Interim 2017	0.565	0.7585690
	February 2018	Second Interim 2017	0.436	0.6068680
		Total	**2.182**	**2.8893750**
2018	May	Quarterly Interim 2018	0.488	0.6611420
	August	Quarterly Interim 2018	0.488	0.6281530
	November	Quarterly Interim 2018	0.488	0.6217120
	February 2019	Quarterly Interim 2018	0.488	0.6324960
		Total	**1.952**	**2.5435030**
2019	May	Quarterly Interim 2019	0.5075	0.6596990
	August	Quarterly Interim 2019	0.5075	0.6155970
	November	Quarterly Interim 2019	0.5075	0.6521370
	February 2020	Quarterly Interim 2019	0.5075	0.6571610
		Total	**2.0300**	**2.5845940**
2020	May	Quarterly Interim 2020	0.526	0.6424030
	August	Quarterly Interim 2020	0.526	0.6889020
	November	Quarterly Interim 2020	0.526	0.6895860
	February 2021	Quarterly Interim 2020	0.526	0.7178320
		Total	**2.104**	**2.738723**

Notes:

1. **ADS ratio change:** prior to 14 February 2017, each BAT ADS represented two BAT ordinary shares; from 14 February 2017, each BAT ADS represents one BAT ordinary share.
2. **Holders of BAT ADSs:** dividends are receivable in US dollars based on the £ sterling/US dollar exchange rate on the applicable ADS payment date, being three business days after the payment date for the BAT ordinary shares.

Quarterly Dividends for the Year Ended 31 December 2020

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

The Board has declared an interim dividend of 215.6p per ordinary share of 25p which is payable in four equal quarterly instalments of 53.9p per ordinary share in May 2021, August 2021, November 2021 and February 2022. This represents an increase of 2.5% on 2019 (2019: 210.4p per share), and a payout ratio, on 2020 adjusted diluted earnings per share, of 65.0%.

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

Holders of American Depositary Shares (ADSs)

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

South Africa branch register

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

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

Key dates

In compliance with the requirements of the LSE, the NYSE and Strate, the electronic settlement and custody system used by the JSE, the following are the salient dates for the quarterly dividend payments. All dates are 2021 unless otherwise stated.

Event	Payment No. 1	Payment No. 2	Payment No. 3	Payment No. 4
Preliminary announcement (includes declaration data required for JSE purposes)	17 February			
Publication of finalisation information (JSE)	15 March	29 June	20 September	13 December
No removal requests (in either direction) permitted between the UK main register and the South Africa branch register	15 March–26 March (inclusive)	29 June–9 July (inclusive)	20 September–1 October (inclusive)	13 December–24 December (inclusive)
Last day to trade (LDT) cum-dividend (JSE)	23 March	6 July	28 September	21 December
Shares commence trading ex-dividend (JSE)	24 March	7 July	29 September	22 December
No transfers permitted between the UK main register and the South Africa branch register	24 March–26 March (inclusive)	7 July–9 July (inclusive)	29 September – 1 October (inclusive)	22 December–24 December (inclusive)
No shares to be dematerialised or rematerialised on the South Africa branch register	24 March–26 March (inclusive)	7 July–9 July (inclusive)	29 September–1 October (inclusive)	22 December–24 December (inclusive)
Shares commence trading ex-dividend (LSE)	25 March	8 July	30 September	23 December
Shares commence trading ex-dividend (NYSE)	25 March	8 July	30 September	23 December
Record date (LSE, JSE and NYSE)	26 March	9 July	1 October	24 December
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (LSE)	20 April	29 July	21 October	19 January 2022
Payment date (LSE and JSE)	12 May	19 August	11 November	9 February 2022
ADS payment date (NYSE)	17 May	24 August	16 November	14 February 2022

Other Information

Shareholder Taxation Information

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

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

- a bank or other financial institution;
- a tax-exempt organisation;
- an S corporation or other pass-through entity and an investor therein;
- an insurance company;
- a mutual fund;
- a regulated investment company or real estate investment trust;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market treatment;
- a US holder subject to the alternative minimum tax provisions of the US Tax Code;
- a US holder that received ordinary shares or ADSs through the exercise of an employee stock option, pursuant to a tax qualified retirement plan or otherwise as compensation;
- a US holder that is a tax-qualified retirement plan or a participant or a beneficiary under such a plan;
- a person that is not a US holder (as defined below);
- a person that has a functional currency other than the US dollar;
- a person required to recognise any item of gross income as a result of such income being recognised on an applicable financial statement;
- a US holder of ordinary shares or ADSs that holds such equity interest as part of a hedge, straddle, constructive sale, conversion or other integrated transaction;
- a US holder that owns (directly, indirectly or constructively) 10% or more of ordinary shares or ADSs by vote or by value; or
- a US expatriate.

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

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

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

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

Material US Federal Income Tax Consequences Relating to the Ownership and Disposition of Ordinary Shares or ADSs

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

ADSs

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

Taxation of Dividends

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

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

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

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

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

Passive foreign investment company

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

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

Taxation of capital gains

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

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

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

Other Information

Shareholder Taxation Information
Continued

Information with respect to foreign financial assets

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

Medicare net investment tax

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

Credits or deductions for UK taxes

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

Information reporting and backup withholding

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

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

Material UK Tax Consequences

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

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

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

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

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

Tax on dividends

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

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

Stamp duty and stamp duty reserve tax (SDRT)

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

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

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

Inheritance tax

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

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

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

Other Information

Share Capital and Security Ownership

Share Capital

Share capital Ordinary shares of 25p each	31 December 2020
Issued ordinary shares (excluding treasury shares)	2,294,244,351
Treasury shares	162,347,246
Total allotted and fully paid ordinary shares[1]	2,456,591,597
Aggregate nominal value £m	**614.1**

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

Authority to allot shares

This authority (granted at the 2020 AGM) will expire at the 2021 AGM and provides the Company authority to allot relevant securities up to the amount representing two-thirds of the Company's then issued ordinary share capital (excluding treasury shares), of which approximately one-third can only be allotted pursuant to a rights issue. Although the Directors have no present intention of exercising this authority, it provides them with an appropriate level of authority for on-going purposes and the Directors consider it appropriate to maintain the flexibility that this authority provides.

Analyses of Shareholders

Ordinary Shares

At 31 December 2020, there was a total of 2,456,591,597 ordinary shares in issue held by 108,467 shareholders. These shareholdings are analysed as follows:

(a) by listing as at 31 December 2020:

Register	Total number of shares	Number of holders	% of issued share capital
UK	2,197,039,462	36,648	89.43
South Africa	259,552,135	71,819	10.57
Total	**2,456,591,597**	**108,467**	**100.00**

(b) by size of shareholding as at 31 December 2020:

UK Register

	Number of holders	% of UK ordinary share capital
1–1,999	31,222	0.63
2,000–9,999	3,898	0.72
10,000–199,999	1,050	2.58
200,000–499,999	170	2.66
500,000 and over	307	85.93
Treasury shares (UK)	1	7.48
Total	**36,648**	**100.00**

South Africa Register

	Number of holders	% of SA ordinary share capital
1–1,999	66,334	6.59
2,000–9,999	3,730	5.86
10,000–199,999	1,601	24.98
200,000–499,999	91	10.75
500,000 and over	63	51.82
Total	**71,819**	**100.00**

Combined registers

	Number of holders	% of issued ordinary share capital
1–1,999	97,556	1.29
2,000–9,999	7,628	1.27
10,000–199,999	2,651	5.17
200,000–499,999	261	3.62
500,000 and over	370	82.03
Treasury shares (UK)	1	6.62
Total	**108,467**	**100.00**

American Depositary Shares (ADSs)

At 31 December 2020, there was a total of 189,157,550 ADSs outstanding held by 9,344 registered holders. The ADS register is analysed by size of shareholding as at 31 December 2020 as follows:

	Number of holders	% of total ADSs
1–1,999	9,139	0.95
2,000–9,999	179	0.32
10,000–199,999	24	0.34
200,000–499,999	1	0.12
500,000 and over[1]	1	98.27
Total	**9,344**	**100.00**

Note:
1. One registered holder of ADSs represents 338,284 underlying shareholders.

Security Ownership of Ordinary Shares

As at 15 February 2021, there were 36,451 record holders of ordinary shares listed on the LSE (including Citibank as the depositary bank for the ADSs) and 2,196,175,409 of such ordinary shares outstanding. As at that date, to BAT's knowledge, 299 record holders, representing 0.01% of the ordinary shares listed on the LSE, had a registered address in the US. As at 15 February 2021, there were 752 record holders of ordinary shares listed on the JSE (including PLC Nominees (Proprietary) Limited as the nominee for the dematerialised ordinary shares listed on the JSE) and 260,417,941 of such ordinary shares outstanding. As at such date, to BAT's knowledge, no record holders of the ordinary shares listed on the JSE had a registered address in the US. As at 15 February 2021, based on information received from Citibank, there were 9,309 record holders of ADSs and 190,737,381 ADSs outstanding. As at that date, based on information received from Citibank, 9,236 record holders, representing 99.91% of ADSs representing ordinary shares, had a registered address in the US.

Security Ownership – Major Shareholders

At 31 December 2020, the following substantial interests (3% or more) in the Company's ordinary share capital (voting securities) had been notified to the Company in accordance with Section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs).

Name	Number of ordinary shares	% of issued share capital[1]
The Capital Group Companies, Inc.[2]	256,801,504	11.19
BlackRock, Inc.	132,891,526	5.79
Spring Mountain Investments Ltd.[3]	92,462,558	4.03

Notes:
1. The latest percentage of issued share capital excludes treasury shares.
2. Includes 26,775,611 ordinary shares represented by ADRs.
3. Includes 3,973,516 ordinary shares represented by ADRs.

On 14 January 2021, Spring Mountain Investments Ltd. notified the Company that on 12 January 2021 its interest had increased to 115,596,737 ordinary shares (5.04% of issued share capital), including 3,973,516 ordinary shares represented by ADRs.

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

Additional Significant Shareholding Disclosure

Portfolio Services Ltd filed with the SEC a statement on Schedule 13G under the Exchange Act on 22 January 2021 disclosing that as of 31 December 2020 it beneficially owned 114,819,555 ordinary shares representing 5.0% of the Company's ordinary shares outstanding as of 31 December 2020.

BlackRock, Inc. filed with the SEC a statement on Schedule 13G under the Exchange Act on 29 January 2021 disclosing that as of 31 December 2020 it beneficially owned 178,392,857 ordinary shares representing 7.8% of the Company's ordinary shares outstanding as of 31 December 2020.

BlackRock, Inc. filed with the SEC a statement on Schedule 13G under the Exchange Act on 7 February 2020 disclosing that as of 31 December 2019 it beneficially owned 170,313,722 ordinary shares representing 7.4% of the Company's ordinary shares outstanding as of 31 December 2019.

Capital Research Global Investors, a division of Capital Research and Management Company, filed with the SEC an amendment to Schedule 13G under the Exchange Act on 14 February 2020 disclosing that as of 31 December 2019 it beneficially owned 120,959,021 ordinary shares representing 5.2% of the Company's ordinary shares outstanding as of 31 December 2019. The notifications regarding the holdings by The Capital Group Companies, Inc., listed below, indicate that Capital Research and Management Company is part of a chain of controlled undertakings with The Capital Group Companies, Inc.

In accordance with the DTRs, shareholders must notify the Company if their shareholding reaches, exceeds or falls below 3% of total voting rights and each 1% threshold thereafter. The notifications received by the Company during the past three years to the best of the Company's knowledge are set out below.

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

The Capital Group Companies, Inc. notified the Company on 15 March 2018 that its interest had increased above 10% to 229,777,471 ordinary shares on 14 March 2018.

The Capital Group Companies, Inc. notified the Company on 16 October 2018 that its interest had increased above 11% to 252,733,863 ordinary shares on 12 October 2018.

The Capital Group Companies, Inc. notified the Company on 14 January 2019 that its interest had decreased below 11% to 249,831,584 ordinary shares on 11 January 2019.

The Capital Group Companies, Inc. notified the Company on 8 March 2019 that its interest had increased above 11% to 253,390,697 ordinary shares on 7 March 2019.

The Capital Group Companies, Inc. notified the Company on 11 April 2019 that its interest had decreased below 11% to 252,158,534 ordinary shares on 10 April 2019.

The Capital Group Companies, Inc. notified the Company on 15 April 2019 that its interest had increased above 11% to 252,776,216 ordinary shares on 11 April 2019.

The Capital Group Companies, Inc. notified the Company on 16 April 2019 that its interest had decreased below 11% to 251,780,072 ordinary shares on 15 April 2019.

The Capital Group Companies, Inc. notified the Company on 19 November 2019 that its interest had increased above 11% to 253,543,406 ordinary shares on 18 November 2019.

The Capital Group Companies, Inc. notified the Company on 6 January 2020 that its interest had increased above 12% to 275,376,579 ordinary shares on 3 January 2020.

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

Security Ownership of the Board of Directors and the Management Board

The following table presents information regarding the total amount of ordinary shares beneficially owned (outright, by their family or by connected persons) by each current Director of BAT, each member of the Management Board and all Directors and the Management Board as a group, as of 16 February 2021. Unless otherwise indicated, the address for each Director and member of the Management Board listed is: c/o British American Tobacco p.l.c., Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom. The address for Michael Dijanosic is Level 30, Three Pacific Place, 1 Queen's Road East, Hong Kong. The address for Guy Meldrum is 401 North Main Street, Winston-Salem, NC 27101, United States of America.

	Number of Ordinary Shares	Percentage of Class[10]
Directors		
Richard Burrows	19,000	0.0008
Jack Bowles[1,2,3]	217,518	0.0094
Tadeu Marroco[1,2,3]	54,360	0.0023
Sue Farr	–	–
Jerry Fowden[4]	10,000	0.0004
Karen Guerra	2,478	0.0001
Dr Marion Helmes	4,500	0.0002
Luc Jobin[4]	45,236	0.0020
Holly Keller Koeppel[4,5]	8,416	0.0004
Savio Kwan	7,455	0.0003
Dimitri Panayotopoulos	3,300	0.0001
Darrell Thomas	2,000	0.0000

Other Information

Share Capital and Security Ownership
Continued

	Number of Ordinary Shares	Percentage of Class[10]
Management Board		
Jerome Abelman[6,7,8]	76,660	0.0033
Marina Bellini[6]	2,336	0.0001
Luciano Comin[6,7,8]	23,961	0.0010
Michael Dijanosic[,7,8]	21,403	0.0009
Zafar Khan[6,7,8]	232	0.0000
Hae In Kim[6,7,8]	13,621	0.0006
Paul Lageweg[6,7,8,9]	112,362	0.0049
Guy Meldrum[6,7,8]	18,643	0.0008
David O'Reilly[6,7,8]	63,171	0.0027
Johan Vandermeulen[6,7,8]	60,265	0.0026
Kingsley Wheaton[6,7,8]	46,847	0.0020
All Directors and Management Board as a group (23 persons)	**813,753**	**0.0355**

Notes:

1. The number of ordinary shares beneficially owned by the Executive Directors include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts next to the corresponding Executive Director include the following ordinary shares held in the trust under the SIP: (a) 685 ordinary shares for Mr Bowles, of which 421 have been held for less than three years; (b) 1,114 ordinary shares for Mr Marroco, of which 642 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with his instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.
2. The number of ordinary shares beneficially owned by the Executive Directors include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 16 February 2021: (a) 43,785 options under the LTIP for Mr Bowles; and (b) 28,248 options under the LTIP for Mr Marroco. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.
3. The number of ordinary shares beneficially owned by the Executive Directors include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 16 Feburary 2021: (a) 12,064 ordinary shares for Mr Bowles; (b) 7,783 ordinary shares for Mr Marroco. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.
4. The ordinary shares beneficially owned by Mr Fowden, Mr Jobin, Ms Koeppel and Mr Thomas are represented by ADSs, each of which represents one ordinary share.
5. Ms Koeppel, being a former director of Reynolds American Inc. and a participant in the Deferred Compensation Plan for Directors of Reynolds American Inc. (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 25,125.91 DSUs.
6. The number of ordinary shares beneficially owned by the members of the Management Board include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts next to the corresponding Management Board member include the following ordinary shares held in the trust under the SIP: (a) 954 ordinary shares for Mr Abelman, of which 438 have been held for less than three years; (b) 366 ordinary shares for Ms Bellini, of which 247 have been held for less than three years; (c) 975 ordinary shares for Mr Comin, of which 442 have been held for less than three years; (d) 112 ordinary shares for Mr Khan, all of which have been held for less than three years; (e) 343 ordinary shares for Ms Kim, all of which have been held for less than three years; (f) 338 ordinary shares for Mr Lageweg, all of which have been held for less than three years; (g) 307 ordinary shares for Mr Meldrum, all of which have been held for less than three years; (h) 2,282 ordinary shares for Dr O'Reilly, of which 652 have been held for less than three years; (i) 923 ordinary shares for Mr Vandermeulen, of which 432 have been held for less than three years; and (j) 1,115 ordinary shares for Mr Wheaton, of which 484 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with their instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.
7. The number of ordinary shares beneficially owned by the members of the Management Board include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 16 February 2021: (a) 32,100 options under the LTIP for Mr Abelman; (b) 10,313 options under the LTIP for Mr Comin; (c) 6,158 options under the LTIP for Mr Khan; (d) 6,497 options under the LTIP for Ms Kim; (e) 11,471 options under the LTIP for Mr Lageweg; (f) 11,066 options under the LTIP for Mr Meldrum; (g) 24,364 options under the LTIP for Mr O'Reilly; (h) 6,673 options under the LTIP for Mr Dijanosic; (i) 30,335 options under the LTIP for Mr Vandermeulen; (j) 32,100 options under the LTIP for Mr Wheaton. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.
8. The number of ordinary shares beneficially owned by the members of the Management Board include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 16 February 2021: (a) 8,844 ordinary shares for Mr Abelman; (b) 3,464 ordinary shares for Mr Comin; (c) 2,026 ordinary shares for Mr Khan; (d) 1,863 ordinary shares for Ms Kim; (e) 2,039 ordinary shares for Mr Lageweg; (f) 3,796 ordinary shares for Mr Meldrum; (g) 6,713 ordinary shares for Dr O'Reilly; (h) 2,259 ordinary shares for Mr Dijanosic; (i) 8,358 ordinary shares for Mr Vandermeulen; and (j) 8,358 ordinary shares for Mr Wheaton. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.
9. The number of ordinary shares beneficially owned by Mr Lageweg includes 98,416 ADSs, each of which represents one ordinary share.
10. The information in this column is based on 2,294,246,104 ordinary shares outstanding (excluding treasury shares) as of 15 February 2021. Any securities not outstanding subject to options, warrants, rights or conversion privileges that give the beneficial owner the right to acquire the securities within 60 days are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class by any other person.

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

The following table presents information regarding the options and the restricted share awards held by the Directors and the Management Board as of 16 February 2021. The following Directors (being the Chairman and the Non-Executive Directors) have not been granted share-based Awards or Options-based Awards over ordinary shares: Mr Burrows, Ms Farr, Mr Fowden, Ms Guerra, Dr Helmes, Mr Jobin, Ms Koeppel, Mr Kwan, Mr Panayotopoulos and Mr Thomas.

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Directors						
Jack Bowles						
LTIP[1]	43,785	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	176,532	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	223,129	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Total Options[3]	**238,814**					
DSBS[4]	–	26 Mar 2018	–	–	12,064	26 Mar 2021
	–	28 Mar 2019	–	–	26,192	28 Mar 2022
	–	30 Mar 2020	–	–	53,618	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	3	9 May 2021
	–	8 Aug 2018	–	–	4	8 Aug 2021
	–	15 Nov 2018	–	–	6	15 Nov 2021
	–	7 Feb 2019	–	–	7	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	6	8 May 2022
	–	8 Aug 2019	–	–	8	8 Aug 2022
	–	14 Nov 2019	–	–	9	14 Nov 2022
	–	6 Feb 2020	–	–	7	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	9	13 May 2023
	–	19 Aug 2020	–	–	13	19 Aug 2023
	–	12 Nov 2020	–	–	12	12 Nov 2023
	–	5 Feb 2021	–	–	13	5 Feb 2024
Total Restricted Share Awards[6]					**92,278**	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Tadeu Marroco						
LTIP[1]	28,248	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	36,057	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	113,938	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Sharesave[2]	266	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
	624	30 Mar 2020	24.01	26.35	–	1 May 2025 – 31 Oct 2025
Total Options[3]	**179,133**					
DSBS[4]	–	26 Mar 2018	–	–	7,783	26 Mar 2021
	–	28 Mar 2019	–	–	13,233	28 Mar 2022
	–	30 Mar 2020	–	–	24,388	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	6	9 May 2021
	–	8 Aug 2018	–	–	7	8 Aug 2021
	–	15 Nov 2018	–	–	10	15 Nov 2021
	–	7 Feb 2019	–	–	11	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	11	8 May 2022
	–	8 Aug 2019	–	–	13	8 Aug 2022
	–	14 Nov 2019	–	–	14	14 Nov 2022
	–	6 Feb 2020	–	–	12	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	14	13 May 2023
	–	19 Aug 2020	–	–	21	19 Aug 2023
	–	12 Nov 2020	–	–	20	12 Nov 2023
	–	5 Feb 2021	–	–	21	5 Feb 2024
Total Restricted Share Awards[6]					**45,871**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Management Board						
Jerome Abelman						
LTIP[1]	32,100	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	37,560	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	40,676	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	10,653	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options[3]	**120,989**					
DSBS[4]	–	26 Mar 2018	–	–	8,844	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
	–	30 Mar 2020	–	–	15,824	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	4	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	8	15 Nov 2021
	–	7 Feb 2019	–	–	9	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	9	8 May 2022
	–	8 Aug 2019	–	–	10	8 Aug 2022
	–	14 Nov 2019	–	–	11	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	12	13 May 2023
	–	19 Aug 2020	–	–	18	19 Aug 2023
	–	12 Nov 2020	–	–	17	12 Nov 2023
	–	5 Feb 2021	–	–	18	5 Feb 2024
Total Restricted Share Awards[6]					**38,891**	
Marina Bellini						
LTIP[1]	29,296	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	31,105	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	*8,146*	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave[2]	785	28 Mar 2019	22.91	28.63	–	1 May 2022 – 31 Oct 2022
Total Options[3]	**69,332**					
DSBS[4]	–	28 Mar 2019	–	–	5,525	28 Mar 2022
	–	30 Mar 2020	–	–	12,101	30 Mar 2023
SIP[5]	–	1 Apr 2019	–	–	99	1 Apr 2022
	–	8 Aug 2019	–	–	1	8 Aug 2022
	–	14 Nov 2019	–	–	3	14 Nov 2022
	–	6 Feb 2020	–	–	2	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	2	13 May 2023
	–	19 Aug 2020	–	–	7	19 Aug 2023
	–	12 Nov 2020	–	–	6	12 Nov 2023
	–	5 Feb 2021	–	–	2	5 Feb 2024
Total Restricted Share Awards[6]					**17,873**	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Luciano Comin						
LTIP[1]	10,313	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	31,550	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	33,497	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	*8,773*	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave[2]	533	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
Total Options[3]	**84,666**					
DSBS[4]	–	26 Mar 2018	–	–	3,464	26 Mar 2021
	–	28 Mar 2019	–	–	5,084	28 Mar 2022
	–	30 Mar 2020	–	–	13,032	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	5	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	9	15 Nov 2021
	–	7 Feb 2019	–	–	8	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	9	8 May 2022
	–	8 Aug 2019	–	–	11	8 Aug 2022
	–	14 Nov 2019	–	–	12	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	13	13 May 2023
	–	19 Aug 2020	–	–	18	19 Aug 2023
	–	12 Nov 2020	–	–	17	12 Nov 2023
	–	5 Feb 2021	–	–	18	5 Feb 2024
Total Restricted Share Awards[6]					**22,022**	
Michael Dijanosic						
LTIP[1]	6,673	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	8,299	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	7,739	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	2,149	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options[3]	**24,860**					
DSBS[4]	–	26 Mar 2018	–	–	2,259	26 Mar 2021
	–	28 Mar 2019	–	–	2,827	28 Mar 2022
	–	30 Mar 2020	–	–	2,746	30 Mar 2023
Total Restricted Share Awards[6]					**7,832**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Zafar Khan						
LTIP[1]	6,158	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	8,862	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	8,855	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	2,459	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options[3]	**26,334**					
DSBS[4]	–	26 Mar 2018	–	–	2,026	26 Mar 2021
	–	28 Mar 2019	–	–	2,981	28 Mar 2022
	–	30 Mar 2020	–	–	3,062	30 Mar 2023
SIP[5]	–	1 Apr 2019	–	–	112	1 Apr 2022
Total Restricted Share Awards[6]					**8,181**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Hae In Kim						
LTIP[1]	6,497	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	30,048	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	31,902	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	*8,355*	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave[2]	533	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
Total Options[3]	**76,335**					
DSBS[4]	–	26 Mar 2018	–	–	1,863	26 Mar 2021
	–	28 Mar 2019	–	–	3,798	28 Mar 2022
	–	30 Mar 2020	–	–	12,411	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	15 Nov 2018	–	–	2	15 Nov 2021
	–	7 Feb 2019	–	–	1	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	1	8 May 2022
	–	8 Aug 2019	–	–	3	8 Aug 2022
	–	14 Nov 2019	–	–	4	14 Nov 2022
	–	6 Feb 2020	–	–	3	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	3	13 May 2023
	–	19 Aug 2020	–	–	7	19 Aug 2023
	–	12 Nov 2020	–	–	6	12 Nov 2023
	–	5 Feb 2021	–	–	6	5 Feb 2024
Total Restricted Share Awards[6]					**18,415**	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Paul Lageweg						
LTIP[1]	4,540	28 Mar 2014	0.00	32.58	–	28 Mar 2017 – 27 Mar 2024
	8,954	27 Mar 2015	0.00	36.25	–	27 Mar 2018 – 26 Mar 2025
	5,956	12 May 2016	0.00	42.34	–	12 May 2019 – 11 May 2026
	8,234	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	11,471	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	29,296	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	31,105	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	*8,146*	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave[2]	1,309	28 Mar 2019	22.91	28.63	–	1 May 2024 – 31 Oct 2024
Total Options[3]	**109,011**					
DSBS[4]	–	26 Mar 2018	–	–	2,039	26 Mar 2021
	–	28 Mar 2019	–	–	5,265	28 Mar 2022
	–	30 Mar 2020	–	–	12,101	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	1	9 May 2021
	–	15 Nov 2018	–	–	1	15 Nov 2021
	–	7 Feb 2019	–	–	1	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	1	8 May 2022
	–	8 Aug 2019	–	–	2	8 Aug 2022
	–	14 Nov 2019	–	–	3	14 Nov 2022
	–	6 Feb 2020	–	–	2	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	3	13 May 2023
	–	19 Aug 2020	–	–	6	19 Aug 2023
	–	12 Nov 2020	–	–	5	12 Nov 2023
	–	5 Feb 2021	–	–	6	5 Feb 2024
Total Restricted Share Awards[6]					**19,743**	
Guy Meldrum						
LTIP[1]	11,066	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	31,550	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	33,497	30 Mar 2030	0.00	26.33	–	30 Mar 2023 – 30 Mar 2030
Restricted Share Plan[7]	8,773	30 Mar 2030	0.00	26.33	–	30 Mar 2030
Total Options[3]	**84,886**					
DSBS[4]	–	26 Mar 2018	–	–	3,796	26 Mar 2021
	–	28 Mar 2019	–	–	5,651	28 Mar 2022
	–	30 Mar 2020	–	–	13,032	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	1 Apr 2020	–	–	125	1 Apr 2023
Total Restricted Share Awards[6]					**22,786**	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Dr David O'Reilly						
LTIP[1]	24,364	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	30,048	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	32,540	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	8,522	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options[3]	**95,474**					
DSBS[4]	–	26 Mar 2018	–	–	6,713	26 Mar 2021
	–	28 Mar 2019	–	–	11,028	28 Mar 2022
	–	30 Mar 2020	–	–	12,659	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	21	9 May 2021
	–	8 Aug 2018	–	–	19	8 Aug 2021
	–	15 Nov 2018	–	–	29	15 Nov 2021
	–	7 Feb 2019	–	–	31	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	31	8 May 2022
	–	8 Aug 2019	–	–	32	8 Aug 2022
	–	14 Nov 2019	–	–	33	14 Nov 2022
	–	6 Feb 2020	–	–	29	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	34	13 May 2023
	–	19 Aug 2020	–	–	44	19 Aug 2023
	–	12 Nov 2020	–	–	42	12 Nov 2023
	–	5 Feb 2021	–	–	43	5 Feb 2024
Total Restricted Share Awards[6]					**31,095**	
Johan Vandermeulen						
LTIP[1]	30,335	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	39,438	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	41,872	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	10,966	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options[3]	**122,611**					
DSBS[4]	–	26 Mar 2018	–	–	8,358	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
	–	30 Mar 2020	–	–	16,290	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	4	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	7	15 Nov 2021
	–	7 Feb 2019	–	–	8	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	8	8 May 2022
	–	8 Aug 2019	–	–	10	8 Aug 2022
	–	14 Nov 2019	–	–	11	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	11	13 May 2023
	–	19 Aug 2020	–	–	18	19 Aug 2023
	–	12 Nov 2020	–	–	16	12 Nov 2023
	–	5 Feb 2021	–	–	17	5 Feb 2024
Total Restricted Share Awards[6]					**38,865**	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Kingsley Wheaton						
LTIP[1]	32,100	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	43,194	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	46,777	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan[7]	*12,251*	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave[2]	1,309	28 Mar 2019	22.91	28.63	–	1 May 2024 – 31 Oct 2024
Total Options[3]	**135,631**					
DSBS[4]	–	26 Mar 2018	–	–	8,358	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
	–	30 Mar 2020	–	–	18,198	30 Mar 2023
SIP[5]	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	8	9 May 2021
	–	8 Aug 2018	–	–	8	8 Aug 2021
	–	15 Nov 2018	–	–	13	15 Nov 2021
	–	7 Feb 2019	–	–	13	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	13	8 May 2022
	–	8 Aug 2019	–	–	14	8 Aug 2022
	–	14 Nov 2019	–	–	16	14 Nov 2022
	–	6 Feb 2020	–	–	13	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	15	13 May 2023
	–	19 Aug 2020	–	–	22	19 Aug 2023
	–	12 Nov 2020	–	–	20	12 Nov 2023
	–	5 Feb 2021	–	–	22	5 Feb 2024
Total Restricted Share Awards[6]					**40,825**	

Notes:

Options

1. LTIP: grants or awards of ordinary shares under the LTIP are for nil consideration. The number of options shown is the maximum that may be exercised subject to the completion of the applicable performance period and conditions under the rules of the LTIP. The number of options which may vest and become exercisable may be less than the number of ordinary shares shown in the table.
2. Sharesave Scheme: grants of options under the Sharesave Scheme are: (a) normally granted at a discount of 20% to the market price of ordinary shares at the time of invitation, as permitted by the rules of the Sharesave Scheme; and (b) are exercisable at the end of a three-year or five-year savings contract up to a monthly limit of £500.
3. Each of the LTIP and Sharesave Scheme contains provisions which permit the Board of Directors or a duly authorised committee of the Board of Directors to establish further plans for the benefit of overseas employees based on the relevant share plan but modified as necessary or desirable to take account of overseas tax, exchange control or applicable securities laws. Any new ordinary shares issued under such plans would not count towards any applicable plan limits under the LTIP or the Sharesave Scheme.

Restricted Share Awards

4. DSBS: a portion of annual bonus is deferred into a grant of ordinary shares which vests after a three year period. No further performance conditions apply in that period. Participants have no ownership over the shares until vesting and the shares carry no rights to vote in that period. Dividend equivalent payments are paid quarterly during the vesting period.
5. SIP: the SIP is an all-employee plan which includes the SRS under which eligible employees receive an award of ordinary shares (Free Shares) in April of each year in which the plan operates in respect of performance in the previous financial year. The Free Shares are held in a UK-based trust from the date of the award for a minimum period of three years. During that time the SIP participant is entitled to receive dividends on those ordinary shares which are re-invested by such trust to buy further ordinary shares (Dividend Shares) on behalf of the SIP participant. The Dividend Shares are also held in the trust from the date of acquisition for a minimum period of three years. During the three-year holding periods, the SIP participant may not remove the Free Shares or the Dividend Shares from the trust, but may direct the trust to exercise its voting rights in accordance with his or her instructions. In addition to the Free Shares and Dividend Shares, participants in the SIP are also eligible to purchase additional ordinary shares from their pre-tax salary up to an annual statutory limit (Partnership Shares). The SIP also provides that BAT has the right to offer additional ordinary shares to a participant at no cost for each Partnership Share the participant purchases, at a ratio of two such ordinary shares for each Partnership Share purchased (Matching Shares). BAT does not currently provide any Matching Shares.
6. BAT has established similar plans to the SIP for non-UK employees and specific plans for employees in Germany, Belgium and the Netherlands. Each of these plans has been modified to take account of overseas tax, exchange control and applicable securities laws.
7. Restricted Share Plan: grant of ordinary shares which vests after a three year period. No performance conditions apply in that period. Participants have no ownership over the shares until vesting and the shares carry no rights to vote in that period. Dividend equivalent payments are paid on shares vesting.

Articles of Association

The Company is incorporated under the name of British American Tobacco p.l.c. and is registered in England and Wales under registered number 3407696. Under the Companies Act 2006 (Companies Act), the Company's objects are unrestricted. The following descriptions summarise certain provisions of the Company's current Articles of Association (Articles) (as adopted by special resolution at the AGM on 28 April 2010), applicable English and Welsh law and the Companies Act. This summary is qualified in its entirety by reference to the Companies Act and the Articles, available on bat.com. The Articles may be altered or added to, or completely new articles may be adopted, by a special resolution of the shareholders of the Company, subject to the provisions of the Companies Act.

Share capital – structure

Ordinary shares

– all of the Company's ordinary shares are fully paid
– no further contribution of capital may be required by the Company from the holders of such shares

Alteration of share capital – the Company by ordinary resolution may:

– consolidate and divide all or any of its shares into shares of a larger amount than its existing shares
– divide or sub-divide any of its shares into shares of smaller amount than its existing shares
– determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with the others

Alteration of share capital – the Company, subject to the provisions of the Companies Act, may:

– reduce its share capital, its capital redemption reserve and any share premium account in any way
– purchase its own shares, including redeemable shares, and may hold such shares as treasury shares or cancel them

Dividend rights

– shareholders may, by ordinary resolution, declare dividends but not in excess of the amount recommended by the Directors
– the Directors may pay interim dividends out of distributable profits
– no dividend shall be paid otherwise than out of the profits available for distribution as specified under the provisions of the Companies Act
– the Directors may, with the authority of an ordinary resolution of the shareholders, pay scrip dividends or satisfy the payment of a dividend by the distribution of specific assets
– unclaimed dividends for a period of 12 years may be forfeited and cease to be owed by the Company
– specific provisions enable the Directors to elect to pay dividends by bank or electronic transfer only

Share capital – voting rights

Voting at general meetings

– by a show of hands, unless a poll is demanded, and on a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held by the shareholder
– every proxy appointed by a shareholder and present at a general meeting has one vote except that if the proxy has been duly appointed by more than one shareholder entitled to vote on the resolution and is instructed by one or more of those shareholders to vote for the resolution and by one or more others to vote against it, or is instructed by one or more of those shareholders to vote in one way and is given discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way), he has one vote for and one vote against the resolution
– on a poll, every shareholder who is present in person or by proxy has one vote for every share held by the shareholder
– a shareholder (or his duly appointed proxy) entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way
– a poll may be demanded by any of the following:
  (1) the Chairman of the meeting; (2) the Directors; (3) not less than five shareholders having the right to vote at the meeting;
  (4) a shareholder or shareholders representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting (excluding any voting rights attached to treasury shares); or
  (5) a shareholder or shareholders holding shares which confer a right to vote on the resolution at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right (excluding any voting rights attached to treasury shares)

Matters transacted at general meetings

– ordinary resolutions can include resolutions for the appointment, reappointment and removal of Directors, the receiving of the Annual Report, the declaration of final dividends, the appointment and reappointment of the external auditor, the authority for the Company to purchase its own shares and the grant of authority to allot shares
– an ordinary resolution is passed when a simple majority of the votes cast at a meeting at which there is a quorum vote in favour of the resolution
– special resolutions can include resolutions amending the Company's Articles and resolutions relating to certain matters concerning a winding-up of the Company
– a special resolution is passed when not less than three-quarters of the votes cast at a meeting at which there is a quorum vote in favour of the resolution
– quorum for a meeting of the Company is a minimum of two shareholders present in person or by proxy or by a duly authorised representative(s) of a corporation which is a shareholder and entitled to vote
– convening a meeting: the Company may specify a time not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day) by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting

Other Information

Articles of Association
Continued

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

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

Restrictions on transfers of shares

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

Repurchase of shares

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

Directors

Appointment and retirement

- a Board of Directors of not fewer than five Directors and not subject to any maximum (unless otherwise determined by ordinary resolution of shareholders)
- Directors and the Company (by ordinary resolution) may appoint a person who is willing to act as a Director
- the Articles govern the minimum number of Directors who must be subject to retirement at each AGM and who may seek re-election
- notwithstanding the Articles, all of the Directors of the Company will be subject to re-election at the forthcoming AGM to be held on 28 April 2021 in accordance with the UK Corporate Governance Code
- fees for Non-Executive Directors and the Chairman are determined by the Directors but cannot currently exceed in aggregate an annual sum of £2,500,000, unless determined otherwise by ordinary resolution of the shareholders
- the remuneration of the Executive Directors is determined by the Remuneration Committee, which comprises independent Non-Executive Directors

Disclosure of interests

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

Meetings and voting

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

Borrowing powers

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

Additional disclosures

Disclosure of ownership of shares
There are no provisions in the Articles whereby persons acquiring, holding or disposing of a certain percentage of the Company's ordinary shares are required to make disclosure of their ownership percentage, although there are such requirements under statute and regulation.
Director retirement
There is no requirement for a director to retire on reaching any age.
Sinking Funds
There is no sinking fund provision in the Articles applicable to the Company's ordinary shares.
Limitations on voting and shareholding
There are no limitations under the Articles restricting the right of non-resident or foreign owners to hold or vote ordinary shares in the Company.
Distribution of assets on a winding up
If the Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.
Anti-takeover devices and change of control
There are no provisions in the Articles that would have the effect of delaying, deferring or preventing a takeover, or change of control, of the Company. Under English law, the Company's directors have a fiduciary duty to take only those actions that are in the interests of the Company and any anti-takeover devices employed by the directors in the future, if any, must accordingly be in the interests of the Company. The Company is also subject to the City Code on Takeovers and Mergers (the "City Code"), which governs the conduct of mergers and takeovers in the UK. Any takeover of the Company would have to be in accordance with the City Code.

Other Information

Purchase of Shares

Renewal of Authority for Company to Purchase Own Shares

Current authority to purchase shares	– this authority (granted at the 2020 AGM) will expire at the 2021 AGM; the share buy-back programme was suspended with effect from 30 July 2014; and – renewed authority to purchase the Company's ordinary shares in order that the appropriate mechanisms are in place to enable the share buy-back programme to be reinstated at any time and authority would be exercised when, in the opinion of the Directors, the exercise of the authority would result in an increase in the Company's earnings per share and would be in the interest of its shareholders generally.
Proposed authority to purchase shares	– the minimum price that may be paid for such shares is 25p, and the maximum price is the higher of: (i) an amount equal to 105% of the average of the middle-market prices shown in the quotation for an ordinary share as derived from the LSE Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid for an ordinary share in the Company on the trading venues where the market purchases by the Company will be carried out; – in the absence of the necessary practical arrangements, the proposed authority has not been extended to enable BAT to purchase its own ordinary shares on the JSE in South Africa or the NYSE in the form of ADSs; and – further details are set out in the Notice of Annual General Meeting 2021 which is made available to all shareholders and is published on bat.com.
Treasury shares	– in accordance with the Company's policy, any repurchased shares are expected to be held as treasury shares; at 31 December 2020, the number of treasury shares was 162,347,246 (2019: 162,645,590); no dividends are paid on treasury shares; treasury shares have no voting rights; and treasury shares may be resold at a later date.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

At the AGM on 30 April 2020, authorisation was given to the Company to repurchase up to 229.4 million ordinary shares for the period until the next AGM in 2021. This authorisation is renewed annually at the AGM. No ordinary shares were repurchased by the Company during 2020. The following table provides details of ordinary share purchases made by the trustees of employee share ownership plans (ESOPs) and other purchases of ordinary shares and ADSs made to satisfy the commitments to deliver shares under certain employee share-based payment plans.

	Total number of ordinary shares purchased by ESOPs or certain employee share-based plans	Average price paid per ordinary share £	Total number of ADSs purchased by ESOPs or certain employee share-based plans	Average price paid per ADS US$	Total number of ordinary shares purchased as part of a publicly announced plan[1]	Maximum number of shares that may yet be purchased as part of a publicly announced plan[1]
2020						
2 January	2,807	32.750000	–	–	–	–
5 February	2,422	34.245000	–	–	–	–
6 February	14,968	34.566100	–	–	–	–
4 March	2,612	31.825000	–	–	–	–
1 April	237,096	28.442330	–	–	–	–
1 April	3,023	27.485000	–	–	–	–
7 April	1,283	29.400000	–	–	–	–
7 April	14,338	29.968600	–	–	–	–
7 April	5,689	29.450000	–	–	–	–
5 May	95,397	29.981900	–	–	–	–
6 May	2,807	29.945000	–	–	–	–
13 May	15,342	31.072700	–	–	–	–
3 June	2,643	31.965000	–	–	–	–
1 July	2,713	30.930000	–	–	–	–
5 August	3,374	25.575000	–	–	–	–
19 August	22,421	25.593800	–	–	–	–
2 September	3,295	25.530000	–	–	–	–
7 October	3,074	27.625000	–	–	–	–
4 November	3,237	25.820000	–	–	–	–
12 November	20,322	27.779740	–	–	–	–
2 December	3,201	26.930000	–	–	–	–
	462,064	**28.040008**	–	–	–	–

Notes:

1. There was no publicly announced plan for BAT to purchase its own ordinary shares or ADSs during the year ended 31 December 2020.
2. All the purchases of ordinary shares were made on open market transactions.

Group Employee Trust

The British American Tobacco Group Employee Trust (BATGET)

Function	– used to satisfy the vesting and exercise of awards of ordinary shares under the BAT Deferred Share Bonus Scheme and Long-Term Incentive Plans; and – a committee of senior management reporting to the Board's Share Schemes Committee monitors the number of ordinary shares held in BATGET to satisfy outstanding awards.
Funding	– funded by interest-free loan facilities from the Company totalling £1 billion; – this enables BATGET to facilitate the purchase of ordinary shares to satisfy the future vesting or exercise of options and awards; – loan to BATGET: £795.02 million at 31 December 2020 (2019: £788.24 million); – the loan is either repaid from the proceeds of the exercise of options or, in the case of ordinary shares acquired by BATGET to satisfy the vesting and exercise of awards, the Company will subsequently waive the loan provided over the life of the awards; and – if any options lapse, ordinary shares may be sold by BATGET to cover the loan repayment.

		1 Jan 2020	31 Dec 2020
Ordinary shares held in BATGET	Number of ordinary shares	**8,049,187**	**5,787,154**
	Market value of ordinary shares	**£260.1m**	**£156.7m**
	% of issued share capital of Company	**0.33**	**0.24**
Dividends paid in 2020	– BATGET currently waives dividends on the ordinary shares held by it; and – quarterly interim dividends 2020: £14.50 million across 2020.		
Voting rights	– the trustee does not exercise any voting rights while ordinary shares are held in BATGET; and – share scheme participants may exercise the voting rights attaching to those ordinary shares once the ordinary shares have been transferred out of BATGET.		

Notes:

1. **Company share – based payment arrangements:** details of the material equity share-based and cash-settled share-based arrangements are set out in note 24 in the Notes on the Accounts.
2. The values of ordinary shares shown are based on the closing mid-market share price on 31 December 2020: 2,708p (31 December 2019: 3,232p).
3. In addition to the ordinary shares held in BATGET, the trust held the following American Depositary Shares (ADSs) which relate to the vesting and exercise of certain employee stock awards formerly granted by Reynolds American Inc. over Reynolds American Inc. common stock and which were assumed by BAT to be satisfied by the delivery of ADSs following the merger with Reynolds American Inc. on 25 July 2017.

	1 Jan 2020	31 Dec 2020
Number of ADSs	**15,197**	**15,197**
Market value of ADSs[(a)]	**US$0.6m**	**US$0.6m**
% of issued share capital	**0.0006**	**0.0006**

Note:

(a) The value of the ADSs shown is based on the closing price of ADSs on 31 December 2020 of US$37.49.

Other Information

American Depositary Shares

Fees and Charges Payable by ADS Holders

Citibank, N.A. (Citibank) was appointed as the depositary bank (the 'Depositary') for BAT's ADS programme pursuant to the Amended and Restated Deposit Agreement dated 1 December 2008 and amended as of 14 February 2017 and 14 June 2017 between BAT, the Depositary and the owners and holders of ADSs (the 'Deposit Agreement'). Citibank was reappointed as the Depositary pursuant to the Second Amended and Restated Deposit Agreement dated 26 November 2018 (the 'Restated Deposit Agreement').

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

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

Notes:

1. Under the terms of a separate agreement between BAT and the Depositary, the Depositary has agreed to waive the fees that would otherwise be payable in connection with the issuance of ADSs upon deposit of ordinary shares and the cancellation of ADSs and corresponding withdrawal of ordinary shares, in each case by BAT or any of its affiliates, officers, directors or employees. The terms of this separate agreement may be amended at any time by BAT and the Depositary.
2. While under the Restated Deposit Agreement cash dividends paid in respect of ADSs are subject to a fee of up to US$0.05 per ADS payable to the Depositary, under the terms of the separate agreement between BAT and the Depositary referred to above, such dividends are instead subject to a fee of up to US$0.02 per ADS per year (a fee of US$0.005 per dividend based on the distribution of four quarterly cash dividends per year). Under the separate agreement, this dividend fee may not be varied by the Depositary without the consent of BAT.

Contact details for Citibank Shareholder Services are on page 343.

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

Fees and Payments Made by the Depositary to BAT

Under the terms of the contractual arrangements set out in the separate agreement between BAT and the Depositary referred to above, BAT received a total of approximately US$3.7 million from the Depositary, comprising fees charged in respect of dividends and a fixed contribution to BAT's ADS programme administration costs for the year ended 31 December 2020.

In 2020, these programme administration costs principally included those associated with AGM proxy mailings, exchange listing and regulatory fees, foreign private issuer analysis, legal fees, share registration fees and other expenses incurred by BAT in relation to the ADS programme.

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

Shareholding Administration and Services

United Kingdom Registrar

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

www.computershare.com/uk/investor/bri

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

www.computershare.com/dealing/uk

Go online or telephone 0370 703 0084 (UK) to buy or sell British American Tobacco shares traded on the London Stock Exchange. Before you can trade, you will need to register for this service. Please go to www.computershare.trade/cert_faqs.html for a list of permitted domiciles.

South Africa Registrar

Computershare Investor Services Proprietary Limited
Private Bag X9000, Saxonwold, 2132, South Africa
tel: 0861 100 634; +27 11 870 8216
email enquiries: web.queries@computershare.co.za

American Depositary Shares

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

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

Documents on Display and Publications

This Annual Report and Form 20-F 2020 is available online at bat.com/annualreport. Copies of current and past Annual Reports are available on request. Highlights from these publications can be produced in alternative formats such as Braille, audio tape and large print. Documents referred to in this Annual Report and Form 20-F 2020 do not form part of this Annual Report unless specifically incorporated by reference.

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tel: +44 20 7511 7797
email: bat@team365.co.uk

Holders of shares held on the South Africa register can contact the Company's Representative office in South Africa using the contact details shown at the end of this Annual Report and Form 20-F 2020.

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

The Company is subject to the information requirements of the US Securities Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, the company files its Annual Report on Form 20-F and other documents with the SEC. You also may call the SEC at +1 800-SEC-0330. In addition, BAT's SEC filings are available to the public, together with the public filings of other issuers, at the SEC's website, www.sec.gov.

The Company's agent for service in the United States for the purposes of the registration statement on Form F-3 (333-232691) is Brian T. Harrison, Secretary, B.A.T Capital Corporation, C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808 U.S.A.

Our Website – www.bat.com

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

Dividend Reinvestment Plan

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

Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA – contact:

Interactive Investor
Exchange Court, Duncombe Street, Leeds LS1 4AX
tel: 0345 607 6001; +44 113 346 2309
email enquiries: interactivehelp@ii.co.uk
website: www.share.com

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

Capital gains tax

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

Share Fraud

The practice of share fraud (also known as 'boiler room' scams) unfortunately continues with many companies' shareholders receiving unsolicited phone calls or mail from people offering to sell them what often turn out to be worthless or high risk shares in US or UK investments, or to buy shares at an inflated price in return for an upfront payment.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have lost money to investment fraud you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk.

Calendar 2021

Wed 28 April at 11:30am	**Proposed date of the Annual General Meeting** Details of the venue and business to be proposed at the meeting are set out in the Notice of Annual General Meeting, which is made available to all shareholders and is published on www.bat.com. The format for the 2021 AGM will be contingent on applicable UK Government health and safety restrictions in place at that time. BAT provides for the vote on each resolution to be by poll rather than by a show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The voting results will be released on the same day in accordance with regulatory requirements and made available on bat.com.
Fri 30 July	**Half-Year Report**

Other Information

Exhibits

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

Exhibit Number	Description
1	Articles of Association of British American Tobacco p.l.c.[1]
2.1	Second Amended and Restated Deposit Agreement, dated as of 26 November 2018, by and among British American Tobacco p.l.c., Citibank, N.A., as depositary bank, and all holders and beneficial owners of American Depositary Shares issued thereunder.[2]
2.2	Indenture, dated as of 15 August 2017, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee.[3]
2.3	Supplemental Indenture No. 1, dated as of 28 September 2018, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee.[4]
2.4	Indenture, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as trustee, authentication agent, transfer agent, registrar, calculation agent and initial paying agent.[5]
2.5	Supplemental Indenture No. 1, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[6]
2.6	Supplemental Indenture No. 2, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[7]
2.7	Supplemental Indenture No. 3, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[8]
2.8	Supplemental Indenture No. 4, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[9]
2.9	Supplemental Indenture No. 5, dated as of 2 April 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[10]
2.10	Supplemental Indenture No. 6, dated as of 2 April 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[11]
2.11	Supplemental Indenture No. 7, dated as of 2 April 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[12]
2.12	Supplemental Indenture No. 8, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[13]
2.13	Supplemental Indenture No. 9, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[14]
2.14	Supplemental Indenture No. 10, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[15]
2.15	Supplemental Indenture No. 11, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.[16]
2.16	Indenture, dated as of 25 September 2020, by and among B.A.T. International Finance p.l.c., the Guarantors party thereto and Citibank, N.A., as trustee, authentication agent, transfer agent, registrar, calculation agent and initial paying agent.[17]
2.17	Supplemental Indenture No. 1, dated as of 25 September 2020, by and among B.A.T. International Finance p.l.c., the Guarantors party thereto and Citibank, N.A., as Trustee.[18]
2.18	Thirty-second Supplemental Trust Deed, dated 31 March 2020, by and among B.A.T. International Finance p.l.c., B.A.T Capital Corporation, B.A.T. Netherlands Finance B.V., British American Tobacco p.l.c. and the Law Debenture Trust Corporation p.l.c., further modifying the Trust Deed, dated as of 6 July 1998 (as previously modified and restated) relating to the US$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme.
2.19	Description of Securities registered under Section 12 of the Exchange Act.
4.1	Term loan facilities agreement, dated as of 16 January 2017, among B.A.T. International Finance p.l.c. and B.A.T Capital Corporation, as original borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent, HSBC Bank USA, National Association, as US agent and the lenders and financial institutions party thereto.[19]
4.2	Rules of the British American Tobacco 2007 Long-Term Incentive Plan.[20]
4.3	Rules of the British American Tobacco 2016 Long-Term Incentive Plan (Amended and Restated as of 19 February 2021).
4.4	British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme.[21]
4.5	Annex to British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme.[22]
4.6	British American Tobacco p.l.c. 2019 Deferred Annual Share Bonus Scheme.[23]
4.7	Rules of the British American Tobacco Restricted Share Plan.[24]
4.8	Deferred Compensation Plan for Directors of Reynolds American Inc. (Amended and Restated Effective 30 November 2007).[25]
4.9	Service Contract between British American Tobacco p.l.c. and Jack Bowles, dated as of 11 December 2018.[26]
4.10	Service Contract between British American Tobacco p.l.c. and Tadeu Marroco, dated as of 27 February 2019.[27]
4.11	Master Settlement Agreement, referred to as the MSA, dated 23 November 1998, between the Settling States named in the MSA and the Participating Manufacturers also named therein.[28]
4.12	Settlement Agreement dated 25 August 1997, between the State of Florida and settling defendants in The State of Florida v. American Tobacco Co.[29]
4.13	Comprehensive Settlement Agreement and Release dated 16 January 1998, between the State of Texas and settling defendants in The State of Texas v. American Tobacco Co.[30]
4.14	Settlement Agreement and Release in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of 8 May 1998.[31]
4.15	Settlement Agreement and Stipulation for Entry of Consent Judgment in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of 8 May 1998.[32]
4.16	Form of Consent Judgment by Judge Kenneth J. Fitzpatrick, Judge of District Court in re: The State of Minnesota v. Philip Morris, Inc.[33]
4.17	Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order dated 2 July 1998, by and among the Mississippi Defendants, Mississippi and the Mississippi Counsel in connection with the Mississippi Action.[34]
4.18	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated 24 July 1998, by and among the Texas Defendants, Texas and the Texas Counsel in connection with the Texas Action.[35]

Exhibit Number	Description
4.19	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated 11 September 1998, by and among the State of Florida and the tobacco companies named therein.[36]
4.20	Term Sheet agreed to by R. J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc., certain other Participating Manufacturers, 17 states, the District of Columbia and Puerto Rico.[37]
4.21	Revolving credit facilities agreement, dated as of 12 March 2020, among British American Tobacco p.l.c., B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V. and B.A.T Capital Corporation, as borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent and euro swingline agent, HSBC Bank USA, National Association, as US agent and US$ swingline agent, and the banks and financial institutions party thereto.[38]
8	List of Subsidiaries included on pages 254 to 263 in this report.
11	Code of Ethics.[39]
12	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13	Certification under Section 906 of the Sarbanes-Oxley Act of 2002.[40]
15	Consent of KPMG LLP, independent registered public accounting firm.
101	Interactive Data Files (formatted in XBRL (Extensible Business Reporting Language) and furnished electronically).

Notes:

1. Incorporated by reference to Exhibit 3.1 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
2. Incorporated by reference to Exhibit 4.1 to BAT's Registration Statement on Form S-8 (Reg. No. 333-237186) filed on 16 March 2020.
3. Incorporated by reference to Exhibit 2.4 to BAT's Annual Report on Form 20-F for the year ended 31 December 2017 filed on 15 March 2018.
4. Incorporated by reference to Exhibit 4.2 to BAT's Registration Statement on Form F-4 (Reg. No. 333-227658) filed on 2 October 2018.
5. Incorporated by reference to Exhibit 4.1 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
6. Incorporated by reference to Exhibit 4.2 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
7. Incorporated by reference to Exhibit 4.3 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
8. Incorporated by reference to Exhibit 4.4 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
9. Incorporated by reference to Exhibit 4.5 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
10. Incorporated by reference to Exhibit 4.6 to British American Tobacco p.l.c.'s Form 6-K filed on 2 April 2020.
11. Incorporated by reference to Exhibit 4.7 to British American Tobacco p.l.c.'s Form 6-K filed on 2 April 2020.
12. Incorporated by reference to Exhibit 4.8 to British American Tobacco p.l.c.'s Form 6-K filed on 2 April 2020.
13. Incorporated by reference to Exhibit 4.9 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
14. Incorporated by reference to Exhibit 4.10 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
15. Incorporated by reference to Exhibit 4.11 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
16. Incorporated by reference to Exhibit 4.12 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
17. Incorporated by reference to Exhibit 4.13 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
18. Incorporated by reference to Exhibit 4.14 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
19. Incorporated by reference to Exhibit 99.13 to BAT's Amendment No. 4 to Schedule 13D filed on 17 January 2017.
20. Incorporated by reference to Exhibit 10.6 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
21. Incorporated by reference to Exhibit 10.8 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
22. Incorporated by reference to Exhibit 4.6 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
23. Incorporated by reference to Exhibit 4.7 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
24. Incorporated by reference to Exhibit 4.2 to BAT's Registration Statement on Form S-8 (Reg. No. 333-237186) filed on 16 March 2020.
25. Incorporated by reference to Exhibit 10.43 to Reynolds American Inc.'s Annual Report on Form 10-K for the fiscal year ended 31 December 2007 filed on 27 February 2008.
26. Incorporated by reference to Exhibit 4.11 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
27. Incorporated by reference to Exhibit 4.14 to BAT's Annual Report on Form 20-F for the year ended 31 December 2019 filed on 26 March 2020.
28. Incorporated by reference to Exhibit 4 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 24 November 1998.
29. Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 5 September 1997.
30. Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 27 January 1998.
31. Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
32. Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
33. Incorporated by reference to Exhibit 99.3 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
34. Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
35. Incorporated by reference to Exhibit 99.4 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
36. Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 September 1998 filed on 12 November 1998.
37. Incorporated by reference to Exhibit 10.1 to Reynolds American Inc.'s Form 8-K dated 12 March 2013.
38. Incorporated by reference to Exhibit 4.25 to BAT's Annual Report on Form 20-F for the year ended 31 December 2019 filed on 26 March 2020.
39. Incorporated by reference to Exhibit 11 to BAT's Annual Report on Form 20-F for the year ended 31 December 2017 filed on 15 March 2018.
40. These certifications are furnished only and are not filed as part of BAT's Annual Report on Form 20-F for the year ended 31 December 2020.

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

Other Information

Glossary

ADR	American Depositary Receipt
ADS	American Depositary Share – 1 ADS is equivalent to 1 BAT ordinary share
AGM	Annual General Meeting
AmSSA	Americas (excluding US) and Sub-Saharan Africa
APFO	Adjusted profit from operations
APME	Asia-Pacific and Middle East
BATGET	British American Tobacco Group Employee Trust
bps	Basis points
CC	Constant currency
CGFO	Cash generated from operations
CO_2e	Carbon dioxide equivalent
Code	UK Corporate Governance Code, July 2018 version
CSR	Corporate Social Responsibility
DSBS	Deferred share bonus scheme
EMTN	European Medium Term Notes
ENA	Europe and North Africa
EPS	Earnings per share
ESG	Environmental, Social and Governance
EU	European Union
FII GLO	Franked Investment Income Group Litigation Order
FCTC	Framework Convention on Tobacco Control
FMCG	Fast Moving Consumer Goods
GAAP	Generally Accepted Accounting Practice
GDB	Global Drive Brands, being Kent, Dunhill, Pall Mall, Lucky Strike and Rothmans
GDPR	EU General Data Protection Regulation
GDSB	Global Drive and Key Strategic Brands, being the GDBs, plus Shuang Xi and State Express 555
GJ	Gigajoules (of energy use)
IASB	International Accounting Standards Board
IEIS	International Executive Incentive Scheme
IFRS	International Financial Reporting Standards as issued by the IASB and as adopted by the EU
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LR	Listing Rules
LTIP	Long-Term Incentive Plan
MCE	Million cigarettes equivalent
MSA	Master Settlement Agreement
NGP	Next Generation Product
NRT	Nicotine Replacement Therapy
NTO	Net turnover or revenue
NYSE	New York Stock Exchange
OCF	Operating cash flow
OECD	Organisation for Economic Co-operation and Development
OTP	Other tobacco products, including but not limited to roll-your-own, make-your-own and cigars
Parker Report	The Parker Review Committee's final report on ethnic diversity in UK boards published on 12 October 2017
PCAOB	Public Company Accounting Oversight Board
Reynolds American	Reynolds American Inc.
Reynolds American Companies	British American Tobacco US companies
@ROCE	Return on capital employed@
SAFL	Sustainable Agriculture and Farmer Livelihoods
SEC	United States Securities and Exchange Commission
SIP	Share incentive plan
SoBC	Group Standards of Business Conduct
SOx	United States Sarbanes-Oxley Act of 2002
SRS	Share reward scheme
TaO	Programme to implement the new operating model, including one instance of SAP
TCFD	Taskforce on Climate-related Financial Disclosures
TDR	TDR d.o.o
THP	Tobacco Heating Products (i.e. the devices) or Tobacco Heated Products (i.e. the consumables used by such devices)
TPD1	European Tobacco Products Directive (directive 2001/37/EC)
TPD2	European Tobacco and Related Products Directive (directive 2014/40/EU)
TSR	Total shareholder return
US	United States of America
UURBS	Unfunded unapproved retirement benefit scheme
WHO	World Health Organization

Cross-Reference to Form 20-F

Item		Form 20-F caption	Location in this document
1		Identity of Directors, Senior Management and Advisers	N/A
2		Offer Statistics and Expected Timetable	N/A
3		Key Information	
	A	Selected financial data	273
	B	Capitalisation and indebtedness	N/A
	C	Reasons for the offer and use of proceeds	N/A
	D	Risk factors	84-88, 288-289, 290-306
4		Information on the Company	
	A	History and development of the Company	3, 67, 70-71, 172-173, 184-187, 217-218, 272, 286, 343
	B	Business overview	2-63, 66, 74-81, 272, 291, 293, 307-310, 313, 314, 316
	C	Organisational structure	254-263, 272
	D	Property, plants and equipment	184-186, 314
4a		Unresolved staff comments	N/A
5		Operating and Financial Review and Prospects	
	A	Operating results	3, 7, 9, 12-15, 35, 37, 39, 40, 41, 65, 73, 77, 87, 197-199, 213, 284, 286, 297, 307-310
	B	Liquidity and capital resources	70-71, 72, 155, 200, 206-209, 212-217, 282, 286, 303
	C	Research and development, patent and licences	3, 22-23, 31, 49-50, 66, 167-168, 272
	D	Trend information	2-57, 66-73, 74-81, 84-88, 307-310
	E	Off-balance sheet arrangements	73, 224-248, 287
	F	Tabular disclosure of contractual commitments	287
	G	Safe harbour	318
6		Directors, Senior Management and Employees	
	A	Directors and senior management	92-94, 103
	B	Compensation	117-139, 188-193, 222-223, 326-336
	C	Board practices	92-94, 107, 110-116, 117-119, 120-123, 137, 222-223, 317, 338-339
	D	Employees	222, 285
	E	Share ownership	63, 122-123, 219-221, 327-336, 341
7		Major Shareholders and Related Party Transactions	
	A	Major shareholders	326-327
	B	Related party transactions	222-223
	C	Interests of experts and counsel	N/A
8		Financial Information	
	A	Consolidated statements and other financial information	69, 111-112, 150-253, 320-321
	B	Significant changes	N/A
9		The Offer and Listing	
	A	Offer and listing details	319
	B	Plan of distribution	N/A
	C	Markets	319
	D	Selling shareholders	N/A
	E	Dilution	N/A
	F	Expenses of the issue	N/A
10		Additional Information	
	A	Share capital	N/A
	B	Memorandum and Articles of Association	134, 337-339
	C	Material contracts	248, 312-313
	D	Exchange controls	320
	E	Taxation	322-325
	F	Dividends and paying agents	N/A
	G	Statements by experts	N/A
	H	Documents on display	343
	I	Subsidiary information	N/A
11		Quantitative and Qualitative Disclosures about Market Risk	212-217

Other Information

Cross-Reference to Form 20-F
Continued

Item		Form 20-F caption	Location in this document
12		Description of Securities Other Than Equity Securities	
	A	Debt securities	N/A
	B	Warrants and rights	N/A
	C	Other securities	N/A
	D	American Depositary Shares	342
13		Defaults, Dividend Arrearages and Delinquencies	N/A
14		Material Modifications to the Rights of Security Holders and Use of Proceeds	N/A
15		Controls and Procedures	316
16A		Audit Committee Financial Expert	110, 315
16B		Code of Ethics	116, 315
16C		Principal Accountant Fees and Services	113, 167
16D		Exemptions from the Listing Standards for Audit Committees	N/A
16E		Purchases of Equity Securities by the Issuer and Affiliated Purchasers	340
16F		Change in Registrant's Certifying Accountant	N/A
16G		Corporate Governance	315
16H		Mine Safety Disclosure	N/A
17		Financial Statements	N/A
18		Financial Statements	150-253
19		Exhibits	344-345

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Representative Office in South Africa

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tel: +27 21 003 6712

Secretary

Paul McCrory

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Enquiries should be directed to Mike Nightingale, Victoria Buxton,
William Houston or John Harney
tel: +44 20 7845 1180

Press office

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

Auditors

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

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

Design and production: Radley Yeldar www.ry.com

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

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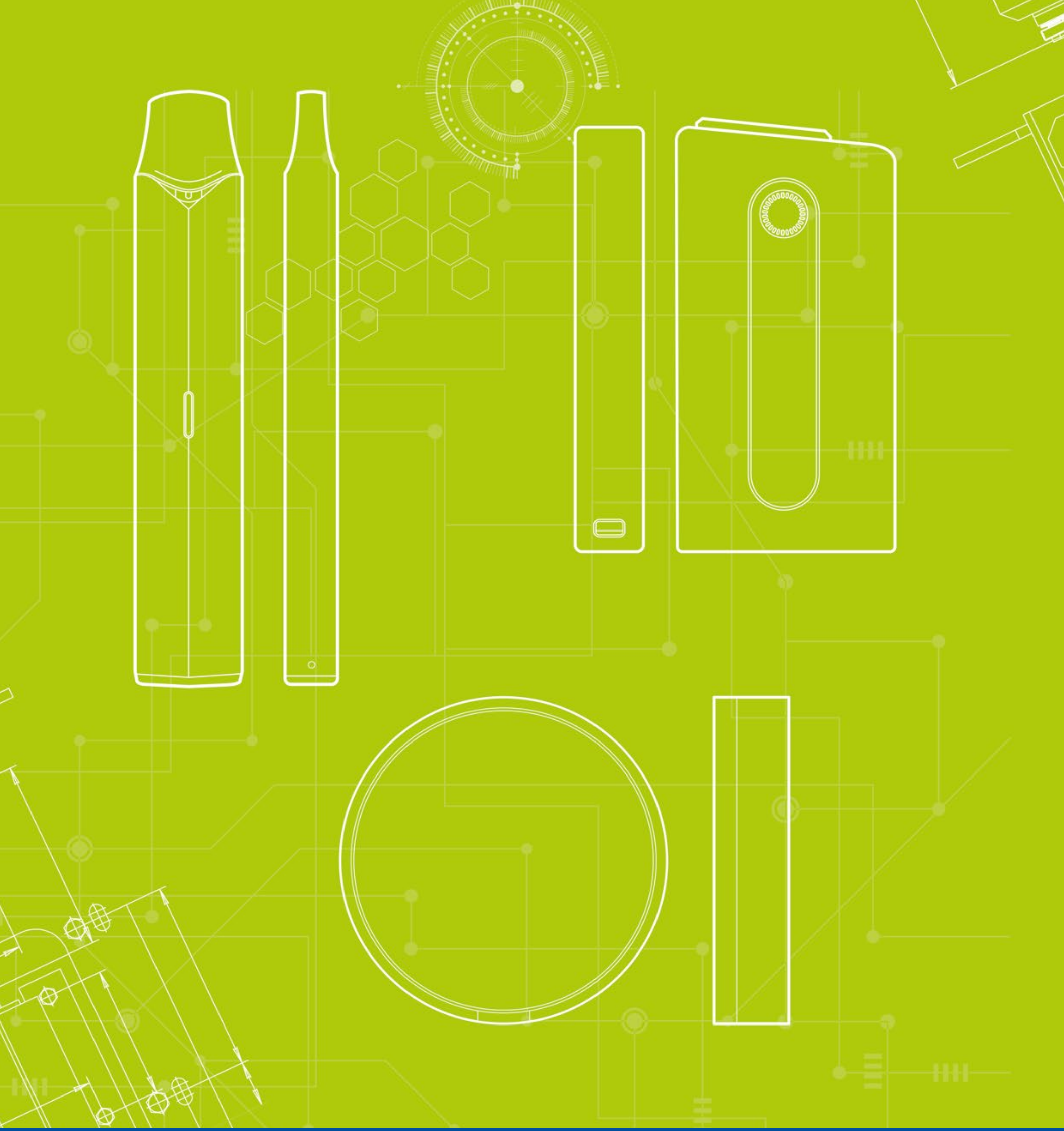

A BETTER TOMORROW

Go online

Explore the story of our year

Featuring downloadable versions of this report, along with our ESG Report and other content – all accessible on desktop, tablet and mobile.

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