

Other Information
Non-GAAP measures cont...

Underlying tax rate

Definition: Tax rate incurred before the impact of adjusting items (described on page 35) and to adjust for the inclusion of the Group's share of post-tax results of associates and joint ventures within the Group's pre-tax results.

	2019	2018
	£m	£m
Profit before taxation	7,912	8,351
Less: Share of post-tax results of associates and joint ventures	(498)	(419)
Adjusting items within profit from operations	2,114	1,034
Adjusting items within finance costs	80	(4)
Adjusted profit before taxation, excluding associates and joint ventures	9,608	8,962
Taxation on ordinary activities	(2,063)	(2,141)
Adjusting items within taxation	(65)	(24)
Taxation on adjusting items	(373)	(199)
Adjusted taxation	(2,501)	(2,364)
Underlying tax rate	26.0%	26.4%
Headline effective tax rate	26.1%	25.6%

Adjusted diluted earnings per share, at constant rates of exchange

Definition: diluted earnings per share before the impact of adjusting items, presented in the prior year's rate of exchange.

	2019	2018
	pence	pence
Diluted earnings per share	249.0	263.2
Effect of restructuring and integration costs	20.3	12.2
Effect of amortisation of trademarks and similar intangibles	24.5	13.0
Effect of hyperinflation on Venezuela's retained earnings	-	2.8
Effect of Quebec Class Action	13.6	-
Effect of Russia excise dispute	8.1	-
Effect of retrospective guidance on overseas withholding tax	-	2.4
Effect of other adjusting items	8.1	6.1
Effect of associates' adjusting items	(1.1)	(1.4)
Effect of other adjusting items in net finance costs	3.5	1.8
Effect of adjusting items in respect of deferred taxation	(2.2)	(3.4)
Adjusted diluted earnings per share	323.8	296.7
Impact of foreign exchange	(2.2)	-
Adjusted diluted earnings per share, at constant exchange rates	321.6	-

Other Information

Non-GAAP measures cont...

Operating cash flow conversion ratio

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

In 2018, operating cash flow conversion ratio was positively impacted by the payment (in 2017) of the MSA which would otherwise have been paid in 2018. In 2019, the payment of the MSA returned to the normal payment terms. To assist the user of the financial statements, operating cash flow conversion ratio in 2018 is also presented on a normalised basis – to provide more direct comparison with 2019.

	2019	2018
	£m	£m
Net cash generated from operating activities	8,996	10,295
Cash related to adjusting items	564	601
Dividends from associates	(252)	(214)
Tax paid	2,204	1,891
Net capital expenditure	(774)	(845)
Pension fund short fall funding	-	75
Trading loans to third parties	4	(93)
Other	-	2
Operating cash flow	10,742	11,712
Adjusted profit from operations	11,130	10,347
Operating cash flow conversion ratio	97%	113%
MSA normalisation	-	(1,397)
Operating cash flow (normalised for MSA)	10,742	10,315
Operating cash flow conversion ratio (normalised for MSA)	97%	100%
Cash conversion ratio	100%	111%

Cash conversion is net cash generated from operating activities as a proportion of profit from operations

Free cash flow (before and after dividends paid to shareholders)

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

In 2018, free cash flow was positively impacted by the payment (in 2017) of the MSA which would otherwise have been paid in 2018. In 2019, the payment of the MSA returned to the normal payment terms. To assist the user of the financial statements, free cash flow (after dividends) in 2018 is also presented on a normalised basis – to provide more direct comparison with 2019.

	2019	2018
	£m	£m
Net cash generated from operating activities	8,996	10,295
Dividends paid to non-controlling interests	(157)	(142)
Net interest paid	(1,550)	(1,533)
Net capital expenditure	(774)	(845)
Trading loans to third parties	4	(93)
Other	-	2
Free cash flow (before dividends paid to shareholders)	6,519	7,684
Dividends paid to shareholders	(4,598)	(4,347)
Free cash flow (after dividends paid to shareholders)	1,921	3,337
MSA normalisation	-	(1,397)
Free cash flow (after dividends) – normalised	1,921	1,940

Other Information

Non-GAAP measures cont...

Adjusted cash generated from operations

Definition: net cash generated from operating activities before the impact of adjusting items (including FII GLO) and trading loans provided to a third party, excluding dividends received from associates, and after dividends paid to non-controlling interests, net interest paid and capital expenditure.

	2019	2018
	£m	£m
Net cash generated from operating activities	8,996	10,295
Dividends paid to non-controlling interests	(157)	(142)
Net interest paid	(1,550)	(1,533)
Net capital expenditure	(774)	(845)
Trading loans to third parties	4	(93)
Other	-	2
Cash impact of adjusting items	564	601
Dividends from associates	(252)	(214)
ACGFO	6,831	8,071
Exchange	(78)	-
ACGFO at constant rates of exchange	6,753	8,071
Normalisation of MSA payment	-	(1,397)
ACGFO, normalised for MSA (at constant rates of exchange)	6,753	6,674

Ratio of adjusted net debt to adjusted EBITDA

Definition: net debt, excluding the impact of the revaluation of RAI acquired debt arising as part of the purchase price allocation process, as a proportion of profit for the year (earnings) before net finance costs (interest), tax, depreciation, amortisation, impairment, associates and adjusting items.

	2019	2018
	£m	£m
Total borrowings	45,366	47,509
Derivatives in respect of net debt:		
- Assets	(527)	(647)
- Liabilities	384	269
Cash and cash equivalents	(2,526)	(2,602)
Current assets held at fair value	(123)	(178)
Total net debt	42,574	44,351
Purchase price adjustment (PPA) to RAI debt	(848)	(944)
Adjusted net debt	41,726	43,407
Profit for the year	5,849	6,210
Taxation on ordinary activities	2,063	2,141
Net finance costs	1,602	1,381
Depreciation, amortisation or impairment costs	1,512	1,038
Share of post-tax results of associates and joint ventures	(498)	(419)
Other adjusting items (excluding depreciation, amortisation and impairment)	1,376	499
Adjusted EBITDA	11,904	10,850
Adjusted net debt to adjusted EBITDA	3.5x	4.0x
Translational foreign exchange impact to adjusted net debt	854	
Adjusted net debt at constant rates	42,580	
Translational foreign exchange impact to adjusted EBITDA	(102)	
Adjusted EBITDA at constant rates	11,802	
Adjusted net debt to adjusted EBITDA (at constant exchange rates)	3.6x	

Other Information

ADDITIONAL INFORMATION

British American Tobacco is one of the world's leading consumer products businesses, with brands sold in more than 200 markets. We have strategic combustible and THP brands – Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, Neo, Newport, Camel (in the US) and Natural American Spirit (in the US) – and over 200 brands in our portfolio, including a growing portfolio of other potentially reduced-risk products. We hold robust market positions in each of our regions and have leadership positions in more than 55 markets.

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 this report.

ANNUAL REPORT and FORM 20-F

Statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditors' report on the 2018 accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006 or equivalent preceding legislation.

Publication

The Annual Report and Form 20-F will be published on bat.com on or around 26 March 2020. A printed copy will later be mailed to shareholders on the UK main register who have elected to receive it. At the same time, shareholders will be notified of the availability of the Annual Report and Form 20-F on the website and of the Performance Summary together with other ancillary documents in accordance with their elections. Specific local mailing and/or notification requirements will apply to shareholders on the South Africa branch register. In addition, the Company files its Annual Report on Form 20-F and other documents with the United States Securities and Exchange Commission (SEC). BAT's filings are available to the public, together with the public filings of other issuers, at the SEC's website, www.sec.gov.

The Group financial statements (including the notes to the financial statements and the report of the independent registered public accounting firm (for US purposes) for the year ended 31 December 2019), the consent of KPMG LLP and management's report on internal control over financial reporting will be furnished on a Form 6-K with the SEC on or around 18 March 2020 and will be available on the SEC's website at www.sec.gov. That Form 6-K will be submitted to the U.K. National Storage Mechanism thereafter and will be available for inspection at www.morningstar.co.uk/uk/NSM.

DISTRIBUTION OF PRELIMINARY STATEMENT

This announcement is released or otherwise made available or notified to the London Stock Exchange, the JSE Limited and the New York Stock Exchange and filed in accordance with applicable regulations. It may be viewed and downloaded from our website www.bat.com.

Copies of the announcement may also be obtained during normal business hours from: (1) the Company's registered office; (2) the Company's representative office in South Africa; (3) British American Tobacco Publications; and (4) Citibank Shareholder Services. Contact details are set out below.

This announcement was approved by the Board of Directors on 26 February 2020

Other Information

OTHER PRODUCTS

The Group reports volumes as additional information. This is done, where appropriate, with cigarette sticks as the basis, with usage levels applied to other products to calculate the equivalent number of cigarette units.

The conversion rates that are applied:

	<u>Equivalent to one cigarette</u>
Tobacco Heat sticks	1 heat stick
Cigars	1 cigar (regardless of size)
Oral	
- Pouch	1 pouch
- Moist Snuff	2.8 gram
- Dry Snuff	2.0 gram
- Loose leaf, plug, twist	7.1 gram
Pipe tobacco	0.8 gram
Roll-your-own	0.8 gram
Make-your-own	
- Expanded tobacco	0.5 grams
- Optimised tobacco	0.7 grams

Roll-your-own (RYO)

Loose tobacco designed for hand rolling, normally a finer cut with higher moisture, compared to cigarette tobacco.

Make-your-own (MYO)

MYO expanded tobacco; also known as volume tobacco.

Loose cigarette tobacco with enhanced filling properties – to allow higher yields of cigarettes/kg - designed for use with cigarette tubes and filled via a tobacco tubing machine.

MYO non-expanded tobacco; also known as optimised tobacco.

Loose cigarette tobacco designed for use with cigarette tubes and filled via a tobacco tubing machine.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR 2020*

Wednesday 18 March	Capital Markets Day
Thursday 30 April	Annual General Meeting at 11.30am Hilton London Bankside, 2-8 Great Suffolk Street, London SE1 0UG
Friday 31 July	Half-Year Report

* Indicated dates are subject to change

Other Information

Forward looking statements

This announcement contains certain forward-looking statements, including “forward-looking” statements made within the meaning of Section 21E of the United States Securities Exchange Act of 1934. These statements are often, but not always, made through the use of words or phrases such as “believe,” “anticipate,” “could,” “may,” “would,” “should,” “intend,” “plan,” “potential,” “predict,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy,” “outlook,” “target” and similar expressions. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates.

In particular, these forward-looking statements include, among other statements, statements regarding the BAT Group’s future financial performance, planned product launches and future regulatory developments, as well as: (i) certain statements in the Financial Performance Review section (pages 6 to 8); (ii) certain statements in the Category Performance Review section (pages 9 to 12); (iii) certain statements in the Regional Review section (pages 13 to 18); (iv) certain statements under the headings “Update on investigations into Misconduct Allegations”, “Update on Quebec Class Action and CCAA”, “Board Succession”, “Changes in the Group” and “Going Concern” (pages 20 to 23); (v) certain statements in the Notes to the Interim Financial Statements section (pages 30 to 44), including the Liquidity and Contingent Liabilities and Financial Commitments sections; (vi) certain statements in the Other Information section (pages 45 to 56), including the Non-GAAP Measures section and under the heading “Dividends”; and (vii) certain statements in the Chief Executive introduction (page 1).

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this announcement. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates and the impact of an unfavourable ruling by a tax authority in a disputed area; adverse litigation and dispute outcomes and the effect of such outcomes on the Group’s financial condition; changes or differences in domestic or international economic or political conditions; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the workplace; the ability to maintain credit ratings and to fund the business under the current capital structure; the inability to develop, commercialise and deliver New Category products; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group.

It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and the Group undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.

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

Additional information concerning these and other factors can be found in the Company’s filings with the US Securities and Exchange Commission (“SEC”), including the Annual Report on Form 20-F filed on 15 March 2019 and Current Reports on Form 6-K, which may be obtained free of charge at the SEC’s website, <http://www.sec.gov>, and the Company’s Annual Reports, which may be obtained free of charge from the British American Tobacco website www.bat.com.

CORPORATE INFORMATION

Premium listing

London Stock Exchange (Share Code: BATS; ISIN: GB0002875804)
Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, UK
tel: 0800 408 0094; +44 370 889 3159
Share dealing tel: 0370 703 0084 (UK only)
Your account: www.computershare.com/uk/investor/bri
Share dealing: www.computershare.com/dealing/uk
Web-based enquiries: www.investorcentre.co.uk/contactus

Secondary listing

JSE (Share Code: BTI)
Shares are traded in electronic form only and transactions settled electronically through Strate.
Computershare Investor Services Proprietary Limited
Private Bag X9000, Saxonwold 2132, South Africa
tel: 0861 100 634; +27 11 870 8216
email enquiries: web.queries@computershare.co.za

Sponsor for the purpose of the JSE

UBS South Africa (Pty) Ltd

American Depositary Receipts (ADRs)

NYSE (Symbol: BTI; CUSIP Number: 110448107)
BAT's shares are listed on the NYSE in the form of American Depositary Shares (ADSs) and these are evidenced by American Depositary Receipts (ADRs), each one of which represents one ordinary share of British American Tobacco p.l.c. Citibank, N.A. is the depositary bank for the sponsored ADR programme.
Citibank Shareholder Services
PO Box 43077, Providence, Rhode Island 02940-3077, USA
tel: +1 888 985 2055 (toll-free) or +1 781 575 4555
email enquiries: citibank@shareholders-online.com
website: www.citi.com/dr

Publications

British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS, UK
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326
e-mail enquiries: bat@team365.co.uk or the Company's Representative office in South Africa using the contact details shown below.

British American Tobacco p.l.c.

Registered office

Globe House, 4 Temple Place, London, WC2R 2PG, UK
tel: +44 20 7845 1000; facsimile: +44 20 7240 0555

British American Tobacco p.l.c. is a public limited company which is listed on the London Stock Exchange, New York Stock Exchange and the JSE Limited in South Africa. British American Tobacco p.l.c. is incorporated in England and Wales (No. 3407696) and domiciled in the UK.

British American Tobacco p.l.c.

Representative office in South Africa

Waterway House South
No 3 Dock Road, V&A Waterfront, Cape Town 8000
South Africa
PO Box 631, Cape Town 8000, South Africa
tel: +27 21 003 6712

