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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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British American Tobacco p.l.c. (No. 3407696) Annual Report 2020

This document constitutes the Annual Report and Accounts of British American Tobacco p.l.c. (the Company) and the British American Tobacco Group prepared in accordance with UK requirements and the Annual Report on Form 20-F prepared in accordance with the US Securities Exchange Act of 1934 (the Exchange Act) and the rules promulgated thereunder for the year ended 31 December 2020, except that certain phrases, paragraphs or similar sections denoted with a '@' symbol do not form part of the Annual Report on Form 20-F as filed with the US Securities and Exchange Commission (the SEC) and certain phrases, paragraphs or similar sections denoted with a 'x' symbol do not form part of the Annual Report and Accounts. In addition, the Report of Independent Registered Public Accounting Firm on pages 148 and 149 will only be included in the Annual Report on Form 20-F. Moreover, the information in this document may be updated or supplemented only for purposes of the Annual Report on Form 20-F at the time of filing with the SEC or later amended if necessary. Any such updates, supplements or amendments will also be denoted with a 'x' symbol. Insofar as this document constitutes the Annual Report and Accounts, it has been drawn up and is presented in accordance with, and reliance upon, applicable English company law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

This document is made up of the Strategic Report, the Governance Report, the Financial Statements and Notes, and certain other information. Our Strategic Report, pages 2 to 88, includes our purpose and strategy, global market overview, business model, global performance, as well as our financial performance and principal Group risks. The Strategic Report has been approved by the Board of Directors and signed on its behalf by Paul McCrory, Company Secretary. Our Governance Report on pages 89 to 140 contains detailed corporate governance information, our Committee reports® and our Responsibility of Directors®. The Directors' Report on pages 89 to 116 (the Governance pages)®, page 140 (Responsibility of Directors)® and 271 to 343 (the Additional Disclosure and Shareholder Information pages) has been approved by the Board of Directors and signed on its behalf by Paul McCrory, Company Secretary. Our Financial Statements and Notes are on pages 141 to 253. The Other Information section commences on page 271.

This document provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). We believe these APMs provide readers with important additional information on our business. We have included a Non-GAAP measures section on pages 276 to 284 which provides a comprehensive list of the APMs that we use, an explanation of how they are calculated, why we use them and a reconciliation to the most directly comparable IFRS measure where relevant.

British American Tobacco p.l.c. has shares listed on the London Stock Exchange (BATS) and the Johannesburg Stock Exchange (BTJ), and, as American Depositary Shares, on the New York Stock Exchange (BTI).

The Annual Report is published on bat.com. A printed copy is mailed to shareholders on the UK main register who have elected to receive it. Otherwise, shareholders are notified that the Annual Report is available on the website and will, at the time of that notification, receive a short Performance Summary (which sets out an overview of the Group's performance, headline facts and figures and key dates in the Company's financial calendar) and Proxy Form.

Specific local mailing and/or notification requirements will apply to shareholders on the South Africa branch register.

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

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

References in this document to information on websites, including the web address of BAT, have been included as inactive textual references only. These websites and the information contained therein or connected thereto are not intended to be incorporated into or to form part of the Annual Report and Form 20-F.

Cautionary statement

This document contains forward-looking statements. For our full cautionary statement, please see page 318.

Overview

Chairman's Introduction

A Strong Operational Performance During Challenging Times



“The strength of the business, combined with the professionalism and resilience of our global teams have enabled us, in 2020, to deliver a strong operational performance during challenging times.”

Welcome to our combined Annual Report and Form 20-F for 2020, my last as Chairman of BAT.

The unprecedented impact of the COVID-19 crisis has disrupted all aspects of life around the world and our sympathies are with anyone suffering from the virus or who has lost family or friends in the pandemic.

Our priority throughout has been to safeguard the welfare of our people while ensuring that the business has continued to operate effectively.

The Board and management have worked very closely together to address the disruptions experienced throughout the year.

The strength of the business, combined with the professionalism and resilience of our global teams have enabled us, in 2020, to deliver a strong operational performance during challenging times.

Foreign exchange headwinds impacted our reported results, with Group revenue down 0.4%. This was despite a good revenue performance (excluding the impact of currency) and I am pleased to report growth in both value and volume share, with revenue from New Categories growing 15%.

Clarity around the full impact of the pandemic, and for life to return to some semblance of normality, will take time.

The duration of the short-term impact on the performance of the business will depend on the nature and timing of the subsequent economic recovery, but we believe we are well positioned to emerge as a stronger company.

In the longer term, BAT's strong foundations, resilient business model and consumer-focused strategy mean I remain excited about its future prospects.

Good Governance at the Heart of a Sustainable Business

Increasingly, business is moving beyond seeking only to deliver 'shareholder value' and is embracing a wider purpose that serves the interests of all stakeholders.

The expectations of broader society are that business should play a more active role in addressing and finding solutions to crucial social, economic and environmental issues. Evidence of these expectations can be found in the increasing amount of capital that is being channelled into environmental, social and governance (ESG) funds.

We at BAT welcome this shift. It is aligned to our Company's purpose, our sustainability agenda and the decision-making approach that the Board encourages.

Our commitment to delivering for the whole of society is evidenced by the ambitious ESG targets we set out in 2020. I am pleased to report we have made steady progress against our ambitions. We are increasingly shifting our business to consumers of non-combustible products, while reducing our impact on the environment.

Dividends

We have maintained our dividend commitment despite the challenging operating environment and the Board has declared a dividend of 215.6p per ordinary share, payable in four equal instalments of 53.9p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to American Depositary Shares (ADS) holders, each on the applicable record dates.

The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates.

Further information on dividends can be found on page 69 of the Financial Review and page 320 in the Shareholder information section.

Board Composition

I am delighted that Luc Jobin has been appointed by the Board to be my successor as Chairman of BAT. Having worked closely with him in his role as a Non-Executive Director over the last three years, I am confident that BAT is well positioned for future success with Luc as Chairman.

I am also very pleased to welcome Karen Guerra and Darrell Thomas, who joined the Board as Non-Executive Directors on 14 September and 7 December 2020, respectively. Karen brings substantial knowledge and understanding of consumer goods and Darrell brings significant financial, regulatory and US experience. I have no doubt that both Karen and Darrell will be assets to the Board, its work and BAT.

Future Outlook

As I reflect on my tenure as Chairman of BAT, I am thankful for all the efforts of, and collaboration between, our Board of Directors, management and employees around the world.

BAT made considerable progress strategically and financially during a difficult 2020. I have no doubt that the Company will navigate the future with both confidence and determination to continue building A Better Tomorrow™.

Richard Burrows
Chairman



Responding to the COVID-19 Pandemic

The Group's response to the global COVID-19 pandemic continues to evolve and we expect the actions we take to develop over time as the needs of our people, our customers and society as a whole change.

We are steadfastly committed to supporting all our stakeholders throughout the COVID-19 pandemic, whether that be our workforce, customers, partners or suppliers.

Keeping the Group Operating in a Time of Crisis

The Group continues to navigate the challenges and impacts of COVID-19, with effective crisis management and risk management processes in place, and remains a financially resilient business.

Our Board has maintained close oversight of the Group's response to the impact of COVID-19 throughout this period.

The Group remains financially robust, with the Board reiterating the commitment to the Group's dividend pay-out policy of 65% of adjusted diluted EPS.[®] This demonstrates the confidence in the Group's ability to continue to navigate COVID-19 with the associated macro and socio-economic challenges and uncertainty this international crisis brings.

We are committed to supporting all our stakeholders throughout the COVID-19 pandemic, whether that be our workforce, customers, partners or suppliers. We have not furloughed any staff or utilised any government schemes (or subsidies) due to the pandemic, other than in respect of the deferral of tax instalment payments within the calendar year.

Vaccine Development

BAT's US bio-tech subsidiary, Kentucky BioProcessing (KBP), is developing a potential vaccine for COVID-19. Its Initial New Drug application was approved by the US Food and Drug Administration (FDA) in December 2020 and we are progressing through the first Phase I study of KBP's COVID-19 vaccine candidate.

This move to human trials is the first phase of development that would, if successful, form part of the full-scale development programme that would aim to fully assess the safety and efficacy of the candidate vaccine.

KBP is a world leader in using plants to express, extract and purify proteins for use as vaccines and other pharmaceuticals.

The candidate vaccine's unique use of innovative fast-growing plant-based technology means rapid production of the vaccine's active ingredients in around six weeks compared to several months using conventional methods. The vaccine also has the potential to be stable at room temperature, which could be a significant advantage for healthcare systems.

Testing and Logistical Support

We have continued to evolve the forms of direct support we have deployed to address the global impact of COVID-19.

In addition to the COVID-19 vaccine candidate that is in development by our US bio-tech subsidiary, KBP, we have:

- Loaned testing equipment to the UK government;
- Provided access to 3D printers to help produce protective face shields;
- Manufactured and distributed medical and hygiene equipment to vulnerable communities; and
- Donated to many funds around the world focusing on supporting local COVID-19 responses.

Supporting our Suppliers and Communities

Our response to COVID-19 has been developed to incorporate the needs of wider stakeholder groups, including our smaller suppliers and those living in tobacco growing communities.

Some tobacco growing communities may be particularly vulnerable to both the virus and the economic implications of a global pandemic. We are taking great care that we don't increase the immediate vulnerability of these communities and are committed to supporting them during the inevitable economic recovery that will follow.

We are working to support our smaller suppliers across the globe who may be struggling with cash flow issues by ensuring that, where needed, they are paid earlier than existing payment terms require or by extending payment terms to those customers who have expressed concerns.

Looking After our People

The Group's management is doing all that it can to make sure that employees working from home feel connected.

Most importantly, we are working to ensure that the health, safety and wellbeing of employees who are unable to work from home, and those in countries where lockdown restrictions are not in place, are protected in their workplace.

For all employees, we are making sure they are aware of the extensive wellbeing support available to them, including:

- Online medical consultations;
- Counselling services; and
- Mental health support.



Overview

Chief Executive's Review

Building A Better Tomorrow™ and Delivering Growth in a Challenging Environment



“From the start of our portfolio transformation journey, we have always been clear that no consumer is the same. In order to meet differing needs in multiple marketplaces, a portfolio of solutions is required – that is the hallmark of a modern consumer products business. I am delighted, therefore, that adoption has accelerated across all three of our New Categories in 2020 and that 13.5 million consumers are now choosing our non-combustible products.”

“As the largest, and only truly global company in our industry, we take seriously our role to transform ourselves and demonstrate thought leadership.”

“We have a very clear purpose to reduce the harm footprint of our business. We are uniquely positioned in that regard.”

“Recent months have seen upheaval on a global scale as a result of the COVID-19 pandemic. It has had a profound impact on business and society as a whole.”

Dear Stakeholders,

As the largest, and only truly global company in our industry, we take seriously our role to transform ourselves and demonstrate thought leadership.

We have a very clear purpose to reduce the harm footprint of our business. We are uniquely positioned to encourage the switch to reduced-risk products.*†

- We operate worldwide, inclusive of the US, which represents 40% of the global industry's value.
- Our well-embedded consumer-centric, multi-category consumer strategy is activated on a global scale, leveraging our insights on consumer satisfaction, innovation needs and taste preference.
- We are building the brands of the future – strong, global brands, specifically positioned in each target consumer segment.

From the start of our portfolio transformation journey, we have always been clear that no consumer is the same. In order to meet differing needs in multiple marketplaces, a portfolio of solutions is required – that is the hallmark of a modern consumer products business.

I am delighted, therefore, that adoption has accelerated across all three of our New Categories in 2020 and that 13.5 million consumers are now choosing our non-combustible products. We have a way to go – yet BAT is changing, and that change is accelerating.

Our Response to the Pandemic

Recent months have seen upheaval on a global scale as a result of the COVID-19 pandemic. It has had a profound impact on business and society as a whole. First and foremost, our thoughts are with the many individuals and families whose lives have been impacted by the virus.

At the beginning of the crisis, we took swift action across the entire business to ensure we could continue to operate safely and effectively.

Today, working remotely remains the norm for many at BAT. Where this has not been possible, for example in many of our factories around the world, the necessary measures have been put in place to ensure our people can work safely and securely. I would like to thank our teams around the world for their ongoing commitment, energy and passion.

Our Purpose: A Better Tomorrow™

Our business continues to transform during this period of unprecedented change. Our purpose – to build A Better Tomorrow™ by reducing the health impact of our business – has remained our North Star. It continues to guide our strategic choices and the execution of our strategy.

Delivering A Better Tomorrow™ through consumer-led insights, innovation and science are central to this purpose. Our consumer-centric, multi-category approach offers the widest range of enjoyable and less risky products, including Vapour products, Tobacco Heating Products (THP) and Modern Oral nicotine pouches.†

We believe our multi-category strategy is the most effective way of appealing to the diverse preferences of adult consumers around the world while reducing the health impact of our business. We believe consumers should either stop smoking, or not start.

For those who would otherwise continue to smoke, we are committed to encouraging them to switch completely to scientifically-substantiated, reduced-risk alternatives.*†

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

“Our business continues to transform during this period of unprecedented change. Our purpose – to build A Better Tomorrow by reducing the health impact of our business – has remained our North Star. It continues to guide our strategic choices and the execution of our strategy.”

“We believe our multi-category strategy is the most effective way to appeal to the diverse preferences of adult consumers around the world while reducing the health impact of our business.”

“I am pleased that we are making great progress towards our ESG ambitions and business transformation. BAT's non-combustible products are now available in over 50 countries. We have increased the number of non-combustible product consumers by 3 million, reaching 13.5 million, and remain on track for 50 million by 2030.”

“We are providing an increasing number of adult consumers with products that provide satisfaction and can reduce the overall health risk compared with our combustible products. Our ambition is to build the brands of the future.”

Sustainability is at the heart of our business and is key to our transformation journey. In support of our A Better Tomorrow™ purpose, we set out three ambitious ESG targets:

- Increasing the consumer base of our non-combustible products to 50 million by 2030;
- Achieving carbon neutrality by 2030 while accelerating our existing environmental targets to 2025; and
- Eliminating unnecessary single-use plastic and making all plastic packaging reusable, recyclable or compostable by 2025.

I am pleased that we are making great progress towards our ESG ambitions and business transformation. BAT's non-combustible products are now available in more than 50 countries. We have increased the number of non-combustible product consumers by 3 million, reaching 13.5 million, and remain on track for 50 million by 2030.

In addition, we achieved a 37.4% decrease in our Scope 1 and Scope 2 CO₂e carbon emissions against our 2017 baseline, supported by a 16 percentage point increase in our use of renewable energy compared with last year. Further details of our progress in all ESG areas are provided on pages 44-57 and in our ESG Report.

We are proud that our ESG efforts are being recognised externally through our inclusion in the Dow Jones Sustainability Indices for 19 consecutive years, our scores in leading investor indices such as MSCI and Sustainalytics, and through our CDP Climate A-List status.

In fact, BAT achieved more worldwide recognition and awards in 2020 than ever before, with well over 200 awards received.

Our Performance for Year Ended 31 December 2020

The year ended 31 December 2020 was a strong one for BAT's global business.

The impact of the COVID-19 pandemic has been felt unequally across markets, with resilience seen across many developed markets, where around three-quarters of our revenue is generated, while some developing markets have experienced product, sales or supply chain restrictions.

Revenue was marginally lower than 2019 (down 0.4%), due to a foreign currency headwind of 3.5%. Excluding currency (and adjusting items in revenue impacting 2019), the Group delivered 3.3% revenue growth to £26,670 million, which was at the top end of our guidance range.

Profit from operations grew by 10.5% to £9,962 million with diluted earnings per share up 12%. Excluding adjusting items and the impact of foreign exchange, adjusted profit from operations, at constant rates of exchange, grew by 4.8% and adjusted diluted earnings per share grew by 5.5%.

Reported operating margin grew by 380 bps to 38.6%. On an adjusted basis, it grew by 100 bps at current rates.

®With operating cash conversion of 103%®, we have continued to demonstrate our commitment to reducing leverage and investing in the business by maximising cash.

Delivering a Step Change in New Categories

Our New Categories portfolio is the broadest in the industry.

Through our multi-category approach, combined with powerful data and consumer analytics, we are providing an increasing number of adult consumers with products that provide satisfaction and can reduce the overall health risk compared with our combustible products.*† Our ambition is to build the brands of the future.

We aim to further accelerate the growth of revenue from our New Categories, reaching £5 billion in 2025. I am pleased to report that £1.4 billion of our revenues came from these products in 2020, representing 15% growth compared to 2019.

Overall, total Group Vapour revenue grew by 52% to £611 million. I am pleased to report we are the value share leader in closed systems in four of the top five markets, rapidly closing the gap on the US market leader.

We continue to grow volume share in THP, with consumable volume up 19% to 11 billion sticks – which would have been a growth of 29% had it not been for the withdrawal of glo Sens in the year. While overall revenue declined 13% to £634 million this was predominantly due to the impact of a £50 million charge to revenue (related to the withdrawal of glo Sens) and excise rate harmonisation in Japan. We now have around 20% share of category in multiple markets including Japan, Romania and Kazakhstan.

Our volume of Modern Oral increased 62% to 1.9 billion pouches with revenue increasing 57% to £198 million. Our acquisition of certain assets from Dryft, a US-based Modern Oral company, in October positions us well for future US growth and represents a further step towards building A Better Tomorrow™.

These results, combined with the investment of an additional £426 million in New Categories in 2020, demonstrate our commitment to delivering results sustainably in this exciting area of the business.

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

Overview

Chief Executive's Review

Continued

“We aim to further accelerate the growth of revenue from our New Categories, reaching £5 billion in 2025. I am pleased to report that £1.4 billion, of our revenues came from these products in 2020 representing 15% growth compared to 2019.”

“These results, combined with the investment of an additional £426 million in New Categories in 2020, demonstrate our commitment to delivering results in this exciting area of the business sustainably.”

“As these results demonstrate, we are accelerating our business transformation and building A Better Tomorrow.”

“With our history of strong financial performance, coupled with a deep understanding of our consumers and an innovation-led, multi-category approach, we have the foundations in place to propel this great Company even further forward.”

Driving Value from Combustibles

While we aim to generate an increasing proportion of our overall revenues from New Categories, the performance of our combustibles business remains essential to funding the delivery of A Better Tomorrow™.

Revenue from combustibles declined 1.1% as the results were impacted by a translational exchange headwind of 3.7%. On a constant currency basis (and excluding adjusting items that impacted 2019), this was a growth of 2.8% to £23.6 billion as higher pricing across the Group, notably in the US, Russia, Germany, Canada, Australia, Mexico and Pakistan more than offset the impact of lower combustible volume.

Group cigarette value share increased 20 bps, with cigarette volume share up 40 bps. While Group cigarette volume declined 4.6% to 638 billion sticks, this should be seen in the context of an estimated decline in the industry of between 5.0% to 5.5%.

Our developed and developing market coverage supported our growth, with value share accelerating in developed markets and volume share in developing markets.

Simplifying the Business

Creating a more efficient, agile and focused business is vital to delivering A Better Tomorrow™. Our aim is to deliver annualised £1 billion in efficiency savings by 2022 and in 2020 we made good progress, with Quantum enabling gross savings of £660 million through organisational change and productivity initiatives.

A major component of simplifying the business is our digital transformation. We are investing in a digitally-enabled, empowered and connected organisation.

Our e-commerce performance was evidence of that, with revenue growing by over 50% on a year-on-year basis.[®]

Our efforts to simplify the business go much further than digital transformation. We are removing complexities for our management structure, rigorously managing our cost base and embedding our internal culture.

Confidence in Our Future

As these results demonstrate, we are accelerating our business transformation and building A Better Tomorrow™.

Our ongoing success is only made possible by the dedication and energy of our talented people around the world and I want to thank them all for their commitment, determination and resilience in such a challenging environment.

This year, I want to extend a special thank you to our Chairman, Richard Burrows, who is stepping down from the role and retiring from the Board. Having served as Chairman since 2009, Richard's strong leadership and contribution have been instrumental in the progress BAT has made in recent years. I would also like to congratulate Luc Jobin on his appointment as Chairman of the Board.

As Chief Executive, I am as proud of the rich heritage of BAT as I am excited by the journey ahead. With our history of strong financial performance, coupled with a deep understanding of our consumers and an innovation-led, multi-category approach, we have the foundations in place to propel this great Company even further forward.

Jack Bowles
Chief Executive

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

Financial Review

Finance and Transformation

Director's Overview



“We continue to deliver against our financial objectives, despite the unprecedented challenges arising in 2020. This allows us to continue to reward shareholders with growth in dividends while deleveraging and investing in A Better Tomorrow.”

“Revenue growth driven by New Categories performance and combustibles pricing, more than offsets an estimated 2.5% COVID-19 headwind.”

“Project Quantum has realised savings that allowed us to invest a further £426 million in New Categories.”

“Profit from operations was up 10.5% (2019: down 3.2%), driven by the growth in revenue (excluding the impact from currency) and operational efficiencies while 2019 was impacted by certain charges that did not repeat, notably in relation to Canada and Russia.”

Financial Strength to Overcome Operational Challenges

2020 has provided unique challenges that the Group has met and overcome. Our geographic diversity, integrated infrastructure and determination to deliver has again delivered growth in our key financial indicators.

Our combustible portfolio, particularly in the US where we led industry pricing, has provided both the fuel to continue to increase our investment in our New Category portfolio and to deleverage the Group's balance sheet despite headwind from COVID-19 of an estimated 2.5% on revenue.

Pricing and New Categories Drive Revenue Growth

Revenue was marginally lower than 2019, down 0.4%, at £25,776 million (while 2019 was up 5.7% to £25,877 million), as a translational currency headwind more than offset the operational performance, with revenue up 3.3% in 2020 (2019: 5.6%) on an adjusted constant currency basis, despite an estimated headwind on revenue from COVID-19 of approximately 2.5% in 2020.

Pricing across the cigarette portfolio (with price/mix of 7% in 2020 compared to 9% in 2019), higher revenue from New Categories (up 14.9% in 2020 and 37% in 2019) and Traditional Oral (up 7.2% in 2020 compared to 15% in 2019) more than offset a decline in cigarette volume of 4.6% in 2020 (2019: 4.7% decline). 2020 was also impacted by an estimated 2.5% headwind from COVID-19 due to the disruption and restrictions affecting certain markets (including South Africa and in Global Travel Retail).

Margin Growth While Investing in New Categories

Profit from operations increased by 10.5% to £9,962 million, compared to a decline of 3.2% to £9,016 million in 2019. This was largely driven by the operational efficiencies achieved under the Group's restructuring programme (Project Quantum) and while 2020 was impacted by charges in respect of goodwill impairment (£209 million, largely in respect of Malaysia; 2019: £172 million mainly in respect of Indonesia), litigation charges (mainly in the US) of £487 million (2019: £236 million) and Quantum costs (£81 million; 2019: £264 million), 2019 was also negatively impacted by a charge in respect of the Quebec Class Action in Canada (£436 million) and the settlement of an excise dispute in Russia (£202 million).

Our operating margin increased by 380 bps to 38.6% in 2020 (2019 declined 320 bps to 34.8% driven by the lack of charges referred to above).

On an adjusted constant currency basis, profit from operations grew by 4.8% (2019: up 6.6%) with adjusted operating margin (at current rates) up 100 bps to 44.1% (2019: 43.1%). This was driven by growth in high margin markets (including the US) and efficiencies delivered in 2020 as part of Project Quantum which more than offset the continued investment in New Categories.

Financial Review

Finance and Transformation

Director's Overview Continued

“Dividends per share increasing by a further 2.5%, underpinned by the financial strength of our business.”

“Cash flow generation remains extremely strong, with high conversion from profit to cash, facilitating the drive to deleverage while investing for the future.”

“We remain committed to consistent and sustainable long-term 3-5% revenue growth (excluding currency) and a progressive dividend policy.”

“The Group continues to deliver against the financial objectives, despite the unprecedented challenges arising in 2020. This allows the Group to continue to reward shareholders with a growth in dividends while deleveraging and investing in A Better Tomorrow.”

Future Funding De-Risked Through Proactive Action

In 2020, we reduced future refinancing risk by raising £8.9 billion in the US dollar, euro and sterling markets, using the proceeds to repurchase and redeem £3.1 billion of bonds. This de-risked the future repayment profile by securing lower interest rates and future liquidity in uncertain times. This led to an increase in net finance costs of 8.9% to £1,745 million as we recognised net charges of £142 million in respect of the early redemption and tender offer. The increase in 2019 (up 16% to £1,602 million) was driven by foreign exchange headwinds and interest on leases recognised under IFRS 16 Leases.

As part of the Group's de-risking of future funding, during 2020 gross interest cover ceased to be a covenant on the Group's debt facilities.

EPS Growth Underpins Dividend Increase

On a reported basis, basic EPS was up 12.1% at 280.0p (2019: down 5.4% at 249.7p) with diluted EPS up 12.0% to 278.9p (2019: down 5.4% to 249.0p), largely due to the increase in profit from operations as discussed earlier.

Excluding the adjusting items and the effect of foreign exchange on the Group's results, adjusted diluted earnings per share, at constant rates, increased by 5.5% to 341.4p, with 2019 ahead of 2018 by 8.4%.

Dividends per share for 2020 will be 215.6p, an increase of 2.5% (2019: 210.4p, up 3.6%), in line with our commitment of a 65% pay-out ratio on adjusted diluted earnings per share (2019: 65.0%).

Cash Generation Drives Debt Deleveraging

We continue to focus on a balanced approach of deleveraging, while investing for the future and providing a return via dividends to shareholders.

We remain extremely successful in converting operating performance to cash. The Group's cash conversion ratio, based upon net cash generated from operations, was 98% (2019: 100%) and the operating cash conversion ratio was 103% (2019: 97%). The Group realised £9.8 billion (2019: £9.0 billion) of net cash generated from operating activities, or £2.6 billion (2019: £1.9 billion) of free cash flow after dividends – which is a measure the Group uses to assess total cash generated by the Group with which to repay borrowings.

Consequently, in 2020, total borrowings (including lease liabilities) have reduced from £45,366 million in 2019 to £43,968 million in 2020, largely due to the net repayment of borrowings in the year, and a currency tailwind of £219 million. We continued to deleverage our balance sheet with adjusted net debt to adjusted EBITDA ratio improved from 3.5 times to 3.3 times. We expect this ratio to be around 3.0 times by the end of 2021.

Adjusted net debt to adjusted EBITDA, as defined on page 283 provides a measure to assess the Group's ability to meet its borrowing obligations and, from 2020, is a KPI.

Confidence in Future Delivery

We remain confident in our medium term guidance of 3-5% revenue and high-single figure adjusted diluted EPS growth at constant currency, post COVID-19, while targeting a minimum of 90% operating cash conversion and a dividend pay-out ratio of 65% of adjusted diluted EPS over the medium to long term.

In summary, the Group continues to deliver against the financial objectives, despite the unprecedented challenges arising in 2020. This allows the Group to continue to reward shareholders with a growth in dividends while deleveraging and investing in A Better Tomorrow.

Tadeu Marroco

Finance and Transformation Director

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

Our Year in Numbers

Our performance metrics		Target / Ambition	2020	%	2019	%	2018	IFRS-GAAP KPI	Non-GAAP
Consumer									
Number of Non-Combustible Product Consumers	50 million consumers by 2030		13.5m		10.5m		8m		
Market Share									
Cigarette and THP volume share growth (bps)	Grow by 0-10 bps (2020)		+30 bps		+20 bps		+40 bps		
Cigarette and THP value share growth (bps)			+20 bps		+30 bps		+40 bps		
Volume									
Cigarettes (bn sticks)			638	-5%	668	-5%	701		
Other Tobacco Products (bn stick equivalents)			20	-2%	21	-7%	22		
Vapour (mn 10ml units / pods)			344	+52%	226	+19%	189		
THP (bn sticks)			11	+19%	9	+32%	7		
Modern Oral (mn pouches)			1,934	+62%	1,194	+188%	414		
Traditional Oral (bn stick equivalents)			8	-1%	8	-1%	8n		
Financial									
Revenue (£m)			25,776	-0.4%	25,877	+5.7%	24,492		
Change in Adjusted Revenue at cc (%)	@3-5% CAGR®		+3.3%		+5.6%				
Change in Revenue from Strategic Portfolio at cc (%)	* Increase 3-6% (2020)		+7.0%		+7.3%				
Revenue from New Categories (£m)	£5 billion by 2025		1,443	+14.9%	1,255	+36.9%	917		
Change in Revenue from New Categories at cc (%)	*		+15.4%		+32.4%				
Profit from Operations (£m)			9,962	+10.5%	9,016	-3.2%	9,313		
Change in Adjusted Profit from Operations at cc (%)	Increase 4.0% to 6.5% (2020)		+4.8%		+6.6%				
Operating Margin (%)			38.6%		34.8%		38.0%		
Adjusted Operating Margin (%)			44.1%		43.1%		42.6%		
Diluted Earnings per Share (p)			278.9	+12.0%	249.0	-5.4%	263.2		
Adjusted Diluted Earnings per Share (p)	@5-10% CAGR®		331.7	+2.4%	323.8	+9.1%	296.7		
Change in Adjusted Diluted Earnings per Share at cc (%)	@5-10% CAGR®		+5.5%		+8.4%				
Dividends per Share (p)			215.6	+2.5%	210.4	+3.6%	203.0		
Dividend Pay-Out Ratio (%)	@65% of long-term earnings®		65%		65%		68%		
Net Cash Generated from Operating Activities (£m)			9,786	+8.8%	8,996	-12.6%	10,295		
@Free Cash Flow after Dividends (£m)			2,550	+32.7%	1,921	-42.4%	3,337		
Cash Conversion (%)			98%		100%		111%		
@Operating Cash Conversion (%)	85-95% each year on average		103%		97%		113%		
Borrowings, including Lease Liabilities (£m)			43,968	-3.1%	45,366	-4.5%	47,509		
@Adjusted Net Debt to Adjusted EBITDA (ratio)	Around 3.0x by end 2021		3.3x		3.5x		4.0x		
@Adjusted Return on Capital Employed (%)			10%		9%		8%		
Total Shareholder Return (rank)			20 of 23		21 of 23		19 of 23		
ESG									
Total Scope 1 and 2 CO ₂ e emissions ('000 tonnes)	Carbon neutral by 2030 for our own business activities		541	-30.9%	782	-7.0%	874		
Water Withdrawn (mn metres ³)	Reduce water withdrawn by 35% by 2025 to 3.38 against 2017 baseline		4.03	-10.8%	4.51	-5.3%	4.77		
Recycling (% of Waste Recycled Annually)	Recycle min 95% of waste		22.5%		13.1%		8.2%		
			90.7%		90.5%		90.2%		

Please refer to pages 276 to 284 for definitions of the Non-GAAP measures. See the section 'Non-Financial KPIs' on page 274 for more information on these non-financial KPIs.

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* From 2021, Change in Revenue from Strategic Portfolio at cc will cease to be a KPI, being replaced as a KPI by Revenue from New Categories at cc.

1. Where measures are presented 'at constant rates' or 'at cc', the measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year results of the Group and, where applicable, its segments. See page 73 for the major foreign exchange rates used for Group reporting.

2. Where measures are presented as 'adjusted', they are presented before the impact of adjusting items. Adjusting items represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.

Overview

Investment Case

Transformation Driving Sustainable Growth

Delivering growth by reducing harm and expanding our portfolio

Our corporate purpose is to build A Better Tomorrow™. Reducing the health impact of our business, by encouraging those smokers who would otherwise continue to smoke to switch completely to scientifically-substantiated, reduced-risk alternatives, is the greatest contribution we can make to society.* This means growing our New Category business and increasing the proportion of our revenue coming from New Category products as fast as possible.

Revenue growth in the global nicotine industry is accelerating through the development of New Categories, which offer reduced-risk alternatives to combustible products.† To capitalise on this growth, our well-embedded consumer-centric, multi-category strategy is activated on a global scale, leveraging our insights on consumer satisfaction, innovation needs and taste. We are building the brands of the future – strong, global brands, specifically positioned in each target consumer segment.

We have set ourselves ambitious targets to reach 50 million consumers of our non-combustible products by 2030, and more than triple our revenue from New Categories from £1.3 billion in 2019 to £5 billion by 2025. These ambitions will be met through the delivery of our three clear strategic priorities:

- to drive a step change in New Categories, to accelerate growth supported by increased investment;
- to generate value through Combustibles, to provide the capabilities and funding; and
- to simplify the Group, to create a stronger, faster, more agile organisation.



Reducing the Health and Environmental Impact of our Business

Creating value for all our stakeholders

Our work to reduce the health and environmental impact of the business will drive growth and create shared value, delivering results that simultaneously benefit shareholders and wider society.

We will continue to create a stronger BAT by:

- focusing on excellence in environmental management;
- delivering a positive social impact; and
- adhering to robust corporate governance.

This builds on our strong ESG foundations including our status as:

- the first tobacco company to produce a Sustainability Report in 2001;
- named in the Dow Jones Sustainability Indices for 19 consecutive years; and
- a member of CDP Climate A List.

Our commitments are anchored in challenging targets, against which we will track and share the progress of our transformation.

Meanwhile, our 'delivery with integrity' programme is focused on ensuring that our ethical standards are never compromised for the sake of results.



* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

Unrivalled Global Capabilities

Leveraging proven expertise and developing new capabilities to deliver our ambitions

Our New Category portfolio benefits from decades of insights and expertise that have driven our No.1 global revenue position in combustibles (excl. China). This combined with increased investment behind new capabilities gives us confidence that we can deliver our medium to long-term ambitions.

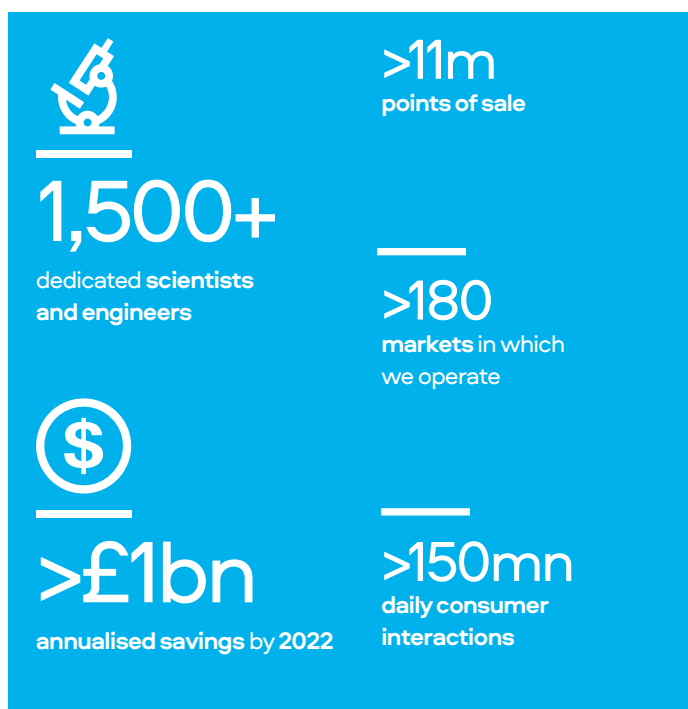
Our three global New Category brands leverage the benefits of our world-class R&D and our manufacturing, distribution, marketing and brand building capabilities, which are supported by our unrivalled global footprint across 180 markets, with 11 million points of sale, reaching 150 million consumers daily.

Together with our long-standing experience operating within complex regulatory, legal and fiscal frameworks, these provide BAT with a compelling competitive advantage to drive portfolio growth and transformation within the wider tobacco industry.

Through Project Quantum, our ongoing business simplification and efficiency programme, we aim to achieve a minimum of £1 billion of annualised savings by the end of 2022 to invest in new capabilities in areas such as:

- data analytics;
- enhanced consumer insight;
- IP and innovation;
- design and technology; and
- e-commerce, enabling our ongoing digital transformation.

We are attracting new senior talent from a diverse range of industries globally to further enhance our current and future capabilities, which will enable us to deliver on our growth ambitions over the medium to long term.



@Continuing our Track Record of Delivery

Commitment to deliver returns and cash flow to shareholders

We are confident in our growth outlook, and have a proven track record of performance whatever the external environment.

We have delivered 10% adjusted diluted EPS (at constant rates) and 7% dividend CAGR over the last 10 years and are confident in our medium-term targets of 3-5% revenue growth (excluding currency, increased operating margin and high-single digit adjusted EPS growth).

This will be driven by:

- accelerated New Category revenue growth;
- continued value growth in combustibles; and
- business simplification to eliminate cost and improve returns, to become a stronger, simpler, more agile organisation.

With strong profitability and >90% operating cash conversion, we are committed to deleveraging the balance sheet to our long-term corridor of 2 to 3x adjusted net debt / adjusted EBITDA, in combination with a progressive dividend policy.®

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Strategic Management

Global Industry Overview

We are a global business, operating at scale, in a fast-paced world. To be sustainable we must anticipate, detect and adapt to major social, environmental, economic, political and technological shifts. Mega trends are important indicators, representing significant movements, patterns or trends shaping the macroenvironment. In the context of our industry, we see four megatrends as being likely to have substantial impact on the way we conduct our business.

Mega trend

Reduced Risk & Beyond



Consumer Choice

It is widely accepted that most of the harm associated with tobacco is caused by inhaling the smoke produced by its combustion. Around the world, consumers now have increasingly high expectations beyond combustible products and nicotine. Many consumers are seeking out new products that deliver nicotine, with potentially reduced risk, as well as other ingredients from a wellbeing perspective – so-called ‘new active’ products.

World-Class Science

There is broad agreement among policy makers and the public health community: We need to develop a robust science base to inform policies and educate consumers about potentially reduced-risk products. The science associated with tobacco harm reduction plays a core role within the industry and society. World-class science can establish whether products are safer, or less risky, compared with cigarette smoking. It can also help build consumer trust in reduced-risk products.*†

Regulation and Standards

The regulatory environment around tobacco harm reduction and ‘new active’ products is evolving. Science increasingly points to the likely benefit of reduced-risk products as an alternative to smoking.*† This means we are seeing policy and regulatory shifts in several markets. Some countries have greater restrictions in place. Others, like the UK, view tobacco harm reduction within a regulated framework, encouraging smokers to use potentially reduced-risk nicotine products.

H

**Reducing the HEALTH impact
of our business**

Consumer
choice

World-class
science

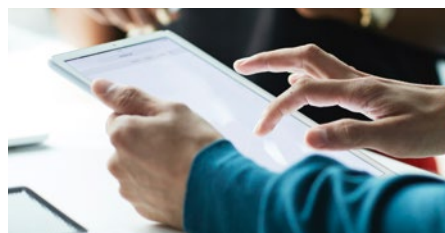
Standards
and regulation

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Mega trend

Digital Technology



Smart Technology

Smart electronic devices and social media have increasingly become integral to people's lives and daily routines. They have enabled greater access to new platforms and have enhanced the way people consume news, make connections and shop.

E-commerce platforms, available on the go, have led to social media platforms being used by brands to sell their products. Social e-commerce is increasingly viewed as a mainstream retail channel, on a par with other platforms, like websites and offline stores. This trend is only accelerating as greater numbers of social networks introduce pro-selling features like shoppable posts.

Online Sales During COVID-19

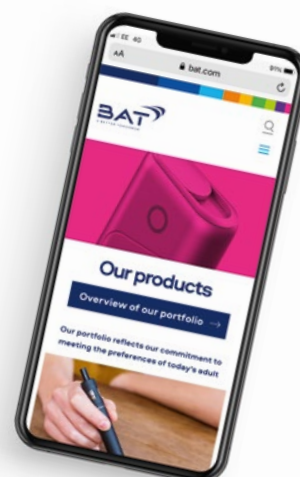
A major impact of the pandemic has been the implementation of city-wide, regional and national lockdowns. Many non-essential businesses have been ordered to close. As a result, many customers are generally avoiding public places. While the crisis is continually evolving, it has increasingly limited shopping for all but necessary essentials. Brands are having to adapt. Now, e-commerce is expanding to include new businesses, customers and product types.

Today, customers already have access to a wide variety of products from the convenience and safety of their homes. Firms have still been able to operate, despite contact restrictions and other confinement measures.



>50%®

increase in own
e-commerce revenue
vs. 2019®



Mega trend

Climate Change



Population Migration

Climate change can re-shape patterns of migration and population displacement. This is driven by shoreline erosion, coastal flooding and agricultural disruption.

Various analysts have attempted to forecast future flows of climate migrants. These people are moving within their countries or across borders, on a permanent or temporary basis. The most widely repeated prediction is 200 million by 2050.

The impacts of climate migration on regional security, labour patterns and consumer habits will have wide-ranging effects on businesses across the globe.

Farming

Agricultural crops, such as tobacco, need suitable soil, water, sunlight and heat to grow. The length of the growing season in large parts of Europe, for example, has already been impacted by warmer air temperatures. Some crops are now experiencing harvest and flowering dates several days earlier in the season. Many regions are expected to see this trend continue.

Shifts in temperatures and growing seasons may also impact the production and spread of some species (i.e. insects), invasive weeds, or diseases, with crop yields potentially affected. Yield losses could be offset by different farming practices, such as: Crop rotation to match water availability, adjusting sowing dates to rainfall and temperature patterns and using crop varieties suited to new conditions.



Mega trend

Waste and Recycling



Manufacturing Resource Reduction

Reducing the resources needed for manufacturing – often referred to within the circular economy – is a key trend. This includes reducing waste and pollution by continuously re-using materials and products.

Many factors have brought this into focus. Resource prices have become more volatile and are expected to rise over the long term. Consumer demand is increasing. Meanwhile, easy-access, high-grade stocks of key commodities are reducing. Governments are also considering new restrictions on pollution and waste that apply for entire product lifecycles.

Recycling and Packaging

Today, businesses are expected to go further and recycle more. It is possible for most plastics used in packaging to be mechanically recycled with little loss of quality. However, current estimates place global uptake at less than 15%. Why?

One of the most important reasons is the lack of global standards. Proliferating materials, formats and labelling requirements mean many types of packaging are produced in quantities too small for recyclers to achieve economies of scale and profitability. There are also variations in collection methods and processing systems. This means the recyclability of a product in one city may not be compatible with another. As packaging changes, local waste-collection and recycling programmes are struggling to keep pace.



Strategic Management

Global Industry Overview**

Continued

Today, the tobacco and nicotine market serves a growing base of more than one billion adult consumers. Generational differences and shifts in taste are continuing to emerge, as health and wellness become ever-more important. We anticipate growth in new categories of products, including – and beyond – tobacco and nicotine. Consumers expect these to provide stimulation and pleasure, in ways previously associated with cigarettes. We believe such growth will offset the predicted decline in cigarette consumption.

Sales for the legal global tobacco market (2019) were worth approximately US\$818 billion, according to the most recent estimates.

The latest global figures (2019) suggest that global vapour sales are worth US\$20.2 billion, while global THP revenues stand at US\$15.2 billion. This is an increase of US\$4.5 billion and US\$3.3 billion, respectively, on 2018.

Traditional oral products show steady, incremental growth. Meanwhile, new Modern Oral products are showing accelerated volume expansion in both Europe and the US.

As one of the world's most regulated and taxed industries, tobacco contributes over US\$200 billion to government treasuries annually.

Global Combustible Market

Sales for the legal global tobacco market (2019) were worth approximately US\$818 billion, according to the most recent estimates.


The largest global tobacco category remains combustible cigarettes. With over 5,200 billion cigarettes consumed annually, it is valued at US\$705 billion. Over 19% of the world's adult population still chooses to smoke and will likely continue to do so unless consumers are offered suitable alternatives.

However, cigarette volumes have been falling. This is largely due to increased regulation and changing societal attitudes. One reason for the decline of legal tobacco volumes is the continued rise in illicit product consumption. This is now estimated to account for 12% of the global tobacco market.

A number of factors are driving the significant and growing illicit cigarette trade. These include the fact that cigarettes remain a reliable source of tax revenue for governments worldwide, price differentials between markets, regulatory changes and broader macroeconomic pressures.

It is generally accepted that there is a direct correlation between steep, ad hoc increases in taxes and illicit sales. The current sanctions in many countries often fail to deter criminals in search of profit.

 See pages 84 to 88 to read more about our Principal Group Risks

 For further discussion regarding the regulation of our business, please see pages 307 to 310

Global combustible regulation

As one of the world's most regulated and taxed industries, tobacco contributes over US\$200 billion to government treasuries annually.

Manufacturers are required to comply with a variety of regulations, varying considerably from market to market.

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

More recently, governments have begun considering and adopting regulations aimed at menthol flavourings. They have also targeted environmental concerns resulting from litter associated with cigarette consumption.

Impact of COVID-19

Beyond disruption to supply chains, analysts believe the short-term impact of COVID-19 on the tobacco industry will be relatively limited. It is likely that key cigarette volumes were only slightly lower than expected in 2020, in a number of markets globally.

This impact on volumes is expected to be felt unequally across geographies, with resilience seen across more developed markets while developing markets experience potentially greater numbers of consumers turning to the illicit market.

Production of the principal raw material – tobacco leaf – remains broadly diversified across a number of continents. The industry has proven adept at dealing with supply-side shocks.

Global New Categories Market

In recent years, the global tobacco and nicotine market has diversified beyond traditional, combustible tobacco. Evidence can be seen in growing categories like Vapour Products, Tobacco Heating Products (THP) and modern oral nicotine pouches.

The success of these New Categories is based on many factors. One is their ability to offer consumers satisfaction, in circumstances where combustible tobacco is no longer permitted or socially acceptable. Another is their ability to offer reduced risk compared to combustible products.*†

New generations of adult consumers are focusing on health and lifestyle considerations, technological innovation, and personalised experiences. As a result, we expect the growth of New Categories to keep accelerating, as these products better meet those preferences and demands.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

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



The latest global figures (2019) suggest that global vapour sales are worth US\$20.2 billion, while global THP revenues stand at US\$15.2 billion. This is an increase of US\$4.5 billion and US\$3.3 billion, respectively, on 2018.

Traditional oral products show steady, incremental growth. Meanwhile, new modern oral products are showing accelerated volume expansion in both Europe and the US.

The relatively nascent market for wellbeing and 'new active' products has also grown. This is expected to continue as consumer tastes fragment and evolve. Within this space, cannabidiol (CBD) is expected to gain wider use, as evidenced by its recent growth in market size.

New Categories regulation

At a global level, the THP and vapour markets are still emerging. Regulation is in its early stages in many countries. While many governments are considering regulation specific to this category, it has often not been enacted.

Globally, there is a mix of attitudes towards THPs and vapour products. Some regulators aim to encourage them as potentially lower risk, while balancing concerns around possible increased youth usage. Others view them with greater scepticism, including some countries where they are banned.

Litigation

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

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

Strategic Management

The Foundations of our Evolved Strategy

We are committed to providing A Better Tomorrow™ for all our stakeholders. Our ambition is to deliver long-term sustainable growth with a range of innovative and less harmful products that stimulate the senses of new adult generations.

Strong Foundations



>180

markets in which we operate



>150m

daily consumer interactions



>11m

points of sale across over 180 markets

Our wide range of capabilities make us exceptionally well-placed for future growth:

- our unique global marketing and distribution reach;
- our track record of R&D and innovation;
- our decades' worth of consumer insights and brand-building expertise; and
- our New Categories business aims to generate £5bn in revenue in 2025.

Satisfying Consumer Tastes and Moments

20 years ago

combustible products fulfilled a multitude of consumer moments



Night



Morning



Evening



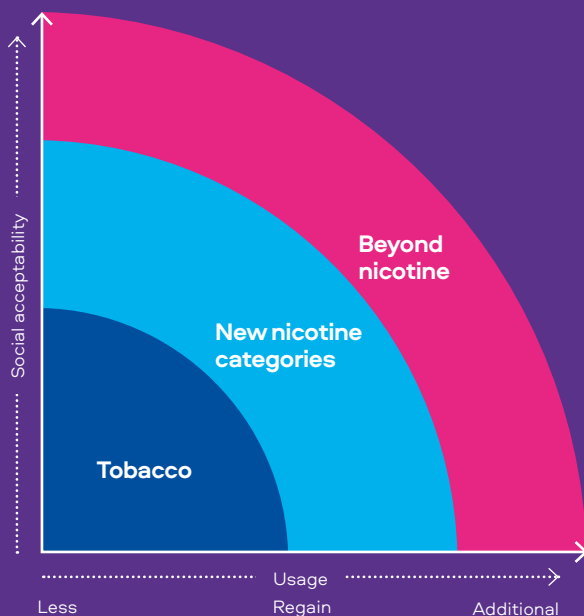
Afternoon



For decades, combustible products satisfied a need for sensorial enjoyment for many individuals. While occasions for tobacco consumption are now reduced, new opportunities have arisen:

- new products provide us with an opportunity to capture, in a focused way, the lost consumer moments previously associated with tobacco; and
- evolving and fragmenting consumer needs provide us with opportunities for additional growth in a variety of new categories.

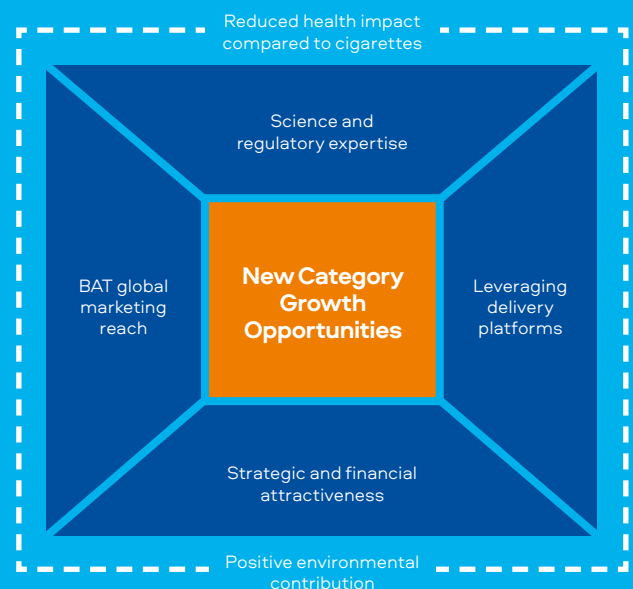
A Developing Portfolio



A wider portfolio of products that offer sensorial enjoyment for different moods and moments will allow us to capture the consumer moments previously associated with tobacco use, as well as satisfy new evolving consumer needs, through:

- scientifically-substantiated, reduced-risk tobacco and nicotine products;
- building the brands of the future; and
- ultimately, a portfolio of products beyond nicotine that leverages our proven expertise.

Parameters to Guide Growth Opportunities



Our new growth opportunities will capitalise on our core business strengths, creating clear boundaries for our portfolio development:

- reducing the health and environmental impacts of our business;
- leveraging our global marketing reach and scale;
- building on our knowledge of delivery platforms and technology;
- relying on our experience in managing complex regulatory and scientific matters; and
- meeting stringent strategic and financial metrics.

Strategic Management

A Strategy for Accelerated Growth

As a leading consumer-centric, multi-category consumer goods business, we are dedicated to stimulating the senses of adult consumers worldwide. We aim to generate an increasingly greater proportion of our revenues from products other than combustibles, thereby reducing the health impact of our business.

This will deliver A Better Tomorrow™ for our consumers who will have a range of enjoyable and less risky*† choices for every mood and moment; for society through reducing the overall health and environmental impacts of our business; for our employees by creating a dynamic and purposeful place to work; and for our shareholders by delivering sustainable superior returns.



Our Mission

Stimulating the Senses of New Adult Generations

Today, we see opportunities to capture consumer moments which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences.

Our mission is to anticipate and satisfy this ever-evolving consumer: provide pleasure, reduce risk, increase choice and stimulate the senses of adult consumers worldwide.

Must Wins

High Growth Segments

Driven by our unique and data-driven consumer insight platform (PRISM), we will focus on product categories and consumer segments across our global business that have the best potential for long-term sustainable growth.

Priority Markets

By relying on a rigorous market prioritisation system (MAPS), we will focus the strengths of our unparalleled retail and marketing reach, as well as our regulatory and scientific expertise, on those markets and marketplaces with the greatest opportunities for growth.

How We Win

Inspirational Foresights

As one of the most long-standing and established consumer goods businesses in the world, we have a unique view of the consumer across all of our product categories, which is increasingly driven by powerful data and analytics.

These insights ensure that the development and responsible marketing of our products is fit to satisfy consumer needs.

Remarkable Innovation

As consumer preferences and technology evolve rapidly, we rely on our growing global network of digital hubs, innovation super centres, world-class R&D laboratories, external partnerships and our corporate venturing initiative to stay ahead of the curve.

Powerful Brands

For over a century, we have built trusted and powerful brands that satisfy our consumers and serve as a promise for quality and enjoyment. We will build the brands of the future by focusing on fewer, stronger and global brands across all our product categories, delivered through our deep understanding and segmenting of our consumers.

Connected

Few companies can claim over 150 million daily consumer interactions, over 11 million retail points of sale and a global network of expert employees around the world. Cultivating an ecosystem that directly connects us with consumers and stakeholders, especially through the power of digital technology, ensures we can build the brands of the future, deliver access to markets and foster innovations that offer sensorial enjoyment and satisfy consumer needs.

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“ We will become a business that defines itself by the consumer needs it meets. We aim to provide our consumers with a portfolio of solutions, recognising that tastes and preferences differ across markets. This will enable sustainable, long-term growth as a modern consumer products company with a clear focus on insights, innovation, brands, activation, teams and technology. Our ambition is to build the brands of the future.”

Kingsley Wheaton
Chief Marketing Officer

OUR PURPOSE



KEY STAKEHOLDER OUTCOMES

- Consumers** enjoyable choices for every mood and moment, today and tomorrow
- Society** reduced overall health & environmental impact
- Employees** a dynamic, inspiring and purposeful place to work
- Shareholders** sustainable and superior returns

ETHOS

- Empowered
- Bold
- Fast
- Diverse
- Responsible

People and Partnerships

Our highly-motivated people are being empowered through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and customers are also key for ensuring sustainable future growth.

US Focus

The United States comprises nearly half of our global business. It is also the single largest economy in the world, the largest single centre for technology and the key driver of global consumer trends, and is where we have the deep consumer understanding and financial strength to support the delivery of our mission to stimulate consumer senses around the rest of the world.

Our Purpose

By stimulating the senses of new adult generations, our purpose is to create A Better Tomorrow™ for all our stakeholders.

We will create A Better Tomorrow™ for:

Consumers

By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow;

Society

By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts;

Employees

By creating a dynamic, inspiring and purposeful place to work; and

Shareholders

By delivering sustainable and superior returns.

For more information about our purpose see inside front cover

Short-Term Deliverables to Fuel A Better Tomorrow™

1 2 3 Ensure a Step Change in New Categories Performance

With our unique cross-category consumer understanding we are clear there is a huge opportunity for our New Categories.

For more key detail see pages 34 to 39

1 2 3 Drive Value From Combustibles

Our ambition is to drive value from Combustibles to fuel our investment in, and transition revenue to, New Categories.

For more key detail see pages 41 to 42

1 2 3 Simplify the Business

Our ongoing simplification programme, Project Quantum, will realise £1 billion of annualised savings through simplification and efficiencies by the end of 2022.

For more key detail see page 43

Strategic Management

Our Consumer-Centric Multi-Category Portfolio

BAT is a leading consumer-centric, multi-category consumer goods business dedicated to stimulating the senses of adult consumers worldwide. Our portfolio reflects our commitment to meeting the evolving and varied needs of today's consumer who seeks sensorial enjoyment for different moods and moments.

Strategic Portfolio

Our key brands in both the combustible and non-combustible categories. This drives focus and investment on the brands and categories that will underpin the Group's future performance. The strategic portfolio is:

Non-Combustibles

All brands within New Categories and the strategic traditional oral brands in moist and snus.

Combustibles

Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, Newport (US), Natural American Spirit (US), Camel (US).

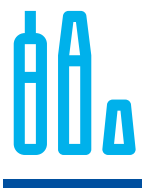
Revenue by product category



New Categories	£1.4bn
Traditional Oral	£1.2bn
Combustibles	£22.8bn
Other	£0.4bn

Our Reduced-Risk Portfolio (Non-Combustibles)*†

New Categories



Vapour

Handheld, battery-powered devices that heat a liquid (called an e-liquid, usually containing nicotine) and creates a vapour to be inhaled.



THP

THPs do not burn tobacco, so no smoke (which is a key source of toxicants) is produced. Research indicates that by heating tobacco rather than burning it, THPs have the potential to be reduced-risk compared to smoking.



Modern Oral

This is our most recent innovation across oral products – offering consumers a satisfying experience with a range of different flavours. Two formulations are available: one containing lower levels of tobacco, and one that contains nicotine but no tobacco.



Traditional Oral

Traditional Oral products do contain tobacco, but there is no burning. There is strong epidemiological evidence, from countries such as Sweden, that switching completely to snus can reduce risk compared to smoking.

Combustibles



The Group sold 638 billion cigarette sticks and 20 billion OTP (stick equivalents) in 2020. The Group operates in over 180 markets, with 45 fully integrated cigarette manufacturing facilities in 43 markets.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance



27

markets where
our vapour
products are
currently available



20

markets where
our THPs
are currently
available



23

markets where
our modern oral
products are
currently available



5

markets where
our traditional
oral products are
currently available



US specific



Strategic Management

Our Global Business

To build A Better Tomorrow™, our marketplace analysis delivers insights regarding consumer trends and segmentation, which ultimately facilitates our geographic brand prioritisation across over 180 markets. Our business is divided into four, complementary regions with a balanced presence in both high-growth emerging markets and highly profitable developed markets.

To achieve a step-change in New Categories, we are building new capabilities around the world focused on science, innovation and digital information.

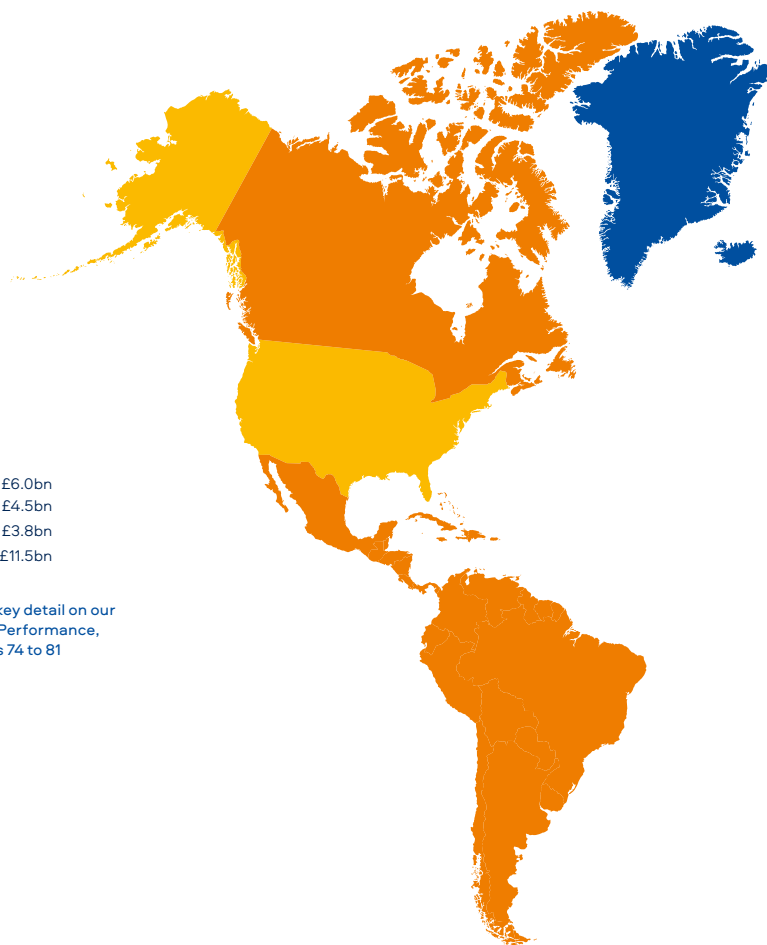
Consumer preferences and technology are evolving rapidly, and we are staying ahead of the curve with our digital hubs, the creation of innovation super centres and further development of our world-class R&D laboratories. We are also leveraging the expertise of our external partners and are looking forward to exciting results from our venturing initiative.

United States
of America

USA

Americas and
Sub-Saharan Africa

AmSSA



Revenue by region



■ ENA	£6.0bn
■ APME	£4.5bn
■ AmSSA	£3.8bn
■ US	£11.5bn

[+](#) for more key detail on our Regional Performance, see pages 74 to 81

“Our cutting edge technologies turn consumer insights into innovative and outstanding products that meet their needs.”

Paul Lageweg
Director,
New Categories



“The US business is transforming into a New Categories-oriented business, fuelled by reinvestments from the consistently industry-leading value growth in the tobacco categories.”

Guy Meldrum
President and
CEO (Reynolds
American Inc.)



“Building A Better Tomorrow is crucial for the Group and the excellent performance of New Categories across AmSSA is proof of the leading role the region is playing.”

Luciano Comin
Regional Director,
AmSSA





“We were delighted to be included in The Gartner Supply Chain Top 25 in 2020, a global report identifying supply chain leaders. This is the latest external recognition of our efforts in delivering a world-class supply chain for our journey towards A Better Tomorrow.”

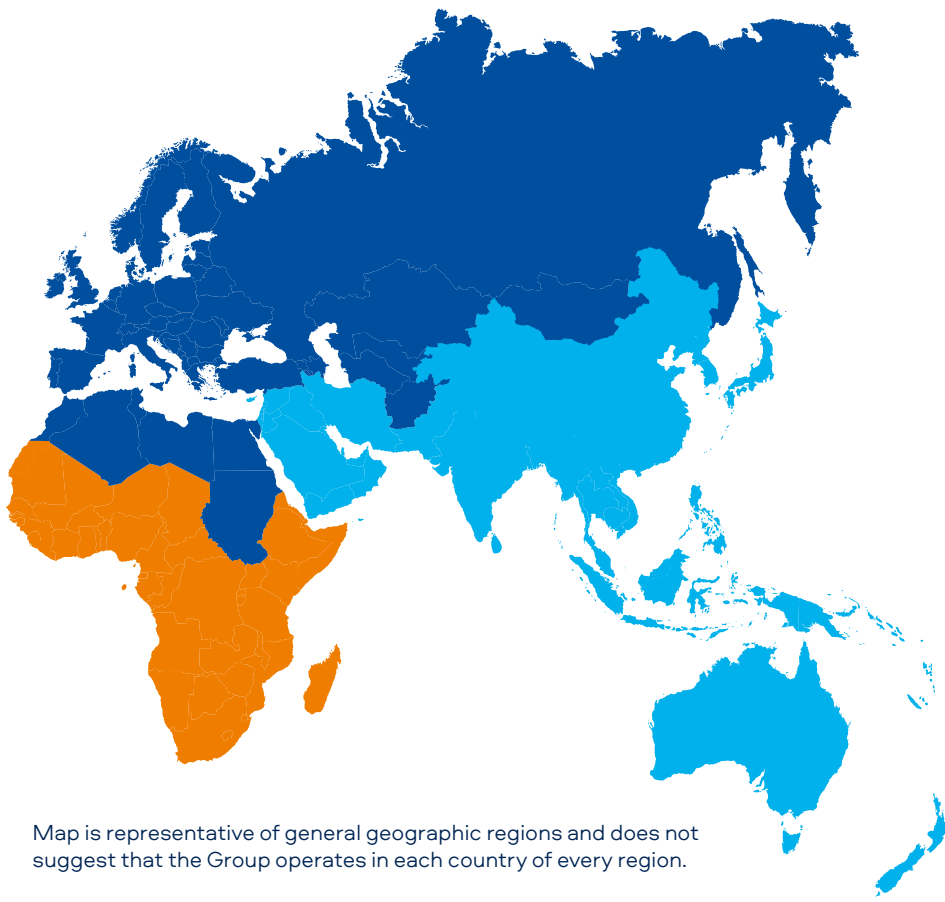
Zafar Khan
Director, Operations

Europe and
North Africa

ENA

Asia-Pacific and
Middle East

APME



Map is representative of general geographic regions and does not suggest that the Group operates in each country of every region.

“We had a strong year across ENA, with revenue growth in all New Categories and remain resolute in our pursuit of A Better Tomorrow.”

Johan
Vandermeulen
Regional Director,
ENA



“glo Hyper accelerated THP volume across APME and we have ambitious plans for 2021 and beyond.”

Michael (Mihovil)
Dijanosic
Regional Director,
APME



180+

markets



150mn

consumers



13.5mn

non-combustible
product consumers



55,000+

employees



139

nationalities



40+

toxicologists



1,500+

R&D specialists

“I am very proud of our global team of world-class scientists and the research they are doing to assess and ensure the performance, efficacy and safety of our products.”

Dr. David O'Reilly
Director, Scientific
Research



Strategic Management

Our Business Model

Our global business understands our diverse consumers, develops products to satisfy their preferences and ultimately distributes them across over 180 markets.

Six key enablers support us in turning powerful insights into products that provide enjoyment to our consumers, while engagement helps our key stakeholders benefit from our sustainable growth.

IP / Technology

£300mn+

R&D expenditure

7

R&D / Product centre sites

Environmental

370,000tn

of leaf

2,568 GWh

energy consumed

4.03m

cubic metres of water withdrawn

Manufacturing

79

BAT-owned manufacturing facilities

45

cigarette factories



Social

84,000+

contracted farmers

c30,000

Suppliers

180+

Markets

Financial

£600mn+

annual capital expenditure

£426mn

additional investment in New Categories

BBB+/Baa2

credit rating

Human

55,000+

employees globally

1,500+

R&D specialists

A Better Tomorrow™ for...

As measured by...

Society



Environmental

- 37.4% reduction in Scope 1 and 2 CO₂e emissions (since 2017)
- Over 99% of wood fuel used for curing from sustainable sources
- 76% of tobacco hectares with best practice soil and water management plans
- 22.5% reduction in water withdrawn (since 2017)
- 21.4% reduction in waste to landfill (since 2017)

Social

- £41bn tax paid to governments
- 38,000+ human rights farmer training sessions, with over 390,000 attendances in 2020

Shareholders



Financial

- 7% dividend growth (CAGR since 2010)
- 5.5% growth in adjusted diluted EPS at constant currency in 2020
- @103% operating cash conversion in 2020@
- 3.3% increase in revenue (at constant currency)

Social

- Among world's top 10% ESG performers in Dow Jones Sustainability Index (DJSI)

Consumers



Financial

- +15% revenue from New Categories (vs 2019)
- +20 bps in Cigs + THP value share with +30 bps in Cigs + THP volume share (vs 2019)

Social

- 11m number of outlets
- 13.5m Non-Combustible consumers
- 100% adherence to Youth Access Prevention Guidelines

Employees



Human

- 30% reduction in lost workday cases (vs 2019)
- Proportion of women in management roles grew to 38%
- Accredited as Global Top Employer by the Top Employers Institute
- Employee engagement index 7% higher than FMCG comparator group in latest 'Your Voice' survey


Non-financial information statement


Non-financial information reporting required under the UK Companies Act is included in the Strategic Report as referenced below:

 Our business model is set out on page 24

 See pages 84 to 88 for Group Principal Risks

Our reporting in the following areas includes information about the policies and principles that govern our approach, due diligence processes, outcomes and non-financial performance indicators:

 Environmental matters pages 48 and 51 to 53

 Social matters pages 48 to 50, 54 to 55

 Anti-bribery and anti-corruption matters pages 48 and 56 to 57

 Employees pages 58 to 63

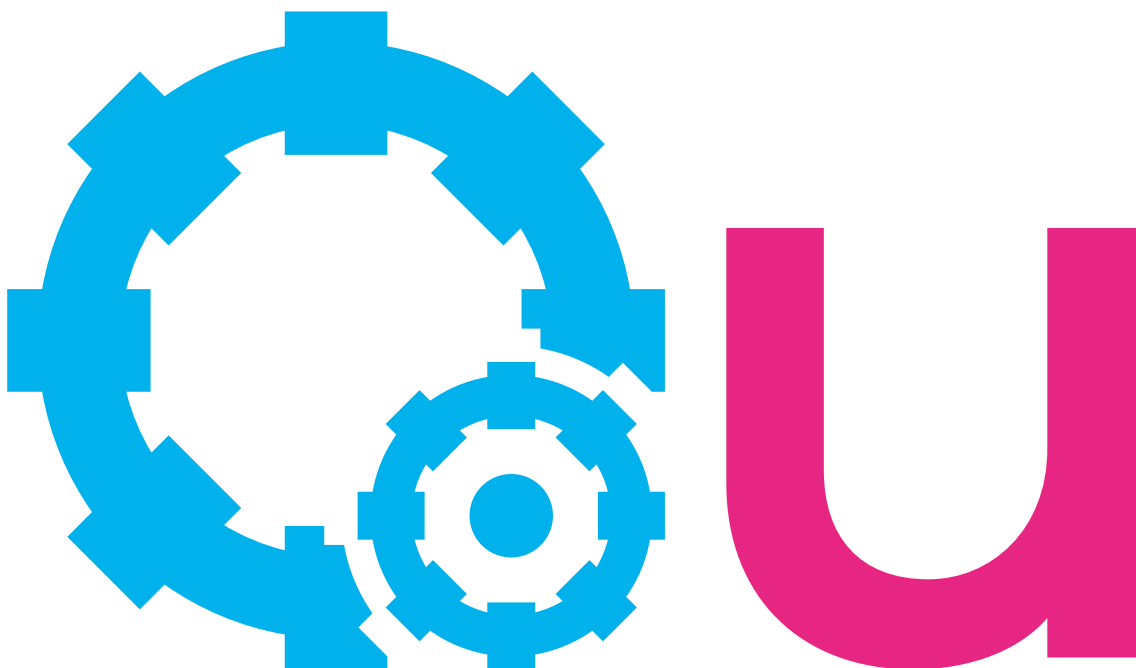
 Respect for human rights pages 48 and 54 to 55

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

Strategic Management

Accelerating the Enterprise of the Future

Building the Enterprise of the Future is about ensuring we have the organisational flexibility to implement and operationalise our growth strategy – simplifying the business and speeding up decision-making. Quest is an organisational transformation programme, built around five pillars, designed to deliver the Enterprise of the Future at enhanced speed.



Deliver Quantum

Project Quantum is our ongoing simplification programme that is fuelling New Category investment and delivery against our financial guidance.

Across the business, we are looking at how BAT can become a simpler, faster and stronger organisation. This will support our ambition to build A Better Tomorrow™ for employees, consumers, shareholders and society.

Through restructuring and right-sizing parts of the business to reflect our new priorities, improving ways-of-working to speed up decision-making and simplifying processes, we are focusing our efforts in a more targeted way to respond to emerging opportunities and deliver future growth.


 See page 43

Unleash Innovation

Our New Categories business requires us to build on our rich history of leveraging our insights on consumer satisfaction and taste preference, which enables us to continually innovate to meet their needs.

Across our portfolio and our supply chain, we are using data-driven insights and foresights, and leveraging state-of-the-art technologies to ensure we are building the brands of the future. This means delivering the experiences and the products consumers want, when they want them.

By combining our existing global talents with the best skills available externally, we will execute consumer-led innovation more quickly, with even better coordination between our supply chain and R&D.

 See pages 30 to 39

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance


est

Empowered Organisation

Our talented teams around the world are being empowered through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement.

Attracting and retaining an increasingly diverse workforce and providing a welcoming, inclusive working environment are key drivers of our transformation journey.

By creating a simpler, more connected business we will set the context for our teams and trust their expertise. We will foster an environment where teams can challenge ideas. Once in agreement, we will commit collectively, collaborate and hold each other accountable to deliver.

 See pages 58 to 63

Shaping Sustainability

We are moving ourselves from a business where sustainability has always been important, to one where it is front and centre in all that we do.

Our commitment to reduce the health impacts of our business – by providing a range of less risky products[†] – is central to our corporate purpose. We are committed to doing this openly and transparently, engaging with an ecosystem of scientists, regulators and policy makers to ensure our corporate strategy continues to take account of their views.

We will continue to deliver world-class science relating to reduced-risk products[†] while advocating for appropriate standards and regulations. This will continue to be underpinned by excellence in all other environmental, social and governance (ESG) measures.

 See pages 44 to 57

Technology & Digital

We will continue to drive digital transformation to unlock commercial value across the entire value chain.

Data analytics are being used to ensure the right decisions are being made at the right time. Throughout our supply chain and our corporate functions, we are applying modern technologies, making analytics available at the touch of a button and freeing up valuable time and resources that can be released and reinvested for future growth.

We are also providing our people access to a range of tools and platforms designed to upskill them in agile ways of working, innovation and design-thinking – enabling them to become more productive, connect more effectively with internal and external colleagues, solve problems quickly and spot opportunities.

 See pages 32 to 33

Strategic Management

Short-Term Deliverables to Fuel A Better Tomorrow™

Our purpose is to build A Better Tomorrow™ by reducing the health impact of our business through offering a greater choice of enjoyable and less risky products* for our consumers. To accelerate this, we must become a stronger, simpler and faster organisation, which will be achieved through the delivery of three short-term priorities.



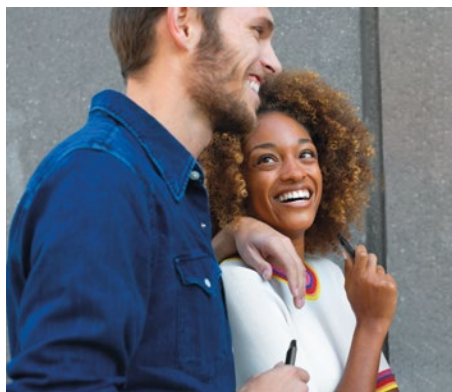
Ensure a Step Change in New Categories Performance



Drive Value From Combustibles



Simplify the Business



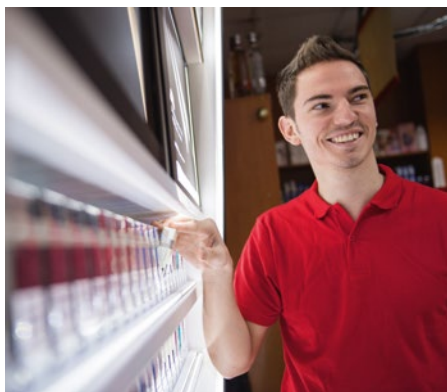
Over the years, consumer moments that used to be satisfied by cigarettes have been replaced by other products.

With our unique cross-category consumer understanding, we are clear there is a huge opportunity to recapture these moments with a broader portfolio of products that are less risky than combustible products.†

We are clear that any portfolio expansion will leverage our strengths. We will maximise and seek to constantly improve our delivery platforms in Vapour, THP and Modern Oral, reducing the health impact and making a positive environmental contribution.

We aim to increase our non-combustible consumers from 11 million (2019) to 50 million by 2030, driving revenue from New Categories to at least £5 billion by 2025.

We are building new capabilities around the world focused on science, innovation, and digital information. Consumer preferences and technology are evolving rapidly, and we are staying ahead of the curve with our digital hubs, the creation of innovation super centres, and further development of our world-class R&D laboratories. We are also leveraging the expertise of our external partners, and are looking forward to exciting results from our venturing initiative.



Our ambition is to increasingly transition our revenues from cigarettes to New Categories over time.

In order to fund the development of our New Categories, we will continue to focus on generating value from our Combustibles business, driving sustainable increases in revenue, with volume share and value share growth.

Our performance is a direct function of the strength of our brand portfolio. We will continue to develop and invest in our brands for equity and future value, by offering winning brand and product propositions, enabled by purposeful innovation.

Revenue growth management is a critical enabler to unlock future value and our resource allocation will be focused and prioritised to deliver better results with fewer initiatives.

We will further consolidate our portfolio of strategic brands and deliver efficiencies through a much leaner portfolio, with far fewer stock-keeping units designed to a margin.



Our ongoing simplification programme, Project Quantum, is expected to realise £1 billion of savings through simplification and efficiencies by 2022.

Through Quantum we will fundamentally re-evaluate how we are organised and reduce management layers to eliminate duplication and entrenched accountability.

We will create new capabilities and release valuable funds for further investment in our growth ambition, ensuring the Group is stronger, faster and more agile.

We will be steadfast in realising operational efficiencies, supply chain productivity and a focus on excellence in our route-to-market.

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance

A BETTER TOMORROW™ for consumers



By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow.

Our consumers are at the core of everything we do and our success is underpinned by addressing their preferences, offering them a choice of enjoyable, innovative and less risky products[†] through:

- a wide choice of high-quality and stimulating products for every mood and moment;
- brands they can trust that are manufactured to high-quality and safety standards;
- reduced-risk alternatives to combustible products;[†]
- transparent, clear and accurate information, based on robust science, about the relative risks; and
- responsible marketing that doesn't engage or appeal to youth.



Strategic Management

Tobacco Harm Reduction Through World-Class Science

Tobacco harm reduction is a public health strategy to minimise the negative health impact of conventional cigarettes. It recognises the important role that alternative sources of nicotine with lower health risks offer to smokers who may not otherwise want or choose to give up. We're clear that our business is shifting towards a reduced-risk portfolio[†], built on outstanding products, informed consumer choice, and underpinned by world-class science.

Understanding the Products and Risks

It's widely accepted that most of the harm associated with tobacco is caused by inhaling the smoke produced by combustion.

Products that contain nicotine but don't involve burning tobacco are likely to emit far fewer – and lower levels of – toxicants, compared to conventional cigarettes. This means they have the potential to be significantly less harmful to health.[†]

For decades, nicotine has been used in licensed medicinal products. However, for harm reduction to be more effective, we must create alternatives to cigarettes that smokers want to use. Additionally, and despite a growing body of scientific evidence regarding the benefits of reduced-risk products[†], more research is required.

Assessing the Reduced-Risk Potential of our Products^{*}

To achieve tobacco harm reduction, reduced-risk assessments need to be supported by robust science. That's why we created our leading scientific research programme – and openly share its findings.

Most non-combustible products remain relatively new to the market. This means they lack the epidemiological data required to establish harm reduction potential over decades of use.

Instead, it's necessary to take a weight-of-evidence approach, based on the emissions, exposure and risk levels of each product.

The toxicant continuum[†]

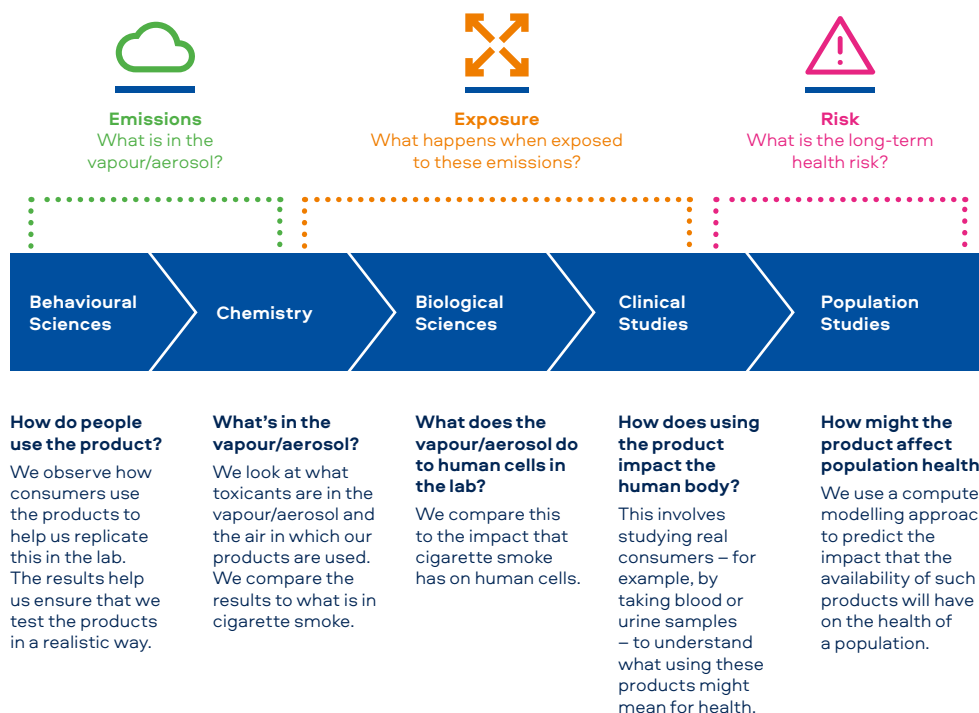


Note:

1. Substantially reduced toxicants is not sufficient alone to determine reduced risk.

We use the term Potentially Reduced Risk Products (PRRPs) to cover tobacco and nicotine products that, based on available science, have been shown to be reduced-risk; are likely to be reduced-risk; or have the potential to be reduced-risk, in each case if switched to exclusively as compared to continuing to smoke cigarettes.

Our multi-disciplinary risk assessment framework



^{*} Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

World-Class Science for A Better Tomorrow™

For more than 60 years, research and development has been a critical part of our business. The table to the right highlights how we aim to create A Better Tomorrow™ through world-class science.

We invest in R&D to deliver innovations that satisfy or anticipate consumer preferences. This helps us generate business growth across all our categories. But the main focus of our investment is in reduced-risk products.*†

New Categories Delivering Consumer Choice

For tobacco harm reduction to succeed, smokers need access to products that deliver nicotine and an enjoyable experience, with reduced risks compared to smoking.*†

That's why we're developing and commercialising alternative tobacco and nicotine products: Our New Categories. These don't burn tobacco, while delivering nicotine to the user.

Product development and innovation

using scientific advances and new technologies to satisfy evolving consumer needs and preferences.

Product stewardship

to ensure quality and consumer safety based on robust science and toxicological risk assessments.

A BETTER TOMORROW

Scientific evaluation of risk reduction

to support evidence-based regulation and provide consumers with the information they need to make informed decisions.

Collaborative development of product standards

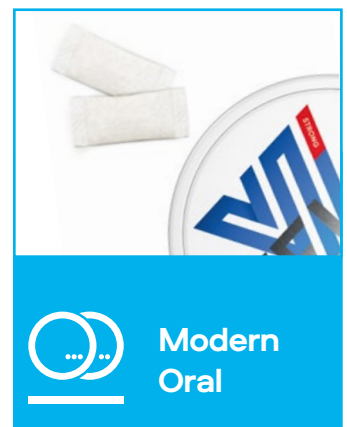
to ensure a consistent approach to product quality and safety across the industry and build consumer confidence.



Hand-held battery powered electronic devices which heat a liquid formulation (an e-liquid or sometimes called 'juice') – often containing nicotine – to create a vapour which can be inhaled. They don't contain tobacco.



Tobacco Heating Products (THP) are hand-held devices which heat tobacco. All THPs contain tobacco – this is a key difference from vapour products. However, like vapour products, no burning takes place, resulting in lower toxicant levels.



Modern oral products, available both with and without tobacco, are similar in appearance and use to snus, an oral smokeless tobacco product that has been widely used in Sweden since the 1800s. There are decades of research (including epidemiology) on snus, with evidence demonstrating it is a reduced-risk product compared to using traditional cigarettes.



60+

years of R&D an important part of BAT for more than 60 years



100+

scientists designers, engineers and tobacco specialists helped design our THP



95%

fewer toxicants emitted by our Vype product, compared to cigarettes**



1,500

R&D specialists who predominantly focus on New Category products

** This product is not risk-free and contains nicotine, an addictive substance. Comparison of smoke from a scientific standard reference cigarette (approximately 9 mg tar) and vapour from Vype ePen3 in terms of the average of the nine harmful components the World Health Organization (WHO) recommends to reduce in cigarette smoke.

† Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

Strategic Management

Digital Transformation

Unlocking Commercial Value

Digital Transformation across BAT is about leveraging technology to deliver value for consumers, customers, employees, shareholders and society. Technology and data are key enablers of A Better Tomorrow™, and their exponential value is achieved as we ensure the organisation has the skills, ways of working and culture to fully exploit them.



“Our business has delivered exceptional results with the acceleration of its digital transformation in 2020 and the opportunities ahead of us are huge. Our focus is to apply technology and new ways of working that deliver results faster, unlocking commercial value across the entire organisation. The pandemic has offered opportunities to accelerate our digital transformation even faster.”

Marina Bellini
Director, Digital and Information

Consumers and Customers



4.3mn

engagements on social media, improving our New Categories brands performance in digital channels – an increase of 100%+ vs 2019

Manufacturing and Supply Chain



5,000+

SKUs enabled through end-to-end automation, compressing reaction times in a multi-category business

Finance, HR and Legal



100%+

increase in hours saved through digital bots and automation of back-office activities

100+

people newly recruited in data analytics, digital marketing technology, cyber, and new exponential technologies

30%+

Agile delivery of technology solutions across our organisation

70%+

senior leaders who have experienced our new digital immersion programme

2,900+

new joiners across the organisation remotely on-boarded

Unlocking the Value of Technology and Data to Grow

Few companies can claim over 150 million daily consumer interactions and over 11 million retail points of sale. Staying connected to all of them, especially through digital, ensures better consumer engagement with brands, innovations and services that can stimulate the senses of new adult generations.



Decision-making supported by Big Data & Analytics

Significant investments in our Marketing Technology has delivered new capabilities within Social Listening, Social Activation, and Integrated Data Platforms.

- Across the organisation, we now have access to 90TB of consumer and other relevant value chain data sources, spanning more than 25 markets.
- Over 1,000 users can now leverage over 30 machine learning models and dashboards to aid decision-making on consumer engagement.
- Advanced analytics and CRM capabilities are providing unprecedented opportunities to develop consumer journey mapping through industry-leading marketing automation systems.
- Personalised communications delivered to the right consumer at the right time have enabled the growth of consumers in New Categories. This has contributed to 480,000 new THP consumers in Japan.

9.8m
consumers
in our database
(2019: 7mn)



Best-in-class commercial digital experience

Our integrated consumer marketing technology stack provides us with a Single Consumer View which captures all interactions in one place.

- A key focus has been creating a mobile-first, consistent e-commerce user experience, and launching a subscriptions capability to increase Consumer Lifetime Value.
- Our Direct-to-Consumer business has been accelerated through the deployment of owned e-commerce sites – taking the number up to over 40 e-commerce store fronts worldwide.
- Owned-Retail stores are being transformed to offer a seamless digital experience.
- This has been achieved through global Content Management Systems, digital touch points, integrated e-commerce, and CRM.
- Our new subscription services capability has grown by 5x.
- Our powerful business-to-business technology platform now enables over 6 million engagements a month, with fast deployment of best practices for better results for our trade partners.

@ >50%
increase in own
e-commerce revenue
vs. 2019[@]



Operational excellence powered by digital

New technologies have enabled the business to respond with greater agility and resilience to the complexity of our growing portfolio in New Categories and the COVID-19 pandemic.

- We have invested in new cloud-based digital platforms to transform our supply chain which support improved visibility and prediction of demand and allows us to plan concurrently across multiple supply chain nodes.
- By leveraging artificial intelligence and machine learning, we pro-actively manage to our stock-holding policies, sourcing, production, and logistics plans and quickly adapt to changes in the environment.
- Cloud technology has been leveraged as an accelerator for over 55% of our processes.
- Our Cyber Security team use industry-leading tools and technology. Rapid cyber risk reduction exercises are conducted regularly with advanced internal, and external testing followed by immediate remediations. A strong cyber culture is established within the organisation, supported by cyber simulations, awareness campaigns and customised training programmes.

200,000
test phishing emails
sent across the whole
organisation to increase
cyber resilience

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

Strategic Management

Short-Term Deliverables to Fuel A Better Tomorrow™



Ensure a Step Change in New Categories Performance



Our Vapour Products*

Vapour products are battery-powered devices that heat liquid formulations – e-liquids – to create a vapour which is inhaled. Most e-liquids contain water, propylene glycol and glycerol, flavourings and nicotine, although some e-liquids don't contain any nicotine. The products contain no tobacco and no combustion takes place.



- Vuse/Vype fastest growing vapour brand reaching 26% total vapour value share in the top 5 markets.
- Vuse/Vype value share leader in four of the top five markets.
- Vuse gained market leadership in Canada in migration year with 46% value share (+2,220 bps vs 2019).
- Vuse closed system device volume share leader in the US.

The scientific evidence*

There is growing consensus among many public health bodies and academics that vapour products can have a significantly reduced-risk profile compared to smoking.

In the UK, for example, Public Health England has published a series of expert reviews of the latest evidence, drawing on peer-reviewed literature, surveys and other reports.

They concluded that “based on current knowledge, vaping is at least 95% less harmful than smoking”. This is supported by a wealth of other evidence reviews, studies and reports from public health bodies, regulators and academics in countries such as Australia, Canada, France and New Zealand.

“It is well accepted within the public health community that, while the precise long-term effects of vaping are unknown, it is nevertheless substantially safer than smoking cigarettes.”

The Royal Society for Public Health – 2018

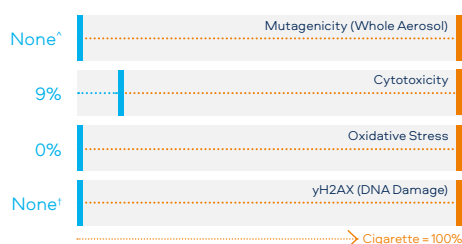


27

Number of markets where the Group's vapour products are sold

Toxicology tests

Cigarette vs ePen 2



* No observed mutagenicity under these test conditions.

† No observed genotoxicity under these test conditions.

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

Regulation and PMTA

The future of tobacco harm reduction has always depended on robust science, and ensuring that this is accessible to audiences outside the scientific community is critical. This need is growing stronger than ever – with a number of cases of acute lung diseases (referred to as EVALI) reported among vapers in the US in 2019, consumers want to be clear on the risk profile of these products. In addition, consumer perceptions of nicotine are evolving with many consumers over-estimating the risks associated with nicotine generally.

This also demonstrates the importance of having, and enforcing, a robust and effective regulatory framework that ensures high product standards and prevents access and appeal to youth – things we have long advocated. Robust science has to be at the centre of any regulatory development and engagement.

That's why we welcomed the US Food and Drug Administration's (FDA) previously announced requirement to submit Pre-market Tobacco Product Applications (PMTAs).

PMTAs are based on a summary of all research findings to demonstrate that the products meet the FDA's criteria as "appropriate for the protection of the public health". We filed PMTAs for four Vuse products (and our Modern Oral Velo portfolio) ahead of the deadline of 9 September 2020 and have continued to work with the FDA throughout the implementation of this new regulatory framework. While COVID-19 has caused some delays, we expect to hear more on their progress over the course of 2021. Each of our applications consists of between 100,000 and 150,000 pages, with over 150 employees contributing to each one. They represent a major milestone for us, and include results from numerous clinical, non-clinical and behavioural research studies; chemical analyses; and toxicological reviews of individual ingredients. Detailed information on product design, operation and manufacturing is also included.

In the US, we believe all of our Vuse (and Velo) products will be shown to be appropriate for the protection of public health, and we expect to receive progress updates related to our PMTA submissions over the course of 2021.

Performance summary

In 2020, our vapour brands Vuse and Vype performed well across all the top five vapour markets (US, Canada, Germany, UK and France which, collectively, represent over 75% of global industry vapour revenue), rebounding well from the EVALI crisis in 2019 and the implementation of the US flavour ban in early 2020.

Total volume of vapour consumables was up 52% to 344 million units in 2020 (2019: 226 million units, an increase of 19% on 2018), driving revenue growth of 52% to £611 million (2019: £401 million, up 26.1%) or 53% at constant rates of exchange, accelerating in the second half of the year.

In the US, Vuse Alto drove total revenue from vapour up 85% to £383 million (2019: £207 million, up 12% on 2018), or 86% (2019: up 7%) on a constant currency basis, in a market that was estimated to be down 13% in volume due to the issues mentioned earlier. Vuse Alto drove vapour value share, in the US, to 24.9% for 2020 from 16.6% for the year ended 31 December 2019, with volume of consumables 70% higher (2020: 174 million units; 2019: 103 million units). Vuse Alto also achieved market leadership (by volume) for closed system devices, with over 60% device volume share in the final quarter of 2020. Vuse is now the market leader in 15 US states (by value share) and the Alto variant represents over 85% of the Vuse mix in the US in the final quarter of 2020, up from 50% in 2019.

We performed well in 2020 and 2019 in the other top vapour markets, and reinforced our leadership positions:

- In the UK, total vapour value share of the category was 36%, compared to 38% in 2019. Vype performed well, with value share up 350 bps driven by both ePen3 and ePod in 2020 (compared to the full year 2019) although this was more than offset by a decline in Ten Motives and the remainder of the local portfolio;
- In France, vapour value share reached 31.5% in 2020, an increase of over 1,400 bps (versus 2019), driven by ePen3 and ePod which were launched in 2019;
- In Canada we achieved the value share leadership position in the year while simultaneously migrating from Vype to our global brand Vuse; and
- In Germany, Vype continued to grow vapour value share, becoming market leader, increasing 1,430 bps to 50.1% in 2020 (compared to 35.7% in 2019).

Due to the continued success of ePod and ePen3, Vuse/Vype now holds the No.1 position (by value share) in four of the top five markets.

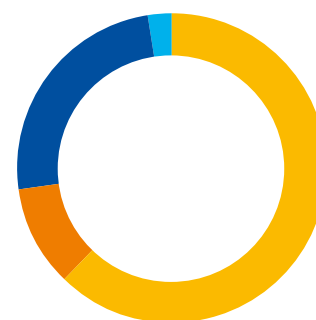
In January 2021, we have pilot-launched our first CBD vaping product, Vuse CBD Zone. This latest innovation will allow us, for the first time, to offer adult consumers a range of high-quality CBD vaping products from our trusted, global brand, Vuse. Initially available in Manchester, UK, it will offer adult smokers and vapers sensorial enjoyment, as Vuse CBD Zone caters to a variety of moods and moments in their busy lifestyles.

In 2019 we acquired Twisp (in South Africa), a leading vaping products company. Due to the restriction in sales of cigarettes and vapour products in 2020 in South Africa in response to COVID-19, the Group delayed activities linked to the development and sales of Twisp. While we remain confident of the future potential for the vapour category, an impairment charge of £11 million was recognised in 2020 ahead of the migration of Twisp to Vuse.

The Group's performance in 2020 was also supported by the growth of e-commerce, with Vuse/Vype being the most visited branded e-commerce site across the majority of the main vapour markets, and ranking No.1 for branded search against competitors. In December, Vuse/Vype had over 17,500 subscribers (up 5x since January 2020) with the average subscriber lifetime value equal to 3x that of a traditional retail customer.

In 2019, we announced the intention to migrate certain vapour brands to Vuse, recognising an impairment charge of £66 million in that year. Despite the challenges of COVID-19 in 2020, we successfully migrated our vapour products to Vuse in a number of markets and will continue with our brand migration programme during 2021.

Proportion of vapour revenue by region in 2020 (£m)



	2020 £m	2019 £m
US	383	207
AmSSA	65	43
ENA	148	147
APME	15	4
Total	611	401

Strategic Management

Short-Term Deliverables to Fuel A Better Tomorrow™



Ensure a Step Change in New Categories Performance



Our Tobacco Heating Products (THPs)*

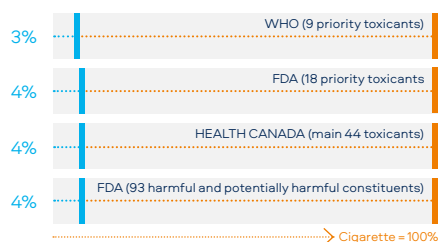
THPs heat tobacco to generate a nicotine-containing aerosol, with a tobacco taste, which the user inhales. Because the tobacco is heated instead of burned, the resulting aerosol comprises mainly water, glycerol, nicotine and tobacco flavours – dramatically different to cigarette smoke.



- Device volumes up 33%.
- Consumable volumes up 19%.
- Successful launch of glo Hyper in April 2020, driving glo to 14% volume share of category in key markets (up 30 bps on 2019) – despite withdrawal of glo Sens.
- Record total nicotine volume share in Japan at 5.9% driven by Hyper.
- @E-commerce sales up over 200%, leveraging digital capabilities and adapting to COVID-19 challenges.®
- Further market rollouts and strong innovation pipeline driving good momentum into 2021.

Toxicants of interest

Cigarette vs glo



The scientific evidence*

By heating tobacco rather than burning it, THPs have the potential to have reduced risk compared to smoking. The absence of burning dramatically changes the nature of the aerosol. Comparing cigarette smoke with glo aerosol, the levels of toxicants were reduced on average by 90-95%.

Our latest clinical trials are the first-ever of their kind to demonstrate reduced risk of Tobacco Heating Products. The results showed switching completely to glo crossed the biologically significant threshold, and marker profiles were similar to cessation.

The three-month results from our long-term glo clinical study were published in Nicotine & Tobacco Research. This new research found that smokers who switched completely from smoking cigarettes to using glo substantially reduced their exposure to certain cigarette smoke toxicants over three months.

“Tests on heated tobacco... found a reduction of up to 95% in the number of toxic chemicals emitted by heated tobacco compared with combustible cigarettes.”

David Jones

MP and honorary life fellow of Cancer Research UK



20

Number of markets where the Group's Tobacco Heating Products are sold

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

For many of the toxicants measured, the levels found in participants were similar to those in people who stopped using tobacco completely. The results were presented at scientific and media events in Japan and South Korea.

We also welcome an increasing number of independent reports that are broadly aligned with our own findings.

For example, a study commissioned by the UK Department of Health in 2017 found that people using the two available THPs on the UK market were exposed to around 50–90% less of the “harmful and potentially harmful” compounds compared with conventional cigarettes.

In 2018, a Public Health England report looked at current research on THPs and, while highlighting the need for more research, found that “compared with cigarettes, heated tobacco products are likely to expose users and bystanders to lower levels of particulate matter and harmful and potentially harmful compounds. The extent of the reduction found varies between studies”.

Leading innovation

In 2020, we continued to expand our portfolio with the launch of glo Hyper and Neo demi-slms. We went far beyond the traditional quantitative and qualitative studies as we radically re-engineered not just the glo ecosystem, but our entire way of working.

Our first step was to place consumers at the centre of the process, with insights gathered from thousands of consumers in person, across key markets. Every insight informed how we optimised the filter feel, puff satisfaction and flavour sensation.

After over 75,000 prototype sticks, we landed on an experience that we knew resonated with target consumers because it had been built in collaboration with them. The pivotal breakthrough was in harnessing our advanced induction heating technology to unlock record heating times, delivered by our signature boost feature.

The 150-strong global community of engineers, product developers, and operations teams came together across borders and time zones to build the Hyper device. It is designed to work with the new Neo demi-slms range which offer an elevated taste, with 30% more tobacco and the widest range of flavours in the market.

Performance summary

The Group's THP portfolio grew, with consumable volume up 19% to 10.7 billion sticks (2019: up 32% to 9.0 billion sticks). Excluding Sens, THP consumable volume would have increased 29% in 2020.

This follows the launch in Japan of glo Hyper in April 2020 (which already accounts for 50% of the glo portfolio), and subsequent launches in ENA mainly in the second half of the year. glo Hyper the first-to-world THP launched with induction heating which provides a step change in consumer satisfaction with 30% more tobacco, faster heating and a boost button. This has resulted in conversion rates that are 50% higher than previous glo launches. The success of glo Hyper was achieved despite the impact of COVID-19 restrictions as the launch and ongoing marketing campaigns were successfully switched to digital platforms. This more than offset a tough comparator as the Group launched glo Pro, glo Nano and glo Sens in 2019.

Revenue declined 12.9% to £634 million (2019: up 28.9% to £728 million) with the decrease in 2020 largely due to the decision to withdraw glo Sens from the market during the second half of 2020 (being a reduction to revenue of £50 million) and the impact of excise harmonisation in Japan. The growth in 2019 was due to the increased volume in that year, partly due to the launches described earlier. Excluding the impact of the relative movements in sterling, at constant rates of exchange, this was a decrease of 12.7% in 2020 compared to an increase of 22.7% in 2019.

In Japan, following the launch of glo Hyper, glo's total volume share grew 85 bps to achieve a volume share of 5.9% of total nicotine, (up from 5.0% in December 2019), being a category volume share of THP of 19.4% (2019: 19.6%). Temporary revenue weakness was driven by the withdrawal of glo Sens and excise harmonisation through part absorption of excise driven price increases in October. With glo capturing over 30% of category growth post excise increase, we are confident that glo will return to volume and revenue growth in Japan in 2021.

In 2020, momentum post glo Hyper launch in Russia and Ukraine continued through the second half of the year, with glo volume share in December 2020 (of cigarettes and THP) in Russia at 1.4% in December 2020, and glo's volume share of THP more than doubling from 7.6% in June 2020 to 15.5% in December 2020. Since the launch of glo Hyper in pilot cities in Italy, glo has more than tripled its volume share of the THP category to 7.8%, with retention rates doubling.

With COVID-19 having a material impact on consumer engagement in 2020, we successfully leveraged our digital capabilities, adapting our commercial and marketing campaigns and resulting in a 1.5x increase in earned social media compared to 2019, with glo Hyper the highest interest THP new product launch recorded.

@Our e-commerce channel grew revenue from THP by over 200% compared to 2019 and is starting to gain critical mass and scale to be an important driver of our performance going forward.®

We expect to consolidate glo Hyper's success with further market roll-outs planned in 2021. In addition, continuous product enhancements in both consumables and devices will build upon the performance in the final quarter of 2020 in Japan, Italy, Russia and Romania, providing momentum for further success in 2021.

Proportion of THP revenue by region in 2020
(£m)



	2020 £m	2019 £m
US	1	1
AmSSA	-	-
ENA	136	56
APME	497	671
Total	634	728

Strategic Management

Short-Term Deliverables to Fuel A Better Tomorrow™



Ensure a Step Change in New Categories Performance



Our Modern Oral Products*

In recent years, a new category of modern oral products has emerged. These come in the form of nicotine pouches that are placed under the lip so that nicotine can be absorbed by the body.



- Global volume and revenue growth, up 62% and 57%, respectively.
- Consolidating modern oral category leadership in Scandinavia and growing share of total oral market.
- US portfolio strengthened by the acquisition of certain assets from Dryft with national roll-out continuing in early 2021.
- Future opportunity in Emerging Markets as affordable New Category proposition.

The scientific evidence*

A wealth of epidemiological evidence from Sweden over many decades shows that use of snus, a type of traditional oral tobacco, is substantially less risky than smoking. This has been confirmed by the US FDA which, in 2019, in response to an application made by the company Swedish Match, formally recognised that switching completely from cigarettes to the snus products assessed can significantly lower the risks of mouth cancer, heart disease, lung cancer, stroke, emphysema and chronic bronchitis.

Already our chemical studies have shown that our modern oral products have even fewer and lower levels of toxicants than snus, and our toxicological studies have shown that the effect of this is to have even lower toxicological impact on human cells than snus. We're confident that further research will confirm that consumers of modern oral products will be exposed to even fewer toxicants than snus users. Ultimately, we believe that modern oral products present less risk to users than cigarettes.

“Smokeless tobacco products are much cleaner and less hazardous than cigarettes. Their use could reduce harm to smokers if they switched entirely to these products.”

Professor Neal Benowitz

Professor of Medicine at the University of California, San Francisco

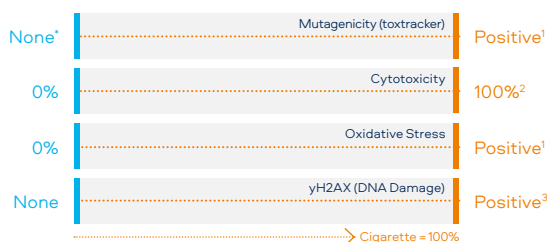


23

Number of markets where the Group's modern oral products are sold

Toxicology tests

Cigarette vs Velo



1. Toxtracker assay (rtkn and bsc12).

2. At equivalent nicotine doses (7.85µg/ml velo vs. 4.34µg/ml cigarette).

3. High content screening.

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

Our products

Our modern oral products are white in colour and contain high-purity nicotine, water and other high-quality food-grade ingredients, including eucalyptus and pine tree fibres, flavouring and sweeteners.

Originating in Scandinavia, Velo is now a leading global brand of nicotine pouches. These typically appeal to a broader audience than traditional oral tobacco, and because of their affordability and lack of batteries, they can be particularly popular in low to middle income countries. For example, our subsidiary in Indonesia has delivered great results from their expansion activities in Jakarta. Following a promising performance in June 2020, the test has been expanded to 5,000 consumers, which is being closely monitored to gain consumer insights.

We are also delivering a step-change in modern oral manufacturing. Truly living our ethos, our modern oral factory in Pécs put together a bold plan to implement food industry standards for modern oral manufacturing. This has enabled us to ensure the availability of products that comply with regulations in different countries.

With a cross-functional team across quality, production, engineering and EHS teams delivering technical changes and process improvements, Pécs became the first site in BAT's history to obtain the ISO 22000 certification for food safety standard.

Performance summary

In 2020, we consolidated our leadership position in Modern Oral outside the US, while strengthening our position in the US with an expanded portfolio.

In 2020, total Group volume of 1.9 billion pouches was an increase of 62% on 2019, when volume was 1.2 billion pouches, itself an increase of 188% on 2018.

Revenue increased 57% to £198 million (2019: up 267% to £126 million). Excluding the impact of foreign exchange, this was an increase of 57% in 2020 and 273% in 2019, on a constant rates basis.

In ENA, where we are the clear market leader with 71% volume share of Modern Oral in the key markets (being Norway, Sweden, Denmark, Switzerland and Germany), revenue increased by 59% (2019: up 234%) and is now over five times the 2018 levels as the category continued to take value and volume share from the traditional oral products as follows:

- In Sweden, we grew our leadership position in the Modern Oral category reaching 62% volume share (2019: 56%) driven by Lyft;
- In Norway, volume share of the total oral category increased in both years, reaching 15% in 2020 (2019: 11%);
- In Switzerland, where volume share of the total oral category reached 53%, up from 44% in 2019;
- In Denmark, where the Group continues to lead the development of the oral category, with 75% volume share of the total oral category, compared to 62% in 2019; and
- In Germany, Velo gained the market leadership position (by both volume and value share) accelerating the growth of modern oral within the total oral category.

In the US, while growing volume (up 45% in 2020 following the launch in 2019) and revenue (up 14% to £10 million, from £9 million in 2019), the portfolio has been strengthened by the acquisition (in October 2020) of the nicotine pouch products of Dryft Sciences, LLC (Dryft). These products have been rebranded Velo and expands the US portfolio from 4 to 28 variants, with representation in the above 6mg nicotine strength segment. This acquisition marks a further step in BAT's societal commitment to accelerate its transformation journey to build A Better Tomorrow™. With the national rollout of Velo branded Dryft products continuing in early 2021 and a return to growth in the final quarter of 2020, we have great momentum for future success.

PMTAs for all Velo products were submitted (in the US) ahead of the 9 September 2020 FDA deadline.

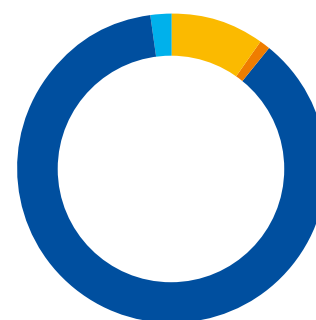
Pilot schemes in emerging markets are ongoing with initial encouraging results in Pakistan and Indonesia. In Kenya, we have temporarily suspended sales due to local regulatory challenges and continue to engage with the local authorities.

We continue to believe that Modern Oral represents an exciting opportunity to offer affordable New Category alternatives to adult nicotine consumers in emerging markets, given the absence of an electronic device and a pre-existing ritual of oral product consumption in a number of markets.

In line with the simplification agenda, the Group will continue to migrate the majority of its Modern Oral portfolio to Velo during 2021, with initial migration plans delayed due to COVID-19.

In 2020, the Group has revised the reporting of modern oral volume share to be yearly average which is reflective of the year's performance after periods of initial launch. In periods of launch, a period end rate is used to provide users with the exit share which is more reflective of short-term movements.

Proportion of modern oral revenue by region in 2020 (£m)



	2020 £m	2019 £m
US	10	9
AmSSA	1	1
ENA	185	116
APME	2	–
Total	198	126

Strategic Management

Our Traditional Oral Products

The most common products in traditional oral are largely moist oral tobacco popular in the US with the main brands of Grizzly and Kodiak. These products are less finely ground than another traditional oral product referred to as Swedish-style snus. Both of these traditional oral products are available in loose form, as well as in pre-packed pouches.



Our products

We also sell a range of traditional oral products, including Swedish-style snus and American moist snuff, available in loose tobacco form or as pre-packed pouches. We have long sold snus in Sweden and Norway through our Fiedler & Lundgren business, whose brands include Granit and Mocca; and in the US we market snus under the Camel brand. Our American moist snuff products include our flagship Grizzly brand, as well as the premium moist snuff brand Kodiak.

The Modified Risk Tobacco Product (MRTP) applications for Camel Snus were discussed by the Tobacco Products Scientific Advisory Committee (TPSAC) in September 2018. We continue to work closely with the FDA, which announced in December 2020 that it had reopened the comment period after our filing of additional information.

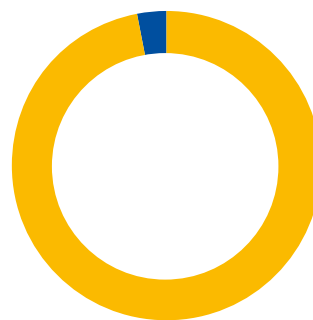
Performance summary

In 2020, volume was marginally lower (down 0.9%) on the prior year (at 8.4 billion stick equivalents), with 2019 0.6% lower than 2018.

Total revenue grew by 7.2% to £1,160 million (2019: up 15% to £1,081 million), driven by pricing in both 2020 and 2019, particularly in the US which accounts for 97% of the Group's revenue from the category. On a constant rates basis, this was an increase in 2020 of 7.7% and 10% in 2019 (driven by pricing).

In the US, traditional oral volume declined 1.3% in 2020 (2019: down 1.5%). Value share of moist was down 25 bps and volume share down 35 bps, after a strong 2019 (value share growth of 80 bps). The 2020 decline was driven by Grizzly which was impacted by pricing pressures in the final quarter of 2019 and early 2020. Utilising revenue growth management techniques, value share has stabilised in the second half of 2020. Outside the US, which accounts for only 3% of Group revenue from the category, volume was higher by 2.8% in 2020, driven by Sweden where the Group's Traditional Oral volume share (as a proportion of total oral) declined 80 bps after growing in 2019 by 50 bps. This was due to the growth in Lundgrens in both periods which, in 2020, was more than offset by a decline in the remainder of the portfolio, notably Granit and the de-listing of Knekt and the growth of Modern Oral.

Proportion of traditional oral revenue by region in 2020 (£m)



	2020 £m	2019 £m
US	1,126	1,052
AmSSA	—	—
ENA	34	29
APME	—	—
Total	1,160	1,081

Strategic management

Short-Term Deliverables to Fuel A Better Tomorrow™



Drive Value From Combustibles



Our Combustible Products

We are focused on growing our strategic brands of Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, Newport (US), Natural American Spirit (US) and Camel (US) which now account for 66% of our combustible volume.

Our combustibles business is founded on understanding and meeting the preferences of adult smokers in all parts of the world.



Highlights

- Strategic cigarette brands deliver value share growth of 40 bps.
- Group value share growth of 20 bps.
- Strong pricing, with combustible price/mix of 7.3%.

Group cigarette value share increased 20 bps in 2020 (2019: up 20 bps), driven by the US, Mexico, Colombia, Turkey, Russia, Bangladesh and Japan which offset a reduction in Indonesia and Saudi Arabia.

In 2020, Group cigarette volume declined 4.6% to 638 billion sticks (2019: 668 billion), outperforming the total cigarette market which was estimated to be down between 5.0-5.5% (2019: 3.5-4.0%).

In 2020, cigarette volume grew in Brazil (where enhanced border security and restricted population mobility due to COVID-19 led to an increase in duty paid volume), in Turkey (driven by Kent and the local portfolio), and in Bangladesh (driven by the continued strength of the local portfolio).

Developed markets have been generally relatively resilient in 2020 with little evidence of accelerated downtrading despite the pressures of COVID-19.

In the US, Group cigarette volume was up 0.5% to 73 billion (2019: 73 billion), due to the performance of the strategic portfolio. In the final quarter of the year, we reintroduced

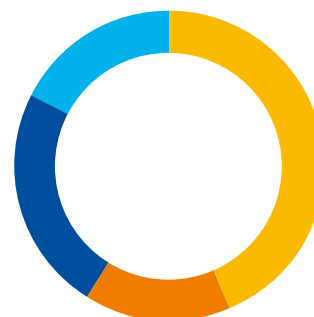
Lucky Strike to the US market, ensuring a truly global footprint for the brand. This was against an industry that was estimated to be up 1.5% driven by reduced consumer switching to vapour, higher supply chain inventories (due to the impact of COVID-19 and the timing of price increases) and an extra selling day, and stronger consumption trends resulting from the increase in fiscal stimulus and lower gas prices.

However, due to COVID-19, production or other supply chain restrictions affected sales in several markets, including Canada and Mexico. In South Africa, a total sales ban of tobacco products came into effect from March 2020, with sales recommencing in August 2020 following the easing of lockdown restrictions. While not a significant part of the Group, travel restrictions due to COVID-19 have impacted our Global Travel Retail (GTR) business, negatively impacting Group cigarette and THP volume by an estimated 1.0%. Furthermore, volume declined in Indonesia (due to the impact of tax increases and minimum retail price compliance) and in Pakistan where illicit trade grew significantly following excise-led price increases in prior years.

Group cigarette volume declined 4.7% in 2019 to 668 billion sticks as growth in Japan, the Middle East, South Africa, Romania and Poland was more than offset by Russia (partly due to the one-off stock reduction), Egypt (largely due to the change in local taxes impacting Pall Mall), Venezuela (due to the ongoing macro-economic challenges) and the impact of market decline in the US, Indonesia, Pakistan and Ukraine.

Cigarette volume share grew 40 bps in 2020, driven by Bangladesh, Mexico, Vietnam, Russia and Turkey which were partly offset by lower volume share in Indonesia and Saudi Arabia. In 2019, this was an increase of 20 bps due to growth in Japan, Pakistan, Bangladesh, Mexico, Ukraine and Russia.

Proportion of combustibles revenue by region in 2020 (£m)



	2020 £m	2019 £m
US	9,926	9,078
AmSSA	3,535	3,992
ENA	5,356	5,544
APME	3,935	4,387
Total	22,752	23,001

Strategic Management

Short-Term Deliverables to Fuel A Better Tomorrow™



Drive Value From Combustibles

The performance was underpinned by the strategic cigarette brands, with volume share 30 bps higher in 2020 (2019: up 70 bps driven by migration in Brazil and Colombia, or 30 bps excluding migrations):

- Dunhill's overall volume share was down 20 bps (2019: stable) as growth in Romania and Netherlands was more than offset by declines in Saudi Arabia, Indonesia, Brazil, South Africa and Malaysia. Volume was 17% lower (2019: down 5.5%), largely due to the impact of the tax increases and minimum retail price compliance in Indonesia, the impact of COVID-19 on both South Africa (where there was a temporary sales ban in the year) and our GTR business, and the ongoing challenging operating environment in Malaysia;
- Kent's volume share grew 10 bps (2019: up 10 bps) as growth in Brazil, Saudi Arabia, Turkey and Russia more than offset lower volume share in Romania and Japan. Volume was up 2.0% (2019: down 1.3%) as growth in Brazil, across the Middle East (including Saudi Arabia), Russia and Turkey more than offset lower volume in Japan;
- Lucky Strike's volume share grew 10 bps (2019: stable), as growth in AmSSA (particularly Brazil, Colombia and Argentina) and in Japan more than offset lower volume share in Indonesia, Spain and France. Volume declined 2.0% as the impact of the tax increases and minimum retail price compliance in Indonesia, and lower volume in France and Spain, more than offset higher volume in Brazil, Japan and Argentina. Lucky Strike was re-introduced in the US in the final quarter of 2020;
- Rothmans' volume share was 20 bps higher (2019: up 50 bps) as growth in Brazil, Colombia, New Zealand, Malaysia, Russia and Ukraine was partly offset by Pakistan and Turkey. Volume was 6.1% higher (2019: up 2.5%) as growth in Brazil, Pakistan and Bulgaria more than offset lower volume in Ukraine and Turkey; and
- Pall Mall's volume share was stable (2019: up 10 bps) as growth in Pakistan, Australia, Mexico, South Africa, Chile and Canada was offset by lower volume share in New Zealand, Saudi Arabia, the US and Argentina. Volume was down 6.0% (2019: down 6.7%) largely driven by Pakistan, Saudi Arabia and South Africa.

The Group's US domestic strategic combustible portfolio performed well:

- Newport volume share increased 40 bps (2019: up 40 bps), while volume grew 2.3% (2019: down 3.9%), with growth in both the menthol and non-menthol variants;
- Natural American Spirit performed well with volume share up 10 bps (2019: up 10 bps). Volume was up 6.0% against 2019 (2019: 0.5% increase); and
- Camel's volume share declined 10 bps in the US (2019: down 10 bps) with volume up 1.2% (2019: down 6.0%).

Volume of other tobacco products (OTP) declined 1.7% to 20 billion sticks equivalent (2019: 7.1% decline), being 3% of the Group portfolio (2019: 3%).

In 2020, revenue from combustibles was down 1.1% at £22,752 million (2019: £23,001 million, growth of 4.2%).

Higher pricing across the Group in 2020, notably in the US, Russia, Germany, Canada, Australia, Mexico and Pakistan, was more than offset by the impact of lower Group volume, partly related to the impact of COVID-19 and a translational foreign exchange headwind of 3.7%. COVID-19 was estimated to be a headwind on Group revenue of approximately 2.5%, largely due to the restrictions in travel (impacting GTR) and due to the restrictions imposed in South Africa during the year.

The growth in revenue in 2019 was largely due to pricing, notably in the US (including a reduction in discounting), Canada, Kenya, Mexico, Nigeria and Saudi Arabia, and an improved geographic mix as the performance in high value markets such as Japan, South Africa, Romania and Australia combined with reduced volumes in lower value markets such as Pakistan and Egypt. This more than offset unfavourable portfolio mix due to the relative growth of lower value products, such as Rothmans and Pall Mall, and lower total volume.

After adjusting for the short-term impact of excise on bought-in goods (impacting 2019 and 2018) and the translational foreign exchange headwind (2019: tailwind of 0.6%), adjusted revenue from combustibles at constant rates of exchange was up 2.8% to £23,594 million. In 2019, this was an increase of 4.6%.

Change in cigarette volume share in key markets (bps)

+40 bps



Definition: Annual change in cigarette volume share – being the number of cigarettes bought by consumers of the Group's brands in key markets as a proportion of the total cigarettes bought by consumers in those markets (see page 274).

Change in cigarette value share in key markets (bps)

+20 bps



Definition: Annual change in cigarette value share – being the value of cigarettes bought by consumers of the Group's brands in key markets as a proportion of the total value of cigarettes bought by consumers in those markets (see page 274).



45

Number of cigarette factories in 43 countries

Short-Term Deliverables to Fuel A Better Tomorrow™



Simplify the Business

Highlights

- Quantum enabled £660 million gross savings through organisational change and productivity initiatives.
- On track to deliver at least £1 billion annualised savings by end 2022.
- Revenue Growth Management and Marketing Effectiveness initiatives ready to be deployed.
- In-house 'Ventures' business created and operational.

In 2019, we announced ambitious plans to fundamentally re-evaluate how we are organised and a redesign of management layers to eliminate duplication and entrenched accountability. We called this Project Quantum – designed to create new capabilities and release valuable funds for further investment in our growth ambition, ensuring the Group is stronger, faster and more agile.

In 2020, we realised the benefits of the first phase of Quantum. Alongside greater organisational speed and agility, Quantum drove significant cost savings, realising £660 million of gross savings through organisational change and productivity initiatives. However, further work on core processes and ways of working simplification is ongoing.

The second phase of Quantum will build on this success with the organisation ready for project roll-outs from the beginning of 2021, covering areas such as:

- further operational efficiency;
- route-to-market focus; and
- supply chain productivity.

The key objective in 2020 was to finalise the operational design of the second phase, running pilots in the second half of the year in a few strategically important geographies with the aim to use the learnings to fine-tune the design and methodology to support a successful wider roll-out programme in 2021 and beyond.

We are well on track to deliver the target of £1 billion total annualised cost savings from Quantum by 2022, in addition to the benefits from our:

- Revenue Growth Management; and
- Marketing Effectiveness initiatives.

The savings from Quantum are being used to fund investment in New Categories, leveraging new capabilities. We are attracting new talent from a diverse range of industries globally, in areas such as:

- IP;
- insights and analytics;
- product innovation;
- design and technology; and
- digital media.

These skills are supporting our work into foresights beyond nicotine, 21st century brand building, direct-to-consumer marketing and e-commerce, and advanced digital and data analytics.

In addition, in 2020 the increased agility brought about through Quantum and our diverse geographic footprint enabled us to quickly and effectively adapt and navigate the challenges caused by the global pandemic.

At the end of 2019 we established our corporate venturing unit, Btomorrow Ventures (BTV) and made excellent progress in 2020. During the course of the year, BTV made minority investments in eight small, innovative technology and consumer businesses, providing us with an exciting capability ecosystem for the future.

A BETTER TOMORROW™

for society and the environment



By moving from a business where sustainability has always been important to one where it is front and centre, in all that we do.

We are committed to a step-change in our sustainability ambition. We have a number of stretching targets, which we are confident will deliver A Better Tomorrow™ for all our stakeholders. These include:

- increasing our number of non-combustible product consumers from 11 million in 2019 to 50 million by 2030;
- achieving carbon neutrality by 2030 for our own business activities, and accelerating our existing environmental targets to 2025; and
- eliminating unnecessary single-use plastic and making all plastic packaging reusable, recyclable or compostable by 2025.

Awards and Recognition

Our sustainability efforts and commitment to high standards have received notable independent recognition over the years, including the following.

Investor Ratings



Dow Jones Sustainability Indices (DJSI)

We are the only company in our industry listed in the prestigious World Index, representing the world's top 10% ESG performers. We have achieved inclusion in the indices for 19 consecutive years.



MSCI

We achieved a 'BBB' rating in the most recent MSCI ESG Ratings, which help investors identify and understand financially material ESG portfolio risks.



Best-in-class ISS Score

We achieved the highest rating for the ISS Social Disclosures QualityScore, which identifies best-in-class sustainability disclosure practices.



Sustainalytics

We achieved a score of 27.8 in the most recent Sustainalytics ESG Risk Ratings, which give investors insights into financially material ESG risks in their portfolios.



Vigeo Eiris

We scored 47% (up by 5pp from 2019) in the most recent Vigeo Eiris rating. Vigeo Eiris, a rating and research agency, evaluates organisations' integration of ESG factors into their strategies, operations and management.



CDP Climate A-List

Our A-List inclusion for the second year recognises our actions to cut emissions, mitigate climate risks and contribute to a low-carbon economy. We are also proud to have achieved A- in CDP Water, and to be included in Supplier Engagement Leaderboard.

Awards and Recognition

Sustainability Award

Gold Class 2021

S&P Global

Gold Class Sustainability Award

In 2021, we were awarded Gold Class in RobecoSAM's Sustainability Yearbook, which showcases the best performing companies in terms of financially material ESG metrics.



Vype UK Product of the Year Award

In early 2020, our Vype ePod won in the e-cigarette category at the UK Product of the Year awards – the UK's largest consumer survey of product innovation.



Global Top Employer

We have been recognised as a Global Top Employer for four consecutive years, acknowledging our commitment to best-in-class working environments and career opportunities.



Financial Times Diversity Leaders Report

We have ranked in the top 10% for two consecutive years. The report recognises organisations that have achieved a diverse and inclusive workforce.



CRRA Reporting Awards – Openness and Honesty

We won the 'Openness and Honesty' award for our 2018 Sustainability Report at the 2020 Corporate Register Reporting (CRR) Awards – a testament to our approach to transparently reporting on key ESG challenges.



Disability Confident Committed

We achieved certification in 2020 as a Disability Confident Committed employer under the UK Government's accreditation scheme.

Strategic Management

Putting ESG Front and Centre

ESG Enablers

As we evolve our Group strategy, we are also evolving our Sustainability Agenda. We are moving ourselves from a business where sustainability has always been important, to one where it is front and centre in all that we do.

Our Sustainability Agenda is integral to our evolved Group strategy.

Our Sustainability Agenda reflects our commitment to reducing the health impact of our business and excellence across our other ESG priorities. Our approach is driven by extensive stakeholder insights, and we commission an independent review of our most material ESG topics each year.

Through this robust process, we engage with a wide range of stakeholders to understand what matters most to them, complemented with ongoing risk monitoring, research and benchmarking.

This approach ensures we keep pace with emerging topics and stakeholder expectations.

Outlined here are the priority areas that form the core of our Sustainability Agenda. You can read more about how we identify and prioritise these areas on page 111 of our 2020 ESG Report.

Highlights during the year

- Growth of our New Categories revenues by 15% to £1.4 billion.
- A 37.4% reduction of our Scope 1 and 2 carbon emissions from our 2017 baseline.
- The first company in the tobacco and nicotine industry to publish a Human Rights Report. Aligned to the UN Guiding Principles, it outlines how we address human rights impacts across our business and supply chain.
- Announced new ambitions for zero child labour and zero forced labour in our tobacco supply chain by 2025.

H

Reducing the **HEALTH** impact of our business

Consumer
choice

World-class
science

Standards
and regulation

E

Excellence in **ENVIRONMENTAL** management

Climate change

Water

Biodiversity and afforestation

Waste

S

Delivering a positive **SOCIAL** impact

Human rights

Farmer livelihoods

Health and safety

People and culture

G

Robust corporate **GOVERNANCE**

Business ethics

Responsible marketing

Regulation and policy
engagement

Creating shared value for



Consumers



Society



Employees



Shareholders

In 2020, we launched our evolved Group strategy focused on building A Better Tomorrow™ for all of our stakeholders. As we set about future proofing our business, we have developed a set of ambitious targets that will act as a catalyst for a decade of action.

Our roadmap to A Better Tomorrow™

H	ESG issue	Our goals	Progress in 2020
E	Reducing the HEALTH impact of our business	<ul style="list-style-type: none"> Reach £5 billion revenue from our New Category products by 2025 Reach 50 million consumers of non-combustible products worldwide by 2030 	<ul style="list-style-type: none"> – £1,443 million, up by 15% from previous year – +3 million consumers of non-combustibles
S	Excellence in ENVIRONMENTAL management <ul style="list-style-type: none"> – Climate change – Water – Biodiversity and afforestation – Waste 	<ul style="list-style-type: none"> Carbon neutral by 2030 for Scope 1 and 2 emissions Reduce water withdrawn by 35% by 2025 Eliminate unsustainable wood used for tobacco curing by our contracted farmers 100% of plastic packaging to be reusable, recyclable or compostable by 2025 	<ul style="list-style-type: none"> – 37.4% reduction in Scope 1 and 2 emissions against 2017 baseline; climate risks scenario analysis for major tobacco-growing markets – 22.5% reduction in water withdrawn against 2017 baseline – Over 99% wood used for tobacco curing sourced from sustainable sources by our contracted farmers – Waste mapping across our value chain and independent review of our packaging materials for recyclability; with results showing 82% of our plastic packaging is reusable, recyclable or compostable¹
G	Delivering a positive SOCIAL impact <ul style="list-style-type: none"> – Human rights – Farmer livelihoods – Health and safety – People and culture 	<ul style="list-style-type: none"> Aim for zero child labour and zero forced labour across our tobacco supply chain by 2025 All our product materials and high-risk indirect service suppliers to have undergone at least one independent labour audit within a three-year cycle by 2025 Committed to working to enable prosperous livelihoods for farmers in our tobacco supply chain Zero accidents Group-wide Increase the proportion of women in management roles to 45% 	<ul style="list-style-type: none"> – 99.7% of tobacco farms monitored for child labour² – 93 supplier labour audits conducted on product materials and high-risk indirect service suppliers – Over 50% of tobacco grown by our contracted farmers is from our hybrid tobacco seed varieties, boosting yields by up to 20% – 27% reduction in total accidents (vs 2019) – 38% female representation in management roles
	Robust corporate GOVERNANCE <ul style="list-style-type: none"> – Business ethics – Responsible marketing – Regulation and policy engagement 	<ul style="list-style-type: none"> 100% adherence to our Standards of Business Conduct (SoBC), including our Lobbying and Engagement Policy 100% adherence to our International Marketing Principles (IMP) and our Youth Access Prevention Guidelines 	<ul style="list-style-type: none"> – 100% of Group employees completed our annual SoBC sign-off – Further strengthened compliance procedures and internal controls for IMP – 100% of our markets reported alignment with YAP Guidelines See page 57

1. Theoretical ability to be recycled externally assessed. Actual recycling rates may vary across geographies based on local infrastructure.

2. Reported via our Thrive assessments covering BAT contracted farmers and farmers contracted to our strategic third-party suppliers, representing more than 80% of our total tobacco leaf purchases in 2020.

Strategic Management

ESG Framework

We have a comprehensive suite of policies, principles and standards that underpin our commitment to high standards of corporate responsibility and driving excellence in ESG.

Our Sustainability Agenda is supported by our Group policies and principles that are endorsed at Board-level and aligned with international standards.

Our Board has overall responsibility for our Sustainability Agenda and ESG focus areas, while the Audit Committee monitors sustainability and ESG performance, risks and adherence to our standards. The Regional Audit and CSR Committee (RACC) framework underpins the Audit Committee and provides a flexible channel for the structured flow of information through the Group.

Our Management Board, chaired by the Chief Executive, has overall responsibility for overseeing the implementation of Group strategy and policies, including those relating to ESG. Members of the Management Board are responsible for overseeing delivery against ESG targets for areas under their individual remit.

Key governance channels

- Our Board, the Audit Committee and RACC reviews of ESG performance.



Read more about the key Board and Audit Committee activities on pages 100 and 110

- **Management-level committees**, including Operations Sustainability Forum, Supply Chain Due Diligence Committee and Youth Access Prevention Governance Committee.

Sustainability: Our policies ¹	Summary of areas covered	Stakeholder groups
Employment Principles	Employment practices, including commitments to diversity, reasonable working hours, family-friendly policies, employee wellbeing, talent, performance and equal opportunities, and fair, clear and competitive remuneration and benefits.	Our People
Standards of Business Conduct (SoBC)	Speak Up, conflicts of interest, anti-bribery and anti-corruption, gifts and entertainment, respect in the work place, human rights, lobbying and engagement, political and charitable contributions, corporate assets and financial integrity, competition and anti-trust, anti-money laundering and tax evasion, anti-illicit trade, data privacy and information security.	Our People Governments and Wider Society
Environmental Policy	Our commitments to following high standards of environmental protection, adhering to the principles of sustainable development and protecting biodiversity covering our direct operations and supply chain, including agricultural, manufacturing and distribution operations.	Our People Consumers Customers Suppliers Governments and Wider Society
Health and Safety Policy	Our commitments to applying the highest standards of health and safety.	Our People
Supplier Code of Conduct	Standards required of our suppliers worldwide, including business integrity, anti-bribery and anti-corruption, environmental sustainability, anti-illicit trade and respect for human rights (covering equal opportunities and fair treatment, health and safety, prevention of harassment and bullying, child labour and modern slavery, conflict minerals and freedom of association).	Our People Customers Suppliers Governments and Wider Society
Strategic Framework for Corporate Social Investment (CSI) ²	Sets out our Group CSI strategy and how we expect our local operating companies to develop, deliver and monitor community investment programmes within two themes: Sustainable Agriculture and Rural Communities; and Empowerment.	Governments and Wider Society
International Marketing Principles	The standards that govern marketing across all our product categories and including the requirement for all our marketing to be targeted at adult consumers only.	Consumers Customers Suppliers Our People
Group Data Privacy Policy	The manner in which BAT processes personal data about all individuals, including consumers, employees, contractors and employees of suppliers.	

These policies and principles are endorsed by our Board, apply to all Group companies and support the effective identification, management and mitigation of risks and issues for our business in these and other areas.

Notes:


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

2. Further details of our Strategic Framework for Corporate Social Investment can be found at www.bat.com/csi

Reducing the Health Impact of Our Business

At BAT, we have a clear purpose to build A Better Tomorrow™ by reducing the health impact of our business.

H

 A list of our key ESG targets are on page 47

The Key Enablers for Harm Reduction



Consumer choice

Smokers are most likely to switch to New Category products when they find one that satisfies their own preferences.



World-class science

Consumers and regulators want robust scientific evidence that supports the quality, safety and reduced-risk potential of New Category products.

Standards and regulation

Wide availability of New Category products depends on having the right regulatory and market conditions, as well as high standards and responsible industry practices.

World-class Science

The reduced-risk potential of New Category products needs to be supported by sound science. We conduct cutting-edge research to substantiate the reduced risk potential of our New Category products.

We are gaining significant momentum with our consumers, as satisfying consumer needs effectively is a key indicator of how rapidly we can achieve A Better Tomorrow™.

 [Read more about tobacco harm reduction on pages 30 to 31](#)

Over the last decade, we have built a team of the best scientific talent. Today, we have over 1,500 dedicated scientists and engineers, generating world-class science and demonstrating the reduced-risk profile of our New Category products compared to smoking.*†

We openly share our science on bat-science.com. To date, we have published over 90 peer-reviewed research papers on our New Category products and the results indicate they have the potential to be significantly less risky than cigarettes. We are continuing to establish more evidence to support this.

We know scientifically substantiated risk profiles for New Category products are absolutely essential in making tobacco harm reduction a reality. And, we are proud to be leading the way with our world-class science. Our latest clinical trials are the first-ever of its kind to demonstrate reduced risk of Tobacco Heating Products.

Driving Innovation

In February 2020, we created Open Innovation, a new team inside our New Categories R&D function. The team works in partnership with BTomorrow Ventures – the Group's corporate venture capital unit. Together, we are building an ecosystem of partners to help us access world-class technology and increase collaboration with start-ups and leading IP inventors.

Our aim is to gain early access to innovative technologies or products, and enable greater collaboration or sharing of strategic IP. To realise that goal, we scout for partners (including startups) that have technologies and materials which hold promise for our product pipeline.

We are focused on reducing the health impact of our business through a multi-category approach. We can do this by offering consumers the widest range of enjoyable, less risky products.*†


We are uniquely positioned to deliver this, with our deep consumer insights, world-class science and innovation to put consumers right at the centre of our transformation.

While we are absolutely committed to delivering A Better Tomorrow™, we know we can't do this alone. Our success depends on building an acceptance of harm reduction, with consumers, regulators and society understanding the reduced-risk potential of these products.

We strongly believe there are three key enablers to make this a reality: enabling consumer choice to meet diverse needs of consumers, substantiating the reduced-risk profile of New Category products through world-class science, and a collaborative approach to responsible regulation.*†

Satisfying Consumer Moments

Smokers are more likely to switch to new products if they can find satisfying alternatives that offer sensorial enjoyment and recapture consumer moments long-associated with tobacco that have been lost to shifting trends. We have a deep understanding of our consumers and we use these insights to develop an exciting product portfolio across a range of categories. These include vapour products, tobacco heating products (THPs) and modern oral products.

 [Find out more about our New Category products on pages 34 to 39.](#)

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance

Strategic Management

Reducing the Health Impact of Our Business Continued

Through our Open Innovation teams and BTomorrow Ventures, we consider how we can fill technology gaps, integrate new technologies, and take advantage of investment opportunities.

Standards and Regulation

We believe a stakeholder-inclusive, whole-of-society dialogue which includes regulators, policy makers, consumers and the industry is key to developing effective policies that can accelerate tobacco harm reduction as fast as possible.

Everywhere we operate, we want to see the standards we hold ourselves to become the industry benchmark and the basis for future regulation. That's why we share our approach, information and expertise with industry groups, governmental technical advisory committees, standards bodies and other key stakeholders.

To achieve this goal, we engage with task forces, such as those of the Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA), and make presentations on the global implications of product standards at conferences, such as those of the Food and Drug Law Institute (FDLI), and the Global Tobacco and Nicotine Forum (GTNF).

We contribute to the development of international standards by working bodies such as the British Standards Institute, ISO and the European Standards Body, CEN, who we have collaborated with on new vaping standards.

We support appropriate regulation of New Category products. In fact, we believe good regulation is critical for creating a fertile ground for responsible growth.

We are engaged with stakeholders around the world to advocate for proportionate regulation, as outlined under "How we think New Category products should be regulated".

Other ESG focus areas

In addition to our commitment to reducing the health impacts of our business, we also continue to focus on a wide range of other important ESG issues, as outlined on pages 51 to 57.

How we think New Category products should be regulated



1. An evidence-based approach

allowing robust science to lead to greater consumer choice, quality and confidence.



2. Proportionate regulation

where science-based evidence and risk are understood and differentiated to guide regulatory policy.



3. Freedom to innovate

to ensure products can evolve to meet changing consumer preferences.



4. Engagement, dialogue and communication

to ensure regulators and consumers can make well-informed decisions.



5. Responsible marketing freedoms

that facilitate the acceleration of movement of consumers from combustible to non-combustible products.

Excellence in Environmental Management

We have a global footprint and rely on natural resources to run our business. Securing resources in a climate-resilient supply chain is key to delivering our business strategy. We are driving environmental excellence for a greener tomorrow.

E

A list of our key ESG targets are on page 47



Carbon neutrality

Addressing climate risks and opportunities across our value chain is key to the sustainability of our business. We aim to be carbon neutral by 2030 for our own business activities.



Water stewardship

Access to safe water and sanitation is a fundamental human right. As water scarcity risks increase with the changing climate, it is essential to drive water efficiencies across the value chain. We aim to reduce the total amount of water we withdraw for our own business activities by 35% by 2025.



Eliminating waste

We are addressing the growing global concern about plastic and other waste. That includes waste caused by our business as well as consumer waste. We aim for 100% of plastic packaging to be reusable, recyclable or compostable by 2025.



Protecting biodiversity

Our business now and in the future depends on biodiversity and natural resources. In addition, sustainable agricultural practices help farming communities thrive and defend against deforestation and other environmental degradation. We aim to eliminate all use of unsustainable wood fuel by our contracted farmers.

CO₂e emissions (in '000 tonnes)

541

37.4% lower than 2017 baseline

2020	541	-30.9%
2019	782	-7.0%
2018	841	-2.7%

Definition: Group Scope 1 and Scope 2 carbon dioxide equivalent (CO₂e) emissions.

Target: Reduce our Scope 1 and 2 CO₂e emissions by 30% by 2025 compared to 2017 baseline, and carbon neutrality by 2030.

Water use

(total water withdrawn in mn metres)

4.03

22.5% lower than 2017 baseline

2020	4.03	-10.8%
2019	4.51	-5.3%
2018	4.77	-8.2%

Definition: Group water use in million cubic metres.

Target: Reduce water use to 3.38 mn metres by 2025, 35% lower than our 2017 baseline.

Recycling

(percentage of waste recycled)

90.7%

2020	90.7
2019	90.5
2018	90.2

Definition: Total percentage of Group waste reused, recycled or incinerated for energy recovery, against total waste generated.

Target: Recycle 95% or more by 2025 in each year.

Emissions ¹	2020 ²	2019	2018
Scope 1 CO ₂ e emissions ('000 tonnes)	342	396	415
Scope 2 CO ₂ e emissions ('000 tonnes)	199	386	426
Scope 3 ³ CO ₂ e emissions ('000 tonnes)	N/A	6,781	6,956
Total statutory emissions (Scope 1 and 2 in '000 tonnes)	541	782	841
Intensity (tonnes per £ million of revenue)	20	30.4	32.6

Notes:

All data is calculated on the basis of the Greenhouse Gas (GHG) Protocol Corporate Standard.

- Scope 1 reporting includes: emissions from energy consumed at our factories and offices (coal, natural gas, woodfuel, diesel and LPG), emissions from our dry ice expanded tobacco plants, and fuel consumed by our fleet vehicles. 2019 UK BEIS fuel to energy conversion factors were used in calculations. Scope 2 reporting includes: emissions from electricity purchased and consumed at our factories and offices, purchased steam and hot water. Scope 3 reporting includes: all 15 categories of the GHG Protocol.
- 2,200 tonnes of our Group Scope 1 emissions, and 398 tonnes of our Group Scope 2 emissions are from UK-based activities. Following the closure of our UK factory in late 2019, our UK-based activities in 2020 were limited to non-manufacturing activities, and included running our offices and trade marketing activities that utilise fleet vehicles.
- Consolidation and verification of our 2020 Scope 3 data is ongoing to fully align with the GHG Protocol. 2020 data will be reported in the 2021 Annual Report and Form 20-F. 2017 and 2018 data are restated from previously published figures (8,254 and 7,547, respectively), as we improved our data collection systems. This includes a greater accuracy for emissions from our purchased goods and services, and replacing previously used estimates with actuals in a key market. 2017 data is restated as: 6,952.

Energy consumption (million kWh)	2020	2019	2018
From activities for which the Company is responsible	1,572 ⁴	1,820	1,985
Resulting from the purchase of electricity by the Company for its own use	996 ⁵	1,054	1,089

Notes:

- Data reported includes energy from the combustion of fuel and the operation of any facility. Of the total figure reported for the Group, 10 million kWh is from the UK-based activities.
- Group data reported includes electricity purchased and consumed at our factories and offices, purchased steam and hot water. Our UK-based facilities only purchase electricity and do not purchase heat, steam or cooling. Of the total figure reported for the Group, 17 million kWh is from the UK-based activities.

Strategic Management

Excellence in Environmental Management Continued

Addressing the Impacts of Climate Change

A strengthened climate strategy

Addressing climate risks and opportunities across our value chain is key to the sustainability of our business. At the beginning of this year, we set a bold target: to achieve carbon neutrality by 2030 for our Scope 1 and 2 emissions. And we know we need a step change to deliver this.

We are utilising multiple opportunities, from on-site renewable energy generation, to purchasing renewable electricity. We've also started adopting a shadow internal carbon price to incentivise low-carbon decision-making in our business.

We have commissioned a detailed climate scenario analysis to review potential impacts of global warming in 10 of our major tobacco-growing markets. These include projected scenarios in relation to physical changes in temperature, rain, water-balance and climatic risks and the potential impacts these will have on tobacco growing conditions.

In addition, we recognise the importance of providing consistent and reliable climate-related information to investors and other stakeholders. This year, for the first time, we have included a 'TCFD alignment at a glance' feature in our report, and have expanded both our management approach and disclosures. We will fully align our reporting for 2021 with the TCFD framework.

Governance of our climate strategy

Our carbon neutrality and other environmental targets have been endorsed by our Board. The role of our Board and the Audit Committee in reviewing climate-related risks and performance is further outlined on pages 100 to 116. The Operations Director is responsible for overseeing delivery against environmental targets.

Climate-related risks

In early 2020, we updated our Group risk register to incorporate transitional risks of climate change as a risk to the Group to be mitigated, as outlined on page 112 in more detail.

Metrics and targets

We have achieved a 30.9% year-on-year reduction in our total Scope 1 and 2 carbon emissions in 2020. In total, these equalled 540,864 tonnes, 37.4% lower than 2017, our baseline year. Drivers include a 10.6% reduction in direct energy consumption and an increase in renewable energy use which now stands at 26.8% – a 16 pp increase over 2019. We anticipate the return to on-site working in 2021 may lead to a slight increase in carbon emissions and energy use next year. Still, we remain on track for delivering against our Scope 1 and 2 carbon neutrality target.

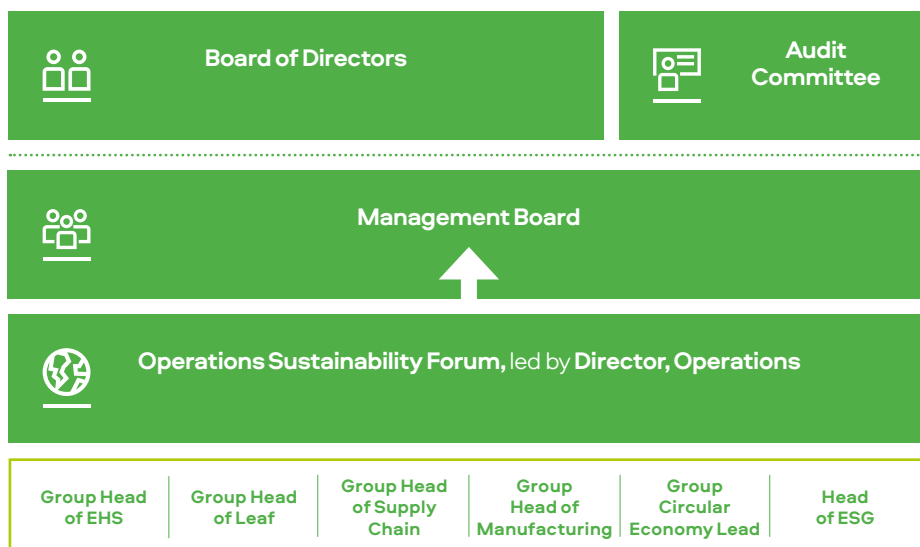
Meeting our ambitious climate targets will require collective effort across the Group and, given our Scope 3 emissions represent around 90% of our total carbon footprint, addressing impacts in our supply chain is also crucial.

Our Scope 3 emissions decreased by 2.4% in 2019 from the 2017 baseline, driven by a reduction in purchase volume and decreases in fuel use for tobacco curing.



Find out more on how we are addressing climate change on pages 41-48 of our 2020 ESG Report.

Governance of our climate risks



TCFD alignment at a glance

TCFD	Group progress
Governance Disclose the organisation's governance around climate-related risks and opportunities.	<ul style="list-style-type: none"> – The Board approves environmental targets, including in relation to climate change, and, with the Audit Committee, reviews climate change risks and impact on the Group. The Board reviews progress against environmental targets twice a year. – The Management Board oversees implementation of climate change and environmental targets. The Operations Sustainability Forum, led by the Operations Director, reviews performance on a quarterly basis. – The Group Risk Committee reviews the impact of acquisitions on climate change risks.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	<ul style="list-style-type: none"> – Strengthened our climate strategy, focused on the environment, our supply chain and our people and culture. – Climate scenario risk assessments conducted to two different climate scenarios, including a 2-degree or lower scenario. – Significant climate risks to tobacco-growing conditions identified as a result of climate change, with a comprehensive action plan to address risks being developed. Already, BAT has rolled out innovative curing technologies that reduce carbon emissions to contracted farmers in five countries.
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.	<ul style="list-style-type: none"> – Modelled material risks to the Group up to 2050 for 10 tobacco-growing markets, with transition risks being reviewed in 2021. – Local short- to medium-term risk prevention and mitigation assessments performed at least twice a year. – Group Risk Register now includes both physical and transition risks of climate change as a risk to the Group, reviewed regularly by senior managers. – Expanded internal environmental reporting tool to capture climate change physical and transition risks and opportunities.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	<ul style="list-style-type: none"> – GHG emissions and energy use primary climate change metrics for BAT. – Other climate-related metrics for water use and waste management. – Targets to reduce Scopes 1, 2 and 3 emissions, including encouraging supply chain to set own targets. – Introduced a shadow internal carbon price to facilitate certain operational decisions.

Water

We have a long-established approach to driving water stewardship, across our own operations and tobacco supply chain.

While our industry is not particularly water intensive, with the changing climate, water scarcity is a growing concern around the world. We need to make informed, risk-based decisions to effectively manage this essential natural resource.

We are further strengthening how we review water risk, across our value chain, in line with best practice standards.

Driving water stewardship in our own operations

Through our long-standing environmental management systems, we have been steadily decreasing water use and increasing water recycling for several years.

In 2020, we started further assessing water risks using the global benchmark Alliance for Water Stewardship (AWS) standard.

We've been steadily decreasing our water use and increasing water recycling for several years. In 2020, we achieved a 10.8% year-on-year reduction in total water withdrawn, and recycled 15.3% of our water.

Driving water stewardship in our supply chain

Due to the variety of locations in which we source tobacco leaf, only 30% requires irrigation. However, we encourage drip irrigation by our contracted farmers to preserve water sources.

We adopt a comprehensive approach, assessing water risks, climate impacts and subsequent water deficits from rainfall. Our Water Risk Assessment is based on WRI's Aqueduct Water Risk Atlas and is fully incorporated in our Sustainable Tobacco Programme (STP).

Through our global leaf agronomy centre, we have developed 'floating' systems for growing tobacco seedlings, based on hydroponics, that use about 85% less water per hectare and have the potential to increase the yield by up to 36% compared to traditional systems. These have been successfully introduced to our contracted farmers in eight countries, and we have plans to expand to more.

Biodiversity and Deforestation

We have a long and proud history of working directly with farmers around the world to advance agriculture. We provide farmers with best practice environmental information and introduce them to new sustainable farming practices.

Preserving natural capital in tobacco growing

Conserving water, reducing deforestation, avoiding soil erosion and preserving soil fertility are all crucial for sustainable agriculture. We manage these interlinked issues by developing sustainable soil management practices and introducing our contracted farmers to these technologies in all our leaf operations, appropriate to the growing conditions.

Sustainable fuels for tobacco curing

We have an ongoing commitment to eliminate the use of unsustainable sources of wood by our contracted farmers for curing fuels. Monitoring of the last three years of our contracted farmers' wood use for curing has shown over 99% was from sustainable sources.

Afforestation initiatives in farming communities

We support community-based afforestation programmes in a number of countries. For example, our afforestation programmes in Bangladesh and Pakistan date back to the early 1980s and have planted over 196 million tree saplings combined. Both are recognised to be among the largest private sector-driven programmes in these countries.

Waste

By using resources efficiently and in an innovative way, and by making decisions with consideration for the environment, we can address both our immediate impacts and the likely pressures on the business in the future.

We adopt circular economy principles, which will deliver better products for our consumers, create efficiencies in our operations, offer our employees opportunities to innovate and reduce our overall environmental impact on the planet.

Innovative product designs

We have reviewed our New Category products and identified a number of opportunities to take immediate action. This includes the removal of silicon end caps, removal of plastic insert trays, reduction in cardboard packaging and the removal of polypropylene overwrap, all of which we are currently exploring.

A zero-waste mindset across our operations

We are digitally transforming manufacturing in order to reduce tobacco and other waste, lessen energy usage, limit stoppages to production and save personnel time.

Digitally monitoring our farms

We are leveraging the power of technology to enhance and accelerate our connectivity with our contracted farmers and farming communities. Our Farmer Sustainability Management (FSM) app is a digital platform that supports the work of our field technicians as they collect data about contracted farmers' agricultural practices. The app also enables us to gather information against farm-level criteria for STP assessments, as well as monitor progress against our Thrive programme.

Find out how FSM enables us to work with farmers in developing local action plans, including on water stewardship, in our ESG report, page 118.

Find out how our Thrive programme enables us to identify and address the long-term risks that could impact on the sustainability of agriculture and farmer livelihoods, in our ESG report, page 117.

This transformation delivers a multitude of benefits from a 5-10% reduction in waste, smaller carbon footprint, lower utility costs and a significant reduction in costly stoppages, while saving 1,000s of working hours.

We are committed to recycling at least 95% of our total waste generated, which is more challenging in locations with limited recycling and waste management facilities. Nevertheless, 27% of our manufacturing sites have already achieved zero waste to landfill and another 27% are recycling at least 95% of their waste.

Responsible disposal of our New Category products

We plan to implement take-back schemes for all our New Category devices by the end of 2021. Already, we are piloting electronic device or e-liquid pod return schemes in France, Japan, Mexico and the UK.

Reducing the environmental impacts of cigarettes

As we research, develop and manufacture our products, we continue to look at opportunities to reduce the environmental impact of cigarette filters.

Research shows that consumer education and awareness-raising initiatives are likely to be some of the most effective measures. At BAT, we support a number of such initiatives and education campaigns that have been effective in reducing butt littering.



A detailed list of initiatives we support can be found in our ESG report, pages 57-60

Strategic Management

Delivering a Positive Societal Impact

Reducing the harm associated with smoking and the opportunity to have a positive impact on public health is the most material issue for our business, but as one of the world's most international businesses, we also have a larger role to play in delivering a positive societal impact.

S

A list of our key ESG targets are on page 47



Human Rights

We are committed to respect the human rights of our employees, the people we work with and the communities in which we operate. Our ambitions for 2025 are for zero child labour and zero forced labour in our tobacco supply chain.



Health and Safety

We are committed to providing a safe working environment for everyone. We are committed to employee wellbeing. Our goal is zero accidents across the Group.



Farmer Livelihoods

Rural poverty is recognised as a primary root cause for issues such as child and forced labour, as well as poor safety and environmental standards. Enhancing farmer livelihoods helps tackle such issues and strengthen our supply chain.



People and Culture

An inclusive workplace culture helps us attract and retain the best people. This also enables us to continue transforming our business. Our targets include increasing the proportion of women on leadership teams to 40% and in management roles to 45%.

While no incidents of modern slavery were identified, one third-party supplier reported identifying five incidents of forced labour-related non-compliance. In one case a farm labourer reported being forced to undertake tasks they hadn't agreed to, one case related to unfair deductions from a labourer's wages and a further three cases related to withholding of agreed benefits. All incidents were immediately investigated and resolved by our supplier as part of their formal due diligence procedures.

Our training and communications programmes help to raise farmers' awareness and increase understanding of human rights, tailored to the local context. In 2020, more than 38,000 human rights training sessions were held, with over 390,000 attendances.

All our other products materials are subject to annual human rights risk assessments, and independent audits by Intertek, our audit partner. In addition, we audit high-risk indirect service suppliers. In 2020, a total of 93 supplier audits in 17 countries were conducted.

Despite delays due to COVID-19 restrictions, we are pleased that, by year-end, 67% of corrective actions for issues identified in the audits were fully completed and verified by Intertek – in desktop reviews for the moderate issues and 13 on-site follow-up audits for the major issues. All outstanding actions are in progress and will be verified by Intertek in the first quarter of 2021.

Our Group-wide policies, procedures and controls help to substantially mitigate human rights risks in our own businesses. However, we recognise that we need to continually work to ensure these are effectively applied and that we carefully monitor the situation, particularly in countries assessed as higher risk, such as where regulation or enforcement regimes are limited, or there are higher levels of corruption, criminality or unrest.

We have a defined process to identify and carefully monitor BAT operations in countries with a higher risk for human rights issues. Our businesses in each high-risk country identified complete a human rights assessment, and the process is monitored by our Audit Committee. In 2020, our operations in 24 countries were identified as high risk.

Human Rights

Our integrated human rights strategy is aligned to the UN Guiding Principles and includes policies, due diligence, grievance channels and remediation procedures for our own business operations and supply chain, as well as working to understand and address the root causes. Our Human Rights policy forms part of our Group Standards of Business Conduct and is reflected in our Supplier Code of Conduct.

The most significant challenges for human rights are in our tobacco supply chain and this has been a priority area for us for many years. The industry-wide Sustainable Tobacco Programme (STP) focuses on tobacco supplier due diligence, aligned to international standards. Our own Thrive programme is focused at the farm-level and seeks to identify and address the root causes and long-term challenges around human rights, including rural poverty.

We complement our farm monitoring and STP and Thrive assessments by conducting human rights impact assessments (HRIAs) in selected countries. HRIAs follow a defined process for identifying, assessing and responding to actual and potential human rights impacts, including the root causes and how they manifest.

We conducted HRIAs in India and Indonesia in 2019 and in Mozambique in 2020. Two more assessments are planned for 2021.

We know that eliminating child labour is a major challenge for everyone involved in global agricultural supply chains.

In 2020, child labour incidents were identified on 0.5% of farms. A total of 1,308 incidents were identified, the majority of which related to preparing bales, watering and weeding, and harvesting and stitching tobacco. Of these, 98.5% were reported as resolved, where a remediation plan is implemented with the farmer that considers the individual circumstances. Wherever possible, this plan involves local community or school support. In a small number of cases, where there is persistent non-compliance, the farmer's contract is not renewed for the next growing season – this is the case for six outstanding unresolved incidents. The remaining 13 cases occurred at the very end of the growing season, for which a remediation plan was implemented that will be verified at the start of the next season.*

* Data refers to hazardous child labour by anyone under the age of 18 which could be harmful to their health, welfare or development (for example, handling mechanical equipment or agrochemicals). Scope of data reported is outlined on page 47 under footnote 2.



Further detail on our approach, our Human Rights Focus Report and our Modern Slavery Act statement are available at bat.com/humanrights

Farmer Livelihoods

Rural poverty is recognised as a root cause for wider issues in agriculture, such as child labour, poor safety standards and urban migration. If we can support tobacco farmers to have prosperous livelihoods, we can help address these issues while also securing our tobacco supply chain.

We support our 84,000+ directly-contracted farmers through our Extension Services of expert field technicians. We develop new tobacco seed varieties that offer greater yields and higher quality, helping boost farmers' profits, as well as introducing them to more efficient farming technologies that save farmers time and money.



Read more about our Group risk factors related to tobacco leaf supply on page 293

Our Extension Services also provide training and advice and help our farmers to grow other crops to enhance food security and generate additional sources of income. For instance, in 2020, our leaf operations and strategic third-party suppliers reported that 93% of their contracted farmers grew other crops, including fruit, vegetables, wheat, maize, cotton and soy.

Health and Safety

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

We are also always working to protect the health, safety and wellbeing of people – through the COVID-19 pandemic and beyond – as well as striving for zero accidents Group-wide.

We have a comprehensive workplace health and safety approach based on risk management and assessment, employee training and awareness, and tailored initiatives for specific issues and higher-risk areas.

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

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

Our key metrics in this area include:

- Lost Workday Case Incident Rate (LWCIR): There was a decrease in our LWCIR to 0.21 in 2020 (2019: 0.27).
- Lost workday cases (LWC): The number of work-related accidents (including assaults) resulting in injury to employees and to contractors under our direct supervision, causing absence of one shift or more, decreased to 131 in 2020 (2019: 186).
- Serious injuries and fatalities: The total number of serious injuries and fatalities to employees and contractors under direct supervision decreased to 36 in 2020 (2019: 37).

Safety risks vary across our business.

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

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

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

We are pleased to report that our actions are producing improvements. In 2020, total accidents decreased, to 142, from 194 in 2019. The number of serious injuries resulting from attack and assault incidents in TM&D have declined in 2020 showing the positive impact of our security initiatives during the last two years. Road traffic accidents fell by 50% compared to 2019. We regret to report three contractor fatalities, up from one in 2019.

In 2020, health and safety at work has taken on even greater significance.

We have implemented 'COVID-19-secure' workplace measures for employees who are unable to work remotely, and those in countries where restrictions are not in place. These measures include regular cleaning and sanitising of the workplace, temperature screening, the use of face masks, one-way systems and signage to ensure social distancing.



You can read about our Group risk factors related to workplace health and safety on page 297

Our People and Culture

We focus on providing a fair and inclusive workplace where all our people can flourish. Our diversity and inclusion strategy is embedded across the Group and we have a range of well-established engagement channels to listen to, and learn from, the views of our people worldwide. You can read more about our ethos, culture and people on pages 58 to 63.

Community Investment and Social Initiatives

As an international business, we play an important role in countries around the world and have built close ties with local communities. We encourage our employees to play an active role both in their local and business communities. Our charitable contributions policy in our SoBC is supported by the Group Strategic Framework for CSI, which sets out our Group CSI strategy and how we expect our local operating companies to develop, deliver and monitor community investment programmes within two themes: Sustainable Agriculture and Rural Communities, and Empowerment.

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

Our performance indicator in this area relates to the total amount of money contributed to charitable giving and CSI projects. In 2020, the Group contributed over £16.6 million in cash and £5.1 million in-kind for charitable contributions and CSI projects. This includes £1.14 million given for charitable purposes by UK Group companies. Of this, £5.27 million in cash and £5.04 million in-kind was spent on community projects aimed at COVID-19 relief. Our CSI projects are mostly delivered through partnerships with external stakeholders including communities, NGOs, governments, development agencies, academic institutions, and industry associations.

Strategic Management

Robust Governance

Robust governance is key to our sustainable long-term growth. We are committed to achieving our business objectives in an honest, transparent and accountable way, and sustaining a culture of integrity in everything we do.





A list of our key ESG targets are on page 47



Business Ethics

Unethical behaviour can be extremely damaging to our business. It can also distort markets, and developing countries are especially vulnerable to the resulting economic, social, and political impacts. We aim for 100% adherence to our Standards of Business Conduct.



Responsible Marketing

Responsible marketing practices are crucial for ensuring adult-only consumers use our tobacco and nicotine products and that they do not target youth. We have strict marketing requirements, and aim for 100% alignment with our International Marketing Principles.



Regulation and Policy Engagement

Truly effective regulation needs cooperation between governments and industry, and we can contribute valuable experience and expertise to policy development.

Business Ethics

Our actions and behaviours impact all areas of our business, which is why corporate governance is such an important focus for us.

Our commitment to responsible corporate behaviour is underpinned by our SoBC which mandate high standards of integrity and require every Group company, joint venture which the Group controls and all staff worldwide, including senior management and the Board, to act with a high degree of business integrity, comply with applicable laws and regulations and ensure our standards are not compromised for the sake of results. We expect our contractors, secondees, trainees, agents and consultants to act in a way consistent with our SoBC and to apply similar standards within their own organisations.

Our SoBC comprise our global policies referenced on page 62 and are available in 14 languages. SoBC awareness and understanding is promoted through regular training and communications. Our SoBC are fully aligned with the provisions of applicable laws including the UK Bribery Act, the US Foreign Corrupt Practices Act and the UK Criminal Finances Act.

Corrupt practices are illegal, cause distortion in markets and harm economic, social and political development, particularly in developing countries. Our SoBC make it clear that it is wholly unacceptable for Group companies, our employees or our business partners to be involved or implicated in any way in corrupt practices. We keep our SoBC under regular review to maintain best practice and to take employee and stakeholder feedback into account. Our Board approved a revised version of the SoBC in 2019, which came into effect on 1 January 2020, supported by a global awareness campaign across the Group.

Delivery with Integrity

Our Delivery with Integrity programme provides a global compliance framework, empowering our people to act in a responsible way.

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

It provides employees with ways to raise concerns without fear of retaliation and assurance that investigations will be fair and objective.

The Programme drives a consistent approach to the mitigation of key compliance risk areas such as bribery and corruption, money laundering, tax evasion, competition law, sanctions, and data protection through tools and guidance for Group company employees and business units.

 Read more about our Group risk factors related to corporate behaviour and compliance with sanctions regimes and competition laws on pages 290 and 300

We monitor regulatory developments to ensure the continued evolution of our Delivery with Integrity programme.

Mitigating third-party risk is a key component of our compliance programme. We do this for example through our Third-Party Anti-Bribery and Corruption Procedure (the ABAC Procedure) which assists business units in identifying and mitigating bribery and corruption risks.

The ABAC Procedure mandates consistent methodology for due diligence of third parties, complemented by mandatory mitigation packages for third parties assessed as medium and high risk.

In 2020, we began a major project to develop a more integrated, automated IT solution for the management of third party-related risks. This project is progressing well and will be implemented by Group companies throughout 2021.

We also launched a new M&A Transactions Compliance Procedure which formalises and strengthens our approach to risk mitigation in the context of corporate acquisitions, disposals and the formation of joint ventures and also a new Gifts and Entertainment (G&E) Procedure which enables the automation of the G&E approval and record-keeping requirements set out in our SoBC.

In 2020, over 26,000 Group company employees confirmed that they had complied with our SoBC, disclosed any conflicts of interest and completed our annual SoBC e-learning through the online SoBC portal. Other Group company employees (approximately 27,000) who do not have easy online access were given various options to complete their SoBC sign-off (including via our SoBC app), to ensure that everyone could sign-off safely in light of the COVID-19 pandemic preventing the usual face-to-face gatherings in many of our markets.

100% of Group company employees completed the 2020 SoBC sign-off in one of the available formats.

To further increase awareness and accessibility, in 2020 we continued to promote the adoption of our SoBC app (first launched in 2019), which provides easy access to our SoBC, Speak Up channels, procedures and guidance. As at 31 December 2020, the SoBC app had been downloaded over 16,500 times.

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

Speak Up channels

We encourage anyone working for, or with, any Group company to raise concerns, including regarding accounting or auditing matters, through a variety of channels, including our independently managed Speak Up online portal and telephone hotlines which are available 24 hours a day.

The Speak Up channels can be used in confidence, and anonymously where preferred, and are available in multiple local languages. Speak Up channels contact information is promoted through staff training and communications and through our SoBC app and Supplier Code of Conduct.

Our Speak Up policy makes it clear no one will suffer any direct or indirect reprisal for speaking up about actual or suspected wrongdoing, even if they are mistaken. The policy is supplemented by our SoBC Assurance Procedure and by local procedures throughout the Group, providing staff with further guidance on reporting matters and raising concerns, and the channels through which they can do so.

We do not tolerate the harassment or victimisation of anyone raising concerns or anyone who assists them. Such conduct is itself a breach of our SoBC and a serious disciplinary matter.

Our most recent, global 'Your Voice' employee survey (2019), completed by 90% of Group company employees, found that 79% strongly agreed they "can report concerns about actual or suspected wrongdoing at work without fear of reprisal", 8% higher than the FMCG comparator norm. The next 'Your Voice' survey will be undertaken in Q2 2021.

Not all contacts made via our SoBC Portal involve SoBC allegations; some contacts relate to questions regarding the SoBC or other matters. There were 554 SoBC contacts in 2020, representing an 11% increase on the total number of SoBC contacts in 2019 (497 contacts).

In the year ended 31 December 2020, 321 of the 554 SoBC contacts were assessed as SoBC allegations and reported to the Audit Committee, representing an 11% decrease on 2019 SoBC allegations (359).

Of the 321 SoBC allegations reported, 116 were established as breaches and appropriate action taken (2019: 130). In 158 cases, an investigation found no wrongdoing (2019: 179). In 47 cases, the investigation continued at year-end (2019: 50), including investigation through external legal advisers of allegations of misconduct. The 116 established SoBC breaches resulted in 54 people leaving BAT (2019: 80). In 161 of the 321 SoBC allegations (50%), the person raising the allegation chose to remain anonymous.

Please refer to the Governance Report for more information about Board and Audit Committee oversight and monitoring of compliance with our SoBC. Our SoBC, and information on the total number of incidents reported under it, are available at bat.com/sobc.

Responsible Marketing

Our International Marketing Principles (IMP) govern marketing across all our product categories and require all our marketing to be responsible, accurate and not misleading, targeted at adult consumers, transparent and compliant with all applicable laws.

Our IMP are applied consistently everywhere we operate, even when more stringent than applicable local laws.

Through our long-standing IMP, responsible marketing is well embedded in the culture of our organisation and inherent to the way we operate.

We continually evolve our IMP to reflect developments in marketing, our product portfolio, technology, changing regulations and stakeholder expectations, and the Board approved a revised version of the IMP which took effect from 1 January 2020.

To support our strict requirement to only direct marketing at adult consumers, all Group companies are required to adhere to our global Youth Access Prevention (YAP) Guidelines. These apply to all markets where our products are sold, including where distributed through third parties and include a mandatory requirement to provide retailers with point-of-sale materials with YAP messaging (unless prohibited by local laws). In 2020, 100% of Group companies to which our YAP Guidelines apply reported compliance*.

Regulatory Engagement

Truly effective regulation needs cooperation between governments and industry, and we have a legitimate role to play in policy-related debate that affects our business. We also respect the World Health Organization's FCTC 5.3 provision, which calls for transparent and accountable interaction between governments and the tobacco industry.

By conducting all our engagement with politicians, policy makers and regulators transparently and with high regard for accuracy and integrity, we can make a valuable contribution to policy development and help enable the best information to be used as a foundation for decisions in policy making.

Our Principles for Engagement have long provided clear guidance for our external engagement with regulators, politicians and other third parties. In 2019, these were incorporated into a new Lobbying and Engagement Policy in our SoBC. The revised SoBC took effect from January 2020, thus formalising and strengthening our existing compliance procedures in relation to lobbying and engagement activities.

* Adherence with YAP Guidelines relate to those markets conducting activities or those markets granted an exemption from conducting these, in accordance with the requirements of the Guidelines. Those markets with exemptions account for less than 6% of our cigarette brands sales volumes, and 2% of vapour products and tobacco heating products device and consumables sales volumes.

A BETTER TOMORROW™ for employees



By having a diverse range of excellent people, engaged teams and being a great place to work.

We enable growth by having a winning and agile organisation. Empowering our people to feel they belong and be their best and authentic selves will help enable us to transform the business. We inspire diverse teams of committed and engaged people by:

- investing in our people;
- creating a diverse and inclusive culture;
- developing high-performing leaders; and
- offering a fulfilling, rewarding and responsible work environment.



Ethos

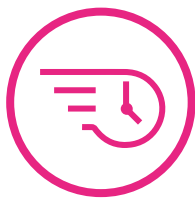
Our purpose is to build A Better Tomorrow™ by reducing the health impact of our business through offering a greater choice of enjoyable and less-risky products for our consumers.

A key driver to delivering this is our Ethos, which guides our culture and behaviours across the entire Group. Developed with significant input from our employees, it ensures an organisation that is future fit for sustainable growth. These five key principles – bold, fast, empowered, diverse, responsible – underpin how we deliver on both our purpose and our strategy.



We are Bold

- Dream big – with innovative ideas
- Make tough decisions quickly and proudly stand accountable for them
- Resilient and fearless to compete



We are Fast

- Speed matters. Set clear direction and move fast
- Keep it simple. Focus on outcomes
- Learn quickly and share learnings



We are Empowered

- Set the context for our teams and trust their expertise
- Challenge each other. Once in agreement, we commit collectively
- Collaborate and hold each other accountable to deliver



We are Responsible

- Take action to reduce the health impact of our business
- Ensure the best quality products for our consumers, the best place to work for our people, and the best results for shareholders
- Act with integrity, never compromising our standards and ethics



We are Diverse

- Value different perspectives
- Build on each others' ideas, knowledge and experiences
- Challenge ourselves to be open-minded recognising unconscious bias



“BAT has been exceptionally resilient in what has been an unusually challenging year. This is down to the grit and determination of our colleagues and our culture of high performance and engagement. We believe that our Ethos is crucial to our success and a key part of this is our diversity and inclusion agenda that has always been very important to us at BAT. Having a supportive, engaging and inclusive culture where everyone is treated equally is fundamental to the continued success of our business.”

Hae In Kim

Director, Talent, Culture and Inclusion

Strategic Management

People and Culture

Diversity matters to the Group because it makes good commercial sense. Having a diverse workforce means we are better able to understand and meet the varied preferences of our global consumers. We are proud of our diversity and inclusion (D&I) strategy, which is built on the following three pillars and underpinned by an inclusive culture.

Pillar 1

Driving ownership and accountability



Ensuring ownership of, and accountability for, our D&I strategy across all business areas and leadership teams is key to driving progress and achieving our 2025 ambitions.

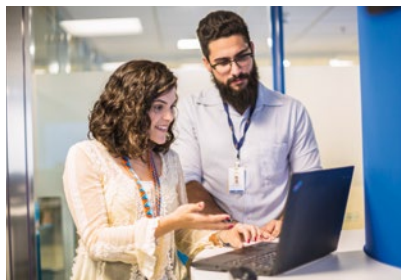
Our Director for Talent, Culture and Inclusion has overall responsibility for all employee and human resources matters, while our Management Board oversees the development and management of talent within the Group's regions and functions.

In 2020, we realigned our D&I governance structure to ensure clear accountability for our business leaders and leadership teams for achieving our 2025 ambitions. This included developing a new D&I dashboard and introducing quarterly reviews by our Management Board to ensure close monitoring of progress and plans. Diversity also remains fully embedded in our talent review processes and meetings across all levels of the Group.

Our 'Diversity Champions' continue to be key in driving D&I action plans and initiatives throughout the organisation. In 2020, we launched a new D&I e-learning module to help further empower our people and increase their awareness.

Pillar 2

Building diverse talent pipelines



We focus on building diverse talent pipelines at all levels of the organisation through recruiting, developing and retaining the best diverse talent.

Inclusivity is embedded throughout our recruitment process and we require all agencies we work with to provide gender-balanced longlists of candidates.

Today, we have 33% female representation on our Board, 15% on our Management Board and 27% on our senior leadership teams across the Group. We also have 139 different nationalities, from a wide range of ethnic backgrounds, in management roles across the Group.

In 2020, we set new D&I ambitions to achieve by 2025, including:

- Increasing the proportion of women in senior leadership teams to 40%;
- Increasing the proportion of women in management roles to 45%; and
- Achieving a 50% spread of distinct nationalities within key leadership teams.



Read about our Global Graduate Programme at www.bat-careers.com/graduates

Pillar 3

Creating enablers



To realise our diversity ambitions, we know we must have enablers in place that provide a supportive environment for people to thrive and realise their full potential.

We provide women and diverse groups with an opportunity to connect, engage and share experiences. Currently, we have 19 affinity networks across all levels of the Group, including our Women in BAT UK and our B-United LGBT+ communities. During the COVID-19 pandemic, these networks had an even more important role to play in keeping our people connected and supporting one another.

We work to continually raise awareness of diversity issues through campaigns and events that showcase best practice and provide platforms for role models to amplify their profiles across the Group. For example, our International Women's Day (IWD) campaigns have been recognised as best practice by the IWD Association for two consecutive years.

Investing in Leaders

As our industry continues to transform, the way we attract and develop talent continues to evolve to meet these new challenges. Our increasingly data-led and digitally-enabled approach focuses on bringing new skills and capabilities to our teams.

Our employer brand and employee value proposition (EVP) has evolved to tell the story of today's BAT. We are focused on attracting and retaining the capabilities needed to deliver our global strategy driven by our purpose of A Better Tomorrow™.

Through strong follower growth across our social media channels in 2020, we have extended our brand reach driving engagement and applications from early career to experienced hire. We remain a global Top Employer for the fourth consecutive year, with special recognition in 34 countries.

Developing critical capabilities is among the very highest of the Group's priorities, and we are focused on personalised digital opportunities for upskilling employees. This includes through our digital learning platform, The Grid.

In 2020, we also expanded our use of learning content from our long-standing content partner, LinkedIn Learning, which is open to all BAT employees. Our micro-learning mobile tool, EdApp, is available to all our Group company employees in marketing and provides mobile access to our New Category products learning portfolio for more than 6,700 marketers and trade marketing representatives to support their daily sales visits.

We will continue to make digital learning a focus and refine our content portfolio to best address learning needs on an ongoing basis.

We also launched 'Leadermeter' in 2020, a new leadership capability assessment focused on identifying employees' strengths and development areas. The insights help to identify further candidates for our development programmes, such as our Women In Leadership training.

 You can read about our Group risk factor related to talent on page 292

Inclusive Culture

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

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

In 2020, we participated in a number of independent reviews, including the pre-accreditation assessment for the UK National Equality Standard (NES). These provide a means to measure our approach against external benchmarks and deliver valuable insights into best practice and areas for improvement. We are committed to acting on these insights and achieving full NES accreditation in 2021.

Our other key metrics in this area include:

Employee retention:

In 2020, total voluntary turnover of management-grade employees was 820, representing 6.1% of the total management population.

Diversity:

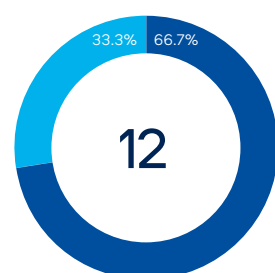
Representation of women on senior leadership teams was 26% in 2018, 27% in 2019, and 27% in 2020.

Senior managers: Companies Act 2006

For the purposes of disclosure under Section 414C(8) of the Companies Act 2006, the Group had 167 male and 46 female senior managers as at 31 December 2020. Senior managers are defined here as the members of the Management Board (excluding the Executive Directors) and the Directors of the Group's principal subsidiary undertakings. The principal subsidiary undertakings, as set out in the Financial Statements, represented approximately 72% of the Group's employees and contributed over 79% of Group revenue and 100% of profit from operations in 2020.

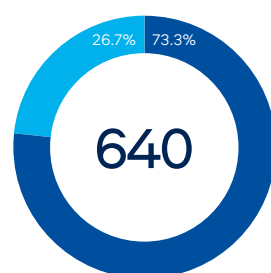
Group diversity as at 31 December 2020

Main Board



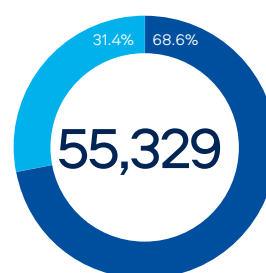
Male 8
Female 4

Senior Leadership Teams



Male 469
Female 171

Total Group Employees



Male 37,945
Female 17,384

Nationalities represented

	Total
Main Board	8
Global headquarters	82
Management level globally	139

Strategic Management

People and Culture

Continued



Global Top Employer

BAT has been accredited as a Global Top Employer for the last three consecutive years.



Financial Times Diversity Leader

BAT has been ranked in the top 10% of companies for two consecutive years for achieving a diverse and inclusive workforce.

We are committed to providing training and development for employees with disabilities, and we achieved certification in 2020 as a Disability Confident Committed employer under the UK government's accreditation scheme. We also became official signatories to the UK Race at Work Charter for supporting equality and race in the workplace.

We were proud to be recognised as a Diversity Leader by the Financial Times in its Diversity Leaders report for a second consecutive year. The report recognises the top 850 companies across 16 European countries that have achieved a diverse and inclusive workplace.

Workforce Engagement

The Group has a range of well-established engagement channels worldwide covering the Group's global workforce. We define the Group's workforce as comprising all Group company employees and individuals contracted directly to undertake permanent and temporary roles.

The Group's response to the global COVID-19 pandemic continues to evolve and we expect the actions we take to develop over time as the needs of our people change. We are steadfastly committed to supporting our workforce throughout the pandemic and, where face-to-face meetings have been restricted, we have utilised virtual meeting forums and remote working tools to facilitate engagement and discussion.

Our workforce engagement channels include market and site visits by our Directors and Management Board members to meet local employees, town hall sessions, works councils, European Employee Council meetings, our 'Your Voice' global employee survey, global, functional and regional webcasts and webcasts with the Chief Executive.

These engagement channels are implemented as appropriate for the composition of local workforce populations, at market, business unit, functional or regional levels. In view of restrictions in place around the world as a result of the COVID-19 pandemic, workforce engagement forums were primarily conducted through virtual formats for the majority of the year.

Our Speak Up channels are also available to our workforce worldwide and are discussed further on page 57.

Our global 'Your Voice' employee survey is conducted across the Group every two years, most recently in 2019. The results from 2019 demonstrated that we continued to outperform our global FMCG comparator group in all areas surveyed, including our employee engagement index at 7% higher than our FMCG comparator group and our high performance index at 13% above our FMCG comparator group. Our Group results were also significantly ahead of our FMCG comparator group in the categories of corporate responsibility, diversity & inclusion and talent development.

Our policies and principles*

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

These policies and principles are endorsed by our Board, apply to all Group companies and support the effective identification, management and mitigation of risks and issues for our business in these and other areas.

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

The next 'Your Voice' survey will take place in Q2 2021 and new results will serve as the basis for further shaping the priorities of the organisation.

The Board has taken account of the requirements of the UK Corporate Governance Code in its approach to engagement with the Group's workforce.

Given the spread, scale and diversity of the Group's workforce, the Board considers it effective to use the established channels referred to above, augmented by Group-wide reporting structures to capture feedback from engagement channels at market, business unit, functional and regional levels.

To ensure the Board understands the views of our workforce, the Board reviews consolidated feedback from these engagement channels annually.

Feedback from the Board, with associated action planning, is cascaded back across our workforce and the Board is kept updated on progress against identified actions during the year.

This approach supplements the Directors' direct engagement, including through face-to-face and virtual market and site visits, discussed further at page 98.

Our Employment Principles

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

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

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

In addition to our Employment Principles, our Board Diversity Policy specifically applies to our Board and Management Board and is discussed further at pages 108 to 109.

Gender Pay

Since 2018, we have published data relating to UK gender pay in accordance with statutory requirements.

We recognise that we have a gender pay gap, which refers to the percentage difference between the average pay for men and women and is not to be confused with equal pay for equal work.

This situation is not uncommon for a company of our age and size, where there are traditionally more men than women in senior roles. We are strongly committed to addressing this imbalance, details of which can be found in our annual Gender Pay Report.

In line with good equal pay practice, we have transparent and clearly defined pay scales for all roles across the Group worldwide. This approach ensures pay, bonuses and benefits are consistently applied and not influenced by factors such as gender or ethnicity.



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

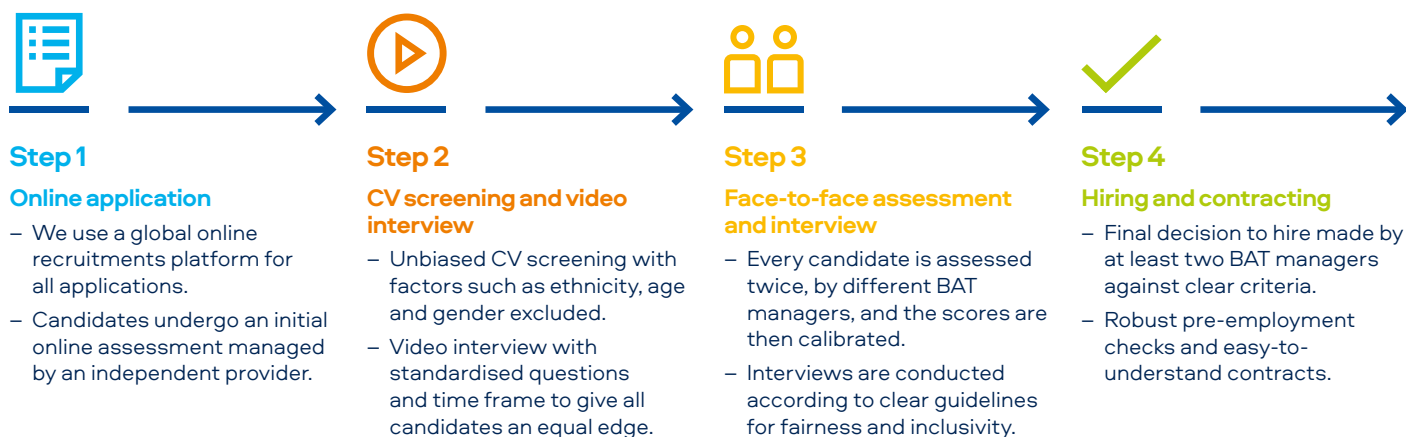
Rewarding People

Reward is a key pillar in ensuring that we have the right people to drive the business forward. Reward is necessarily local and we strongly support this through global frameworks to ensure leading edge policies, processes and technology are available to all markets.

Base pay rewards core competence relative to skills, experience and contribution to the Group, while annual bonuses, long-term incentives, recognition schemes and ad hoc incentives provide the right mix to ensure that sustained high performance is recognised and rewarded. We also offer our UK employees the chance to share in our success via our Sharesave Scheme, Partnership Share Scheme and Share Reward Scheme, and operate several similar schemes for senior management in our Group companies.

Our approach to rewarding Group company employees is set out further on pages 122 to 123. Further information on the Company's Remuneration Policy for Directors can be found on pages 120 to 122.

Our inclusive recruitment process



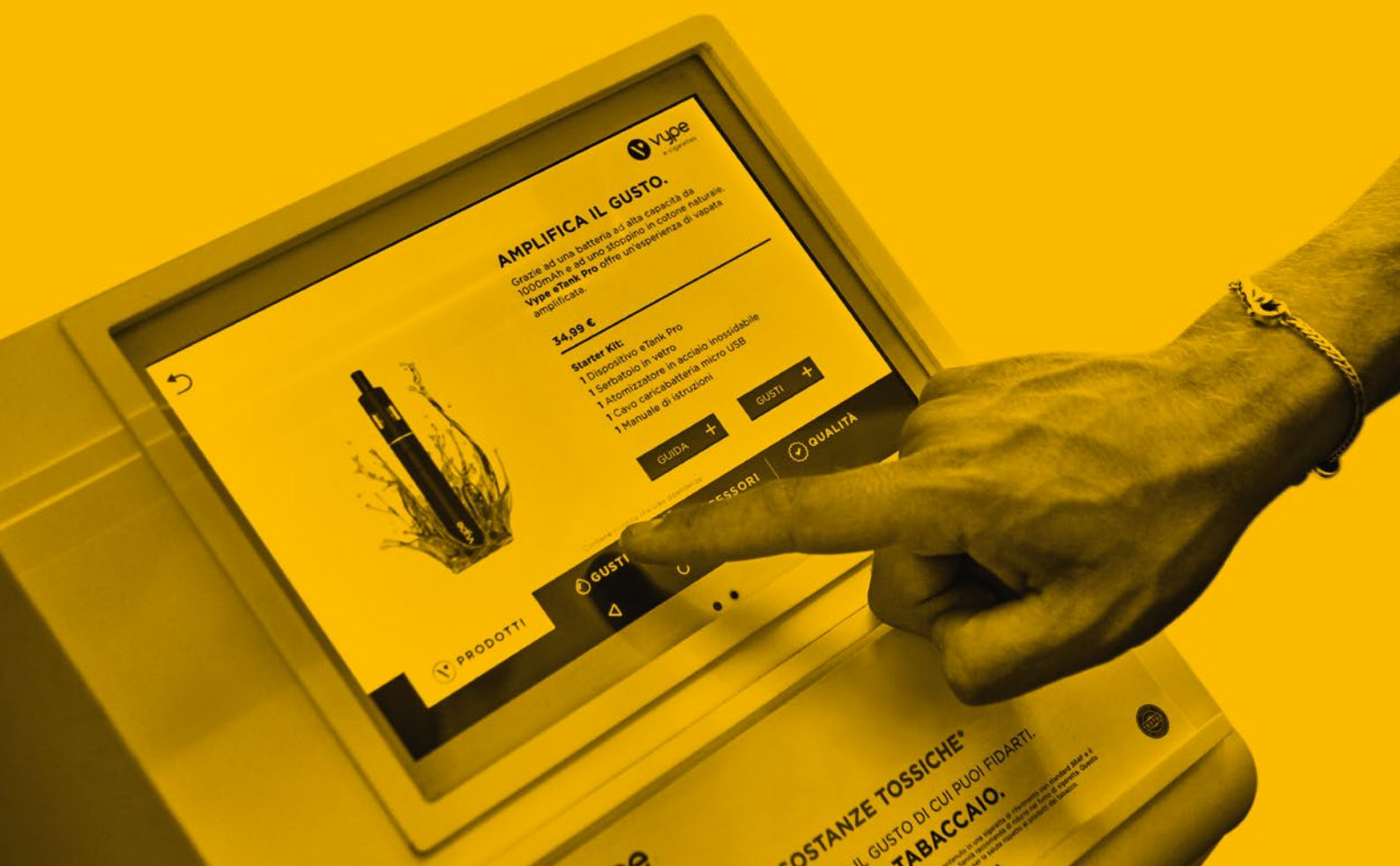
A BETTER TOMORROW™ for shareholders



By delivering sustainable
and superior returns.

©We are confident in our growth outlook and have a proven record of performance, whatever the external environment. We aim to deliver:

- 3-5% revenue growth over the medium term (post COVID-19);
- high-single digit adjusted EPS growth at constant rates of exchange (post COVID-19), over the medium term;
- 65% dividend payout ratio; and
- deleveraging the balance sheet to around 3x adjusted net debt/adjusted EBITDA by the end of 2021[©].



Financial Performance Summary

- Revenue growth, driven by New Categories and Combustibles despite the COVID-19 challenges, was offset by currency headwinds;
- Profit from operations was up 10.5% or 4.8% excluding adjusting items and at constant rates of exchange despite increase in New Category investment of £426 million;
- Diluted earnings per share increased 12.0%. Adjusted diluted earnings per share was up 2.4%, or 5.5% at constant rates;
- Strong cash generation drove continued deleveraging; and
- Dividend per share was up 2.5% at 215.6p.

Non-GAAP measures

In the reporting of financial information, the Group uses certain measures that are not defined by IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

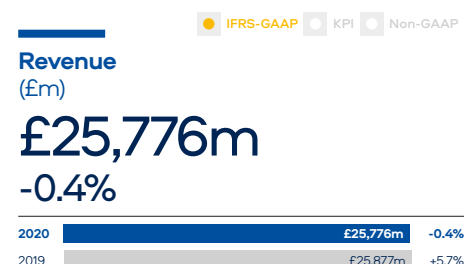
The principal non-GAAP measures which the Group uses are adjusted revenue, adjusted revenue from New Categories, adjusted revenue from the Strategic Portfolio, adjusted profit from operations, adjusted diluted earnings per share, operating cash flow conversion ratio, and free cash flow (before and after) dividends[®]. Adjusting items are significant items in revenue, profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. As an additional measure to indicate the results of the Group before the impact of exchange rates on the Group's results, the movement in adjusted revenue, adjusted revenue from the Strategic Portfolio, adjusted profit from operations and adjusted diluted earnings per share are shown at constant rates of exchange. These non-GAAP measures are explained, defined and reconciled from the most comparable GAAP metric on pages 276 to 284 and note 2 in the Notes on the Accounts.

Revenue

In 2020, revenue was £25,776 million, marginally lower (down 0.4%) than 2019. An increase in revenue from New Categories (up 14.9%) and a good performance in Combustibles driven by price mix of 7% in 2020 (compared to 9% in 2019) was more than offset by a translational foreign exchange headwind of 3.5% due to the relative strength of sterling (2019: tailwind of 0.6%). Excluding the impact of currency, the growth in 2020 was due to strong pricing in combustibles, higher revenue from New Categories (up 15.4% in 2020 and 37% in 2019) and an increase in revenue from Traditional Oral (up 7.7% in 2020 and 15% in 2019). These more than offset a 4.6% decline (2019: 4.7% decline) in cigarette volume.

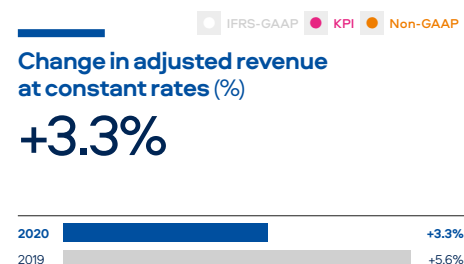
Revenue in prior periods was affected by a short-term uplift due to the treatment of excise on bought-in goods. Excluding this, and the impact of foreign exchange referred to above, on a constant currency basis adjusted revenue was up 3.3% in 2020 (2019: increase of 5.6%).

This was despite an estimated headwind of 2.5% due to COVID-19 in 2020, particularly affecting South Africa and a number of other markets across the Group, including the Group's Global Travel Retail (GTR) business.



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

In 2020, revenue includes £19,535 million of revenue from the Strategic Portfolio, an increase of 4% (2019: £18,793 million). Within the Strategic Portfolio, revenue from New Categories was £1,443 million (2019: £1,255 million).



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

Reconciliation of revenue to adjusted revenue at constant rates

	2020		2019		2018
	£m	Change % (vs 2019)	£m	Change % (vs 2018)	£m
Revenue	25,776	-0.4%	25,877	+5.7%	24,492
Adjusting items	–	–	(50)	–	(180)
Adjusted revenue	25,776	-0.2%	25,827	+6.2%	24,312
Impact of exchange	894	–	(144)	–	–
Adjusted revenue at constant rates	26,670	+3.3%	25,683	+5.6%	24,312

Financial Review

Financial Performance Summary

Continued

Profit From Operations

Profit from operations increased by 10.5% to £9,962 million, compared to a decline of 3.2% to £9,016 million in 2019. This was largely driven by Project Quantum (the Group's restructuring and efficiency programme) which delivered gross savings of £660 million in 2020. Furthermore, while 2020 was impacted by charges in respect of goodwill impairment (£209 million, largely in respect of Malaysia; 2019: £172 million largely related to Indonesia), litigation charges (mainly in the US) of £487 million (2019: £236 million) and Quantum costs (£81 million; 2019: £264 million), 2019 was also negatively impacted by charges in respect of the Quebec Class Action in Canada (£436 million) and the settlement of an excise dispute in Russia (£202 million).

Raw materials and other consumables costs decreased 0.3% to £4,583 million in 2020, following a decline of 1.4% to £4,599 million in 2019. These decreases were mainly due to the end of the contract manufacturing agreement which, due to excise recognition on bought in products under that arrangement, led to an increase (in 2018) in revenue and in raw materials and other consumables costs.

Employee benefit costs reduction of 14.8% to £2,744 million (2019: up 7.2% to £3,221 million). The reduction in 2020 includes the operational efficiencies achieved through Quantum, with the increase in 2019 largely due to charges (including redundancy) recognised in respect of the execution of the restructuring as part of Quantum.

Depreciation, amortisation and impairment costs decreased by £62 million to £1,450 million in 2020 compared to an increase of £474 million to £1,512 million in 2019. This includes the amortisation and impairment charges of £339 million (2019: £481 million) largely related to the trademarks and similar intangibles capitalised following recent acquisitions. The 2020 charge also

IFRS-GAAP KPI Non-GAAP

Profit from operations (£m)

£9,962m
+10.5%

2020	£9,962m	+10.5%
2019	£9,016m	-3.2%

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

includes Malaysia goodwill impairment of £197 million due to the ongoing operational challenges including the impact of illicit trade. 2019 included goodwill impairment charges in relation to Bentoel in Indonesia (£172 million) recognised following a change in excise rates impacting forecast future performance.

Other operating expenses declined by £184 million to £7,667 million (2019: increase of £1,183 million to £7,851 million). An increase in other litigation costs of £251 million in 2020 compared to 2019 (as described later) was more than offset by charges in the prior year in respect of the Quebec Class Action in Canada (£436 million) and the Russia excise dispute (£202 million) which did not repeat. During 2020, increased marketing investment behind New Categories was funded in part by Quantum, while the Group also incurred an estimated £145 million in additional supply chain costs to maintain supply as a number of markets experienced temporary disruption due to COVID-19.

Expenditure on research and development was £307 million in 2020 (2019: £376 million) with a focus on products that could potentially reduce the risk associated with smoking conventional cigarettes.

Adjusted profit from operations is the Group's profit from operations before adjusting items. Adjusting items were £1,403 million in 2020 (2019: £2,114 million).

IFRS-GAAP KPI Non-GAAP

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

+4.8%

2020	+4.8%
2019	+6.6%

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

This includes charges related to:

- impairment of goodwill of £209 million in 2020 (2019: £194 million) mainly in respect of Malaysia and Twisp (2020) and Indonesia (2019);
- trademark amortisation and impairment (2020: £339 million; 2019: £481 million);
- other litigation costs of £487 million (2019: £236 million). In 2020, this was largely in respect of developments in cases regarding payment obligations under the state settlement agreements with Florida, Texas, Minnesota and Mississippi for brands previously sold to a third party. A total charge of £400 million was recognised following a decision in the Florida court (about which the Group will continue to pursue indemnification remedies in a Delaware court) and following settlement discussions with other manufacturers and the states of Texas, Minnesota and Mississippi. The charge also includes £87 million (2019: £236 million) which is in respect of other litigation costs including Engle progeny;
- restructuring and integration costs of £408 million (2019: £565 million) partly related to Quantum which will simplify the business and create a more efficient and agile organisation to support the growth of New Categories; and

Analysis of profit from operations, net finance costs and results from associates and joint ventures

	2020					2019		
	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC £m	Reported £m	Adjusting items £m	Adjusted £m
Profit from operations								
US	4,975	809	5,784	32	5,816	4,410	626	5,036
APME	1,472	381	1,853	56	1,909	1,753	306	2,059
AmSSA	1,553	65	1,618	178	1,796	1,204	638	1,842
ENA	1,962	148	2,110	30	2,140	1,649	544	2,193
Total regions	9,962	1,403	11,365	296	11,661	9,016	2,114	11,130
Net finance (costs)/income	(1,745)	153	(1,592)	(20)	(1,612)	(1,602)	80	(1,522)
Associates and joint ventures	455	(13)	442	26	468	498	(25)	473
Profit before tax	8,672	1,543	10,215	302	10,517	7,912	2,169	10,081

IFRS-GAAP KPI Non-GAAP

Operating margin (%)

38.6%



Definition: Profit from operations as a percentage of revenue.

- a credit of £40 million recognised in relation to the prior year charge associated with the excise dispute in Russia.

2019 also included charges in respect of the Quebec Class Action in Canada (£436 million) and the settlement of an excise dispute in Russia (£202 million).

Excluding adjusting items, in 2020 adjusted profit from operations grew by 2.1% to £11,365 million (2019: up 7.6% to £11,130 million) or 4.8% (2019: up 6.6%) on a constant currency basis.

Operating Margin

Operating margin in 2020 increased by 380 bps to 38.6% largely due to the net impact in the periods of a number of charges (including those related to goodwill impairment, Quebec, Russia and Quantum) which depressed 2019's operating margin (down 320 bps to 34.8%) as described in note 3 in the Notes on the Accounts.

In 2020, adjusted operating margin grew 100 bps (2019: up 50 bps). This was driven by combustibles pricing and the positive impact of the operating performance in high margin territories, particularly the United States which, coupled with cost management initiatives across the Group (including Quantum), fuelled the investment into New Categories.

IFRS-GAAP KPI Non-GAAP

Adjusted operating margin (%)

44.1%



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

Net Finance Costs

In 2020, net finance costs were £1,745 million, an increase of £143 million on 2019 which, at £1,602 million, were £221 million higher than 2018. The increase in 2020 was in respect of a change in mix of borrowings towards the US dollar during the year (as the Group issued bonds totalling US\$8.7 billion, €1.7 billion and £0.5 billion) and the net impact of the charges incurred in relation to the redemptions and tender offer to repurchase certain bonds undertaken in 2020 to de-risk the Group's future financing programme. The 2019 increase was largely driven by higher short-term borrowings required to fund the timing of payments, interest on leases recognised under IFRS 16, working capital movements in the period and the impact of the translational headwind on costs due to the relative weakness of sterling against the US dollar.

Before adjusting items related to the bond redemption in 2020 (£142 million being costs of £157 million offset by fair value gains of £15 million), interest in respect of the Franked Investment Income Group Litigation Order (FIIGLO), as discussed on page 174 (£21 million; 2019: £28 million), a net credit of £10 million which largely related interest in relation to the Russia excise dispute (2019: charge £50 million), and the translation impact of foreign exchange,

adjusted net finance costs were 5.9% higher in 2020 and 5.8% higher in 2019. The Group's average cost of debt in 2020 was 3.6%, compared to 3.3% in 2019.

Associates and Joint Ventures

Associates largely comprised the Group's shareholding in its Indian associate, ITC. The Group's share of post-tax results of associates and joint ventures, included at the pre-tax level under IFRS, decreased from £498 million to £455 million primarily due to the impact of COVID-19, as ITC experienced unprecedented business disruption. This more than offset the full year effect of the lower corporate tax following the change in rates in India which came into effect in 2019.

In 2019, this was an increase of 19% to £498 million largely due to improved operational performance of ITC in the year and the benefit from lower corporate tax following the change in rates in India.

Excluding the effect of adjusting items, including:

- a £17 million gain in 2020, (2019: £25 million) arising on the deemed disposal of part of the Group's shareholding in ITC (due to issuances to employee trusts), partially offset by;
- a £4 million (2019: £ nil) charge being the Group's share of charges recognised by ITC in respect of the cost of leaf tobacco stocks destroyed in a third-party warehouse fire; and
- the impact of translational foreign exchange.

The Group's share of associates and joint ventures on an adjusted, constant currency basis fell 1.2% in 2020, to £468 million. In 2019, this was an increase on 2018 of 20%.

Analysis of profit from operations, net finance costs and results from associates and joint ventures

	2019					2018		
	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC £m	Reported £m	Adjusting items £m	Adjusted £m
Profit from operations								
US	4,410	626	5,036	(238)	4,798	4,006	505	4,511
APME	1,753	306	2,059	43	2,102	1,858	90	1,948
AmSSA	1,204	638	1,842	70	1,912	1,544	194	1,738
ENA	1,649	544	2,193	27	2,220	1,905	245	2,150
Total regions	9,016	2,114	11,130	(98)	11,032	9,313	1,034	10,347
Net finance (costs)/income	(1,602)	80	(1,522)	56	(1,466)	(1,381)	(4)	(1,385)
Associates and joint ventures	498	(25)	473	(7)	466	419	(32)	387
Profit before tax	7,912	2,169	10,081	(49)	10,032	8,351	998	9,349

Financial Review

Financial Performance Summary

Continued

Tax

In 2020, the tax charge in the Income Statement was £2,108 million, compared to £2,063 million in 2019 and £2,141 million in 2018.

The effective tax rates in the Income Statement are therefore a charge of 24.3% in 2020, 26.1% in 2019 and 25.6% in 2018. These are also affected by the inclusion of adjusting items described earlier and the associates and joint ventures' post-tax profit in the Group's pre-tax results. Excluding these items, the underlying tax rate for subsidiaries was 24.9% in 2020, 26.0% in 2019 and 26.4% in 2018. The decrease in underlying tax rate in 2020 largely reflects the impact of Indian tax reform and mix of profits in the year.

See the section Non-GAAP measures on page 280 for the computation of underlying tax rates for the periods presented.

Tax strategy

The Group's global tax strategy is reviewed regularly by the Board. The operation of the strategy is managed by the Finance Director and Group Head of Tax with the Group's tax position reported to the Audit Committee on a regular basis. The Board considers tax risks that may arise as a result of our business operations. In summary, the strategy includes:

- complying with all applicable laws and regulations in countries in which we operate;
- being open and transparent with tax authorities and operating to build mature professional relationships;
- supporting the business strategy of the Group by undertaking efficient management of our tax affairs in line with the Group's commercial activity;
- transacting on an arm's-length basis for exchanges of goods and services between companies within the Group; and
- engaging in pro-active discussions with tax authorities on occasions of differing legal interpretation.

Where resolution is not possible, tax disputes may proceed to litigation. The Group seeks to establish strong technical tax positions.

Where legislative uncertainty exists, resulting in differing interpretations, the Group seeks to establish that its position would be more likely than not to prevail. Transactions between Group subsidiaries are conducted on arm's-length terms in accordance with appropriate transfer pricing rules and OECD principles.

The tax strategy outlined above is applicable to all Group companies, including the UK Group companies. Reference to tax authorities includes HMRC.

The publication of this strategy is considered to constitute compliance with the duty under paragraph 16(2) Schedule 19 Part 2 of the UK Finance Act 2016.

The taxation on ordinary activities for 2020 was a charge of £2.1 billion, £2.1 billion in 2019 and £2.1 billion in 2018. Corporation Tax paid (due to the timing of Corporation Tax instalment payments which straddle different financial years) was £2.1 billion in 2020, £2.2 billion in 2019 and £1.9 billion in 2018.

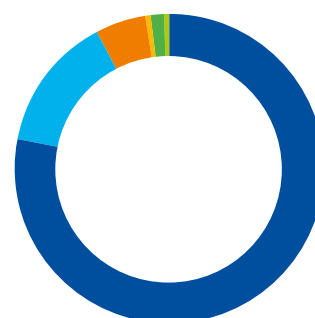
Our tax footprint extends beyond Corporation Tax, including significant payment of employment taxes and other indirect taxes including customs and import duties. The Group also collects taxes on behalf of governments (including tobacco excise, employee taxes, VAT and other sales taxes). The total tax paid in 2020 of £41.1 billion (2019: £41.4 billion, 2018: £39.9 billion) therefore consists of both taxes borne and taxes collected as shown in the table provided.

In addition to the major taxes, there are a host of other taxes the Group bears and collects such as transport taxes, energy and environmental taxes, and banking and insurance taxes.

The movements in deferred tax, taken through other comprehensive income, mainly relate to the change in the valuation of retirement benefits in the year, as disclosed in note 12 in the Notes on the Accounts.

Major taxes paid 2020 (£bn)

£41.1bn



Major taxes paid

	2020 £bn	2019 £bn
Tobacco excise (collected)	32.2	32.4
Net VAT and other sales taxes (collected)	5.8	5.8
Corporation Tax (borne)	2.1	2.2
Customs and import duties (borne)	0.3	0.3
Taxes paid by employees (collected)	0.5	0.5
Employment taxes (borne)	0.2	0.2
	41.1	41.4

Deferred tax asset/(liability)

	2020 £m	2019 £m	2018 £m
Opening balance	(16,626)	(17,432)	(16,796)
Difference on exchange	506	680	(1,011)
Changes in tax rates	133	47	70
Other credits/(charges) to the income statement	184	(55)	304
Other credits/(charges) to other comprehensive income	23	138	(7)
Other movements	–	(4)	8
Closing balance	(15,780)	(16,626)	(17,432)

Earnings Per share

Profit for the year was £6,564 million, a 12.2% increase compared to £5,849 million in 2019 (a decline of 5.8% on 2018). The movement in 2020 was driven by the improved revenue across Combustibles, New Categories and Traditional Oral, operational efficiencies realised through Quantum and a lower effective tax rate. Both 2020 and 2019 were impacted by a number of charges as described earlier with the improvement in profit for the year in 2020 and relative underperformance (versus 2018) in 2019 due to charges in relation to Quebec and Russia.

Consequently, and after accounting for the movement in non-controlling interests in the year, basic earnings per share were 12.1% higher at 280.0p (2019: 249.7p, 2018: 264.0p). After accounting for the dilutive effect of employee share schemes, diluted earnings per share were 278.9p, 12.0% higher than 2019 (2019: 249.0p, 2018: 263.2p).

Earnings per share are impacted by the adjusting items discussed earlier. Adjusted diluted EPS, as calculated in note 7 in the Notes on the Accounts, was up against the prior year by 2.4% at 331.7p, with 2019 ahead of 2018 by 9.1% at 323.8p. Adjusted diluted EPS at constant rates would have been 5.5% ahead of 2019 at 341.4p, with 2019 up 8.4% against 2018.

Dividends

The Group pays its dividends to shareholders over four quarterly interim dividends. Quarterly dividends provide shareholders with a more regular flow of dividend income and allow the Company to spread its substantial dividend payments more evenly over the year. The dividends align better with the cash flow generation of the Group and so enable the Company to fund the payments more efficiently.

The Board has declared an interim dividend of 215.6p per ordinary share of 25p, 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, up 3.6%) and a payout ratio, on 2020 adjusted diluted earnings per share, of 65.0% (2019: 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.

Under IFRS, the dividend is recognised in the year that it is approved by shareholders or, if declared as an interim dividend by Directors, in the period that it is paid.

The cash flow, prepared in accordance with IFRS, reflects the total cash paid in the period. Further details of the total amounts of dividends paid in 2020 and 2019 (with 2018 comparatives) are given in note 18 in the Notes on the Accounts.

Dividends are declared and payable in sterling except for those shareholders on the branch register in South Africa, where dividends are payable in rand. The equivalent dividends receivable by holders of ADSs in US dollars are calculated based on the exchange rate on the applicable payment date.

Further details of the quarterly dividends and key dates are set out under 'Shareholder information' on pages 320 and 321.

IFRS-GAAP KPI Non-GAAP

Diluted earnings per share (EPS) (p)

278.9p
+12.0%

2020	278.9p	+12.0%
2019	249.0p	-5.4%

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

IFRS-GAAP KPI Non-GAAP

Change in adjusted diluted EPS (%)

+2.4%

2020	+2.4%
2019	+9.1%

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

IFRS-GAAP KPI Non-GAAP

Change in adjusted diluted EPS at constant rates (%)

+5.5%

2020	+5.5%
2019	+8.4%

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

The discussion of 2018 results that are not necessary to an understanding of the Group's financial condition, changes in financial condition and results of operations is excluded from this Financial Review in accordance with applicable US Securities laws. Discussion of such 2018 metrics is contained in the Group's Annual Report on Form 20-F 2019, which is available at bat.com/annualreport and has been filed with the SEC. Information contained in pages 34 to 37, pages 43 to the first column on page 50 and from the heading 'Retirement benefit schemes' on page 50 to page 51 of the Annual Report on Form 20-F 2019 are accordingly incorporated by reference into this Annual Report on Form 20-F 2020 only to the extent such information pertains to the Group's financial condition and results of operations for the fiscal year ended 31 December 2018.

Financial Review

Treasury and Cash Flow

Treasury, Liquidity and Capital Structure

The Treasury Function is responsible for raising finance for the Group and managing the Group's cash resources and the financial risks arising from underlying operations. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the Group's treasury policy. All these activities are carried out under defined policies, procedures and limits, reviewed and approved by the Board, delegating oversight to the Finance and Transformation Director and Treasury Function. See note 22 in the Notes on the Accounts for further detail.

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of sources. The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2020, the average centrally managed debt maturity was 9.9 years (2019: 9.1 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 16.4% (2019: 18.6%).

In order to manage its interest rate risk, the Group maintains both floating rate and fixed rate debt. The Group sets targets (within overall guidelines) for the desired ratio of floating to fixed rate debt on a net basis (at least 50% fixed on a net basis in the short to medium term). At 31 December 2020, the relevant ratio of floating to fixed rate borrowings was 7:93 (2019: 18:82).

As part of the management of liquidity, funding and interest rate risk, the Group regularly evaluates market conditions and may enter into transactions, from time to time, to repurchase outstanding debt, pursuant to open market purchases, tender offers or other means.

In relation to the Group's floating rate borrowings and hedge instruments, there is exposure to uncertainty arising from changes in the USD LIBOR, EURIBOR and GBP LIBOR benchmarks. The Group believes that its contracts with interest rates based on these benchmarks adequately provide for alternate calculations of interest in the event that they are unavailable.

The Group believes that any resulting ineffectiveness consequent to the Interest Rate Benchmark Reform is likely to be immaterial. Although these calculations may cause an administrative burden, the Group does not believe that these would materially adversely affect the Group or its ability to manage its interest rate risk.

The Group continues to maintain investment-grade credit ratings, with ratings from Moody's/S&P at Baa2 (stable outlook)/BBB+ (stable outlook),[@] respectively, with a medium-term rating target of Baa1/BBB+.[@] The strength of the ratings has underpinned debt issuance and the Group is confident of its ability to successfully access the debt capital markets.

In July 2019, the Group filed a shelf registration statement on Form F-3 with the SEC pursuant to which B.A.T. Capital Corporation and B.A.T. International Finance p.l.c. may issue debt securities guaranteed by certain members of the Group from time to time. This forms part of the Group's strategy to ensure flexible and agile access to capital markets and the registration statement is initially valid for three years.

During 2020, in light of the uncertainty and volatility in the external markets, the Group has de-risked future financing requirements by:

- accessing the debt capital markets, raising a total of US\$8.7 billion in the US market, and €1.7 billion and £0.5 billion in the European market (in aggregate £8.9 billion);
- repurchasing and redeeming £3.1 billion of debt maturing in 2021 and 2022, reducing the 'tower' of debt due for repayment in 2022;
- refinancing its £6 billion revolving credit facility consisting of a £3 billion 364-day tranche (with two one-year extension options and a one-year term-out option), and a £3 billion five-year tranche (with two one-year extension options). The facility no longer contains a financial covenant. Subsequent to the year-end, in February 2021, the Group extended £2.85 billion of the 364-day tranche from March 2021 to March 2022 and £2.85 billion of the five-year tranche from March 2025 to March 2026 (with £3 billion of this tranche remaining available until March 2025). As at 31 December 2020, the facility remains undrawn; and
- signing bilateral bank facilities to act as a back stop contingency, with total facilities remaining available at 31 December 2020 of £3.4 billion and which were undrawn at that date.

The Group also maintains a £25 billion EMTN programme, and US (US\$4 billion) and European (£3 billion) commercial paper programmes to accommodate the liquidity needs of the Group. At 31 December 2020, there was no commercial paper outstanding (2019: £1,056 million).

Management believes that the Group has sufficient working capital for present requirements, taking into account the amounts of undrawn borrowing facilities and levels of cash and cash equivalents, and the ongoing ability to generate cash.

Cash Flow

Net cash generated from operating activities

In 2020, net cash generated from operating activities increased by £790 million to £9,786 primarily due to the higher profit from operations coupled with favourable working capital movements (notably driven by the favourable timing of MSA payments in the US) and higher dividends from the Group's associate ITC. These were partially offset by the payment (in 2020) of the settlement agreed in 2019 in respect of the excise dispute in Russia (£205 million), US litigation (including £169 million in respect of the Florida judgment described earlier) and working capital movements driven by COVID-19 of £131 million.

In 2019, net cash generated from operating activities declined by £1,299 million (or 12.6%) largely due to the timing of part of the MSA payment (£1.4 billion) in respect of 2018 (but paid in 2017) and due to working capital movements, particularly in Australia where the payment terms related to excise were changed in the year, removing bonded warehousing and increasing inventory values.

Net cash used in investing activities

In 2020, net cash used in investing activities increased by £144 million to £783 million (2019: £639 million), largely due to a net outflow of £159 million from short-term investment products, including treasury bills (2019: £148 million net inflow) partly offset by a reduction in purchases of property, plant and equipment of £153 million.

Included within investing activities is gross capital expenditure which includes purchases of property, plant and equipment and certain intangibles. This includes the investment in the Group's global operational infrastructure (including, but not limited to, the manufacturing network, trade marketing software and IT systems). In 2020, the Group invested £648 million, a decrease of 20% on the prior year (2019: £807 million).

The Group expects gross capital expenditure in 2021 of £700 million, mainly related to the ongoing investment in the Group's operational infrastructure including the expansion of our New Categories portfolio.

Net cash used in financing activities

Net cash used in financing activities was an outflow of £7,897 million in 2020 (2019: £8,593 million outflow), with the outflow in each year largely driven by the:

- dividend payments (2020: £4,745 million, up 3.2%; 2019: £4,598 million, up 5.8%, with the growth in both years driven by the higher dividend per share);
- interest paid (2020: £1,737 million, up 8.5%; 2019: £1,601 million), with the increase in 2020 driven by charges in relation to the refinancing programme in the year; and
- net movement in borrowings.

The Group repaid borrowings of £10.6 billion in 2020, including £3.1 billion as part of the Group's liquidity management strategy to de-risk future financing. This was largely offset by new borrowing of £9.8 billion which included £8.9 billion raised during the refinancing programme.

In 2019, the Group repaid £5.6 billion of borrowings. This was mainly due to the repayment (at maturity) or early redemption (as part of the Group's liquidity management strategy) of bonds in the year totalling £5.1 billion. This more than offset the inflow from new borrowings in the year of £4.2 billion, including the four bonds issued (totalling US\$3.5 billion or £2.7 billion) in September 2019, following the shelf registration in the US in that year.

Please refer to note 22 in the Notes on the Accounts for further details.

Free cash flow (before and after dividends paid to shareholders)[®]

Free cash flow (before dividends paid to shareholders), as defined on page 282, was £7,295 million, an increase of 11.9% on the prior year (2019: down 15% to £6,519 million; 2018: £7,684 million). The increase in 2020 was driven by the growth in net cash generated from operations described earlier and lower net capital expenditure (2020: £605 million; 2019: £774 million). These were partially offset by higher interest payments largely due to the impact of the refinancing programme undertaken in the year.

2019 was impacted by the timing of the 2018 MSA payment (brought forward to 2017) which impacts the comparator period and more than offsets the enhanced delivery across the remainder of the Group in 2019.

After payment of dividends to shareholders, free cash flow was £2,550 million (2019: £1,921 million; 2018: £3,337 million).[®]

Cash flow conversion

The conversion of profit from operations to net cash generated from operating activities may indicate the Group's ability to generate cash from the profits earned. Based upon net cash generated from operating activities, the Group's conversion rate was largely in line with 2019 at 98% (2019: 100%). 2019 was down on 2018 (2018: 111%) as 2018 was positively impacted by the timing of the MSA payments in the prior year.

[®]Operating cash flow conversion ratio (based upon adjusted profit from operations) was ahead of 2019 at 103% (2019: 97%). 2019 was a decline from 113% in 2018, as 2018 was positively impacted by the timing of the MSA payment which was brought forward to December 2017. Normalising for the timing difference, operating cash flow would have been over 95% in each of the review years, at 103% in 2020, 97% in 2019 and 100% in 2018, reflecting the Group's ability to deliver cash from the operating performance of the business. See page 281 for further information on this measure.[®]

Restricted cash

Cash and cash equivalents include restricted amounts of £878 million (2019: £445 million) due to subsidiaries in CCAA protection (as described in note 28 in the Notes on the Accounts), as well as £455 million (2019: £182 million) principally due to exchange control restrictions, including amounts of £141 million (2019: £nil) where the underlying restrictions are expected to be short-term in nature.

Summary cash flow

	2020 £m	2019 £m	2018 £m
Cash generated from operations	11,567	10,948	11,972
Dividends received from associates	351	252	214
Tax paid	(2,132)	(2,204)	(1,891)
Net cash generated from operating activities	9,786	8,996	10,295
Net cash used in investing activities	(783)	(639)	(1,021)
Net cash used in financing activities	(7,897)	(8,593)	(9,630)
Differences on exchange	(253)	(57)	(138)
Increase/(decrease) in net cash and cash equivalents	853	(293)	(494)

[®]Reconciliation of net cash generated from operating activities to free cash flow before and after dividends paid to shareholders[®]

	2020 £m	2019 £m	2018 £m
Net cash generated from operating activities	9,786	8,996	10,295
Dividends paid to non-controlling interests	(136)	(157)	(142)
Net interest paid	(1,759)	(1,550)	(1,533)
Net capital expenditure	(605)	(774)	(845)
Trading loans to third party	9	4	(93)
Other	–	–	2
Free cash flow (before dividends paid to shareholders)	7,295	6,519	7,684
Dividends paid to shareholders	(4,745)	(4,598)	(4,347)
Free cash flow (after dividends paid to shareholders)	2,550	1,921	3,337

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

Financial Review

Other

Borrowings and Net Debt

Total borrowings (which includes lease liabilities) declined to £43,968 million in 2020 (2019: £45,366 million) largely due to the net repayment of borrowings in the year, driven by the cash flow generated by the business after the payment of dividends to shareholders in the period. The value of borrowings at the balance sheet date are also impacted by the relative movement of sterling against other currencies, particularly the US dollar and the euro. In 2020, this was a tailwind of £219 million compared to a tailwind of £1,566 million in 2019. 2019 was also impacted by the recognition of lease liabilities under IFRS 16 (£607 million), which are included in 'borrowings'.

Total borrowings includes £790 million (31 December 2019: £848 million) in respect of the purchase price adjustments related to the acquisition of Reynolds American Inc.

As discussed on page 70, the Group remains confident about its ability to access the debt capital markets successfully and reviews its options on a continuing basis.

Net debt is a non-GAAP measure and is defined as total borrowings, including related derivatives, less cash and cash equivalents and current investments held at fair value.

Net debt, at 31 December 2020, was £40,241 million (2019: £42,574 million; 2018: £44,351 million), with the movement in net debt largely due to the lower borrowings, increased cash and cash equivalents and a foreign exchange benefit of £69 million, primarily due to the movement of the US dollar against sterling (2019: £873 million tailwind).

®The movement in net debt also includes the free cash flow before dividends earned in the year (2020: £7,295 million; 2019: £6,519 million) as described on page 71. This is partly offset by dividends paid to owners of the parent of £4,745 million (2019: £4,598 million).®

Reconciliation of total borrowings to adjusted net debt®

	2020 £m	2019 £m	2018 £m
Total borrowings (including lease liabilities)	43,968	45,366	47,509
Derivatives in respect of net debt:			
– assets	(518)	(527)	(647)
– liabilities	172	384	269
Cash and cash equivalents	(3,139)	(2,526)	(2,602)
Current investments held at fair value	(242)	(123)	(178)
Net debt	40,241	42,574	44,351
Purchase price adjustment (PPA) to Reynolds American Inc. debt	(790)	(848)	(944)
Adjusted net debt	39,451	41,726	43,407

Adjusted Net Debt to Adjusted EBITDA®

The Group uses adjusted net debt to adjusted EBITDA, as defined on page 283, to assess its level of adjusted net debt in comparison to the earnings generated by the Group. This is deemed by management to reflect the Group's ability to service and repay borrowings. In 2020, the ratio of adjusted net debt to adjusted EBITDA was 3.3 times, representing an improvement from 3.5 times at the end of 2019, itself an improvement from 4.0 times at the end of 2018.

The Group's adjusted net debt to adjusted EBITDA ratio is subject to the fluctuations in the foreign exchange market by virtue of the Group's foreign currency denominated earnings and the exposure of the debt portfolio to, predominantly, the US dollar. In 2020, due to the relative movement in the US dollar against sterling, the sterling value of adjusted net debt declined by £46 million. Excluding the impact of foreign exchange on the Group's reported results, adjusted net debt to adjusted EBITDA declined 0.3x in 2020 (2019: decline 0.4x).

Refer to page 283 for a full reconciliation from borrowings to adjusted net debt, profit for the year to adjusted EBITDA and the ratio of adjusted net debt to adjusted EBITDA, at both current and constant rates of exchange.®

Return on Capital Employed (ROCE)®

The Group's ROCE, calculated in accordance with our reported numbers, was 8.2% (2019: 7.1%) with the movement due to the higher profit from operations and lower average net assets, largely driven by the translational foreign exchange reducing average capital employed (due to the relative value of sterling to the Group's operating currencies, including the US dollar).

On an adjusted basis, as defined on page 284, including dividends from associates

and joint ventures (as a proxy to a return in the period, given the inclusion of the investment in associates and joint ventures in the Group's calculation of capital employed), adjusted ROCE grew from 9.0% in 2019 to 9.6% in 2020. This was partly due to the higher adjusted profit from operations in the year and translational foreign exchange described earlier.

In 2019, the growth in adjusted ROCE from 8.3% in 2018 to 9.0% was partly due to the higher adjusted profit from operations in the year and foreign exchange tailwinds reducing average capital employed largely due to the relative value of US dollar to sterling.®

Retirement Benefit Schemes

The Group's subsidiary undertakings operate defined benefit and defined contribution schemes including post-retirement healthcare schemes. Benefits provided through defined contribution schemes are charged as an expense as payments fall due. The liabilities arising in respect of defined benefit schemes are determined in accordance with the advice of independent, professionally qualified actuaries, using the projected unit credit method. It is Group policy that all schemes are formally valued at least every three years.

The present total value of funded scheme liabilities as at 31 December 2020 was £12,223 million (2019: £11,726 million), while unfunded scheme liabilities amounted to £1,147 million (2019: £1,135 million).

The schemes' assets declined to £11,860 million in 2019, partly due to the pension buy-in in the UK (discussed on page 189) and increased to £12,576 million in 2020, due to improved asset returns related to actuarial gains in the year. After excluding unrecognised scheme surpluses of £16 million (2019: £28 million), the overall net liability for all pension and healthcare schemes in Group subsidiaries amounted to £810 million at the end of 2020, compared to £1,029 million at the end of 2019. Contributions to the defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, taking into account regulatory environments.

Litigation and Settlements

As discussed in note 27 in the Notes on the Accounts, various legal proceedings or claims are pending or may be instituted against the Group.

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

Government Activity

The marketing, sale, taxation and use of tobacco products have been subject to substantial regulation by government and health officials for many years. For information about the risks related to regulation, see page 85 and pages 295 to 301.

Off-balance Sheet Arrangements and Contractual Obligations

Except for certain indemnities, the Group has no significant off-balance sheet arrangements. The Group has contractual obligations to make future payments on debt guarantees. In the normal course of business, it enters into contractual arrangements where the Group commits to future purchases of goods and services from unaffiliated and related parties. See page 287 for a summary of the contractual obligations as at 31 December 2020.

Accounting Policies

The application of the accounting standards and the accounting policies adopted by the Group are set out in the Group Manual of Accounting Policies and Procedures (GMAPP).

GMAPP includes the Group instructions in respect of the accounting and reporting of business activities, such as revenue recognition, asset valuations and impairment testing, adjusting items, the accrual of obligations and the appraisal of contingent liabilities, which include taxes and litigation. Formal processes are in place whereby central management and end-market management confirm adherence to the principles and the procedures and to the completeness of reporting. Central analyses and revision of information are also performed to ensure and confirm adherence.

In order to prepare the Group's consolidated financial information in accordance with IFRS, management has used estimates and assumptions that affect the reported amounts of revenue, expenses, assets and the disclosure of contingent liabilities at the date of the financial statements.

The critical accounting estimates are described in note 1 in the Notes on the Accounts and include:

- review of asset values, including goodwill and impairment testing;
- estimation and accounting for retirement benefit costs; and
- estimation of provisions, including as related to taxation and legal matters.

The critical accounting judgements are described in note 1 in the Notes on the Accounts and include:

- identification and quantification of adjusting items;
- determination as to whether to recognise provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims;
- determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exist in relation to investments held by the Group; and
- review of applicable exchange rates for transactions with and translation of entities in territories where there are restrictions on the free access to foreign currency or multiple exchange rates.

Accounting Developments

There were no material changes to the accounting standards applied in 2020 from those applied in 2019.

Foreign Exchange Rates

The principal exchange rates used to convert the results of the Group's foreign operations to sterling, for the purposes of inclusion and consolidation within the Group's financial statements, are indicated in the table below.

Where the Group has provided results at constant rates of exchange, this refers to the translation of the results from the foreign operations at rates of exchange prevailing in the prior period – thereby eliminating the potentially distorting impact of the movement in foreign exchange on the reported results.

Foreign exchange rates

	Average			Closing		
	2020	2019	2018	2020	2019	2018
Australian dollar	1.862	1.836	1.786	1.771	1.885	1.809
Brazilian real	6.616	5.035	4.868	7.100	5.329	4.936
Canadian dollar	1.720	1.694	1.730	1.741	1.718	1.739
Euro	1.125	1.140	1.130	1.117	1.180	1.114
Indian rupee	95.097	89.898	91.227	99.880	94.558	88.916
Japanese yen	137.017	139.234	147.376	141.131	143.967	139.733
Russian rouble	92.844	82.623	83.677	101.106	82.282	88.353
South African rand	21.099	18.437	17.643	20.079	18.525	18.321
US dollar	1.284	1.277	1.335	1.367	1.325	1.274

Going Concern

A description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position, together with the factors likely to affect its future development, performance and position, are set out in this Annual Report and Form 20-F.

The key Group risks include analyses of financial risk and the Group's approach to financial risk management. Notes 19 and 22 in the Notes on the Accounts provide further detail on the Group's borrowings and management of financial risks.

The Group has, at the date of this report, sufficient existing financing available for its estimated requirements for at least the next 12 months. Actions undertaken during 2020 to derisk future funding requirements, as previously described, provide further assurance with regards to the Group's financial viability.

During 2020, COVID-19 has demonstrated the Group's ability to navigate the uncertainties arising through operational, economic and societal volatility. Such challenges have been met through the Group's geographic diversity and ability to flex operations. This, together with the ability to generate cash from trading activities, the performance of the Group's Strategic Portfolio and its leading market positions in a number of countries, as well as numerous contracts with established customers and suppliers across different geographical areas and industries, provides the Directors with the confidence that the Group is well placed to manage its business risks successfully in the context of current financial conditions and the general outlook in the global economy.

After reviewing the Group's annual budget, plans and financing arrangements, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing the Annual Report and Form 20-F.

Regional Review

US

United States



“Winning in vapour with a robust combustible market.”

Guy Meldrum
President and CEO (Reynolds American Inc.)

Volume

	2020 units	vs 2019 %	2019 units	vs 2018 %	2018 units
Cigarettes (bn sticks)	73	+0.5%	73	-6.0%	77
Other (bn sticks eq)*	–	–	–	–	–
Combustibles (bn sticks)	73	+0.5%	73	-6.0%	77
New Categories:					
Vapour (mn 10ml/pods)	174	+69.7%	103	-6.2%	109
THP (bn sticks)	–	–	–	–	–
Modern Oral (mn pouches)	162	+45.0%	112	–	–
Traditional Oral (bn sticks eq)	8	-1.3%	8	-1.5%	8

* Other includes MYO/RYO.

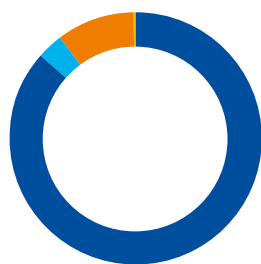
Revenue

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Combustibles	9,926	+9.3%	+9.9%	9,078	+8.6%	+3.8%
New Categories:						
Vapour	383	+85.1%	+86.1%	207	+12.4%	+7.4%
THP	1	+0.0%	+0.5%	1	-7.7%	-11.7%
Modern Oral	10	+13.5%	+14.1%	9	n/m	n/m
Total New Categories	394	+81.9%	+82.9%	217	+17.1%	+11.9%
Traditional Oral	1,126	+7.0%	+7.6%	1,052	+14.5%	+9.5%
Other	27	+4.6%	+5.1%	26	-21.2%	-27.1%
Revenue	11,473	+10.6%	+11.2%	10,373	+9.2%	+4.4%

Profit from operations/Operating margin

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Profit from operations	4,975	+12.8%	+15.5%	4,410	+10.1%	+6.4%
Operating margin (%)	43.4%	+90 bps	+190 bps	42.5%	+30 bps	+90 bps

Revenue by category



■ Combustibles
■ New Categories
■ Traditional Oral
■ Other

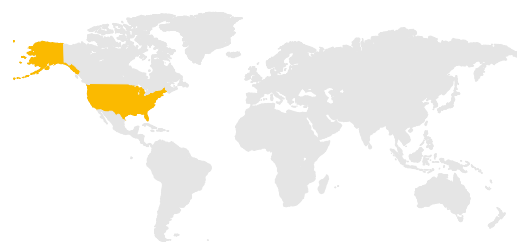
+45 bps 7

Cigarette value
share change

Owned
manufacturing
(inc R&D) sites

4,921

Number
of employees



Key Markets

Our products are available in all regions of the US

Revenue and Profit from Operations

In 2020, reported revenue increased 10.6% to £11,473 million, with 2019 up 9.2% to £10,373 million. Excluding the impact of translational foreign exchange, this was an increase of 11.2% in 2020 (2019: up 4.4%). This was driven by pricing in both cigarettes and Traditional Oral in both years, the continued growth in New Categories (in both Vapour and Modern Oral) and an increase in cigarette volume in 2020 (up 0.5%, compared to a decline of 6.0% in 2019) as discussed on page 75.

Reported profit from operations rose by 12.8% to £4,975 million in 2020 (2019: up 10.1% to £4,410 million). This was driven by increased revenue in both years and from the ongoing efficiency programmes (Quantum) and initiatives including marketing spend effectiveness. In 2020, these more than offset higher marketing investment and charges recognised in the year in respect of developments in cases regarding payment obligations under the state settlement agreements with Florida, Texas, Minnesota and Mississippi for brands previously sold to a third party. A total of £400 million was recognised following a decision in the Florida court (about which the Group will continue to pursue indemnification remedies in a Delaware court) and following settlement discussions with other manufacturers and the states of Texas, Minnesota and Mississippi. Adjusted profit from operations increased by 15.5% (2019: 6.4%) on a constant currency basis.

New Categories

In 2020, vapour revenue (being the Vuse brand) was up 85.1% to £383 million (2019: up 12.4% to £207 million). This was a growth of 86.1% (2019: 7.4% increase), at constant rates of exchange.

Following industry product concerns in 2019 and the implementation of flavour regulations, Vuse consumable volume recovered to grow 69.7% in 2020 (2019: decline 6.2%), driving total value share up to 24.9% from 16.6% for the year ended 31 December 2019.

The Alto variant was the driving force of this growth and, in the final quarter of 2020, now represents over 85% of Vuse revenues in the US, up from 50% in 2019.

Industry vapour volumes were down 13.1% in 2020, following a period of rapid growth. While industry volume was up 36% in 2019, the industry was impacted in the second half of 2019 by the EVALI crisis and implementation of the flavour regulations in early 2020. However, sequential recovery in the second half of 2020 provides momentum into the coming periods.

In Modern Oral, revenue from the Velo brand increased 13.5% in 2020, or 14.1% at constant rates of exchange, following its launch in the second half of 2019 (2019: £9 million) with volume up 45%. In October 2020, the portfolio has been strengthened by the acquisition of the nicotine pouch products of Dryft Sciences, LLC (Dryft). These products have been rebranded Velo and expands the US portfolio from four to 28 variants, with representation in the above-6mg nicotine strength segment. With the national rollout of Velo-branded Dryft products continuing in early 2021 and a return to growth in the final quarter of 2020, we have great momentum for 2021.

PMTAs were submitted ahead of the 9 September 2020 deadline for four Vuse products (Alto, Solo, Ciro and Vibe) and for Velo modern oral products and we expect to hear more on their progress over the course of 2021.

Combustibles

Combustibles revenue grew 9.3% to £9,926 million (2019, up 8.6% to £9,078 million), being an increase of 9.9% (2019: 3.8% higher) at constant rates of exchange. The growth was driven by strong pricing (with four price increases announced in 2020), positive brand mix and the impact of our revenue growth management programme. We continue to experience no acceleration in downtrading.

Volume was up 0.5% to 73 billion sticks (2019: 73 billion; 6.0% decline) benefiting from a good performance from the strategic portfolio while Lucky Strike was reintroduced in the final quarter of the year. This was in an industry that was estimated to be up 1.5% (2019: down 5.3%) due to reduced consumer switching to vapour (compared to 2019), higher supply chain inventories (in response to COVID-19 and the timing of price increases), an extra selling day and more resilient consumer demand resulting from the increase in fiscal stimulus and lower gas prices.

Value share of cigarettes increased 45 bps (2019: up 30 bps). This performance was driven by our premium brands Newport and Natural American Spirit. Total volume share increased 10 bps (2019: 10 bps decline) as growth in both years from the strategic portfolio (up 20 bps in both 2020 and 2019) was not matched by the remainder of the portfolio.

The Group continues to monitor the regulatory developments, yet does not believe there is any significant impact of such restrictions on the Group's operations at this time. The FDA's "2020 Unified Agenda" did not progress the potential regulations with regards to menthol in tobacco products or restrictions on nicotine levels in tobacco products. The Group has a long-standing track record of managing regulatory shifts and in the event of regulatory change we remain confident in our ability to navigate that environment successfully.

Traditional Oral

Traditional Oral revenue grew 7.0% (or 7.6% at constant rates of exchange), driven by strong pricing in both years, which more than offset lower volume (down 1.3% in 2020, and 1.5% in 2019). Following a strong performance in 2019, when value share of moist oral grew 80 bps, in 2020 this declined 25 bps largely driven by Grizzly, which was impacted by pricing pressures in the final quarter of 2019 and early 2020. Utilising revenue growth management techniques, value share has stabilised in the second half of 2020.

The MRTTP applications for Camel Snus remains under review having been discussed by the TPSAC in September 2018. We continue to work closely with the FDA, which announced in December 2020 that it had reopened the comment period after our filing of additional information.

Delivering on our New Categories

The US business is transforming into a New Categories-oriented business, fuelled by reinvestments from the consistent, industry-leading value growth in the tobacco categories. This involves a major brand-building effort focused on the two global brands, Vuse in Vapour and Velo in Modern Oral, improved trade execution at the point of sale and accelerated development of digital capabilities. This is underpinned by R&D and scientific expertise which, as well as ensuring product quality and stewardship, have enabled us to comply with the extensive FDA PMTA requirements in 2020 and establish a future product pipeline.

The acquisition of certain Dryft Modern Oral assets, completed in Q4 2020, enables a significant expansion of the Velo product range into the high-growth >6mg nicotine segment, and into multiple new flavours – the next step in the transformation journey.



+82%

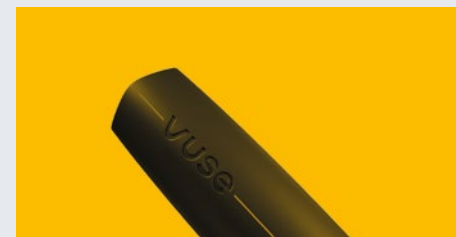
Revenue growth in New Categories



Availability of New Categories in the Region

Our Strategy in Action

Vuse in the US



Vuse has achieved very strong growth in 2020, with consumable volume up 70%, achieved despite the decline in the vapour industry, which has recovered only gradually since its major decline in Q4 2019 following the EVALI crisis.

Vuse growth has been particularly strong since June, following the amelioration of COVID-19 related supply constraints earlier in the year. Since June, Vuse has been by far the fastest growing brand in vapour, both in devices (achieving >60% volume share in Q4 2020) and in cartridges, with value share growth in the second half of the year of 500 bps.

With cartridge volume and value share growing strongly, Vuse is the market leader (by value) in 15 States. The drive to continue and build on this growth is ongoing while also meeting the extensive FDA PMTA requirements.

In this environment, new Vuse Single pod and Quad pods were launched in December 2020, together with progressive improvements in digital and e-commerce capabilities.

Regional Review

AmSSA

Americas and Sub-Saharan Africa



“Operational resilience despite COVID-19 impacting a number of markets.”

Luciano Comin
Regional Director

Volume

	2020 units	vs 2019 %	2019 units	vs 2018 %	2018 units
Cigarettes (bn sticks)	147	-3.9%	152	-3.1%	157
Other (bn sticks eq)*	2	-1.7%	2	-8.2%	2
Combustibles (bn sticks)	149	-3.8%	154	-3.1%	159
New Categories:					
Vapour (mn 10ml/pods)	31	+118%	14	+191%	5
THP (bn sticks)	—	—	—	n/m	—
Modern Oral (mn pouches)	19	+142%	8	n/m	—
Traditional Oral (bn sticks eq)	—	—	—	—	—

* Other includes MYO/RYO.

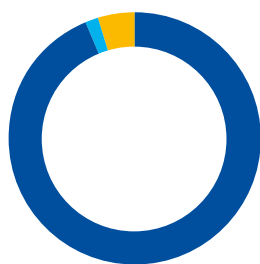
Revenue

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Combustibles	3,535	-11.4%	+1.3%	3,992	+2.7%	+8.5%
New Categories:						
Vapour	65	+52.8%	+58.6%	43	+120%	+117%
THP	—	—	—	—	n/m	n/m
Modern Oral	1	-49.8%	-47.3%	1	n/m	n/m
Total New Categories	66	+51.3%	+57.1%	44	+119%	+116%
Traditional Oral	—	—	—	—	n/m	n/m
Other	171	-24.3%	-7.2%	225	+10.2%	+13.1%
Revenue	3,772	-11.5%	+1.4%	4,261	+3.6%	+9.2%

Profit from operations/Operating margin

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Profit from operations	1,553	+29.0%	-2.5%	1,204	-22.0%	+10.0%
Operating margin (%)	41.2%	+1,290bps	-160 bps	28.3%	-930 bps	+30 bps

Revenue by category



■ Combustibles
■ New Categories
■ Traditional Oral
■ Other

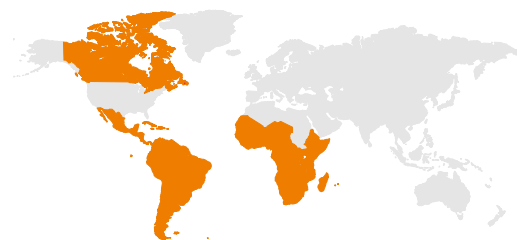
+30 bps 27

Cigarette value
share change

Owned
manufacturing
(inc R&D) sites

15,873

Number
of employees



Key markets

Argentina, Brazil, Canada, Chile, Colombia, Mexico, Nigeria, South Africa

Revenue and Profit from Operations

In 2020, reported revenue declined 11.5% to £3,772 million (2019: 3.6% increase to £4,261 million), largely driven by a translational foreign exchange headwind due to the relative strength of sterling against a number of currencies, particularly the Brazilian real, Chilean peso, Mexican peso and the South African rand. Excluding the translational headwind, on a constant currency basis, revenue grew by 1.4% in 2020 (2019: increase of 9.2%). Combustibles pricing and growth in New Categories more than offset the impact of COVID-19 which was a drag on performance as a number of markets implemented temporary restrictions in response to the pandemic, with South Africa in particular restricting the production and sale of tobacco products for a period of five months.

Reported profit from operations grew 29.0% to £1,553 million, largely from the absence of the £436 million charge in the prior period in relation to the Quebec Class Action. Excluding the adjusting items in both periods, adjusted profit from operations fell 2.5% on a constant currency basis, as the growth in adjusted revenue was more than offset by the impact of COVID-19 which led to supply restrictions in South Africa noted above and additional supply chain costs elsewhere (estimated to be £57 million) to manage the operational volatility.

As disclosed in note 8 in the Notes on the Report and Accounts, the Group expects the performance of South Africa to recover in 2021. While the impact of the pandemic in 2020 is a trigger to assess the carrying value of goodwill in South Africa (£552 million), the Group's ongoing financial delivery would have to decline by a further 20% before an impairment were to be recognised. This was not deemed to be a reasonably possible scenario and accordingly, no impairment was recognised in 2020.

New Categories

In 2020, New Categories revenue grew 51.3% to £66 million (2019: up 119% to £44 million) driven by the growth of vapour in both years.

The Group gained leadership of the vapour category in Canada with total value share up 2,220 bps (compared to 2019) to 46% in 2020. Growth continued to be driven by the growth of the ePod variant and was supported by the migration to Vuse from Vype.

This was partially offset by a restrained performance in South Africa where sales of vapour products were suspended, alongside those of cigarettes, between March and August 2020 as part of the country's COVID-19 response.

Since the lifting of the sales suspension, our revenues have started to recover. While the Group remains confident of the potential of Vapour in South Africa, an impairment charge of £11 million in respect of the acquisition of Twisp (in 2019) has been recognised ahead of the migration to Vuse.

Pilot schemes for Modern Oral in emerging markets are ongoing. After initial encouraging results in Kenya, we have temporarily suspended sales due to local regulatory challenges and continue to engage with the local authorities.

We continue to believe that Modern Oral represents an exciting opportunity to offer affordable New Category alternatives to adult nicotine consumers in emerging markets, given the absence of an electronic device and a pre-existing ritual of oral product consumption in a number of markets.

Combustibles

Combustibles revenue fell 11.4% to £3,535 million (2019: 2.7% growth to £3,992 million). A translational foreign exchange headwind impacted both years with revenue, on a constant currency basis, up 1.3% in 2020 and 8.5% in 2019.

Combustibles pricing in both years, and value share growth of 30 bps (2019: 20 bps), more than offset combustibles volume decline of 3.8% in 2020 and 3.1% in 2019.

The lower volume in 2020 was largely due to industry-wide contractions following the impact of COVID-19 in a number of markets, particularly from the sales suspension in South Africa, but also from temporary periods of supply disruption in other markets such as Mexico and Argentina. This was partially offset by an increase in duty paid cigarette volume in Brazil as COVID-19-related lockdowns and increased border security led to a reduction in illicit trade.

In contrast, the volume decline in 2019 was largely due to the continued difficult trading in Venezuela, market contraction in Canada and illicit trade growth in Brazil – which was partly offset by higher volume in South Africa as a result of reduction, in that year, of illicit trade.

Delivering on our New Categories

Exceptional performance in New Categories is due to a focus on a high-performance vapour device platform (ePod) combined with a consumer calibrated portfolio of unique flavours.

Our performance is enabled by bespoke technology and creative execution via a series of limited-edition devices that resonate with consumers seeking personal expression.

Excellence in execution drove sales primarily through own channels (online/retail) supported by exclusive availability on digital platforms which sustained demand in the pandemic when traditional retail was temporarily suspended.

Underpinning this is transformation of our capabilities in managing own retail, building own e-commerce with relevant consumer benefits while constantly screening new avenues to reach adult consumers directly via other partners' solutions.



+51%

Revenue growth in New Categories



Availability of New Categories in the Region

Our Strategy in Action

Vapour in Canada



The rise of Vype/Vuse to the number 1 vapour brand in Canada in less than three years demonstrates an offer that resonates with the consumer. The migration to Vuse fuelled this with the introduction of award-winning iconic pack expression that set Vuse apart on the shelf and conveyed the breadth of flavours on offer.

Meeting consumers' growing demand for new sensorial experiences saw the deployment of a pipeline of unique flavours brought to life via creative technologies.

Our retail presence provided a foundation for scale to developing direct consumer engagement / offers, while our e-commerce revenue growth is attributed to going beyond a transactional relationship by offering subscription, delivery and personalisation. Faced with constant regulatory changes, we have responded with speed and agility to ensure consumer retention.

Regional Review

ENA

Europe and North Africa



“A strong year with revenue growth in all New Categories.”

Johan Vandermeulen
Regional Director

Volume

	2020 units	vs 2019 %	2019 units	vs 2018 %	2018 units
Cigarettes (bn sticks)	220	-4.2%	230	-6.3%	246
Other (bn sticks eq)*	16	-2.5%	17	-7.9%	18
Combustibles (bn sticks)	236	-4.1%	247	-6.4%	264
New Categories:					
Vapour (mn 10ml/pods)	133	+23.0%	108	+44%	75
THP (bn sticks)	3.3	+203%	1.1	+334%	—
Modern Oral (mn pouches)	1,667	+55.6%	1,071	+157%	414
Traditional Oral (bn sticks eq)	1	+2.8%	1	+8.3%	1

* Other combustibles includes MYO/RYO.

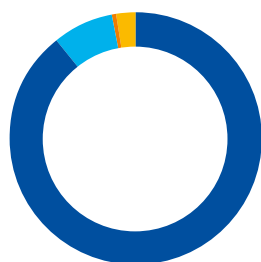
Revenue

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Combustibles	5,356	-3.4%	+0.5%	5,544	-0.7%	+3.0%
New Categories:						
Vapour	148	+0.4%	+0.2%	147	+29.2%	+30.1%
THP	136	+14.3%	+159%	56	+200%	+200%
Modern Oral	185	+58.5%	+59.3%	116	+234%	+246%
Total New Categories	469	+46.7%	+49.6%	319	+91.0%	+93.6%
Traditional Oral	34	+16.2%	+14.2%	29	+33.4%	+38.5%
Other	135	-31.6%	-31.7%	198	-14.2%	-14.3%
Revenue	5,994	-1.6%	+2.1%	6,090	+1.4%	+5.0%

Profit from operations/Operating margin

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Profit from operations	1,962	+19.0%	-2.4%	1,649	-13.4%	+3.3%
Operating margin (%)	32.7%	+560 bps	-160 bps	27.1%	-460 bps	-60 bps

Revenue by category



■ Combustibles
■ New Categories
■ Traditional Oral
■ Other

FLAT

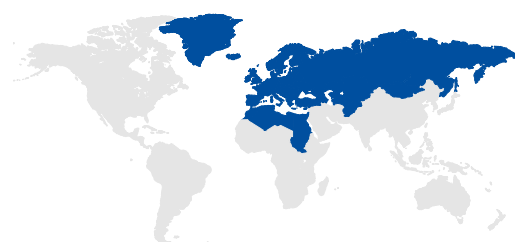
Cigarette value
share change

21

Owned
manufacturing
(inc R&D) sites

23,785

Number
of employees



Key markets

Algeria, Belgium, Bulgaria, Czech Republic, Denmark, Egypt, France, Germany, Italy, Kazakhstan, Morocco, Netherlands, Poland, Romania, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine, UK

Revenue and Profit from operations

Reported revenue declined 1.6% in 2020 (2019: up 1.4%) as good pricing in Combustibles and growth in New Categories revenue (2020: +47%, 2019: +91%) in both years was more than offset by lower combustible volume (down 4% in 2020 and 6% in 2019) and a translational foreign exchange headwind of 3.7% (2019: 1.3% headwind).

Excluding adjusting items (that affected 2019 and 2018) and the impact of currency, revenue grew 2.1% on an adjusted constant rates basis (2019: up 5.0%).

Reported profit from operations increased 19%, largely due to the absence of the £202 million charge in respect of the Russian excise dispute that impacted the prior year (2019: down 13%). Excluding the impact of currency and adjusting items (in respect of Quantum, the factory rationalisation programme and the 2019 charges in Russia related to an excise dispute), adjusted profit from operations at constant rates was down 2.4% in 2020 (2019: up 3.3%), as the higher revenue (at constant rates of exchange) and Quantum cost savings (in 2020) were more than offset by higher investment behind New Categories of over £200 million, compared to 2019.

New Categories

In 2020, revenue from Vapour was marginally higher (up 0.4%, compared to growth of 29.2% in 2019). This was largely driven by higher consumable volume (up 23.0%, 2019: 44% higher), despite the impact of COVID-19 on our vape stores, with the higher volume partly offset by marketing investment to drive consumer activation, which is recognised as a deduction to revenue in line with IFRS 15.

Vype grew across the region and saw record Vapour value shares as the Group consolidated value leadership positions in the key markets of France and Germany. In the UK, the Group maintained its value leadership position as Vype's good performance was moderated by a reduction in Ten Motives and the remainder of the local portfolio.

In 2020, THP volumes tripled and revenue more than doubled driven by the launch of glo Hyper in a number of markets across the region and the continued progress of glo Pro. This builds on the growth in 2019 (volume up over 330% and revenue 200% higher). glo continued to increase volume share in key THP markets including in Russia where glo volume share reached 1.4% (in December 2020), doubling its volume share of the THP from 7.6% in June 2020 to 15.5% in December 2020. Furthermore, since the launch of glo Hyper in pilot cities in Italy, glo has more than tripled its volume share of category to 7.8% (December 2020), with retention rates doubling.

In 2020, Modern Oral revenue grew 59%, led by 56% volume growth and a contribution from positive price/mix. This follows 2019 where revenue and volume were up 234% and 157%, respectively.

In both years, the Group continued to grow its volume share of the total oral category in more established markets such as Sweden and Norway, while also building the overall category, and our volume share of Modern Oral itself, in Denmark and Switzerland.

In January 2021, we have pilot-launched our first CBD vaping product, Vuse CBD Zone. This latest innovation will allow us, for the first time, to offer adult consumers a range of high-quality CBD vaping products from our trusted, global brand, Vuse. Initially available in Manchester, UK, it will offer adult smokers and vapers sensorial enjoyment, as Vuse CBD Zone caters to a variety of moods and moments in their busy lifestyles.

Combustibles

In 2020, revenue was down 3.4% compared to a decline of 0.7% in 2019. Good price/mix in both years (up 5% in 2020 and 9% in 2019) was more than offset by the impact of lower combustible volume of 4.1% in 2020 (and 6.4% in 2019) and the foreign exchange headwind described earlier.

At constant rates of exchange, revenue increased 0.5% (2019: 3.0%).

The decline in combustible volume in 2020 was despite higher volume in Turkey (driven by Kent and the local portfolio) as this was more than offset by industry volume contraction in a number of markets, partly due to COVID-19.

The decrease in combustible volume in 2019 was driven by lower volume in Russia (due to stock movements), Ukraine (largely due to the growth of illicit trade and competition in the low-price segment) and Egypt (driven by excise-led price increases in the low-price segment particularly affecting Pall Mall).

Cigarette value share was in line with 2019 (2019: marginally higher than 2018), with cigarette volume share up 30 bps largely driven by Russia and Turkey, partly offset by lower volume share in France, Spain, Netherlands, Denmark, Switzerland and the UK. The movement in 2019 was mainly driven by Ukraine, Russia, Italy, Poland, Romania and Spain.

In 2020, menthol bans were introduced in Turkey, the UK and the EU. The Group has a long-standing track record of managing regulatory shifts and has successfully navigated the menthol ban in combustibles with an increase in consumer retention across the nicotine delivery product range as consumers have either migrated to our New Category portfolio or switched to non-menthol combustible products.

Delivering on our New Categories

We are resolute in our pursuit of the opportunities in New Categories in ENA.

In 2020, we are the leader in Vapour in ENA. Vype is the number one closed systems brand in the key markets of the UK, France, Germany and Poland. This was fuelled by strong performances of both product platforms, Vype ePen3 and Vype ePod. The Vype-to-Vuse migration is under way and is planned to be completed in 2021.

Also in 2020, we introduced glo Hyper in Russia, the second largest THP market in the world, expanding to more than 150 of the largest cities in Russia in the second half of the year. This has been delivered by highly differentiated digital and direct to consumer activation, with excellent results across the major cities.

During 2020, new product launches across innovative flavours and packaging solutions have consolidated our leadership position in 14 out of the 17 Modern Oral markets where we are present, with the fastest growing brand in the remaining three markets.



+47%

Revenue growth in New Categories



Availability of New Categories in the Region

Our Strategy in Action

United Kingdom



Just five years after launching Vype in the UK, we have achieved value share leadership in the category. A third of our revenue in the UK is now coming from Vapour products.

Vype increased its value share of closed systems to 26% (2019: 20%), driven by the successful launch of ePod and continued success of ePen as the market transitions following the menthol ban.

Our ambitions are driven by:

- the continued development of closed systems; and
- success in e-commerce, which emerged during 2020. This benefited from an overhaul of the user experience and introduction of a subscription model, ensuring we provide a range of offers that are attractive to both our consumers and the Group.

Regional Review

APME

Asia-Pacific and Middle East



“Launch of glo Hyper drives volume growth in THP.”

Michael (Mihovil) Dijanosic
Regional Director

Volume

	2020 units	vs 2019 %	2019 units	vs 2018 %	2018 units
Cigarettes (bn sticks)	198	-7.3%	213	-3.7%	221
Other (bn sticks eq)*	2	+3.3%	2	+1.5%	2
Combustibles (bn sticks)	200	-7.2%	215	-3.7%	223
New Categories:					
Vapour (mn 10ml/pods)	6	+385%	1	n/m	—
THP (bn sticks)	7	-6.5%	8	+20.1%	7
Modern Oral (mn pouches)	86	n/m	3	n/m	—
Traditional Oral (bn sticks eq)	—	—	—	n/m	—

* Other combustibles includes MYO/RYO.

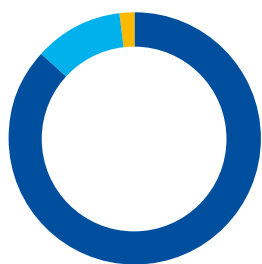
Revenue

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Combustibles	3,935	-10.3%	-7.7%	4,387	+3.4%	+4.4%
New Categories:						
Vapour	15	+255%	+260%	4	+906%	+902%
THP	497	-26.0%	-27.1%	671	+23.2%	+16.8%
Modern Oral	2	n/m	n/m	—	—	—
Total New Categories	514	-24.0%	-25.0%	675	+23.9%	+17.5%
Traditional Oral	—	—	—	—	—	—
Other	88	-1.3%	-0.4%	91	-3.5%	-6.9%
Revenue	4,537	-11.9%	-9.9%	5,153	+5.6%	+5.6%

Profit from operations/Operating margin

	2020 £m	vs 2019 %	vs 2019 (adj at cc) %	2019 £m	vs 2018 %	vs 2018 (adj at cc) %
Profit from operations	1,472	-16.0%	-7.3%	1,753	-5.7%	+7.9%
Operating margin (%)	32.4%	-160 bps	+110 bps	34.0%	-410 bps	+90 bps

Revenue by category



■ Combustibles
■ New Categories
■ Traditional Oral
■ Other

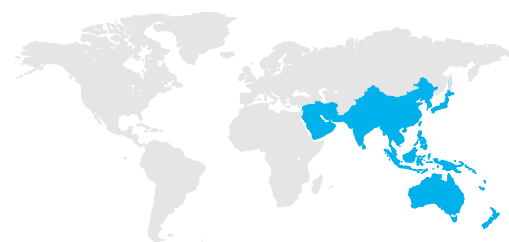
+10 bps 24

Cigarette value
share change

Owned
manufacturing
(inc R&D) sites

10,750

Number
of employees



Key markets

Australia, Bangladesh, Indonesia, Japan, Malaysia, Middle East (inc KSA), New Zealand, Pakistan, South Korea, Taiwan, Vietnam

Revenue and Profit from Operations

Reported revenue declined 11.9% to £4,537 million (2019: up 5.6% to £5,153 million). The decline in 2020 was largely driven by lower cigarette volume (which fell 7.3%) partly due to the negative impact of COVID-19 on GTR and other markets in the region and the impact of excise increases and minimum pricing in Indonesia. Revenue in 2020 was also impacted by the excise harmonisation of THP in Japan and a £50 million charge in respect of the withdrawal of glo Sens.

In contrast, the growth in 2019 was due to pricing in a number of markets and growth in New Categories revenue, which more than offset a decline in cigarette volume of 3.7%.

Excluding the impact of translational foreign exchange, in 2020 revenue on a constant currency basis at constant rates of exchange fell 9.9% (2019: grew 5.6%).

Reported profit from operations decreased 16.0% to £1,472 million, as the impact of COVID-19 in a number of markets including GTR, the recognition of costs related to the ongoing factory rationalisation programme (principally in Southeast Asia), an impairment in goodwill in respect of the Group's performance in Malaysia (£197 million) and unfavourable foreign exchange movements more than offset the efficiencies realised through Quantum. In 2019, this was a decrease of 5.7% to £1,753 million as higher profit in Japan and the Middle East was more than offset by Bangladesh and Malaysia and an impairment charge in respect of Indonesia goodwill (£172 million).

Excluding adjusting items and the impact of translational foreign exchange, in 2020 adjusted profit from operations at constant rates of exchange fell 7.3% (2019: increased 7.9%).

New Categories

Total revenue from New Categories declined 24.0% to £514 million (2019: increase of 23.9% to £675 million).

This was driven by THP as consumable volume declined 6.5% to 7.4 billion sticks (2019: up 20.1% to 7.9 billion). The launch of glo Hyper (the first-to-world THP that uses induction heating technology to provide a step change in consumer satisfaction, driven by 30% more tobacco, faster heating and a boost button) was more than offset by excise harmonisation impacting the industry and by a strong comparator period that included the launch of glo Pro, glo Nano and glo Sens.

THP revenue declined 26% (or 27% excluding the impact of currencies) largely due to the excise harmonisation in Japan and a £50 million charge to revenue in respect of the withdrawal of glo Sens in the year. glo Sens was launched in 2019 and did not perform to expectations.

In Japan, the largest THP market in the world, glo's volume share increased to 5.9% in December 2020, up 85 bps compared to December 2019, driven by glo Hyper's launch in April 2020.

Combustibles

Revenue from combustibles fell 10.3% to £3,935 million (2019: up 3.4% to £4,387 million), or by 7.7% (2019: up 4.4%) at constant rates of exchange. Pricing in Australia and Pakistan was more than offset by a 7.2% decline in combustible volume. Higher volume in Bangladesh was more than offset by the impact of COVID-19 in a number of markets, notably within GTR, an increase in local taxes and the minimum retail price compliance in Indonesia, and the continued increase in illicit trade in Pakistan (following an excise-led price increase in 2019).

Value share increased 10 bps, with volume share up 55 bps, as volume share gains (including in Bangladesh, Japan, Pakistan and Malaysia) more than offset losses in Saudi Arabia and Indonesia.

The increase in revenue 2019 was largely due to pricing in a number of markets, including Saudi Arabia, Japan, Australia, Pakistan and New Zealand, which more than offset the 3.7% decrease in cigarette volume.

Delivering on our New Categories

Acceleration of the learning agenda in APME has taken place through the roll-out of a digital pilot model which enables in-depth, real-time consumer insights generation and development of the optimal marketing mix. This has recently been deployed successfully with the launch of Velo in Indonesia.

We have ambitious expansion plans for 2021 and beyond, prioritising consumer and commercial opportunities, to support the Group's ambition to deliver a step change in New Categories with category leadership within Modern Oral across APME. This is supported by a regulatory engagement roadmap to unlock opportunity markets.



-24%

Revenue growth in New Categories



Availability of New Categories in the Region

Our Strategy in Action

Digital Transformation



Marketing Technology capabilities were enhanced to broaden and deepen our understanding of consumers, enabling detailed consumer profiling, personalised consumer journeys and improved conversion – leading to the acquisition of c.250k new consumers into glo.

Real-time performance tracking has also been integrated within the digital ecosystem, which has enabled faster and more agile insight-led decision-making. The digital-first approach has accelerated the e-commerce agenda which has so far seen significant improvement in e-commerce traffic (up 290%), device sales (up 225%) and revenue contribution (up 320%) in 2020.

Engaging With Our Stakeholders

Engaging With Our Stakeholders



“We recognise that civic participation is an essential component of being a responsible business and ensuring that appropriate policy is implemented. Our employees are committed to participating in the policy process in a transparent and open manner, in compliance with all laws and regulations of the markets in which we operate.”

Jerry Abelman

Director, Legal & External Affairs and General Counsel



Consumers



Shareholders/ Bondholders



Our people

Why this stakeholder is important to us

As preferences and attitudes change in an evolving industry, understanding our consumers is essential to both successful portfolio and business growth.

It is essential that we maintain the support of our shareholders and bondholders to maintain access to capital. This allows us to implement our strategy and achieve our business objectives.

The quality of our people is a major reason why our Group continues to perform well. We understand the value of listening and responding to feedback from our people to maintain a fulfilling, rewarding and responsible work environment.

Examples of how we engaged in 2020

- Consumer panels, focus groups and interviews
- Product testing
- Consumer care helplines
- Responsible advertising and marketing
- Pack inserts/product leaflets
- Real-time digital platforms
- Clinical trials

[Read more](#)
pages 29 to 43 and 98

- Annual General Meeting
- Investor relations programme
- Institutional shareholder meetings
- Capital Markets Days
- Investor roadshows
- Results announcements
- Annual Report & Form 20-F
- ESG Report
- Stock exchange announcements
- Shareholder information on website

[Read more](#)
pages 97, 117 to 119

- Director market and site visits
- Virtual forums
- Employee town halls
- Global and regional webcasts
- ‘Your Voice’ employee survey
- Works councils and European Employee Council meetings
- Graduate and management trainee events
- Individual performance reviews
- Speak Up channels

[Read more](#)
pages 62, 63, 98 and 122

What matters to our stakeholders

- Product harm, addiction and social considerations
- Product quality
- Affordability and price
- Ingredients/nicotine levels
- Plastics/post-consumption product waste
- COVID-19 impacts

- Business performance
- ESG Agenda
- Corporate governance
- Strength of Group leadership
- Board succession planning

- Reward
- Career development
- Diversity and inclusion
- Corporate responsibility
- Health and safety
- Business ethics

How we respond

- Development of innovative products
- Product stewardship, quality and safety standards
- Clear and accurate product information
- International Marketing Principles
- Circular economy strategy

- Regular dialogue and communications with shareholders
- Robust corporate governance
- Enhanced ESG reporting
- Continual improvement of our Delivery with Integrity programme
- Our range of enjoyable and innovative products
- Product quality and safety standards
- International Marketing Principles

- Extensive communications and virtual engagement with employees worldwide during the pandemic
- Board review of and feedback on workforce engagement
- Training and development programme
- Diversity & Inclusion Strategy
- Delivery with Integrity programme

Strategic impact



Principal risk impact

- Market size reduction / consumer downtrading
- Inability to develop, commercialise and deliver New Categories
- Significant excise increases

- Solvency and liquidity
- Foreign exchange rate exposures
- Disputed taxes, interest and penalties
- Litigation
- Market size reduction / consumer downtrading

- Injury, illness or death in the work place
- Geopolitical tensions



Suppliers

Effective relationships with farmers, suppliers of tobacco leaf, product materials and indirect services are essential to an efficient, productive and secure supply chain.

- Ongoing farmer support, training and monitoring by our Extension Services of expert field technicians
- Sustainable Tobacco Programme assessments, reviews and meetings
- Supplier reviews/audits
- Supplier Voice survey and dialogue
- Strategic partnerships

[Read more](#)
pages 3, 48, 53 to 55 and 99

- Productivity/quality/cost
- Sustainable agriculture
- Farmer livelihoods
- Human rights
- Health and safety
- Climate change/ environmental impacts
- COVID-19 impacts

- Supplier Code of Conduct
- Thrive sustainable agriculture and farmer livelihoods programme
- Leaf operational standards for PPE and child labour prevention
- Farmer Extension Services support and training
- COVID-19 support



Customers

Our customers include retailers, distributors and wholesalers who are essential for driving growth and embedding responsible marketing practices.

- Ongoing dialogue, contract discussions and account management
- Customer Voice survey
- Audits and performance reviews
- Sales calls and visits by trade representatives
- Business-to-business programmes

[Read more](#)
pages 3, 57 and 99

- Route-to-market planning
- Contingency planning
- Cost, price and quality
- Stock availability
- Consumer buying behaviour
- Youth access prevention
- COVID-19 impacts

- Customer loyalty programmes and incentives
- Global Youth Access Prevention (YAP) Guidelines
- COVID-19 support



Governments and wider society

We seek to be part of the debate that shapes the regulatory environment in which we operate, and to work collaboratively to develop joint solutions to common challenges.

- Face-to-face meetings and ongoing dialogue
- Submissions to government and advisory committees
- Multi-stakeholder collaborations and partnerships, such as the Eliminating Child Labour in Tobacco Growing Foundation
- External Scientific Panel
- Sustainability Stakeholder Panel
- Community investment programmes

[Read more](#)
pages 35, 44 to 57 and 99

- Product regulation
- Tax/excise/illicit trade
- Responsible marketing
- Public health impacts
- Human rights
- Climate change/ environmental impacts
- COVID-19 impacts

- Standards of Business Conduct (SoBC)
- Delivery with Integrity
- Carbon neutrality target
- Human rights and climate impact assessments
- Corporate Social Investment (CSI)
- COVID-19 support and vaccine development

UK Companies Act: Section 172(1) Statement

Our Directors have a duty, individually and collectively as the Board, to act as they consider most likely to promote the success of the Company for the benefit of our members as a whole.

As part of this duty, our Directors must have regard for likely long-term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. Our Directors must also have regard for our employees' interests, business relationships with our wider stakeholders, the impact of our operations on the environment and communities in which we operate and the need to act fairly between shareholders. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

Our key stakeholders and primary ways in which we engage with them are set out in the table to the left. Pages 97 to 99 and 117 to 119 provide further explanation of our Board's approach to understanding stakeholder interests to enable relevant considerations to be drawn on in Board discussion and decision-making.

Where the Board delegates authority for decision-making to management, our Group governance framework discussed on pages 95 to 96 mandates consideration of these factors and other relevant matters as a critical part of delegated authorities.

Examples of some of the ways that these factors have shaped Group strategy and initiatives during the year are illustrated in the table to the left. Illustration of how these factors have been taken into account in Board decision-making and strategy development during the year is provided on pages 100 to 101.



New Categories
Combustibles
Simplification

- Inability to develop, commercialise and deliver New Categories
- Geopolitical tensions



New Categories
Combustibles
Simplification

- Inability to develop, commercialise and deliver New Categories
- Geopolitical tensions
- Significant excise increases
- Market size reduction/ consumer downtrading



New Categories
Combustibles

- Geopolitical tensions
- Competition from illicit trade
- Significant excise increases
- Regulation that inhibits growth

Group Principal Risks

Group Principal Risks

Overview

The principal risks that may affect the Group are set out on the following pages.

Each risk is considered in the context of the Group's strategy and business model, as set out in this Strategic Report on pages 18 to 19, and 24 to 26. Following a description of each risk, its potential impact[®] and management by the Group[®] is summarised. Clear accountability is attached to each risk through the risk owner.

[®]The Group has identified risks and is actively monitoring and taking action to manage the risks.[®] This section focuses on those risks that the Directors believe to be the most important after assessment of the likelihood and potential impact on the business. Not all of these risks are within the control of the Group and other risks besides those listed may affect the Group's performance. Some risks may be unknown at present. Other risks, currently regarded as less material, could become material in the future.

The risks listed in this section[®] and the activities being undertaken to manage them[®] should be considered in the context of the Group's internal control framework. This is described in the section on risk management and internal control in the corporate governance statement on pages 114 to 115. This section should also be read in the context of the cautionary statement on page 318.

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 on pages 288 to 306.

Assessment of Group Risk[®]

During the year, the Directors carried out a robust assessment of the principal risks, uncertainties and emerging risks facing the Group, including those that could impact delivery of its strategic objectives, business model, future performance, solvency or liquidity.

During the first half of 2020, the Board assessed that it was appropriate to include COVID-19 as a Group principal risk as reported in the Half-year Report, however as new working practices are implemented to reflect the current operating environment and associated risks are incorporated into existing Group risks, the Group no longer maintains COVID-19 as a principal risk (please see Group risk factors, page 294 for further information). The Group's current principal risks remain broadly unaltered compared to 2019 with regards to marketplace, excise and tax, operations, regulation and litigation risks, and continue to reflect the challenging external environment.

The viability statement below provides a broader assessment of long-term solvency and liquidity. The Directors considered a number of factors that may affect the resilience of the Group. Except for the risk 'injury, illness or death in the workplace' the Directors also assessed the potential impact of the principal risks that may impact the Group's viability.

Time frame

Short-term	■
Medium-term	■ ■ ■
Long-term	■ ■ ■ ■ ■

Strategic impact



Key Stakeholders

- Consumers
- Society
- Employees
- Shareholders

Considered in viability statement[®]

- ☒ Yes
- ☐ No

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

Viability statement[®]

The Board has assessed the viability of the Group taking into account the current position and principal risks, in accordance with provision 31 of the 2018 revision of the UK Corporate Governance Code. Whilst the Board believes the Group will be viable over a longer period, owing to the inherent uncertainty arising due to ongoing litigation and regulation, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability (that it will be able to continue in operation and meet its liabilities as they fall due) is three years.

In making this assessment of the Group's prospects, the Board considered the Group's strong cash generation from operating activities, access to external sources of financing (including the removal, in 2020, of any financial covenants over such facilities) and ability to manage the impact of COVID-19. In doing so, the Board recognised the Group's ability to utilise its geographic footprint and integrated operating model to minimise the impact of the pandemic on the Group's performance.

This assessment included a robust review of the Group's operational and financial processes, (which cover both short-term financial forecasts and capacity plans) and the principal risks (as indicated on pages 85 to 88) that may impact the Group's viability. These are considered, with the mitigating actions, at least once a year. The assessment included a reverse stress test of the core drivers of the Group's performance to determine the impact of the risks (individually and in aggregate) whilst recognising that, from 2020, no external financial covenant exists with regards to the Group's financing facilities. The reverse stress testing did not identify any individual risk, based upon a prudent annual forecast, that would, if arising in isolation and without mitigation, impact the Group's viability within the 3 year confirmation period. Furthermore, the Board recognised that even if all the principal risks arose simultaneously, given the underlying strong free cash flow generation before the payment of dividends (2020: £7.3 billion), the Group would be able to undertake mitigating actions to meet the liabilities as they fall due.

The Board noted that the Group has access to a £6 billion credit facility (2020: undrawn), US (US\$4 billion) and Euro (£3 billion) commercial paper programmes (2020: £nil outstanding) and £3.4 billion of bilateral agreements (2020: undrawn) which may be utilised to support the Group's ability to operate.

However, the Group is subject to uncertainties with regards to regulatory change and litigation, which may have a bearing on the Group's viability. The Group maintains, as referred to in note 27 in the Notes on the Accounts 'Contingent Liabilities and Financial Commitments,' that the defences of the Group's companies to all the various claims are meritorious on both law and the facts. If an adverse judgment is entered against any of the Group's companies in any case, an appeal may be made, the duration of which can be reasonably expected to last for a number of years.

Risks

Competition from illicit trade

Increased competition from illicit trade and illegal products – either local duty evaded, smuggled, counterfeits, or non-regulatory compliant.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short/Long-term	 New Categories Combustibles	 Society	 Yes
Impact Erosion of goodwill, with lower volumes and reduced profits. Reduced ability to take price increases. Investment in trade marketing and distribution is undermined. Counterfeit New Categories products and other illicit products could harm consumers, damaging goodwill, and/or the category (with lower volumes and reduced profits), potentially leading to misplaced claims against BAT and further regulation.		Mitigation activities across all categories® Dedicated Anti-Illicit Trade (AIT) teams operating at global and country levels; internal cross-functional levels; compliance procedures, toolkit and best practice shared. Active engagement with key external stakeholders. Cross-industry and multi-sector cooperation on a range of AIT issues. Global AIT strategy supported by a research programme to further the understanding of the size and scope of the problem. AIT Engagement Teams (including a dedicated analytical laboratory and a forensic and compliance team) work with enforcement agencies in pursuit of priority targets.	

Tobacco, New Categories and other regulation interrupts growth strategy

The enactment of regulation that significantly impairs the Group's ability to communicate, differentiate, market or launch its products.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Medium-term	 New Categories Combustibles	 Society	 Yes
Impact Erosion of brand value through commoditisation and the inability to launch innovations, differentiate products, maintain or build brand equity and leverage price. Regulation in respect of menthol, nicotine levels and New Categories may adversely impact individual brand portfolios. Adverse impact on ability to compete within the legitimate tobacco, nicotine or New Categories industry and with illicit traders. Reduced consumer acceptability of new product specifications, leading to consumers seeking alternatives in illicit markets. Shocks to share price on the announcement or enactment of restrictive regulation. Reduced ability to compete in future product categories and make new market entries. Increased scope and severity of compliance regimes in new regulation leading to higher costs, greater complexity and potential reputational damage or fines for inadvertent breach. EU Directive on single-use plastics could result in increased operational costs and/or adverse impact on sales volume and profit.		Mitigation activities® Engagement and litigation strategy coordinated and aligned across the Group to drive a balanced global policy framework for combustibles and New Categories. Stakeholder mapping and prioritisation, developing robust compelling advocacy materials (with supporting evidence and data) and regulatory engagement programmes. Regulatory risk assessment of marketing plans to ensure decisions are informed by an understanding of the potential regulatory environments. Advocating the application of integrated regulatory proposals to governments and public health practitioners based on the harm reduction principles of New Categories. Development of an integrated regulatory strategy that spans conventional combustibles and New Categories. Training and capability programmes for End Markets to upskill Legal and External Affairs managers on combustible and New Categories product knowledge. Direct access to online portal providing latest position and advocacy material for End Market engagement on combustibles and New Categories.	

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

Group Principal Risks

Group Principal Risks

Continued




Inability to develop, commercialise and deliver the New Categories strategy

Risk of not capitalising on the opportunities in developing and commercialising successful, safe and consumer-appealing innovations.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Long-term	 New Categories Combustibles Simplification	 Consumers	 Yes
Impact Failure to deliver Group strategic imperative, 2025 growth ambition (previously 2024) and 2030 consumer targets. Potentially missed opportunities, unrecoverable costs and/or erosion of brand, with lower volumes and reduced profits. Reputational damage and recall costs may arise in the event of defective product design or manufacture. Loss of market share due to non-compliance of product portfolio with regulatory requirements.		Mitigation activities® Focus on product stewardship to ensure high-quality standards across portfolio. Brand Expression, which sets out how our brand expresses itself (including through its logo, name, product, packaging etc.) deployed to lead End Markets via activation workshops and best practices shared. Generating sufficient IP to develop competitive and sustainable products. Accelerating digital and consumer analytics along with data management platforms for enhanced methodologies, insight generation and line of sight across the Group. R&D is accredited to ISO9001 standard and laboratories are accredited to ISO17025 for key methods.	

Market size reduction and consumer down-trading

The Group is faced with steep excise-led price increases and, due in part to the continuing difficult economic and regulatory environment in many countries, market contraction and consumer down-trading is a risk.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short/Medium-term	 New Categories Combustibles	 Consumers, Shareholders,	 Yes
Impact Volume decline and portfolio mix erosion leading to lower profitability. Funds to invest in growth opportunities are reduced.		Mitigation activities® Geographic spread mitigates impact at Group level. Close monitoring of portfolio and pricing strategies across combustibles and New Categories, ensuring balanced portfolio of strong brands across key segments. Overlap with many mitigation activities undertaken for other principal risks facing the Group, such as competition from illicit trade and significant excise increases or structure changes. New Category growth and multi category approach.	

Litigation

Product liability, regulatory or other significant cases (including investigations) may be lost or settled resulting in a material loss or other consequence.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Long-term	 New Categories Combustibles	 Shareholders	 Yes
Impact Damages and fines, negative impact on reputation, disruption and loss of focus on the business. Consolidated results of operations, cash flows and financial position could be materially affected, in a particular fiscal quarter or fiscal year, by region or country, by an unfavourable outcome or settlement of pending or future litigation, criminal prosecution or other contentious action. Inability to sell products as a result of patent infringement action may restrict growth plans and competitiveness.		Mitigation activities® Consistent litigation and patent management strategy across the Group. Expertise and legal talent maintained both within the Group and external partners. Ongoing monitoring of key legislative and case law developments related to our business. Delivery with Integrity compliance programme.	

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




Significant increases or structural changes in tobacco, nicotine and New Categories related taxes

The Group is exposed to unexpected and/or significant increases or structural changes in tobacco, nicotine and New Categories related taxes in key markets.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Long-term	 New Categories Combustibles	 Consumers, Society	 Yes
Impact Consumers reject the Group's legitimate tax-paid products for products from illicit sources or cheaper alternatives. Reduced legal industry volumes. Reduced sales volume and/or portfolio erosion. Partial absorption of excise increases leading to lower profitability.		Mitigation activities® Formal pricing and excise strategies, including Revenue Growth Management using a data science-led approach, with annual risk assessments and contingency plans across all products. Pricing, excise and trade margin committees in markets, with global support. Engagement with relevant local and international authorities where appropriate, in particular in relation to the increased risk to excise revenues from higher illicit trade. Portfolio reviews to ensure appropriate balance and coverage across price segments. Monitoring of economic indicators, government revenues and the political situation.	

Foreign exchange rate exposures

The Group faces translational and transactional foreign exchange (FX) rate exposure for earnings/cash flows from its global businesses.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short/Medium-term	 New Categories Combustibles	 Shareholders	 Yes
Impact Fluctuations in FX rates of key currencies against sterling introduce volatility in reported earnings per share (EPS), cash flow and the balance sheet driven by translation into sterling of our financial results and these exposures are not normally hedged. The dividend may be impacted if the payout ratio is not adjusted. Differences in translation between earnings and net debt may affect key ratios used by credit rating agencies. Volatility and/or increased costs in our business, due to transactional FX, may adversely impact financial performance.		Mitigation activities® While translational FX exposure is not hedged, its impact is identified in results presentations and financial disclosures; earnings are restated at constant rates for comparability. Debt and interest are matched to assets and cash flows to mitigate volatility where possible and economic to do so. Hedging strategy for transactional FX and framework is defined in the treasury policy, a global policy approved by the Board. Illiquid currencies of many markets where hedging is either not possible or uneconomic are reviewed on a regular basis.	

Geopolitical tensions

Geopolitical tensions, civil unrest, economic policy changes, global health crises, terrorism and organised crime have the potential to disrupt the Group's business in multiple markets.



Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Medium-term	 New Categories Combustibles Simplification	 Society, Employees	 Yes
Impact Potential loss of life, loss of assets and disruption to supply chains and normal business processes. Increased costs due to more complex supply chain arrangements and/or the cost of building new facilities or maintaining inefficient facilities. Lower volumes as a result of not being able to trade in a country. Higher taxes or other costs of doing business as a foreign company or the loss of assets as a result of nationalisation.		Mitigation activities® Physical and procedural security controls are in place, and constantly reviewed in accordance with our Security Risk Management process, for all field force and supply chain operations, with an emphasis on the protection of Group employees. Globally integrated sourcing strategy and contingency sourcing arrangements. Security risk modelling, including external risk assessments and the monitoring of geopolitical and economic policy developments worldwide. Insurance cover and business continuity planning, including scenario planning and testing, and risk awareness training.	

Group Principal Risks

Group Principal Risks
Continued

Solvency and liquidity

Liquidity (access to cash and sources of finance) is essential to maintaining the Group as a going concern in the short term (liquidity) and medium term (solvency).

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short/Medium-term		 Shareholders	 Yes
Impact Inability to fund the business under the current capital structure resulting in missed strategic opportunities or inability to respond to threats. Decline in our creditworthiness and increased funding costs for the Group. Requirement to issue equity or seek new sources of capital. Reputational risk of failure to manage the financial risk profile of the business, resulting in an erosion of shareholder value reflected in an underperforming share price.		Mitigation activities® Group policies include a set of financing principles and key performance indicators including the monitoring of credit ratings, interest cover, solvency and liquidity with regular reporting to the Corporate Finance Committee and the Board. The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. The Group holds a two-tranche revolving credit facility of £6bn syndicated across a wide banking group, consisting of a 364-day tranche (with two one-year extension options and a one-year term-out option) and a £3bn five-year tranche (with two one-year extension options). Liquidity pooling structures are in place to ensure that there is maximum mobilisation of cash liquidity within the Group. Going concern and viability support papers are presented to the Board on a regular basis.	



Injury, illness or death in the workplace

The risk of injury, death or ill health to employees and those who work with the business is a fundamental concern of the Group and can have a significant effect on its operations.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short-term		 Employees	 No
Impact Serious injuries, ill health, disability or loss of life suffered by employees and the people who work with the Group. Exposure to civil and criminal liability and the risk of prosecution from enforcement bodies and the cost of associated legal costs, fines and/or penalties. Interruption of Group operations if issues are not addressed immediately. High staff turnover or difficulty recruiting employees if perceived to have a poor Environment, Health and Safety (EHS) record. Reputational damage to the Group.		Mitigation activities® Risk control systems in place to ensure equipment and infrastructure are provided and maintained. EHS strategy aims to ensure that employees at all levels receive appropriate EHS training and information. Behavioural-based safety programme to drive operations' safety performance, culture and closer to zero accidents. Analysis of incidents undertaken regionally and globally by a dedicated team to identify increasing incident trends or high potential risks that require coordinated action.	

Disputed taxes, interest and penalties

The Group may face significant financial penalties, including the payment of interest, in the event of an unfavourable ruling by a tax authority in a disputed area.

Time frame	Strategic impact	Key Stakeholders	Considered in viability statement®
Short/Medium-term		 Shareholders	 Yes
Impact Significant fines and potential legal penalties. Disruption and loss of focus on the business due to diversion of management time. Impact on profit and dividend.		Mitigation activities® End market tax committees. Internal tax function provides dedicated advice and guidance, and external advice sought where needed. Engagement with tax authorities at Group, regional and individual market level.	

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